

**[DRAFT] DISCUSSION PAPER**  
**COMMENTS DUE: [OCTOBER 30, 2020]**



**Fraud and Going Concern in an Audit of Financial Statements:**

**Exploring the Differences Between Public Perceptions About the Role of the Auditor and the Auditor's Obligations in a Financial Statement Audit**

The International Auditing and Assurance Standards Board (IAASB) is a global independent standard-setting body that serves the public interest by setting high-quality international standards which are generally accepted worldwide.

The IAASB follows a rigorous process in developing its standards, involving multi-stakeholder input, including from the IAASB’s Consultative Advisory Group, the International Federation of Accountants’ (IFAC) relevant committees and professional accountancy organizations, regulatory and oversight bodies, firms, national standard setters (NSS), governmental agencies, investors, preparers and the general public.

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### **Request for Input**

This Discussion Paper was developed by Staff of the International Auditing and Assurance Standards Board® (IAASB®).

Comments are requested by **[October 30, 2020]**.

Respondents are asked to submit their comments electronically through the IAASB website, using the “Submit a Comment” link. First-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the IAASB’s website.

This publication may be downloaded from the IAASB website: <http://www.iaasb.org>.

## A WORD FROM THE IAASB CHAIR

Serving the public interest is core to the IAASB's mission. Our new initiatives to address issues and challenges related to fraud and going concern in audits of financial statements respond to the significant questions raised regarding the role of auditors in relation to these areas. Many of the regulatory inquiries that have become commonplace in the aftermath of corporate collapses routinely highlight the importance of considering what more can be done by auditors on these two topics.



The debate is timely and vital to enhancing confidence in external reporting. The outbreak of the COVID-19 pandemic has only heightened the focus on fraud and going concern. Many companies' control environments have been impacted and may not be what they were before. Furthermore, the nature of evidence that is obtained has significantly changed—all of which changes the risk profiles of many audits, particularly in relation to fraud. The uncertainty created by the pandemic will also challenge the auditor's ability to perform going concern assessments.

Our work to identify the challenges, issues, and appropriate responses related to going concern and fraud will touch upon many aspects. One aspect common to both fraud and going concern that is continually highlighted relates to the expectation gap. This Discussion Paper is the first structured step in better understanding how standards can meaningfully close that gap.

We would like to explore whether the auditor's responsibilities should be expanded with regard to these topics, taking into account that it is in the context of an audit. We will also consider whether these enhanced responsibilities are needed in all audits, or only in some circumstances. We would like to understand the many perspectives on these matters so that we can make informed decisions about possible changes to the standards.

Although not specifically covered in this Discussion Paper, we are also mindful of the impact of technology on the way that frauds are committed. We have other targeted efforts on this aspect, as well as considering fraud in an audit of less complex entities and other specific areas that have been highlighted to us through various channels.

We remain committed to actively further exploring and progressing our thinking in relation to fraud and going concern in audits of financial statements. I wish to emphasize the importance of receiving input from all our stakeholders and look forward to your responses to the questions and issues laid out in this Discussion Paper.

TOM SEIDENSTEIN

IAASB Chair

## INTRODUCTION

### Purpose of this Discussion Paper

The IAASB recognizes that in the light of high-profile corporate failures, stakeholders are challenging the auditor's role in respect to fraud identification and going concern assessments.

The purpose of this Discussion Paper is to gather stakeholder perspectives about the role of the auditor on these two topics, and to understand possible options to help narrow the gap between stakeholder expectations and auditor's responsibilities in accordance with International Standards on Auditing (ISAs).

We are seeking feedback on matters related to stakeholder expectations and auditor obligations related to fraud and going concern, and whether our standards remain fit-for-purpose in the current environment. The information collected will help us to make an informed decision(s) about possible further actions by the IAASB.

### Other IAASB Activities Related to our Projects on Fraud and Going Concern in an Audit of Financial Statements

This Discussion Paper is just one aspect of the IAASB's planned activities on the topics of fraud and going concern in an audit of financial statements – with a specific focus on the expectation gap. As part of our information gathering efforts, we are also undertaking other targeted research and outreach activities, to further inform any decisions about future standard-setting or other efforts by the IAASB, including:

- Analysis and assessment of comments submitted to the IAASB through other standard-setting projects and feedback forums that are relevant to these topics\*\*
- Review of academic research, external publications and the outcomes of reviews performed in various jurisdictions
- Discussions with national standard setters, particularly in jurisdictions where relevant standard-setting efforts have taken place, or are underway

We will also be holding global (virtual) roundtable discussions, including one focused on the matters within this Discussion Paper, which is scheduled for September 28, 2020. In addition, related to fraud more broadly, we are holding the following roundtable discussions:

- Technology (*see box to the right*) – Scheduled for September 2, 2020
- Unique aspects of fraud in audits of less complex entities – Scheduled for October 7, 2020

As each activity progresses, we will undertake further research and outreach, as necessary.

\*\*Other specific matters to be considered: The IAASB acknowledges certain concerns related to specific requirements in ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, and ISA 570 (Revised), *Going Concern*, which have been highlighted through other IAASB feedback forums (see Appendix A) – these will also be considered for possible further actions as part of any future projects.

*Technological advancements have changed the landscape for auditors, introducing new pathways to perpetrate fraud and new audit techniques that can be used to identify fraud risks or material misstatements due to fraud. While the topic of technology has been scoped out of this Discussion Paper, it has been identified as a key focus related to the IAASB's considerations with regard to fraud.*

## BACKGROUND

### The Current Financial Landscape

Recent corporate failures and scandals across the globe have called into question the role and responsibility of the auditor in relation to fraud and going concern in an audit of financial statements. There are many examples of recent issues highlighted with regard to the expectations of auditors, including:

- In 2015, it was discovered that Japanese electronics company Toshiba Corporation had overstated operating profits by more than \$1.2 billion in a scandal that began in 2008 and spanned 7 years, causing stakeholders to question the auditor's failure to detect the irregularities earlier.
- In late 2017, accounting irregularities in the financial statements of global furniture and household goods company Steinhoff International Holdings NV triggered a fraud investigation, which uncovered billions of dollars of fictitious or irregular transactions over the course of several years.
- In January 2018, the collapse of Carillion, one of the UK's largest construction firms, left £2 billion owed to its suppliers and £2.6 billion in pension liabilities, calling into question the sufficiency of the audit procedures performed over the entity's ability to continue as a going concern.
- More recently, German payment company Wirecard filed for insolvency in June 2020 after admitting that approximately \$2.6 billion on the company's balance sheet likely did not exist, leading to an official investigation regarding fraudulent activities and stakeholder questions around how the auditor failed to detect this earlier.
- An independent investigation found that Chinese coffee chain Luckin Coffee fraudulently inflated sales in 2019 by 2.1 billion yuan (over \$300 million), which resulted in the company being delisted from the US Nasdaq exchange.



Such corporate scandals and collapses have sparked debate between regulators, public policy makers, investors, practitioners, and others. Some have questioned whether the responsibilities of the auditors in identifying fraud and going concern issues in an audit of financial statements are sufficient to address public interest concerns, while balancing the obligations of the auditor in terms of the auditing standards.

Multiple initiatives have been launched globally to explore, among other things, these specific topics. More pertinent high-profile initiatives where these topics have been highlighted include:

- In the UK—In December 2018, Sir John Kingman published the report and recommendations arising from his review of the Financial Reporting Council (FRC), "[Independent Review of the Financial Reporting Council](#)", which strongly recommended that independent work should be done to explore the issues arising from the "audit expectation gap" (described in the next section). Subsequently, in December 2019, a review into the quality and effectiveness of the audit in the UK was completed by Sir Donald Brydon, which included recommendations for improvements related to fraud and going concern (the "[Brydon Report](#)").

- In Australia—The [February 2020 Interim Report from the Parliamentary Joint Committee on Corporations and Financial Services regarding the Regulation of Auditing in Australia](#) recommended a formal review on the sufficiency and effectiveness of reporting requirements related to the prevention and identification of fraud and management's going concern assessment.
- In Canada—The Canadian Public Accountability Board launched a [Fraud Thematic Review](#) to evaluate how auditors in Canada are complying with the audit standard relevant to fraud, and explore what actions can be taken by all relevant stakeholders to better prevent and detect corporate fraud.

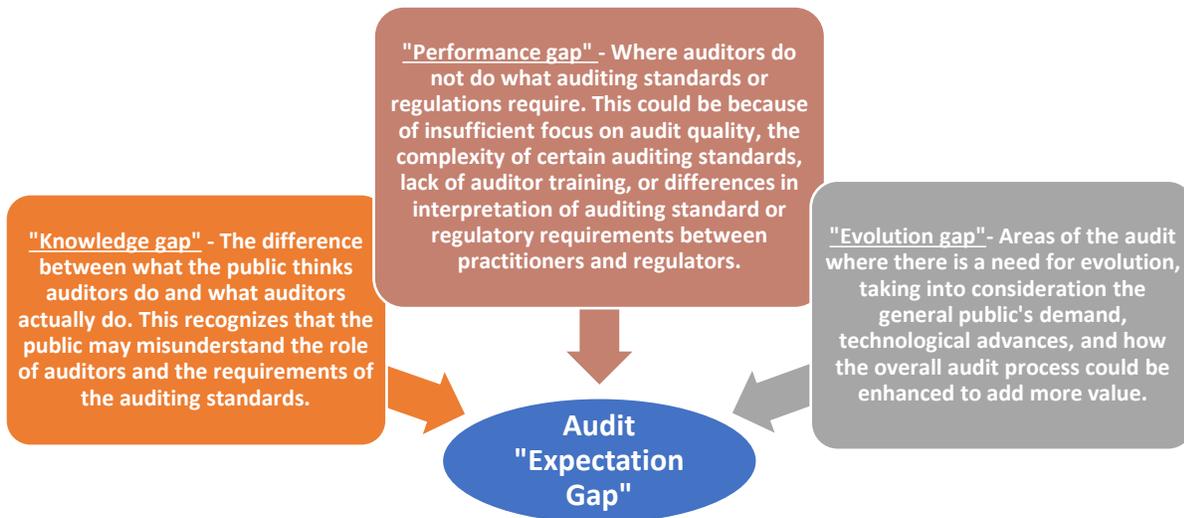
In addition, national standard setters in certain jurisdictions have completed projects on these topics in response to well-publicized corporate failures, including:

- In Japan—The Business Accounting Council established a new standard in 2013 titled “*Standard to Address Risks of Fraud in an Audit*” to be applied to audits of publicly traded companies. This new standard clarifies fraud-related audit procedures, requires more cautious performance of audit procedures in certain circumstances, particularly when the auditor has determined that any suspicion of a material misstatement due to fraud exists, and establishes additional quality control considerations.
- In the UK—The FRC issued a revised going concern standard with strengthened audit requirements, particularly around the auditor’s evaluation of management’s assessment of going concern, professional skepticism, and more robust auditor reporting requirements.

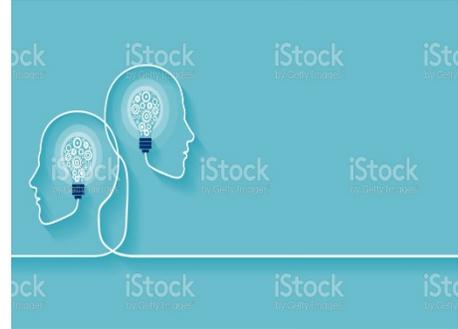
### The Audit “Expectation Gap”

The concept of an audit “expectation gap” has existed for decades and has been defined and described in several ways.

In the broadest terms, the expectation gap is the difference between what users expect from the auditor and the financial statement audit, and the reality of what an audit is. This is further broken down in a May 2019 publication by the Association of Chartered Certified Accountants (ACCA), which describes three components of the expectation gap: the “knowledge gap”, the “performance gap”, and the “evolution gap”, described in the diagram below.



Several other terms and elements of the expectation gap have been referenced in publicly available information. For example, an “interpretative gap” deals with the interpretation of what the existing auditing standards require auditors to do or to communicate to the user about the audit process or results. Stakeholders and market participants might have different interpretations about existing requirements and the assurance that is conveyed by the auditor’s report.



Another aspect of the expectation gap that has been referenced is the “hindsight gap.” Hindsight bias is said to exist when individuals overestimate the extent to which an outcome could have been anticipated prior to its occurrence. Therefore, there can be a gap between what stakeholders expect of auditors prior to a negative event as opposed to after that event occurs.

Furthermore, in some articles or periodicals, the “knowledge gap” described above is referred to as the “information gap.” “Delivery gap” is a term that has also been used to describe the “performance gap.”

Although these and other terms have been used to describe aspects of the expectation gap, this Discussion Paper focuses on the three terms described in the diagram above that make up the audit expectation gap: the knowledge gap, the performance gap, and the evolution gap, as these descriptions better facilitate the exploration of areas that are most relevant to the IAASB’s work.

This Discussion Paper explores whether, and how, the IAASB can better support the expectations of stakeholders in these three areas through standard-setting or other related efforts by the IAASB, acknowledging that the audit expectation gap will never be completely addressed through standard-setting alone. Throughout this paper, we set out the primary components of the audit expectation gap (as explained above) that may be narrowed by each possible option.

The table below outlines examples of matters contributing to each component of the audit expectation gap, indicating those that may relate to standard setting (further explored later in this Discussion Paper), and those areas that are for others (e.g. audit firms, regulators, investors, accounting standard setters, professional accountancy organizations, academia, etc.):

<b>Examples of Components of the Expectation Gap</b>	
<b>Aspects that Could Possibly be Addressed by Standard-Setting, Including Support Materials</b>	<b>Aspects that are Primarily for Others (i.e., unlikely to be directly addressed by standard-setting)</b>
<b>Knowledge Gap</b>	
<ul style="list-style-type: none"> <li>• The auditor’s responsibilities in relation to fraud and going concern are not clear in the auditor’s report. *</li> <li>• The description of a <i>material uncertainty</i> with regards to an entity’s ability to continue as a going concern is inconsistently applied. *</li> </ul>	<ul style="list-style-type: none"> <li>• Users of financial statements do not understand what an audit entails (i.e., the auditor’s procedures to obtain evidence to support an audit opinion).</li> <li>• The public thinks the role of the auditor is to detect fraud, including non-material fraud.</li> <li>• Differences of view as to the meaning and implication of material uncertainties and the going concern concept.</li> </ul>

<b>Examples of Components of the Expectation Gap</b>	
<b>Aspects that Could Possibly be Addressed by Standard-Setting, Including Support Materials</b>	<b>Aspects that are Primarily for Others (i.e., unlikely to be directly addressed by standard-setting)</b>
<b>Performance Gap</b>	
<ul style="list-style-type: none"> <li>• The standards are written in such a way that there is inconsistent application or confusion as to how to apply. *</li> <li>• There is insufficient guidance and support materials to assist with effective application. *</li> </ul>	<ul style="list-style-type: none"> <li>• Auditors are inappropriately or inadequately trained.</li> <li>• The firm does not have, or inadequately applies, clear policies and procedures with regard to audit quality.</li> <li>• The auditor is pressured, either by management or by tight deadlines, resulting in lower-quality audit work.</li> <li>• Auditors or others misinterpret or misapply the requirements in the auditing standards where they are clear.</li> </ul>
<b>Evolution Gap</b>	
<ul style="list-style-type: none"> <li>• Public interest aspects of the audit have not evolved to meet changing expectations due to developments within the environment, for example:                             <ul style="list-style-type: none"> <li>○ Environmental influences encourage more transparency from auditors which is not forthcoming because it is not required. *</li> <li>○ There are stakeholder expectations related to all fraud, while the auditing standards only focus on material misstatements due to fraud (i.e., not also on non-material fraud). *</li> </ul> </li> <li>• The environment is evolving at a more rapid pace which may necessitate different, and more robust, procedures targeted at ongoing changes. **</li> <li>• Users of financial statements are looking for more assurance in relation to fraud and going concern that is not currently provided by the requirements of the auditing standards. *</li> <li>• The auditing standards are not robust enough when a possible fraud is identified. *</li> </ul>	<ul style="list-style-type: none"> <li>• There are insufficient opportunities for the auditor to formally engage with the public and with shareholders.</li> <li>• Entities are looking for more 'value-add' from their auditors which is more than an audit can provide.</li> </ul>
<p>* Aspects addressed in this Discussion Paper</p> <p>** Aspects addressed in this Discussion Paper, as well as in further activities in relation to technology</p>	

## **Purpose of a Financial Statement Audit**

Before further exploring the audit expectation gap, it is important to remember that the purpose of a financial statement audit as currently described in the ISAs is to enhance the degree of confidence of intended users in the financial statements. This is achieved through the expression of an auditor's opinion. As the basis for the auditor's opinion, the ISAs require the auditor to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error.<sup>1</sup>

***“Reasonable assurance is not an absolute level of assurance, because there are inherent limitations of an audit which result in most of the audit evidence on which the auditor draws conclusions and bases the auditor’s opinion being persuasive rather than conclusive.”***

ISA 200, paragraph 5

### *Professional Judgment and Professional Skepticism*

The ISAs require that the auditor exercise professional judgment and maintain professional skepticism throughout the planning and performance of the audit. These concepts are particularly relevant to fraud and going concern in an audit of financial statements (see later section titled “*Professional Skepticism*” where this concept is further discussed).

## **Next Steps**

The IAASB invites **all interested stakeholders** to respond to this Discussion Paper, including investors and other users of financial statements, those charged with governance of entities, preparers of financial statements, national standard setters, professional accountancy organizations, academics, regulators and audit oversight bodies, auditors and audit firms and others where interested.

## **Questions for Respondents**

Questions can be found at the end of each section within this Discussion Paper on those matters where the IAASB would like to obtain a better understanding of the relevant issues and how best to address them. In addition, respondents may wish to make more general comments, including providing information from other initiatives or research they believe is relevant to the issues raised in this Discussion Paper.

In answering the questions, please also consider the matters set out in Appendix B of this Discussion Paper about how the IAASB could affect some of the changes that may be considered—i.e., for all audits or only in some circumstances, and whether this is done as part of the audit or as a separate engagement in addition to the audit.

### *Proportionality*

Each of the proposed questions in this Discussion Paper should be considered in the context of the benefits that will be provided to stakeholders, compared to the cost of implementing actions. For example, in some cases expanding the auditor's responsibilities in a cost-effective manner may not be achievable (i.e., the benefit for the additional work effort may be outweighed by the additional cost).

***“We acknowledge that with changing stakeholder expectations, the status quo is not sustainable and there is a need to urgently review and build a new consensus around the role of the auditor and the scope and expectations of an audit, otherwise such expectation gaps will continue to undermine the perceived value of an audit. With that said, however, the costs arising from any widening of scope and expectations of an audit needs to be balanced against the benefits to stakeholders.”***

*-Institute of Singapore Chartered Accountants (ISCA), June 2019 response to IAASB Strategy and Workplan*

<sup>1</sup> ISA 200, paragraphs 3 and 5

# FRAUD

## The Entity's<sup>2</sup> and the Auditor's Responsibilities

The following summarizes the entity's and the auditor's responsibilities regarding fraud as described in ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*.



### The Entity's Responsibilities with Regard to Fraud

- Primary responsibility for the prevention and detection of fraud rests with both those charged with governance and management of the entity.



### Responsibilities of the Auditor with Regard to Fraud in an Audit of the Financial Statements

- An auditor is responsible for obtaining reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error (i.e., designing and performing audit procedures to identify and respond to risks of material misstatement, including those arising from fraud)
- *Inherent Limitations of an Audit:* Owing to the inherent limitations of an audit, there is unavoidable risk that some material misstatements of the financial statements may not be identified, even though the audit is properly planned and performed in accordance with the ISAs.
- The risk of not identifying a material misstatement resulting from fraud is higher than the risk of not identifying one resulting from error, as fraud schemes are often carefully planned and concealed from the auditor.

ISA 240 describes fraud risk factors and the specific audit requirements for undertaking procedures related to identifying and assessing risks of material misstatement arising from fraud in a financial statement audit. This includes specific procedures targeted at identifying and assessing risks of material misstatement arising from fraud, and procedures to respond to those assessed risks of material misstatement. ISA 240 also describes considerations for the auditor when a possible misstatement may be indicative of fraud.

## Understanding Perceptions and Views Related to the Auditor's Responsibilities in the Current Environment

There are differing views about the role of the auditor in detecting fraud as part of the financial statement audit. Some believe the auditor's responsibilities should be expanded to better detect fraud and undertake further actions in relation to the fraud to meet the evolving expectations of the public today. Others have highlighted that a financial statement audit cannot ever be designed to detect all fraud due to the nature of an audit and the inherent limitations of the procedures required to gather audit evidence when forming an opinion (such as using the concepts of materiality and audit sampling).

It has also been suggested that auditors be required to evaluate and report on management's processes and controls to prevent and detect fraud. If the auditor's responsibilities are expanded to report as such, this will necessitate that management perform certain activities related to, and report on, the entity's processes and controls.

In the following sections, we explore examples of possible changes to the auditor's responsibilities which may help to narrow the audit expectation gap. In addition, we are seeking perspectives about how these changes may be made (Appendix B sets out specific examples to illustrate how the changes that are described below could be made).

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<sup>2</sup> The entity is represented by management and those charged with governance.

## **Examples of Possible Changes to the Auditor's Responsibilities to Enable Increased Confidence**<sup>3</sup>

### ***Increased Use of Forensic Specialists***

Evolution Gap

ISA 240 does not require the use of forensic specialists.<sup>4</sup> However, it does note that the auditor may respond to identified risks of material misstatement due to fraud by assigning forensic experts to the engagement.<sup>5</sup>

It has been suggested that requiring the use of forensic specialists on an audit engagement may help narrow the expectation gap. Specifically, it has been noted that forensic specialists may be used during the engagement team discussion about risks of material misstatement arising from fraud, during inquiries with management and others, and when performing planned audit procedures in response to assessed risks of material misstatement due to fraud. However, it has also been cautioned that a financial statement audit is not forensic in nature, and the cost of using forensic specialists must be weighed against the benefit in the context of the objectives of a financial statement audit and the nature and circumstances of the engagement.

It has also been suggested that training in both forensic accounting and fraud awareness be parts of the formal qualification and continuous learning process for financial statement auditors. As noted in Appendix A, the IAASB views this as a relevant suggestion for other stakeholders to consider (e.g. audit firms, universities, certification boards, etc.).

**The IAASB is seeking perspectives** about the required use of forensic specialists in a financial statement audit, and, if considered appropriate, in what circumstances the use of specialists should be required.

### ***Procedures with Respect to Non-Material Fraud***

Evolution Gap

Financial statement audits are not designed to identify misstatements that are not material to the financial statements as a whole, including those due to fraud. While the auditor is not required to design and perform specific procedures in this regard, any fraud may be indicative of a bigger issue. For example, the integrity of an employee may also reflect the entity's corporate culture. Furthermore, frauds that are not material that recur over long periods of time may become material (quantitatively or qualitatively) in the future.

However, as described in ISA 240, if the auditor identifies a misstatement, the auditor is required to evaluate whether such a misstatement is indicative of fraud. The auditor is also required to assess the impact on other aspects of the audit, particularly management representations. If the auditor identifies a misstatement, whether material or not, and the auditor has reason to believe that it is, or may be, the result of fraud, and that management (in particular, senior management) is involved, the auditor is required to reevaluate the assessment of the risks of material misstatement due to fraud and its resulting impact on the nature, timing and extent of audit procedures to respond to the assessed risks. The auditor is also required to consider

<sup>3</sup> The topics of professional skepticism and auditor reporting are addressed later in this Discussion Paper as these aspects are relevant to both fraud and going concern.

<sup>4</sup> While ISA 240 does not require the use of forensic specialists, paragraph 14 of ISA 220, *Quality Control for an Audit of Financial Statements*, requires that the engagement partner shall be satisfied that the engagement team and any auditor's experts, who are not part of the engagement team, collectively have the appropriate competence and capabilities to perform the audit engagement and issue an auditor's report that is appropriate in the circumstances

<sup>5</sup> ISA 240, paragraph A34

whether circumstances or conditions indicate possible collusion involving employees, management or third parties when reconsidering the reliability of evidence previously obtained.<sup>6</sup>

In the current environment, it has been suggested that it may be appropriate to elevate some application and other explanatory material currently in ISA 240. In addition, it may also be appropriate to increase the robustness of the required procedures and introduce a broader focus on fraud (whether material or non-material), including for example:

- More robust procedures around the entity's whistleblower process, such as:
  - Evaluation of the entity's 'whistleblower escalation process' and performance of mock whistleblower complaints to confirm understanding of how complaints are received, escalated, and resolved.
  - Inspection of the entity's whistleblower complaint log.
- The performance of specific procedures in non-material areas where fraud may occur, as part of unpredictable procedures.
- Additional requirements for auditors when a non-material fraud is identified, for example, reporting to management and those charged with governance.

**The IAASB is seeking feedback** on the perceived responsibilities of the auditor regarding non-material fraud in a financial statement audit (i.e., a broader focus on fraud) and what additional procedures, if any, may be necessary. **The IAASB is also seeking feedback** on whether stakeholders think additional audit procedures should be required when a non-material fraud is identified.

### **Auditor's Responsibilities with Respect to Third-Party Fraud**

#### Evolution Gap

Third-party fraud is often committed in collusion with employees at the company. ISA 240 defines fraud as *"an intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage."*<sup>7</sup>

Auditors are required to identify and assess risks of material misstatement due to fraud, design and implement appropriate responses to assessed risks, and take appropriate action regarding fraud or suspected fraud identified during the audit, including material fraud involving third parties. However, it has been highlighted that additional emphasis should be placed on procedures related to third-party fraud.

In addition, it has been questioned whether audit procedures should be designed to detect fraud that is not directly related to risks of material misstatement (e.g., cyber-attacks resulting in theft of customer information) and are rather related to reputational or operational risk.

**The IAASB is seeking perspectives** on whether enough emphasis is placed on the auditor's responsibilities around fraud related to third parties. We are also seeking feedback on views about the auditor's role in relation to third party fraud that does not result in a material misstatement of the financial statements but may have a severely negative impact on the entity (e.g., cybercrime attacks).



<sup>6</sup> ISA 240, paragraphs 36–37

<sup>7</sup> ISA 240, paragraph 11(a)

## Enhanced Quality Control Requirements

Performance Gap

Evolution Gap

International Standard on Quality Control (ISQC) 1<sup>8</sup> requires that firms establish policies and procedures requiring, for appropriate engagements, an engagement quality control review that provides an objective evaluation of the significant judgments made by the engagement team and the conclusions reached in formulating the report. The engagement quality control review process is for audits of financial statements of listed entities, and those other engagements, if any, for which the firm has determined an engagement quality control review is required.<sup>9,10</sup> Specific quality control review procedures related to fraud are not explicitly required. However, a material misstatement arising from fraud would be implicitly addressed by the engagement quality control review if it were deemed to be a significant matter or a significant judgment (in paragraph 37 of ISQC 1).

As referenced earlier, in 2013 a new fraud standard was established in Japan that introduced additional quality control review procedures related to fraud. For example, it requires that an engagement quality control review be conducted at appropriate stages during the audit for significant judgments made and conclusions reached to address the risks of fraud in compliance with the policies and procedures of the audit firm. Further, when the auditor determines that a suspicion of material misstatement due to fraud exists, the auditor shall not express an opinion until the engagement quality control review procedures in regard to the auditor's response to that suspicion have been completed.

**The IAASB is seeking perspectives** on whether the engagement quality review procedures currently in place are sufficient, or whether additional engagement quality review procedures specifically focused on the engagement team's responsibilities relating to fraud should be considered.

## Questions for Respondents

*The Table below sets out the questions relating to the aspects of fraud that have been discussed above. Questions specific to the aspects of professional skepticism and auditor reporting can be found later in this Discussion Paper (see separate section on "Other matters relevant to both fraud and going concern"). The answers to these questions should be focused on the matters described in this Discussion Paper (i.e., the expectation gap) - as explained, separate work outside of this Discussion Paper is being undertaken on technology and less complex entities.*

### General Questions on the Expectation Gap related to Fraud in an Audit of Financial Statements:

1. Do you believe that the users of financial statements are looking for more assurance from auditor's with regard to fraud? If yes:
  - (a) Please explain in what areas additional or enhanced procedures should be required, considering the cost versus benefit of additional procedures.
  - (b) Should these incremental procedures be required for:
    - (i) All audits, or

<sup>8</sup> ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

<sup>9</sup> The IAASB's Quality Control Standards will be replaced imminently by its new standards on Quality Management. Proposed International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, and ISQM 2, *Engagement Quality Reviews*, will contain similar requirements in relation to engagement quality reviews for certain engagements.

<sup>10</sup> ISQC 1, paragraph 35

- (ii) Only in certain circumstances (for example, only if there is a 'suspicion' of fraud, or for certain entity types (e.g., listed entities – please specify the types of entities).<sup>11</sup>)
- (c) How should the additional procedures be mandated (e.g., additions or modifications to ISA 240, as a new auditing standard required to be applied only by specific entities or under specific circumstances, through a separate engagement (such as reporting on internal controls related to fraud) or in some other way).<sup>11</sup> Please explain your answer.

2. Please provide your views on:

- (a) The primary matters contributing to the expectation gap related to the auditor's responsibility to detect fraud in an audit of financial statements.
- (b) What the IAASB or others can do to help narrow the knowledge gap, the performance gap, or the evolution gap in regards to the auditor's responsibilities related to fraud in an audit of financial statements (please distinguish whether possible actions are for the IAASB or others).

**Specific Questions Related to the Examples of Possible Changes Presented Above:**

3. Should forensic specialists be required to be used in all financial statement audits? Why or why not?
- (a) If not, do you think forensic specialists should be required to be used in conditional circumstances? Please provide details of those circumstances for which you think the use of forensic specialists should be required.
  - (b) Please also comment on your consideration of the cost versus the benefit regarding any requirement to involve forensic specialists.

4. Should the auditor be required to perform procedures to detect fraud that is not material?
- (a) If yes, what additional procedures do you think are necessary in all audits?
  - (b) Do you think additional audit procedures should be required when a non-material fraud is identified? If yes, what additional procedures do you think are necessary?
  - (c) What do you perceive to be the limitations of the auditor's role in detecting fraud that is not material?
  - (d) Please comment on your consideration of the cost versus the benefit to the public interest with respect to the enhanced work effort.

5. In your view, are additional procedures or changes necessary in ISA 240 to distinguish or emphasize the auditor's responsibilities around the risks of material misstatement due to fraud involving third parties? If yes:
- (a) Please explain what additional procedures are needed or in what areas further consideration is needed.
  - (b) Do you think additional audit procedures are necessary related to third party fraud that does not result in a material misstatement of the financial statements but may have a severely negative impact on the entity (e.g., cybercrime attacks)? Please explain what additional procedures are necessary.

6. Should additional engagement quality review procedures specifically focused on the engagement team's responsibilities relating to fraud be required? If yes, what additional procedures do you think are necessary with respect to a focus on fraud by the engagement quality control reviewer?

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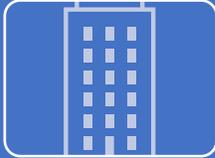
<sup>11</sup> Refer to Appendix B that illustrates just some examples of how changes may be made – it illustrates possible changes in the context of ISA 240 (e.g., whether changes apply to all entities or only apply conditionally, whether changes are made directly to ISA 240 or outside of the standard, etc.).

## GOING CONCERN

### The Entity's<sup>12</sup> and the Auditor's Responsibilities

The following summarizes the responsibilities of the entity and the auditor regarding going concern as described in ISA 570 (Revised), *Going Concern*.

#### Responsibilities of the Entity



- Some financial reporting frameworks contain an explicit requirement for management to assess the entity's ability to continue as a going concern, as well as certain disclosures with regard to the entity's going concern.
- Detailed requirements regarding management's responsibility to assess the entity's ability to continue as a going concern may also be set out in law or regulation.
- There may also be no explicit requirement to make a specific assessment. However, where going concern is a fundamental principle in the preparation of the financial statements (i.e., assets and liabilities are recorded on the basis that the entity will be able to realize its assets and discharge its liabilities in the normal course of business), management is still required to assess the entity's ability to continue as a going concern as it underlies the basis of preparation.

#### Responsibilities of the Auditor



- To obtain sufficient appropriate audit evidence regarding, and concluding on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.
- To conclude, based on the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern.
- *Inherent Limitations of an Audit:* The potential effects of inherent limitations on the auditor's ability to identify material misstatements are greater for future events or conditions that may cause an entity to cease to continue as a going concern. The auditor cannot predict such future events or conditions. Accordingly, the absence of any reference to a material uncertainty about the entity's ability to continue as a going concern in an auditor's report cannot be viewed as a guarantee as to the entity's ability to continue as a going concern.

ISA 570 (Revised) describes the specific procedures required for auditors related to going concern in a financial statement audit, including procedures related to risk identification and assessment, management's assessment of going concern, auditor conclusions and the impact of those conclusions on the auditor's report. The auditor's procedures are largely focused on whether events or conditions exist that may cast significant doubt on the entity's ability to continue as a going concern, including remaining alert throughout the audit for audit evidence thereof.

### Understanding Perceptions and Views Related to the Auditor's Responsibilities in the Current Environment

High-profile corporate failures have triggered public criticism of auditors and raised questions around how much they should be able to detect from their audit procedures in relation to the going concern of the entity, and what is communicated with regard to the entity's ability to continue as a going concern for the foreseeable future.

*"Arguably, the information stakeholders most want is reassurance about the resilience of a company."*

*Sir Donald Brydon, Report of the Independent Review into the Quality and Effectiveness of Audit, December 2019*

<sup>12</sup> The entity is represented by management and those charged with governance.

There are different views about the auditors' obligations for identifying and addressing issues related to an entity's ability to continue as a going concern, including reporting on the entity's going concern status. Some have recognized the difference in the responsibilities of management and auditors, particularly that the auditor is not required to attest as to the entity's ability to continue as a going concern. For others there is a blurring of these responsibilities.

Given the fundamental importance of going concern in a set of financial statements and high-profile corporate failures, some stakeholders are also looking for enhanced responsibilities for the auditor in relation to the work undertaken with regard to the entity's ability to continue as a going concern.

Below, we consider some specific aspects related to the various components of the expectation gap with regard to going concern.

### **Examples of Possible Changes to the Auditor's Responsibilities to Enable Increased Confidence<sup>13</sup>**

#### *Time Period for Going Concern Assessments*

#### Evolution Gap

Current Accounting Requirements	Current Audit Requirements <sup>14</sup>
Requirements for management to assess the entity's ability to continue as a going concern are often specified by an applicable financial reporting framework, including the period which the assessment must cover. For example, International Accounting Standards (IAS) 1, <i>Presentation of Financial Statements</i> , describes that management must consider all information about the future which is at least twelve months from the end of the reporting period. <sup>15</sup>	<p>–The auditor shall cover the same period as that used by management to make its assessment as required by the applicable financial reporting framework or by law or regulation if it specifies a longer period. If management does not perform an assessment that covers a period of at least twelve months from the date of the financial statements, the auditor shall request management to extend their assessment.</p> <p>–The auditor shall inquire of management as to its knowledge of events or conditions beyond the period of management's assessment that may cast significant doubt on the entity's ability to continue as a going concern.</p>

While auditors are required to inquire of management, they are not required to perform any other audit procedures to identify events or conditions beyond the required period of assessment that may cast significant doubt on the entity's ability to continue as a going concern. Some stakeholders have questioned whether the auditor's assessment should be extended to cover a longer period, while others have highlighted that auditors are not able to predict events too far into the future, in particular if management has no such requirement.

**The IAASB would like to understand perspectives** on whether entities should be required to assess their ability to continue as a going concern for longer than twelve months, and whether auditors should be required to consider this longer time period in their assessment, beyond the current required period.

<sup>13</sup> The topics of professional skepticism and auditor reporting are addressed later in this Discussion Paper as these aspects are relevant to both fraud and going concern.

<sup>14</sup> ISA 570 (Revised), paragraphs 13 and 15

<sup>15</sup> IAS 1, paragraph 26

### Clarity around the Concept of Going Concern

Knowledge Gap

Certain jurisdictions require management to report on other concepts of the company's resilience. For example, in the United Kingdom, certain entities have a responsibility to report on the entity's longer-term viability. This type of reporting is more concerned with future scenario planning and what risks could at some future point crystallize as threats to survival. In Australia, directors declare a statement of solvency, indicating the company can pay all debts as and when they become due and payable.

In contrast, in many financial reporting frameworks, management's assessment of whether the going concern basis of accounting is appropriate is based on whether there is a material uncertainty of the entity's ability to continue as a going concern in the near term (e.g. the next twelve months).

**The IAASB would like to explore** whether the current concept of going concern remains fit for purpose in the current environment or whether consideration is needed to enhance this concept.

### Material Uncertainty Related to Going Concern

Knowledge Gap

Current Accounting Requirements	Current Audit Requirements <sup>16</sup>
<p>An applicable financial reporting framework may provide the requirements for management's assessment of the entity's ability to continue as a going concern, which may also reference material uncertainties where they arise. For example, IAS 1 requires that when management is aware of <i>material uncertainties</i> related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties.<sup>17</sup></p> <p>In the United States, as described in Accounting Standards Codification (ASC) 205-40-50-1, an entity's management shall evaluate whether there are conditions and events, considered in the aggregate, that raise <i>substantial doubt</i> about an entity's ability to continue as a going concern within one year after the date the financial statements are issued.</p>	<p>A material uncertainty exists when the magnitude of its potential impact and likelihood of occurrence is such that, in the auditor's judgment, appropriate disclosure of the nature and implications of the uncertainty is necessary for:</p> <ul style="list-style-type: none"> <li>• In the case of a fair presentation financial reporting framework, the fair presentation of the financial statements, or</li> <li>• In the case of a compliance framework, the financial statements not to be misleading.</li> </ul>

It has been highlighted that the concept of 'material uncertainty' with regard to going concern is interpreted and applied inconsistently and in some cases, not understood by users of the financial statements. As described in the table above, under US GAAP, the term "substantial doubt" is used as opposed to "material uncertainty." The use of differing terms may also cause confusion.

<sup>16</sup> ISA 570 (Revised), paragraph 18

<sup>17</sup> IAS 1, paragraph 25

It has also been highlighted in some jurisdictions that there is an inconsistency between what is required to be disclosed under IAS 1, and the matters the auditor considers when determining whether adequate disclosure is made in the financial statements when a material uncertainty exists.<sup>18,19</sup>

**The IAASB would like to further explore** what more is needed to narrow the knowledge gap with regard to the meaning of material uncertainty related to going concern, to enable more consistent interpretation of the concept.

**The IAASB would also like to further examine** whether the concept of, and requirements related to, a material uncertainty in ISA 570 (Revised) is sufficiently aligned with the requirements in the international accounting standards.

### Questions for Respondents

*The Table below sets out the questions relating to the aspects of going concern that have been discussed above. Questions specific to the aspects of professional skepticism and auditor reporting can be found later in this Discussion Paper (see separate section on “Other matters relevant to both fraud and going concern”). The answers to these questions should be focused on the matters described in this Discussion Paper (i.e., the expectation gap) - as explained, separate work outside of this Discussion Paper is being undertaken on technology and less complex entities.*

#### General Questions on the Expectation Gap Related to Going Concern in an Audit of Financial Statements:

7. Do you believe that the users of financial statements are looking for more assurance from auditor's with regard to the entity's ability to continue as a going concern? If yes:
- (a) Please explain in what areas additional or enhanced procedures should be required, considering the cost versus benefit of additional procedures.
  - (b) Should these enhanced procedures be required for:
    - (i) All audits, or
    - (ii) Only in certain instances (for example, only if there are circumstances that present heightened risk of going concern issues, or only for certain entity types (e.g., listed entities – please specify the types of entities)<sup>20</sup>)
  - (c) How should the additional procedures be mandated (e.g., additions or modifications to ISA 570 (Revised), as a new auditing standard required to be applied only by specific entities or under specific circumstances, through a separate engagement (such as reporting on management's assessment) or in some other way).<sup>19</sup> Please explain your answer.

<sup>18</sup> ISA 570 (Revised), paragraphs 19–20

<sup>19</sup> For example, the New Zealand Accounting Standards Board has proposed additional disclosures in the financial statements relating to significant judgements and assumptions regarding the appropriateness of the going concern assumption, and additional disclosures where material uncertainties had been identified, and the Australian Accounting Standards Board has agreed to encourage changes at an international level on these matters.

<sup>20</sup> Refer to Appendix B that illustrates just some examples of how changes may be made – it illustrates possible changes in the context of ISA 240 (e.g., whether changes apply to all entities or only apply conditionally, whether changes are made directly to ISA 240 or outside of the standard, etc.).

8. Please provide your views on:

- (a) The primary matters contributing to the expectation gap related to the auditor's responsibilities in relation to going concern in an audit of financial statements.
- (b) What the IAASB or others can do to help narrow the knowledge gap, the performance gap, or the evolution gap in regards to the auditor's responsibilities related to going concern in an audit of financial statements (please distinguish whether possible actions are for the IAASB or others)

**Specific Questions Related to the Examples of Possible Changes Presented Above:**

9. Do you think the period for which auditors are required to evaluate management's assessment of the entity's ability to continue as a going concern in ISA 570 (Revised) is sufficient?

- (a) Why or why not?
- (b) If not, please explain including the desired period of assessment.

10. In relation to the concept of going concern:

- (a) In your view, do stakeholders have a clear understanding of the differences between terms used to assess aspects of the entity's financial health for the foreseeable future and/or long-term viability specific to various jurisdictions, and the requirement to assess an entity's ability to continue as a going concern?
  - (i) If no, what more is needed to make the distinction clear?
- (b) Do you think the concept of going concern remains fit for purpose in the current environment or do you think changes are necessary to incorporate other aspects of the entity's financial health (e.g. long-term viability)?

11. With regard to the description of a material uncertainty related to going concern as described in ISA 570 (Revised):

- (a) Do you understand what a material uncertainty is and, in your view, would this understanding be consistent for different entities noting a material uncertainty?
- (b) Does the auditor's report currently provide enough information about material uncertainties related to an entity's ability to continue as a going concern? Why or why not?
- (c) Do you think there is an inconsistency between international accounting standards and ISA 570 (Revised) with regard to the disclosures (or not) when a material uncertainty exists and the work the auditor is required to undertake in determining the adequacy of the disclosures? Please explain your answer.
- (d) Are there any other improvements you think are necessary to provide further clarity?

## OTHER MATTERS RELEVANT TO BOTH FRAUD AND GOING CONCERN

### Professional Skepticism

Evolution Gap

Performance Gap

In planning and performing an audit of financial statements, a mindset that includes professional skepticism is necessary for the auditor to remain mindful of circumstances that may cause the financial statements to be materially misstated.

#### Current Requirements in the ISAs:

ISA 200 requires the auditor to plan and perform an audit with professional skepticism recognizing that circumstances may exist that cause the financial statements to be materially misstated. In addition, the following diagram summarizes the professional skepticism requirements detailed in ISA 240<sup>22</sup> and ISA 570 (Revised):<sup>23</sup>

### Professional Skepticism

An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence.<sup>21</sup>

#### ISA 240

- The auditor shall maintain professional skepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist, notwithstanding the auditor's past experience of the honesty and integrity of the entity's management and those charged with governance.
- Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine. If conditions identified during the audit causes the auditor to believe that a document may not be authentic or that terms in a document have been modified but not disclosed to the auditor, the auditor shall investigate further.
- Where responses to inquiries of management or those charged with governance are inconsistent, the auditor shall investigate the inconsistencies.

#### ISA 570 (Revised)

- The auditor shall remain alert throughout the audit for audit evidence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

Professional skepticism includes being alert to, for example:

- Audit evidence that contradicts other audit evidence obtained.

<sup>21</sup> ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph 13(l)

<sup>22</sup> ISA 240, paragraphs 12–14

<sup>23</sup> ISA 570 (Revised), paragraph 11

- Information that brings into question the reliability of documents and responses to inquiries to be used as audit evidence.
- Conditions that may indicate possible fraud.
- Circumstances that suggest the need for audit procedures in addition to those required by the ISAs.

The IAASB has recognized that merely asking auditors to be ‘more skeptical’ will not drive the behavioral change needed. Recent revisions to standards (ISA 540 (Revised)<sup>24</sup> and ISA 315 (Revised 2019)<sup>25</sup>) have introduced new requirements articulated in such a way so as to foster an independent mindset. It has been highlighted that similar enhancements should also be considered for any future project on fraud and going concern. Examples of such changes could include:

- Emphasis that audit procedures should not be biased towards obtaining corroborative evidence or towards excluding contradictory evidence.
- Enhancing the requirements to “stand-back” and evaluate all audit evidence obtained in forming conclusions.
- Use of stronger language in the standards (such as “challenge”, “question” and “reconsider”) to reinforce the importance of exercising professional skepticism.



As described earlier, in 2013, the Business Accounting Council in Japan established a new standard titled “Standard to Address Risks of Fraud in an Audit.” The new standard introduced an increased emphasis on professional skepticism, including a requirement that the auditor exercise increased professional skepticism in determining whether there is any suspicion of a material misstatement due to fraud and in performing the audit procedures to address such suspicion (which are more extensive than if no suspicion exists).

In the UK, ISA (UK) 570 (Revised) includes additional requirements and application material designed to enhance the auditor’s application of professional skepticism. For example, auditors are required to evaluate whether judgements made by management in making its assessment of going concern are indicators of management bias.

The Brydon report recommends that auditors receive training in both forensic accounting and fraud awareness to apply a mindset of deep suspicion in relevant circumstances, rather than just skepticism. Instead of starting with a neutral mindset, auditors may need to approach the audit with a suspicious mindset if the circumstances require it.

A publication written by academic professors and commissioned by the Global Public Policy Committee titled “[Enhancing Auditor Professional Skepticism](#)” proposes that standards describe professional skepticism on a continuum, where a neutral mindset may be appropriate in certain low-risk circumstances, but presumptive or complete doubt may be warranted in other higher-risk circumstances.

An academic report titled “Research on Auditor Professional Skepticism: Literature Synthesis and Opportunities for Future Research” (Hurt et. al) describes how research indicates unconscious bias may influence an auditor’s judgments or actions. It proposes that standards can be developed to require auditors to view assertions in a negative rather than in a positive light.

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<sup>24</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

<sup>25</sup> ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

### **More Transparency Relevant to Fraud and Going Concern in the Auditor's Report**

Evolution Gap

Knowledge Gap

There is no requirement currently to detail, in the auditor's report, specific procedures performed to address risks of material misstatement due to fraud or any views or conclusions on the appropriateness of management's use of the going concern basis of accounting. ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*, deals with the auditor's responsibility to determine and communicate key audit matters in the auditor's report for certain types of entities, but this may or may not involve matters related to the risks of fraud or going concern as this depends on what the auditor has determined are the matters of most significance in the audit of the financial statements of the current period.

It has been highlighted that, from an audit standard-setting perspective, the knowledge gap for users of the financial statements can only be addressed through more transparency in the auditor's report (i.e., the auditor provides more information within the auditor's report so that users better understand what the auditor did or the outcomes of certain procedures). For example, in the European Union, in accordance with Article 10 of the Audit Regulation, auditors must, in the audit report, explain to what extent the audit was considered capable of detecting irregularities, including fraud.

Suggestions have been made, that in order to narrow the expectation gap in relation to users of the auditor's report and their expectations for what has been done in an audit, the auditor's report should provide more detail with respect to going concern and fraud. Specifically, the auditor's report may be expanded to describe the specific procedures performed in these areas.

*"Some participants suggested that companies should be required to report on the strength of their internal controls with respect to fraud, with auditors in turn providing assurance over those controls. They said this would provide investors and other stakeholders with more information about the potential risks of fraud within the business."*

*The Future of Audit Report (July 2019), PwC*

#### *Going concern-specific considerations:*

As part of the IAASB project on Auditor Reporting that was completed in early 2015, ISA 570 was revised to establish more specific auditor reporting related to going concern, and to present this within the auditor's report in specific circumstances. For example, if the use of the going concern basis of accounting is appropriate but a material uncertainty exists, and adequate disclosure about the material uncertainty is made in the financial statements, the auditor is required to express an unmodified opinion and include relevant information regarding the uncertainty in a separate section of the auditor's report under the heading "Material Uncertainty Related to Going Concern."<sup>26</sup> However, as already noted, there are no other requirements for the auditor's report to further detail what the auditor has done, or to provide a view of the auditor in relation to the entity's ability to continue as a going concern.

One potential solution to provide more transparency about the auditor's procedures with regard to going concern, could be to require auditors to explain how they evaluated management's assessment of the entity's ability to continue as a going concern and, where relevant, key observations arising with respect to that evaluation. This requirement could apply even where the auditor concluded through their work on management's assessment that no material uncertainties exist. However, in the absence of a requirement

<sup>26</sup> ISA 570 (Revised), paragraph 22

for management to always provide details regarding its assessment of the entity's ability to continue as a going concern (management is in the best position to provide such information), the auditor would find it difficult to offer any observations in this regard.

### **Questions for Respondents**

12. Professional skepticism is a fundamental concept and core to the performance of quality audits.

- (a) Do you believe more is needed related to professional skepticism when undertaking procedures with regard to:
  - (i) Fraud; and
  - (ii) Going concern?
- (b) If yes, how can this concept be better reinforced in:
  - (i) ISA 240 and
  - (ii) ISA 570 (Revised)?

13. Do you think that more information should be required to be reported in the auditor's report regarding fraud?

- (a) Why or why not?
- (b) If yes, please provide details of further transparency needed.

14. Do you think that more information should be required to be reported in the auditor's report regarding going concern?

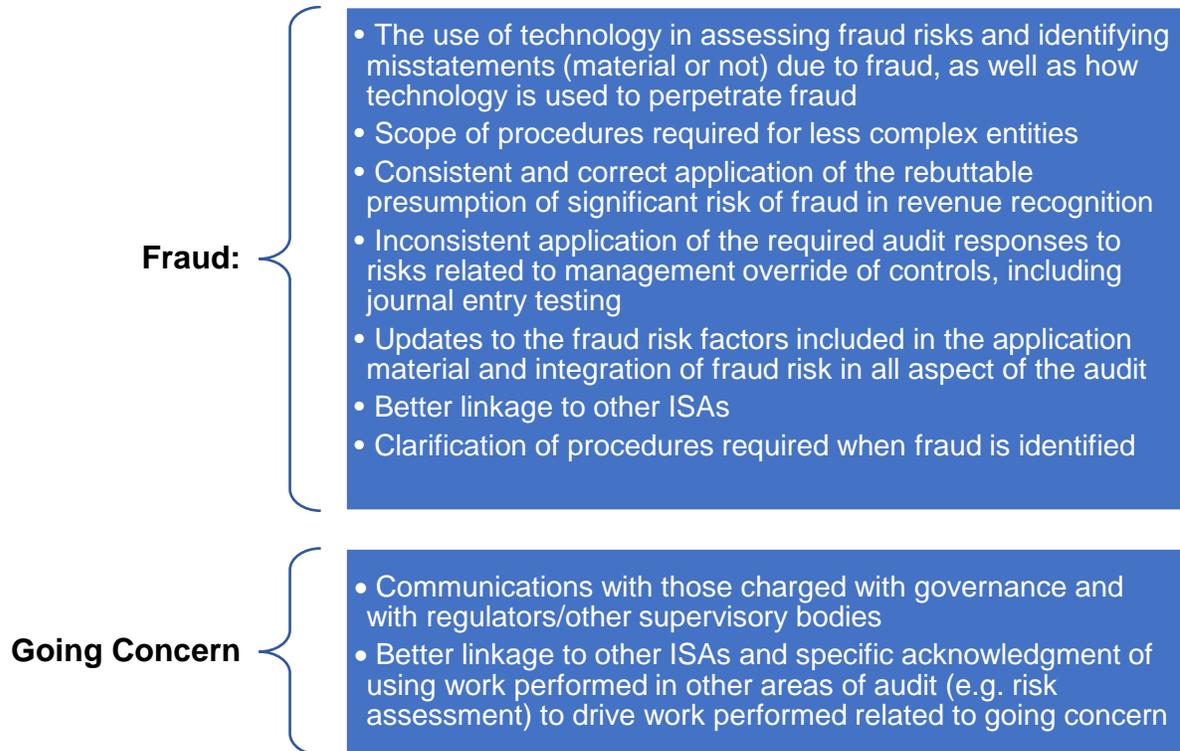
- (a) Why or why not?
- (b) If yes, please provide details of further transparency needed.

15. Do you have other general or specific feedback regarding the matters in this discussion paper or regarding the audit expectation gap that you think will help inform the IAASB with regard to its decisions to pursue future standard-setting efforts on these topics?

## APPENDIX A

### Other Matters to be Considered by the IAASB in Further Information Gathering and Outreach Activities

*(Not Included in the Scope of this Discussion Paper)*



### Other Matters Raised but Determined to Fall Outside the Remit of the IAASB

#### *Required Annual Assurance Meeting*

Based on research and outreach performed to date, one suggestion is that a formal engagement mechanism should be established between auditors, company management, shareholders, and other stakeholders. This could be a required 'annual assurance meeting' led by the audit committee and attended by the auditor, who would be available to answer questions. Fraud and going concern could be mandatory items on the agenda. While certain principles of good governance are addressed in ISA 260 (Revised), *Communication with Those Charged with Governance*, corporate meeting requirements are often determined by jurisdictional laws and corporate bylaws. Therefore, this is an area where the IAASB determined other stakeholders may be best suited to research and implement change, as determined necessary.

#### *Education/Required Forensic Training for Auditors*

Certain sources have indicated that instituting forensic training requirements for financial statement auditors may help auditors adopt a more forensic mindset when performing audit procedures. Training requirements for audit and assurance professionals and course requirements for accounting students vary across jurisdictions and universities. Also, training requirements may be set by individual accounting firms for their employees. Therefore, this is an area where the IAASB determined other stakeholders must consider this recommendation.

## APPENDIX B

### Conditional Requirements or Other Engagements

In addition to considering what changes may be necessary to narrow the audit expectation gap, the IAASB is also considering how any changes should be made. The table below summarizes some of the possible alternatives for illustrative purposes (but this is not an exhaustive list of all possible alternatives and the examples presented are at a high level, since any option(s) considered would have to be evolved). The IAASB welcomes feedback on these and other alternatives not illustrated below.

Alternatives Summary (Possible solution could be one or a combination of alternatives)	Description	Example
<b>Alternative A:</b> Enhanced requirements apply to all entities	Enhancement of requirements more broadly are made directly to ISA 240 or ISA 570 (Revised)	A specific requirement is added to ISA 240 to use forensic specialists for fraud inquiry procedures
<b>Alternative B:</b> (1) Enhanced requirements apply only to listed entities or entities of significant public interest <sup>27</sup>  OR (2) Enhanced requirements apply when the engagement team determines it appropriate based on the facts and circumstances of the engagement  OR (3) Enhanced requirements are triggered by risk assessment procedures or results of audit procedures performed	(1) Enhancement of requirements in ISA 240 or ISA 570 (Revised) only for listed entities or entities of significant public interest.  (2) Enhancement of requirements in ISA 240 or ISA 570 (Revised) when the engagement team determines such procedures are appropriate based on the facts and circumstances  (3) Enhancement of requirements ISA 240 or ISA 570 (Revised), but only for entities where certain specific triggers have been met (e.g., only in circumstances where there is a suspicion of fraud)	(1) A requirement is added to ISA 240 to use forensic specialists for fraud inquiry procedures, but only for listed entities or entities of significant public interest.  (2) A requirement is added to ISA 240 to use forensic specialists for fraud inquiry procedures when an engagement team determines it is necessary based on facts and circumstances  (3) A requirement is added to ISA 240 to use forensic specialists for fraud inquiry procedures only for entities where, for example, a suspicion of fraud has been identified.
<b>Alternative C:</b> (1) A different engagement separate from the audit is required for listed	(1) Enhancement of requirements are not made directly in ISA 240 or ISA 570 (Revised). Rather, specific entities such as listed entities or entities of significant public interest are required to have an	(1) Forensic specialists are only required by listed entities or entities of significant public interest, not as part of the financial statement audit but rather as another engagement that is in addition to the audit (e.g., a review,

<sup>27</sup> There is currently a project underway to establish convergence between the concepts underpinning the definition of a "Public Interest Entity" in the International Code of Ethics for Professional Accountants, including International Independence Standards, and the description of an "Entity of Significant Public Interest" in the IAASB standards. Further details can be found [here](#).

<b>Alternatives Summary (Possible solution could be one or a combination of alternatives)</b>	<b>Description</b>	<b>Example</b>
<p>entities or entities of significant public interest in relation to fraud.</p> <p style="text-align: center;">OR</p> <p>(2) A different engagement separate from the audit is required if triggered by risk assessment procedures or results of audit procedures performed</p>	<p>engagement performed that is in addition to the financial statement audit in relation to specified aspects of fraud or going concern (e.g., a review, agreed upon procedures etc.)</p> <p>(2) Expansion of auditor requirements are not made directly in ISA 240 or ISA 570 (Revised). Rather, an engagement that is not part of the financial statement audit in relation to specified aspects of fraud (e.g., a review, agreed upon procedures etc.) is required for additional reliability when certain triggers have been met (e.g., there are suspicions of fraud).</p>	<p>agreed upon procedures etc.). This could be done through requirements introduced by a new subject-matter specific standard related to fraud for these circumstances.</p> <p>(2) The requirement to use forensic specialists is only required when there is a trigger, e.g., there is a suspicion of fraud, but not as part of the financial statement audit but rather as another engagement that is in addition to the audit (e.g., a review, agreed upon procedures etc.). This could be done through requirements introduced by a new subject-matter specific standard related to fraud for these circumstances.</p>

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