

IAASB Meeting
August 11, 2020
Agenda Item 1-C

Fraud and Going Concern Project Update and Discussion Paper

AUGUST 2020

Fraud and Going Concern Status Update

▶ Complete:

- ▶ Collation of comments from other IAASB projects
- ▶ Coordination with NSS group
- ▶ Identification of key themes
- ▶ Developed plan forward
- ▶ Meetings held with UK and Japan to learn more about their separate fraud and going concern standards/projects

▶ In process:

- ▶ Academic desktop review

▶ Planning commenced:

- ▶ Discussion paper focused on expectation gap
- ▶ Roundtable discussion about expectation gap -investors/analysts, preparers, those charged with governance
- ▶ Fraud-specific roundtable:
 - ▶ LCEs
 - ▶ Technology-focused
- ▶ Working group brainstorming meetings in October (Fraud) and November (Going Concern)
- ▶ Coordination with others (e.g. IAASB workstreams, IESBA, etc) as needed

Going Concern - Coordination with the IASB

- ▶ Close coordination with the IASB throughout the course of the going concern project.
- ▶ **Critical** point of collaboration.
- ▶ Certain stakeholder concerns around going concern may be best addressed by the IASB (i.e. changes to management's responsibilities).
- ▶ Some suggested changes to the audit standard may not be able to be made unless there are corresponding changes made to the accounting standard.

Fraud - Major Themes Identified/Next Steps

#	Theme	Planned Action(s)
1	Expectation gap and clarification of the fundamental responsibilities of the auditor	<ul style="list-style-type: none"> • Discussion paper focused on expectation gap • Roundtable discussion about expectation gap with investors, preparers, those charged with governance
2	Technology	<ul style="list-style-type: none"> • Technology-focused fraud roundtable
3	Scope of procedures required for less complex entities	<ul style="list-style-type: none"> • Fraud-focused roundtable targeted towards auditors of LCEs
4	Comments on inappropriate or inconsistent application of certain concepts in ISA 240, including: <ul style="list-style-type: none"> • Rebuttable presumption of significant risk of fraud in revenue recognition • Audit response to management override of controls, including journal entry testing • Additional fraud risks and integration of fraud risk in all aspects of the audit • Better linkage to other ISAs • Clarification of procedures required when fraud is identified 	<ul style="list-style-type: none"> • Working group brainstorm to explore how the standard/application material might be clarified

Going Concern - Major Themes Identified/Next Steps

#	Theme	Planned Action(s)
1	Expectation gap and clarification of the fundamental responsibilities of the auditor in relation to going concern (including expanded requirements if necessary)	<ul style="list-style-type: none">• Discussion paper focused on expectation gap and targeted towards all audiences• Roundtable discussion about expectation gap with investors, preparers, those charged with governance
2	Suggested targeted enhancements to ISA 570 (Revised) <ul style="list-style-type: none">• Communications with those charged with governance and with regulators/other supervisory bodies• Better linkage to other ISAs / specific acknowledgment of using work performed in other areas of audit (e.g. risk assessment) to drive work performed related to going concern• Clarification between the difference between going concern and solvency• Clarification on what a material uncertainty is• Suggestion to add auditor reporting decision tree to application material	<ul style="list-style-type: none">• Working group brainstorm to explore how the standard/application material might be clarified

Timeline of Planned Activities

Activity	Date
Discussion Paper discussed at Board Meeting	8/11/2020 (Today)
Discussion paper published with [60-day] comment period	8/30/2020
Fraud-focused technology roundtable	9/2/2020
Roundtable discussion about expectation gap with investors, preparers, those charged with governance	9/28/2020
Fraud working group brainstorm/discussion	10/5/2020-10/6/2020
Fraud-focused LCE roundtable	10/7/2020
Going Concern working group brainstorm/discussion	Week of 11/16/2020
Feedback on information gathering to Board - Fraud	December 2020
Feedback on information gathering to Board – Going concern	February 2021
Fraud project proposal	Q2 2021
Going Concern project proposal	Q3 2021

Discussion Paper: Matters for IAASB Consideration

- ▶ The IAASB is asked for its overall views about the DP presented in **Agenda Item 1-A**. In particular, Staff would like to obtain the Board's views on:
 - ▶ **Content**
 - ▶ Are there any relevant issues missing from the DP?
 - ▶ **Clarity**
 - ▶ Whether the draft DP is sufficiently clear and understandable;
 - ▶ Whether the questions are appropriate to solicit input from a broad range of stakeholders.
- ▶ The Board is asked:
 - ▶ Whether there are any other matters that should be highlighted in the DP related to the topic of the 'expectation gap.'
 - ▶ To provide views on the planned length of the comment period.
- ▶ The Board is asked whether it agrees that the DP can be finalized and published for public consultation.

Other Matters for IAASB Consideration

- ▶ Are there any other matters related to the fraud and going concern information-gathering activities that should be further considered as the information gathering activities related to fraud and going concern are progressed?