

## Fraud and Going Concern Discussion Paper

### 4. Are there any other matters the IAASB should consider as it progresses its work on fraud and going concern in an audit of financial statements?

#### Q4.1 - Yes\Q4.1 - 01 Both - Additional guidance necessary for public sector

#### 5. Public Sector Organizations

##### Australasian Council of Auditors General (ACAG)

For the proposals to be useful and relevant for the public sector, ACAG believes that additional guidance is needed in areas specifically considering the public sector context, details of which are included in the attachment to this letter.

#### Q4.1 - Yes\Q4.1 - 02 Both - Alternative framework for defining expectation gap

#### 9. Individuals and Others

##### Michael Bradbury (MB)

##### Expectation GAP Model

The IAASB (2020) DP Fraud and Going Concern in an Audit of Financial Statements uses the ACCA model of the expectation gap (EXGAP). This model has three components: (1) performance gap. (2) knowledge gap and (3) evolution gap. However, this model is, at best, incomplete. First, the model mixes levels and flows. The EXGAP is a gap, which is a level. Whereas evolution is a flow or change in the level (gap).

Bringing in the dynamics of the EXGAP might be a useful attribute to focus on, but it should be correctly characterised in the conceptual model. [In my view, the EXGAP has been around for a long time, which suggests that it is a fundamental problem and that any change or 'evolution' is a second order issue].

Does it matter if the conceptual model is not well-specified? If the model is not well-specified then any missing components will not receive the appropriate consideration; they may be overlooked or ignored. For example, one bullet point the DP mentions unreasonable expectations. However, this is not a specific feature of the EXGAP model in the DP.

A more reasonable portrayal of the EXGAP is:

Expectation GAP

"User" Expectation"

Audit

Unreasonableness

Gap

Standards

Gap

Performance

Gap

I am not arguing that this ought to be the conceptual model that is adopted. However, it is more sensible, as the components add up to 100% and it does not confuse levels and flows. My recommendation is that the IAASB develops and agrees upon a conceptual model before it turns to a solution.

It is also worth trying to estimate the importance of each component in order to allocate the effort to solving the issue. Although missing from the model in the DP, unreasonable expectations may be the single major component of the model. Included in unreasonable expectations are those situations where the expectation gap is used as an argument for litigation against auditors in going concern cases. Without specific recognition of this component, auditors are considered 'insurers' in addition to assurers.

The notion of "public" is a fundamental part of any EXGAP model, as it 'anchors one side of the goalpost'. Before any notion of the EXGAP can be measured, assessed or remedied, there needs to be a clear view on what "public" means. Does it include mom and pop investors, or should it be limited to financial intermediaries? Would "audit report user" be a better term?

The notion of "public" is also important when assessing evidence. For example, there have been several extensive surveys of the EXGAP. However, unless this evidence reflects the views of the appropriate population, the information is not relevant, and if relied on may potentially result in poor decisions and may even exacerbate the audit expectation gap problem.

A reasonable starting point to consider this issue is the IASB's Conceptual Framework which refers to "potential investors, lenders and other creditors" (CF.OB2). as the users of general purpose financial reports. Furthermore, the Framework considers that financial reports "...are prepared for user who have reasonable knowledge of business and economic

activities and who review and analyse the information diligently" (CF,Q32). Why would the audit report be applicable to a wider range of users that intended by the preparers?

The IAASB should develop its own model of the expectation gap. A key feature which will be to agree upon who the "public" refers to in the expectation gap.

#### **Q4.1 - Yes\Q4.1 - 03 Both - Consider that changes have already been made through other projects and workstreams**

##### **1. Monitoring Group**

##### **International Organization of Securities Commissions (IOSCO)**

We also encourage the IAASB to explore how the future framework for identifying and evaluating findings at audit firms in accordance with ISQM 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Service Engagements, can help inform any of the IAASB's efforts in the future related to the auditor's responsibility for detection of fraud.

##### **4. Accounting Firms**

##### **Deloitte (DTTL).pdf**

There have been significant recent revisions to foundational auditing and ethical standards (see table below).

When considering adding requirements to enhance the auditor's ability to detect instances of fraud and evaluate management's assessment of the entity's ability to continue as a going concern, keep in mind that some of the recent revisions specifically address the concerns noted in the discussion paper.

DTTL recommends that the IAASB first monitor the implementation of these revisions for effectiveness to achieve the desired behavior changes in order to identify gaps which may need to be addressed through additional standard setting.

Title

Dates

Changes relevant to issues noted in the discussion paper

International Code of Ethics for Professional Accountants

Issued Oct 2020, effective Dec 2021

Raises behavioral expectations of all professional accountants through requiring them to have an inquiring mind as they understand their professional activities

Emphasizes the importance of accountants being aware of the potential influence of bias in their judgments and decisions

ISA 315, Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment

Issued Dec 2019, effective for periods beg on/after Dec 2021

Enhances requirements relating to exercise of professional skepticism and documentation of such

Includes considerations for using automated tools and techniques in executing audit procedures

Introduces new concepts and clarifies definitions (significant classes of transactions, account balances and disclosures, relevant assertions, spectrum of inherent risk, inherent risk factors – including fraud risk)

ISA 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures

Issued Oct 2018, effective for periods beg on/after Dec 2019

Increases emphasis on professional skepticism

Highlights need for use of experts

Requires separate assessment of inherent risk and control risk

Explicitly recognizes spectrum of inherent risk

Introduces concept of inherent risk factors (estimation uncertainty, complexity, subjectivity)

Enhances risk assessment procedures related to obtaining an understanding of the entity and its environment

Emphasizes importance of auditor's decisions about controls relating to accounting estimates

Enhances the "stand back" requirement

Enhances requirements addressing disclosures

Emphasizes communication with TCWG

Non-Compliance with Laws and Regulations ("NOCLAR")

Issued Oct 2016, effective for periods beg on/after Dec 2017

Clarifies the requirement regarding the auditor's determination of whether to report identified or suspected NOCLAR to an appropriate authority outside the entity while considering the auditor's duty of confidentiality

Highlights that the auditor may have additional responsibilities under law, regulation or relevant ethical requirements, including communicating to other auditors

Enhances the consideration of the implications of NOCLAR on the audit

Emphasizes the fact that communication with management or TCWG may be restricted or prohibited by law or regulation

## **6. Member Bodies and Other Professional Organizations**

### **Accountancy Europe (AE)**

We expect that the risk-based approach to quality management in audit firms, as described in the new set of quality standards released by the IAASB, as well as the recently revised ISA 315 that includes a more robust and consistent risk identification and assessment, will help narrowing the performance gap. Audit firms will demonstrate even more their commitment to quality.

### **Institute of Chartered Accountants of Scotland (ICAS)**

IAASB Quality Management Standards and ISA 315 Revisions

We also believe that the recent approval by the IAASB of its quality management standards and as well as the revisions to ISA 315 which includes a more robust and consistent risk identification and assessment, will help to narrow the performance gap.

## **Q4.1 - Yes\Q4.1 - 04 Both - COVID 19 considerations**

### **3. National Audit Standard Setters**

#### **Australian Auditing and Assurance Standards Board (AUASB)**

COVID-19 has put a "spotlight" on going concern and the difficulties in making forward looking assessments and gathering audit evidence in an environment of such high uncertainty as to the future. This has also highlighted the importance of robust going concern assessments and disclosures about uncertainties and key assumptions that management and TCWG have made in forming their conclusions to allow users to understand the uncertainty which exists.

### **4. Accounting Firms**

#### **BDO International Limited (BDO)**

The economic shock associated with COVID-19 has led to greater focus associated with going concern by stakeholders and heightened awareness or activities by others, including auditors, within the financial reporting ecosystem.

There may be lessons that can be learned by management, TCWG, investors, regulators and auditors when considering the extra steps that all these stakeholders undertook in respect of going concern and to see whether that rigor should continue to be applied in a post-COVID-19 period.

Management, TCWG and auditors have had to focus on resilience of the entity's business model (i.e., supply chain, liquidity, customer access issues) resulting in greater use of stress testing and reverse stress testing approaches.

From an audit perspective, more immediate challenges such as how auditors and entities have responded to COVID-19 may help identify innovations that could help drive future development of the ISAs.

### **Deloitte (DTTL).pdf**

For a circumstance like COVID, DTTL looks to economic considerations and changes in the entity's environment, processes, and controls to determine whether there are new or different fraud risks and continue to re-evaluate our fraud risk conclusions throughout the audit. We may decide to perform additional fraud brainstorming sessions, change our inquiries with management (or perform additional inquiries with others in the entity), or consider bringing in forensic specialists for assistance.

For a circumstance like COVID, DTTL looks to economic considerations and changes in the entity's environment, processes, and controls to determine whether there are new or different risks to the entity's ability to continue as a going concern.

### **Ernst and Young (EY)**

#### **Auditing remotely**

Due to the current pandemic, many 2020 audits around the world have been conducted largely through remote working. We believe it is important for stakeholders to recognize that this manner of conducting audits came out of necessity and does not necessarily represent the "new normal". Direct face-to-face interaction with management, those charged with governance and entity personnel is essential to audit quality. Although video-conferencing will continue as one method to achieve face-to-face interaction, we do not believe technology can completely replace in-person interaction.

Auditors visiting and working in clients' environments best facilitates conducting audit procedures involving observation. The auditor is also able to have direct experience with the entity's culture and interact with many personnel other than those involved in financial reporting.

As the IAASB progresses its projects, particularly related to the auditor's responsibilities for detecting fraud, we strongly encourage the IAASB to communicate more explicitly its views or expectations about the ways in which the audit may or should be conducted to achieve audit quality.

### **KPMG**

We also believe that exploration of these areas is particularly timely in the context of the COVID-19 pandemic, the effects of which may have significant implications for both fraud and going concern.

### **Mazars (MAZ)**

We believe that the topics of fraud and going concern are major topics of public interest and involve all stakeholders, especially in a crisis environment such as the one of Covid-19 we are facing for longer than 1 year now.

## Moore (MGN)

We strongly recommend that IAASB should be wary of creating a 'pandemic standard'. Any new requirements that are introduced as a result of these projects should be appropriate for years to come and IAASB should endeavour to avoid regarding issues through the prism of the current situation.

## PricewaterhouseCoopers (PWC)

The global COVID-19 pandemic has drawn renewed attention to fraud and going concern. There can be heightened incentives and opportunities for fraud and challenging economic conditions have given rise to an increased number of material uncertainties regarding the ability of some entities to continue as a going concern.

## 6. Member Bodies and Other Professional Organizations

### Confederation of Indian Industry (CII)

The outbreak of the COVID 19 pandemic has heightened the focus on fraud and going concern.

### Institute of Certified Public Accountants of Uganda (ICPAU)

ICPAU believes that the auditor should have enhanced or more requirements with regard to going concern in an audit of financial statements. For example, with the lessons from the COVID-19 crisis, it would be prudent for auditors to have enhanced requirements in relation to potential future events that may cast doubt on the entity's ability to continue as a going concern. The COVID-19 crisis and all the resultant devastating effects for businesses mean auditors cannot afford to ignore future events in their audits. Such transparency will enhance the confidence of the users of the financial statements.

### Institute of Chartered Accountants in England and Wales (ICAEW)

The current reporting season will be like no other. Those to come will never be the same. IAASB will need to revisit this area later in the year when the nature and extent of references to going concern issues in audit reports globally become clearer. We are aware that auditors in firms of all sizes are challenging their clients on going concern issues much more robustly and consistently in this COVID era than ever before, and we are hopeful that the better practices that emerge will inform IAASB's discussions.

### New York State Society of CPAs (NYSSCPA)

During the pandemic we are currently experiencing, the link between the issues of fraud and going concern is deeper, since there is potentially an increased motivation to commit fraud in order to avoid doubt about an entity's ability to continue as a going concern; however, we view this heightened risk to be temporary.

## Q4.1 - Yes\Q4.1 - 05 Both - Enhanced engagement between auditors and users of financial statements

### 3. National Audit Standard Setters

#### New Zealand Auditing and Assurance Standards Board (NZAuASB).pdf

The NZAuASB encourages the IAASB to explore ways in which the auditor can better engage with the users of the audit report, both in terms of exploring the scope of the audit and during the annual general meetings. Broader engagement outside of the auditor's report may be a more effective way to promote a

better understanding of what an audit is (provide an opportunity for auditors to “educate” users as to what it is they do) and for users to provide more information to auditors about how they wish the audit to evolve to start to narrow the evolution gap, bearing in mind trade-offs around cost and benefit and the impact on audit fees.

#### **Q4.1 - Yes\Q4.1 - 06 Both - Expanded role of the auditor**

### **3. National Audit Standard Setters**

#### **Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW)**

Remaining within the standard setting remit of the ISAs

In this vein, we therefore also welcome the IAASB having clarified that issues regarding the audit treatment of fraud and going concern are embedded in the financial reporting ecosystem and that therefore the IAASB is not in a position to resolve these issues alone. However, we would like to point out that the nature of the questions posed, and the perspectives sought, in the paper indicate that the IAASB may be prompting stakeholders to provide direction to the IAASB to seek to address matters in its standards that go beyond the remit of the IAASB as an international standard setter. The scope of the ISAs is the audits of financial statements (and other historical financial information, if one includes ISA 805) – not assurance or any other engagement with respect to matters other than financial statements. National legislators and appropriately legislatively empowered regulators can expand the scope of audits of financial statements to cover other matters and do so (e.g., the audit of internal control over financial reporting as part of the financial statement audit under the Sarbanes-Oxley Act in the United States, or assurance on the management report as part of the financial statement audit in Germany), but as an international standard setter, the IAASB cannot unilaterally expand the required scope of audits of financial statements to cover other matters. Doing so would lead to the ISAs no longer being universally applicable for audits of financial statements, because if the IAASB expanded the required scope of audits beyond the noted opinion and report, the ISAs would be at variance with most national legislation requiring audits of financial statements.

Consequently, matters beyond those needed to express an opinion on the financial statements and report on the auditor’s findings must be beyond the scope of the ISAs: such matters can only be addressed by national legislation or regulation and accompanying national standards. It is for these reasons that our responses to the questions posed, and perspectives sought, deny that required expansions of audit scope through the ISAs are possible or even desirable. Nevertheless, the IAASB may consider whether other assurance engagements in relation to fraud and going concern issues performed on a voluntary basis are of sufficient interest internationally to warrant a response by the IAASB, which may include, but may not necessarily be, standard setting in the first instance.

### **6. Member Bodies and Other Professional Organizations**

#### **Accountancy Europe (AE)**

For the evolution of auditor’s role, certain preconditions should be met as explained in our detailed responses below. The primary responsibility for fraud prevention and assessment of the entity’s going concern lies with the management and Those Charged with Governance (TCWG) of the entity. Hence, any expansion in the auditor’s work will need to be based on increased requirements for the audited entities.

In addition, the value of an audit is closely linked to its timeliness. The same is true for the information provided to the markets by the entities. Therefore, any evolution of reporting and auditing should not be at the expense of providing timely information to the public.

The auditor's role can be reconsidered and expanded as a response to the evolving expectations and thus responding to the evolution gap. The IAASB should consider and consult on (i) adapting the scope of the audit of financial statements and/or (ii) developing assurance standards for complementary engagements that auditors could undertake alongside the statutory audit.

#### **Q4.1 - Yes\Q4.1 - 07 Both - Importance of principles-based framework**

##### **1. Monitoring Group**

###### **Basel Committee on Banking Supervision (BCBS)**

The Committee agrees that there are parties other than the IAASB that play an important role in contributing to high-quality financial reporting. The Committee encourages the IAASB to continue its dialogue with accounting standard setters and others that may be able to enhance requirements for preparers of

financial

statements and those charged with governance, including the disclosures they need to make, on both fraud and going concern.

##### **6. Member Bodies and Other Professional Organizations**

###### **Accountancy Europe (AE)**

There is no one-size-fits-all solution that can be offered by the financial statements audit. The world is constantly changing and so do the business environment, societies and public expectations. Auditors need to be agile to be able to respond to the needs of stakeholders and adapt their work according to evolving circumstances. At the same time stakeholders need to be alert to the facts that certain risks concerning both fraud and going concern cannot be eliminated, no matter how much work the auditor undertakes. Standards can support auditors by establishing a framework that allows for flexibility where necessary. To enhance agility and adaptability and to avoid a "tick the box" behaviour, the auditing framework should continue to be based on principles-based requirements and be reinforced by application material that provide guidance and examples for clarifying the requirements.

###### **American Institute of Certified Public Accountants (AICPA)**

We encourage the IAASB to continue to develop principles-based standards, without being overly prescriptive considering that these standards may serve as the basis for audits of all entities, whether public or private. We also encourage the IAASB to continue to focus on the "IAASB toolkit." This focus includes the IAASB considering all possible actions that may be taken by the IAASB, beyond making changes to the auditing standards themselves. Further, we encourage the IAASB to continue to share its findings from this project to help inform all stakeholders.

###### **International Federation of Accountants (IFAC).pdf**

In general, we believe that ISA 240 and ISA 570 (Revised) provide an effective basis for dealing with the auditor's responsibilities relating to fraud and going concern in an audit of financial statements and do not require far-reaching changes. The IAASB should take an evidence-based approach to any changes to the ISAs (e.g., clarification or potentially strengthening requirements where needed to drive better performance). Whilst we fully support efforts to explore what might be done to increase audit quality and investigate audit deficiencies, we are concerned about the potential costs of further changes (particularly for SMEs and SMPs) and whether changes to the ISAs would make a meaningful difference to the current audit model.

The IAASB (unlike those responsible for individual national regulation) is constrained by the internationally accepted audit model (i.e., reasonable assurance and the opinion required of the auditor). The IAASB alone cannot, for example, double the cost of an audit to increase fraud detection etc., since such decisions need to have wide international backing and so are generally made at a national level first. In addition, before any significant changes are made to the ISAs in relation to fraud and going concern, we believe the IAASB would need to coordinate its efforts with the financial reporting standard setting bodies, such as the IASB (e.g., exploring enhanced disclosures on internal controls relating to fraud and various aspects of the IFRS requirements on going concern).

In our opinion, changing the standards to include more requirements and be more rules-based is also not a solution to any issues that relate to the “performance gap.” Indeed, it may even have the opposite effect if auditors focus overly on complying with the letter of the requirements, rather than the principles. These are not new issues and to help address issues around inconsistent application of the ISAs, we consider that the focus should be on training and support for practitioners, including consideration of non-authoritative guidance.

IFAC supports a principles-based approach to standard setting and believes that changes to the ISAs should be founded on robust evidence.

### **The Institute for the Accountancy Profession in Sweden (FAR)**

With the above said we emphasize that the primary responsibility for dealing with fraud and going concern lies within the company, its management and those charged with governance. Our view is that there should be no shift of this responsibility to the auditor. If enhancements should be made in audit procedures and auditor reporting the starting point should however be increased requirements on the companies, their management and those charged with governance. We further believe that it would be unfortunate if the audit standards would become more rules based. Instead we are of the strong opinion that the audit standards should be principles based and that the auditor’s ability to exercise professional judgment is of high importance for the audit quality.

## **Q4.1 - Yes\Q4.1 - 08 Both - Importance of role of all stakeholders in the financial reporting ecosystem**

### **2. Regulators and Audit Oversight Authorities**

#### **Canadian Securities Administrators (CSA)**

##### **User Needs**

We support the IAASB’s view that challenges pertaining to going concern are best addressed through a multi-stakeholder approach. In particular, we think that the role of users (i.e., investors) should be actively considered and explored in order to better understand their needs in terms of going concern in the context of a financial statement audit.

### **3. National Audit Standard Setters**

#### **Canadian Auditing and Assurance Standards Board (AASB)**

All parties in the financial reporting ecosystem are responsible for delivering financial information to meet stakeholder expectations. An expectation gap is created when the ecosystem fails to meet users’

expectations for the delivery of credible, adequate, and timely financial information. This is often the case when there is an unexpected entity failure or scandal.

In our view the expectation gap is not solely an “audit” expectation gap. Shifting the discussion about the expectation gap from an audit focus will help all parties to accept they are part of the solution. It will also help stakeholders understand there are several parties responsible for preparing and delivering financial reports.

Many stakeholders do not understand the different but interconnected roles and responsibilities of all the parties in the ecosystem. Following an unexpected entity failure or scandal, stakeholders try to determine who is to blame and for decades have focused mainly on the role of the auditor. Perhaps this is why the expectation gap has always been labeled as an audit issue.

The IAASB, alongside national audit standard setters such as the AASB, play an important role in narrowing the expectation gap. This includes an ongoing commitment to continuous improvement of audit quality and auditing standards in an ever-changing environment. However, we are of the view that all the parties in the financial reporting ecosystem that are responsible for delivering credible high-quality information, and users, have a role to play.

We believe it is important that the IAASB, and others, work collectively to address the expectation gap as the impact of the efforts of a single party within the financial reporting ecosystem will be limited.

We believe that all parties within the financial reporting ecosystem must contribute to narrowing the gap through undertaking actions such as those outlined in our response to Q1(b). In our view, a collective effort by all parties is the only way to make a meaningful impact to narrow the expectation gap.

#### **Compagnie Nationale des Commissaires aux Comptes (CNCC) and the Conseil Supérieur de l'Ordre des Experts-Comptables (CSOEC)**

IAASB should continue to remind stakeholders that the responsibility for fraud prevention and the assessment of the entity's going concern lies with management and those charges with going concern.

We therefore consider that even if specific measures are taken at the IAASB level, these will not be sufficient. In particular, we consider that a law mandating disclosure and evaluation of internal control procedures over financial statements by management (and auditor's appreciation of such evaluation) would make it possible to respond to and limit certain internal control deficiencies and should prevent and detect cases of fraud.

We are also aware that such recommendations could be perceived as too burdensome at the entity level, but they appear to be an essential element of the financial reporting ecosystem without which it would be difficult to reduce the expectation gap.

#### **Institut der Wirtschaftspruefer in Deutschland e.V. (IDW)**

In this vein, we therefore also welcome the IAASB having clarified that issues regarding the audit treatment of fraud and going concern are embedded in the financial reporting ecosystem and that therefore the IAASB is not in a position to resolve these issues alone.

However, we would like to point out that the nature of the questions posed, and the perspectives sought, in the paper indicate that the IAASB may be prompting stakeholders to provide direction to the IAASB to seek to address matters in its standards that go beyond the remit of the IAASB as an international standard setter. The scope of the ISAs is the audits of financial statements (and other historical financial information,

if one includes ISA 805) – not assurance or any other engagement with respect to matters other than financial statements. National legislators and appropriately legislatively empowered regulators can expand the scope of audits of financial statements to cover other matters and do so (e.g., the audit of internal control over financial reporting as part of the financial statement audit under the Sarbanes-Oxley Act in the United States, or assurance on the management report as part of the financial statement audit in Germany), but as an international standard setter, the IAASB cannot unilaterally expand the required scope of audits of financial statements to cover other matters. Doing so would lead to the ISAs no longer being universally applicable for audits of financial statements, because if the IAASB expanded the required scope of audits beyond the noted opinion and report, the ISAs would be at variance with most national legislation requiring audits of financial statements.

Consequently, matters beyond those needed to express an opinion on the financial statements and report on the auditor's findings must be beyond the scope of the ISAs: such matters can only be addressed by national legislation or regulation and accompanying national standards. It is for these reasons that our responses to the questions posed, and perspectives sought, deny that required expansions of audit scope through the ISAs are possible or even desirable. Nevertheless, the IAASB may consider whether other assurance engagements in relation to fraud and going concern issues performed on a voluntary basis are of sufficient interest internationally to warrant a response by the IAASB, which may include, but may not necessarily be, standard setting in the first instance.

#### **Japanese Institute of Certified Public Accountants (JICPA)**

In response to fraud, it is essential that all participants in the financial reporting ecosystem, in particular management, those charged with governance, and auditors, fulfil their respective roles, as described above. In this regard, we think it is effective to conduct research from the perspective of the entire financial reporting ecosystem. While the Discussion Paper explains that a number of corporate failures and scandals across the globe have occurred, we do not believe that such significant fraud has occurred in all jurisdictions. For example, in the US, we understand that there have been no such significant incidents in recent years, compared with other jurisdictions. Therefore, in jurisdictions where the financial reporting ecosystem is considered to be functioning effectively in relation to fraud, it is worth considering what systems (e.g. disclosure systems, penalty provisions for management and/or auditors) exist and how they function for the prevention and/or detection of fraud.

#### **New Zealand Auditing and Assurance Standards Board (NZAuASB).pdf**

##### Overarching comments

The NZAuASB strongly agrees that the IAASB cannot address the expectation gap on its own and is therefore very supportive of this initiative, with its focus on promoting ongoing co-operation between all participants in the financial reporting ecosystem. The entire ecosystem has an important role to play if the expectation gap is to be reduced for both fraud and going concern matters.

The NZAuASB strongly agrees that all participants in the financial reporting ecosystem have an important role to play to narrow the expectation gap and build trust in reporting. We consider that matters related to both fraud and going concern are a responsibility of the whole of the financial reporting ecosystem and that changes to the auditing standards cannot address the expectation gap on their own. The NZAuASB is supportive of the IAASB's DP to inform a public debate with all participants in the reporting ecosystem, to clarify the respective roles and responsibilities of all participants relating to fraud and going concern.

The NZAuASB strongly agrees with the IAASB's observation that these issues need to be addressed as a whole of financial reporting ecosystem issue in the public interest. The role of the auditor is only part of the solution. The NZAuASB is of the view that without changes related most specifically to the responsibilities of management and those charged with governance in the areas of reporting, risk management and internal controls, any change to the auditor's responsibilities will have little impact.

#### **Royal Netherlands Institute of Chartered Accountants (NBA)**

At the same time, the problems need to be clearly analyzed with all parties involved which could take more time and would also need action from other parties (e.g. accounting standard setters such as IFRS related to going concern issues).

#### **4. Accounting Firms**

##### **BDO International Limited (BDO)**

Highlight what can be done through IAASB standards as one part of the 'financial reporting ecosystem', and However, in addition to working with auditors, we would strongly encourage the IAASB to further develop their ongoing engagement with entities, Those Charged with Governance (TCWG), investors, audit regulators and other standard-setters to help identify solutions that work for the financial reporting ecosystem as a whole and not just one part of it. Any solution or set of solutions should not be designed to be a 'quick fix' based on recent high-profile frauds or matters related to going concern but should represent a sustainable planned set of steps designed to reduce the expectation gap based on identified needs of stakeholders.

We recognize that expectations in these areas are high and both fraud and going concern remain complex issues that involve a range of individuals within the financial reporting ecosystem.

##### **Crowe (CG)**

The subjects of fraud and going concern in an audit of financial statements are not just issues for the IAASB and auditors. Other stakeholders also have responsibilities, and unless these responsibilities are also examined, the expectations gap will not sufficiently narrow. The IAASB is in a position to encourage a broader discussion with its stakeholders.

The IAASB has initiated an important discussion about fraud and going concern in an audit of financial statements. A discussion about the expectation gap in these areas is needed. There is a case for enhancements the requirements of auditors with a view to promoting the public interest and narrowing the gap. However, other stakeholders also have responsibilities and the IAASB is in a position to promote a dialogue with these stakeholders.

##### **Deloitte (DTTL).pdf**

Re-emphasis on importance of collaborative effort necessary from a variety of constituents around the world.

To achieve improvements in the prevention and detection of fraud, and clear understanding of the evaluation and disclosure of matters related to going concern, collaboration is necessary with policy makers, regulators, listing exchanges, auditing standard setters, accounting standard setters, management and TCWG, investors, and auditors. The responsibilities of management and TCWG regarding appropriate procedures and controls in the area of fraud and going concern are critical to driving change. It will also be

critical for the IAASB to work together with other national auditing standard setting bodies to develop guidance that is consistent across multiple jurisdictions to reduce confusion and inconsistency in execution.

### **Ernst and Young (EY)**

Although we agree there are opportunities for enhancements to the International Standards on Auditing (ISAs) for both fraud and going concern that would assist in addressing the expectation gap, it is important, in our view for all stakeholders to recognize that enhancements to the ISAs alone are not likely to have a substantial enough effect on the expectation gap.

It is critically important that perspectives be gathered from all participants in the financial reporting ecosystem, especially because, as rightfully acknowledged in the Discussion Paper, the IAASB cannot narrow the expectation gap alone.

### **GTI**

In conclusion, we believe that addressing investor and other stakeholder expectations and an improvement in the quality of the audit and of reporting in the areas of fraud and going concern is a shared responsibility; it requires all stakeholders, including auditors, to play their part if significant advancement is going to be made. Simply changing the auditing standards alone will not result in a significant change.

Irrespective of whether the existing international auditing standards are amended or whether new or enhanced requirements are developed, we believe that it is key that stakeholders in the financial reporting ecosystem have a full understanding of what the terms and requirements identified above mean and the respective responsibilities of management or those charged with governance and of the auditor in each of these areas.

### **KPMG**

As we describe elsewhere in our response, we believe that certain changes to the role and responsibilities of auditors in respect of fraud and going concern need to be supported by complementary changes to requirements in respect of other key roles and responsibilities in the financial reporting ecosystem. Such changes need to be substantially aligned and need to be supported by clear frameworks for evaluation/ measurement of matters relating to fraud and going concern. We recognise that the introduction of legal/ regulatory/ corporate governance code requirements will take place on a jurisdiction by jurisdiction basis, with this evolution occurring at a different pace across different jurisdictions.

Therefore, we encourage the IAASB to reach out to and work closely with other bodies including financial reporting standard setters such as IASB, as well as national standard setters, bodies responsible for establishing legal and regulatory, and corporate governance, frameworks/requirements, on a global basis, in exploring this area and developing a suite of appropriate solutions. Such outreach and collaboration on a global basis will likely be challenging, but we consider it critical in order to drive the necessary improvements and improve public confidence in the global capital markets.

As part of engaging in the debate, we also suggest the IAASB discuss with other bodies the possibility of changes in the regulatory arena to encourage greater transparency by entities and also by auditors. These could involve, for example, the introduction of 'safe harbour' provisions for management/ those charged with governance of entities which establish appropriate systems of internal control in respect of fraud and going concern, and changes in the liability landscape regarding auditor reporting in relation to such matters.

We appreciate the Board's acknowledgement of the need to work with others in the financial reporting ecosystem as, to be effective, any changes to the role and responsibilities of auditors will likely require other stakeholders to make corresponding changes in respect of the roles and responsibilities of others in this ecosystem.

#### **Mazars (MAZ)**

We believe it is high time to join efforts and forces for an integrated approach among legislators, corporate governance actors, accounting and auditing standard setters. The status quo is not an option, neither for the auditors nor for the other stakeholders.

#### **MHA Macintyre Hudson (MHA)**

We are pleased to see the IAASB stressing the importance of all parties involved in the "financial reporting ecosystem". Successful development and implementation of any future improvements in fraud and going concern can only be achieved through a concerted effort on behalf of all the key players in the financial reporting ecosystem, as set out in the Background section of the discussion paper. It is not possible for any one constituency to effect substantial change without all parties' support and collaboration.

We support the IAASB's initiative to gather perspectives from stakeholders on the auditor's role in fraud and going concern. However, it is difficult to see how a consensus view is expected to emerge from the variety of stakeholders who will hopefully respond to the discussion paper. We would also urge the IAASB and others to be very mindful of the risks of widening the expectation gap by taking actions that might be perceived to address issues but may not be entirely successful without the full support of all parties.

#### **PKF International Limited (PKF)**

The many financial reporting ecosystems around the world and related technologies, are evolving, so must the role of the auditor. However, there must be a balance. Management and Those Charged with Governance must also acknowledge and fulfil their responsibilities and should also be held accountable.

#### **PricewaterhouseCoopers (PWC)**

Audit is one part of the broader corporate reporting ecosystem

Effective auditing standards and consistent high-quality application of them by auditors are important elements to maintaining trust in audit.

Audit is, however, only one part of an inter-connected corporate reporting ecosystem. This ecosystem has several different participants – preparers, those charged with governance, investors, other users, regulators, as well as auditors. Auditors undoubtedly have an important role to play in addressing the expectation gap, but solutions that deliver significant change will likely require a broader focus by all stakeholders in the ecosystem. In any ecosystem, effective functioning of the whole depends on each part being aligned, working together, and individually operating effectively. The roles and responsibilities of the various players in that system and how they interrelate and reinforce one another is important to the efficacy of the system as a whole.

We note that reforms introduced in jurisdictions that have had some positive impact have involved more holistic change. For example, changes to the auditor's responsibilities were made at the same time as complementary changes in management's responsibilities (e.g., for the design and effectiveness of internal control over financial reporting), governance responsibilities (e.g., for the evaluation of the entity's longer

term viability), and the legal and regulatory framework (e.g., clearly defined responsibilities, accountabilities and consequences in law and regulation). In our view, prior revisions to auditing standards may have had some success in narrowing the performance gap; however, the evolving expectations in today's marketplace warrant consideration of more holistic change.

Opportunity for the IAASB to lead the necessary dialogue

We believe that there is an opportunity for the Board to take a leadership role by bringing together and facilitating meaningful discussion among stakeholders in the corporate reporting ecosystem with the goal of achieving consensus on changes that would contribute to effective solutions. We encourage the IAASB to involve others, such as IOSCO, the IASB, IFAC, the OECD, Transparency International, the World Bank and the IMF, who are likely to have useful insights and whose support will be needed to effect the broader change we describe.

## **5. Public Sector Organizations**

### **Australasian Council of Auditors General (ACAG)**

ACCA's three components of the expectation gap are valid: Knowledge Gap, Performance Gap, and Evolution Gap – this is widening as a result of big data and accounting estimates.

A holistic approach is required, consider collaborating with accounting standards boards and professional bodies to ensure a consistent approach to requirements for all parties including management and those charged with governance.

## **6. Member Bodies and Other Professional Organizations**

### **Accountancy Europe (AE)**

Fraud and going concern are complex matters and there is no silver bullet solution for the issues at stake. To address them, we should adopt a holistic approach taking into account the relevant risks and the expectations of stakeholders. Only concerted efforts and commitment of all the key parties can achieve tangible results in the public interest.

### **American Institute of Certified Public Accountants (AICPA)**

Determining whether additional actions may be necessary to enhance the reliability of financial reporting, including audit quality, involves all members of the financial reporting ecosystem, including the financial reporting standard setters, management, those charged with governance and the auditor.

We agree that each participant in the financial reporting ecosystem plays a role that contributes towards high-quality financial reporting, including audit quality, particularly as it relates to fraud and going concern. As an example, we note the importance of an entity's internal control framework as it relates to anti-fraud measures. While we recognize the existence of many internal control frameworks we observe that in the U.S., the 2013 Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control - Integrated Framework provides such guidance to many entities.

### **Belgian Institute of Registered Auditors (IBR-IRE)**

We welcome the discussion on the enhancement of the role of the auditor in relation to fraud and going concern in an audit as well as on the relevance and the societal role of the auditors. However, we would like to emphasize the importance of following a holistic approach that considers the roles of all parties involved

in the financial reporting process (board of directors, audit committee, management, internal audit, auditor, etc.) when doing this. The followed approach should be cohesive as a lack of cohesion creates the risk of further increasing the expectation gap in these two areas.

### **Center for Audit Quality (CAQ)**

We also encourage the Board to seek feedback from the International Organization of Securities Commissions (IOSCO) and the International Forum of Independent Audit Regulators, as these groups may be able to assist with the development of comprehensive solutions. We recognize the challenges of developing a global approach that is principles-based, capable of being implemented in a scalable manner and that is compatible with a variety of other jurisdictional regulatory systems. Accordingly, we do not believe that the IAASB should seek to incorporate all changes being considered in specific jurisdictions into the International Standards on Auditing (ISA).

### **Chartered Accountants Australia and NZ and ACCA - Joint (CAANZ-ACCA)**

We note that in many cases this may not necessarily be achieved by way of auditing standards alone, but will call for a much broader willingness to conceive and embrace change on the part of the profession, and all of the other key members of the ecosystem.

We agree with the IAASB's stance that these issues are a whole financial reporting ecosystem issue and that auditors and their responsibilities are only part of the answer. Stakeholders believe that without change in other areas, namely addressing the responsibilities of management and those charged with governance (TCWG) in the areas of financial reporting, corporate risk management and the internal control environment, any change to auditors' responsibilities will have little impact in addressing the expectation gap in relation to fraud and going concern.

### **Confederation of Indian Industry (CII)**

Re-emphasis on importance of collaborative effort necessary from a variety of constituents around the world.

To achieve improvements in the prevention and detection of fraud, and clear understanding of the evaluation and disclosure of matters related to going concern, collaboration is necessary with regulators, listing exchanges, auditing standard setters, accounting standard setters, entity management and TCWG, investors and auditors. The responsibilities of entity management and TCWG regarding appropriate procedures and controls in the area of fraud and going concern are critical to driving change. It will be critical for the IAASB to work together with other national auditing standard setting bodies to develop guidance that is consistent across multiple jurisdictions to reduce confusion and inconsistency in execution.

### **Federacion Argentina de Consejos Profesionales de Ciencias (FACP)**

They must be interpreted in the context of the information ecosystem.

None of the components of the ecosystem solves the issues by itself.

Although professional standards cannot establish obligations for the audited entity, it would be convenient for the corresponding bodies to achieve that issuers and corporate governance bodies issue specific and more precise statements, in addition to financial information, such as statements on : resilience, criteria applied for risk assessment and internal control systems applied to fraud and / or continuity, planning and actions of the audit committee.

## **Institute of Chartered Accountants in England and Wales (ICAEW)**

Fraud and going concern need to be addressed by all stakeholders, on a holistic basis

There is more to be done on fraud and going concern by all stakeholders. Expectations are high. Fraud and going concern are complex issues and IAASB acknowledges that auditing standards are just part of the solution.

Fraud

Fraud demands an intelligent joined up response from companies, investors, auditors, audit regulators and standard-setters. Auditors can and should do more, and those we consulted were clear that they were willing to do so, but a corresponding effort must also be made by others. IAASB must make this clear in its communications and seek to engage with investors and companies when developing proposals. In particular, IAASB needs to understand what investors want to see in auditors' reports with regard to fraud, how they want audits scoped and what they are prepared to pay. Our discussions in the past suggest that they would like to see audits scoped more widely with respect to fraud, at greater cost, and in particular more nuanced communication in audit reports about where on the spectrum an entity's fraud risks lie. IAASB should reach out to this constituency.

## **Institute of Chartered Accountants of Scotland (ICAS)**

Need for involvement of all actors

We commend the IAASB for taking forward this initiative. As the IAASB notes the debate is timely and such is its nature that it is vital to enhancing confidence in financial reporting. As is noted in the discussion paper the IAASB can increase what it requires of auditors in the areas of fraud and going concern, however, it cannot narrow the expectation gap alone. The primary responsibility for preventing and detecting fraud rests with directors as it does in relation to assessing whether an entity is entitled to make use of the going concern assumption as the basis for preparing its financial statements. The IAASB, however, only has direct influence over matters affecting auditors and therefore what can be included in auditing standards or guidance. A holistic approach requiring efforts from all of the actors involved in the financial reporting ecosystem is essential if fraud and going concern are to be appropriately addressed. However, issues such as the lack of global standards on corporate governance do bring challenges in that regard.

## **International Federation of Accountants (IFAC).pdf**

We believe that a key issue with the expectation gap is around education of external users/stakeholders to have an appropriate understanding of audit and assurance engagements (the "knowledge gap"). We agree that the IAASB cannot solve the issue of the expectation gap alone. Addressing this issue effectively calls for looking across the participants in the corporate reporting ecosystem, including preparers of reports, audit committees, directors, and management. It is important other stakeholders consider whether addressing gaps in the expectations placed on audit might require broader changes, including a more rigorous approach to the accountability of company management for high quality financial reporting processes and internal controls. An organization's policies and procedures for whistleblowing will also be an important component of detecting and dealing with fraud.

We strongly agree that all those in the financial reporting ecosystem involved in the preparation, approval, audit, analysis and use of financial reports have an essential role in contributing to high-quality financial reporting. Notwithstanding the significance of recent corporate failures, overall, the standards and processes

underlying financial reporting (both the preparation and audit of financial statements) have functioned well in providing balanced and transparent financial reports. The quality of audited financial reporting has reached a level which clearly underpins confidence and decision making and allows effective capital markets to exist in all major economies.

### **South African Institute of Chartered Accountants (SAICA)**

As outlined in the Discussion Paper, there are various players that have a unique and essential role to play in ensuring an effective financial reporting ecosystem that ultimately reports high quality financial information. It is unlikely that the standard setting activities of the IAASB alone will be sufficient to address the current expectation gap, particularly as it relates to knowledge gap. SAICA therefore supports the need for a holistic approach to addressing the current challenge, involving all players within the financial reporting ecosystem. Creating interventions that are aimed only at auditors without taking into account the wider corporate reporting ecosystem will not result in the achievement of the desired outcomes as the inherent limitation of an audit is that it only provides reasonable assurance on financial statements.

### **The Institute for the Accountancy Profession in Sweden (FAR)**

As we have pointed out several times in our comments it is important to recognise that the primary responsibility for dealing with fraud and going concern lies within the company, its management and those charged with governance. The auditor alone cannot solve these issues, why enhanced audit procedures and reporting need to go hand in hand with increased requirements on the companies, their management and those charged with governance.

The IAASB should collaborate with a variety of constituents –regulators, accounting standard setters, and national auditing standard setters - to ensure that root causes are addressed by those who have influence/authority, and for consistency and convergence across jurisdictions.

### **Wirtschaftsprüferkammer (WPK)**

The IAASB correctly states, that it cannot narrow the expectation gap alone. Also, the audit treatments of fraud and going concern are embedded in the financial reporting ecosystem therefore the IAASB is not in a position to resolve these issues alone.

## **Q4.1 - Yes\Q4.1 - 09 Both - LCE challenges**

### **3. National Audit Standard Setters**

#### **Canadian Auditing and Assurance Standards Board (AASB)**

Finally, the IAASB will need to consider how any future enhancements are scalable for audits of less-complex entities (LCE). In doing so, we encourage the IAASB to carefully consider potential implementation challenges for LCE audits.

### **4. Accounting Firms**

#### **GTI**

ISA 570 (Revised)

ISA 570 (Revised) presents a number of challenges for auditors in its application. One of the biggest challenges pertains to auditing management's assessment of the entity's ability to continue as a going

concern when management does not perform a formal assessment. This is very common in owner-managed businesses. Further, for many less sophisticated entities, management does not have the knowledge or expertise to do a meaningful analysis and, in some cases, does not understand its responsibilities and the fact that they are required to perform an evaluation of the entity's ability to continue as a going concern before the auditor can complete the required audit procedures under ISA 570 (Revised). There may also be circumstances where management of an entity cannot actually make a reasonable forecast of the required 12-month period. These issues have been exacerbated by the impact of COVID-19 on the performance of audit procedures in this area. It is therefore important to engage others in the financial reporting ecosystem to help drive these necessary improvements.

#### **MHA Macintyre Hudson (MHA)**

It will be important that the LCE working party addresses fraud and going concern appropriately for the proposed auditing standard, and that these requirements are truly scaled to LCE stakeholder needs.

### **6. Member Bodies and Other Professional Organizations**

#### **South African Institute of Chartered Accountants (SAICA)**

Any future actions considered necessary in addressing the expectation gap must be considered in the context of scalability and, as such should take into account the work currently being undertaken by the IAASB on LCEs.

#### **Q4.1 - Yes/Q4.1 - 10 Both - Three lines of defense**

### **4. Accounting Firms**

#### **Ernst and Young (EY)**

As stated in the EY publication, we believe that to maximize the number of opportunities to prevent or detect fraud as efficiently as possible, adopting a “three lines of defense” approach as recently coined by the European Commission is useful: namely (1) corporate governance, (2) the auditor, and (3) capital markets supervision.

#### **KPMG**

In respect of fraud, we highlight the “three lines of defence” approach described by the European Commission, comprising the pillars of corporate governance, the auditor, and capital markets supervision, and we recommend that measures be taken to strengthen all three pillars concurrently in order to achieve optimal prevention and detection of corporate fraud.

### **6. Member Bodies and Other Professional Organizations**

#### **European Audit Committee Leadership Network (EACLN)**

Effective internal audit can be a critical resource

Audit chairs were confident in the ability of management, supported by robust, independent internal audit functions, to prevent and detect fraud and generally believed that they should continue filling that role. “Preventing and detecting fraud is management’s job through the first and second lines of defense. You need robust controls, a framework, and a strong tone from the top to manage this kind of risk. That’s the major starting point.” An audit chair emphasized that “solid information-technology general controls are one of the cornerstones of fraud prevention and detection.” These audit chairs serve on the boards of some of

Europe's largest companies. Not all internal audit organizations will have the same level of sophistication and available resources as found in these companies.

Some audit chairs thought that the work of sophisticated internal audit departments is not sufficiently understood: "There are many areas of fraud that are not as well-known as what gets publicized, but world-class internal audit departments know about them." Internal audit departments work with robust enterprise risk management systems that help combat fraud risk; external auditors can review these systems to ensure that they are effective. An audit chair added that there is a "behavioral aspect to fraud to which internal audit has particular insight." Another audit chair observed that internal auditors are benefiting from "an increased use of data analytics by both the second and third lines of defense as systems evolve." The chair added, however, that "data analytics is more effective in identifying small-scale breakdowns in internal controls than the type of mega fraud that has driven the current debate."

Internal audit plays an important role in preventing and detecting fraud, but some audit chairs emphasized that internal prevention and detection of fraud begins and ends with executives. One said, "We hold people accountable for fraudulent activity and noncompliance with policies, but it shouldn't be just the individual actors; it should be their superiors, because it happened on their watch and they weren't paying attention." While the European audit chairs consulted for this report agreed that internal audit is a critical resource for fraud detection and prevention, the companies on whose boards they sit typically have large, sophisticated internal audit functions. Smaller companies may struggle to rely on their internal audit teams in this way.

Management teams, with the help of the internal audit function, could do more to prevent and detect fraud. Line management and corporate functions such as compliance and risk management are, respectively, the first and second lines of defense against fraud, maintaining robust internal controls and nurturing a culture of compliance and whistleblowing. A strong and independent internal audit function is the third line, harnessing the risk management system and sophisticated analytics to assess how the first and second lines are performing.

### **The Institute for the Accountancy Profession in Sweden (FAR)**

With regard to effective prevention and detection of fraud it is important to remember that companies should have several lines of defence in place. The primary responsibility for preventing and detecting fraud lies with management and those charged with governance. Management should, with the oversight of those charged with governance, place a strong emphasis on fraud prevention. This could reduce the opportunities to commit fraud and deter individuals from committing fraud. Setting the tone at the top of a culture of honesty and ethical behaviour and an active oversight of those charged with governance reinforces the importance of fraud prevention. When those charged with governance exercise their oversight, they must consider that management is in a unique position to commit fraud because of the ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls.

The objectives of the auditor are according to ISA 240 paragraph 11 to identify and assess the risk of material misstatement of the financial statements due to fraud, to obtain sufficient appropriate audit evidence regarding the assessed risks and to respond appropriately to fraud and suspected fraud identified during the audit.

If these lines of defence work effectively and carry out their respective responsibilities, we believe that the possibility to prevent and detect fraud increases.

## **Q4.1 - Yes\Q4.1 - 11 Both --Other matters**

### **2. Regulators and Audit Oversight Authorities**

#### **Financial Reporting Council (FRC)**

We support the other IAASB activities set out in Appendix A of the Discussion Paper. We were disappointed to see a delay to the work in relation to fraud and going concern in the May 2020 revision to the IAASB's work plan as these are matters of high concern to stakeholders. We strongly encourage the IAASB to expedite consideration of the other matters set out in Appendix A that are not included in the scope of the Discussion Paper in commencing the revision of ISAs 240 and 570 to address stakeholder concerns.

#### **Independent Regulatory Board for Auditors (IRBA)**

We note that further analysis of the root causes underpinning the poor assessments indicated various causes, such as commercial interests being put ahead of quality, insufficient time being dedicated to risk assessment procedures, insufficient objectivity and/or inexperience of team members performing the assessments.

Although these root causes extend beyond the realm of the standards, scrutinising the standard requirements indicated that there is also room for the standards to be enhanced to help address these issues.

Our proposed enhancements have been incorporated into the discussions under Section B, question 2b.ii above.

#### **National Association of State Boards of Accountancy (NASBA)**

Explore addressing fraud through best practices, for example, via a fraud clearance center. Several years ago, the U.S. Department of the Treasury's Advisory Committee on the Auditing Profession recommended creation of a national center that would (among other things) facilitate auditing firms' and other market participants' sharing of fraud prevention and detection experiences and practices. For additional details see <https://www.treasury.gov/about/organizational-structure/offices/Documents/final-report.pdf>.

### **3. National Audit Standard Setters**

#### **Hong Kong Institute of Certified Public Accountants (HKICPA)**

Whilst the current auditing standards do not require auditors to express an opinion on an entity's internal controls over financial reporting, the IAASB and professional accountancy bodies could highlight the value an audit brings (e.g. identification of weak internal controls) to management and TCWG. Given that all parties in the financial eco-system have a role to play, we recommend the IAASB to communicate with relevant regulators to consider if additional provisions (such as disclosures by entities on internal controls over financial reporting or an assurance report on the effectiveness of internal controls) may be useful.

#### **Institut der Wirtschaftspruefer in Deutschland e.V. (IDW)**

We believe that while there are cases where instances of fraud have caused going concern issues, and that potential going concern issues have led to the commitment of fraud, fraud and going concern are actually very much different issues that need to be treated separately. We believe it would have been better for the IAASB to issue a separate consultation on each: asking questions about both together tends to "muddy the

waters” in the responses given. In any case, going forward the IAASB ought to treat going concern and fraud as largely separate issues and therefore projects.

#### **Royal Netherlands Institute of Chartered Accountants (NBA)**

Nevertheless, alternative solutions might be available even in the short term. For example, auditors are able to insist that material fraud and going concern issues are reported by management in the management’s discussion and analysis in the annual report. If management and those charged with governance do not report about this, then the auditor is able to report findings related to the other information by applying ISA 720.

There might be a relationship between fraud and going concern issues. The auditor should insist that entities report about both issues to inform stakeholders adequately.

### **4. Accounting Firms**

#### **Deloitte (DTTL).pdf**

Rather than providing a new term in the auditing standards, the IAASB could work with the International Accounting Education Standards Board to develop implementation guidance and/or educational materials to improve the consistency of application of professional skepticism and the “inquiring mind” and aid in reducing risks associated with the “performance gap,” especially by highlighting areas which likely require increased professional skepticism (for example, via short videos that demonstrate how heightened professional skepticism led to the discovery of fraud and how the use of techniques such as data analytics, understanding and evaluating KPIs, and understanding the financial close and reporting process may have helped to discover the fraud). Further, many CPA and Chartered Accountant licensing jurisdictions already require periodic training regarding ethics, and complementary training to educate and reinforce the importance of a skeptical mindset would be beneficial.

#### **Mazars (MAZ)**

A benchmark, even though restricted in some countries, of how many entities have used the KAM for going concern and /or fraud in the period of Covid-19 would be helpful.

Public and easy availability of some red flags and indicators /ratios per sector industry (prepared by the banks/analysts/central banks and other institutions) for use by the entities and auditors could assist with assessing going concern.

Easy availability to a data base of fraud schemes, possibly compiled among various regulators /investors, could help inform auditors and influence the risk assessment process. This presently can be done by large firms, but is more challenging for smaller firms.

Greater consistency between countries on the different governance fraud prevention mechanisms could be considered, recognizing that it will be dependent on the legal national frameworks.

### **5. Public Sector Organizations**

#### **US Government Accountability Office (GAO)**

In relation to going concern, we note that going concern as contemplated in the commercial sense is not applicable to government financial reporting. We suggest that the IAASB consider whether different guidance is needed for government auditors.

## 6. Member Bodies and Other Professional Organizations

### American Institute of Certified Public Accountants (AICPA)

We also note that the users of the auditors' reports for nonissuers in the U.S. typically have ready access to management and owners. Therefore, such users may have a broader range of information available to them beyond the financial statements, that may not be available to the users of the financial statements of issuers (listed entities). Accordingly, for nonissuers (non-listed entities) there may be less need for information to be communicated through the financial statements and the auditor's report, and more need for education regarding the nature of an audit and financial information not in the purview of the auditor.

### European Audit Committee Leadership Network (EACLN)

Collusive fraud at high levels of management is extremely difficult to detect.

Collusive fraud is very difficult to prevent and detect

Many of the major fraud incidents that elicit public outcry are the result of collusion among executives. The European audit chairs emphasized that collusion can often bypass the internal controls meant to prevent fraud. One noted that these types of fraud are "very difficult to root out." Another agreed, noting that while "major collusive fraud eventually gets uncovered, if people collude it means the independence has broken down, and it's hard to promptly determine that." Another audit chair observed that "no amount of review will identify all cases of fraud." Given that preventing and detecting all instances of collusive fraud may be effectively impossible, the imposition of heightened standards alone may not address the underlying challenges. "If there is collusion at the top level, doing all that we can still won't eliminate it. We have to be careful about widening the expectations gap about prevention and detection." Management, audit committee and the external audit will need to continue to explore cost effective ways to assess and respond to fraud risks.

Highly consequential fraud is rare

Fraud of the severity that reaches stakeholders' attention occurs infrequently. While audit chairs acknowledged that material fraud may occur more often at smaller companies with fewer resources to assess and mitigate fraud risk, they wondered about balancing the potential costs and benefits that might result from any potential changes to stakeholders' responsibilities. One chair said, "There are big media splashes when a major fraud occurs, but you don't see that every day from every company. You cannot have all companies pay for a tiny percentage of companies' fraud. We have to put things in perspective." Another audit chair agreed, noting that companies typically succeed in preventing and detecting fraud: "In most cases, material fraud is caught by the company. One or two high-profile instances of fraud do not mean that the system is broken and requires substantially enhanced procedures." At the same time, audit chairs acknowledged that, even though severe cases of fraud are rare, they can have broad and lasting consequences, undermining confidence in capital markets and the broader economic system.

To prevent and detect fraud, audit committees and boards rely first on management, including compliance and internal audit. The external audit, leveraging capabilities such as data analytics, can provide meaningful insights to inform the board and audit committee's oversight. External auditors can supplement companies' fraud detection and prevention efforts with capabilities such as data analytics.

### **Institute of Chartered Accountants in England and Wales (ICAEW)**

We note in our response to the FRC the Brydon recommendation that the new UK audit regulator maintain an open access case study register detailing corporate frauds. It is surprisingly difficult to obtain good quality information on corporate fraud without trawling through hundreds of pages, often long after the event. Consistent with IAASB's public interest mandate, we encourage it to engage with audit and capital markets regulators on this issue.

### **Institute of Chartered Accountants of Scotland (ICAS)**

Consideration needs to be given to the different factors that apply to the audits of public interest entities and those which apply to small and medium sized entities. There is a need to ensure that any changes carefully consider the respective needs of, including their respective stakeholders, and are appropriately proportionate and scalable.

The IAASB therefore should undertake outreach with various stakeholders, including IOSCO, to understand what other changes could be made to the financial reporting ecosystem, to complement changes to the ISAs to better reduce the risk of frauds occurring and not being detected. Such matters could then be taken up in outreach with bodies with the ability to progress such matters. The IAASB most certainly has a role to play but there is a need for involvement of other bodies in initiatives related to fraud and going concern.

We also believe that the current climate provides an ideal opportunity for research to be undertaken to identify the extent to which there has been increased reporting of matters relating to going concern by companies and also by auditors. This will help to better assess the effectiveness of the current requirements.

### **Inter-American Accounting Association (IAA).pdf**

Yes, we understand that the IAASB should initiate a strong communication crusade of this work in order to generate an appropriate environment for when it establishes any specific requirement about this project.

### **Malaysian Institute of Certified Public Accountants (MICPA)**

Given that any changes will have a cost and effort vs benefit impact, it is important to have clear feedback that the suggested actions will be responsive to stakeholders' needs and address their areas of concern, and are capable of being meaningfully implemented.

### **New York State Society of CPAs (NYSSCPA)**

As to fraud, the requirements to communicate to audit committees or others charged with governance, include internal control deficiencies, which may include the absence of controls such as separation of duties, increasing the risk of fraud even when other controls are in place and are tested as effective. The requirements provide for rapid communication when fraud is suspected even when a determinative conclusion has not been made. Audit firms in such circumstances often ask audit committees to endorse extending audit procedures and/or a forensic audit engagement. Although these communications are important, we believe they are highly sensitive. We, therefore, also believe that the current communications guidance should be improved to align various expectations related to the audit of the auditor, with the expectations of those charged with governance, management, and other users of the communications and the financial statements. For example, since fraud is a legal determination, we believe this fact be included in disclaimer language to be required by the standards in such communication. In addition, outreach

projects, implementation guidance, and in-firm training could prove beneficial. Most of all, any changes implemented by the IAASB should be followed by monitoring efforts to assess the effectiveness of the changes.

The Discussion Paper covers both issues in a single document, but when the projects are ultimately included in the IAASB's working agenda we suggest that fraud and going concern be kept separate in the standards. They have underlying commonality including high risk, subjectivity, and reporting significance. However, detection of fraud is based on historical information (or the absence of such information) while going concern evaluation relates principally to estimates and uncertainty in prospective information.

#### **REA Auditores - Consejo General de Economistas (REA)**

We consider that, in those cases in which fraud is detected that entails the loss of confidence in the management or administrators with the risk involved in working in those circumstances, once the contract has been completed, it seems reasonable that there may be the possibility that the auditor considers it "just cause" and may request the audited entity to terminate the contract.

#### **Union of Chambers of Certified Public Accountants of Turkey (TURMOB)**

IAASB should be aware of national and regional regulations. However, it is not possible to cover or address all individual/specific conditions. Therefore, ISAs, in general, should stay principle-based (adaptable and flexible) including matters relating to fraud and going concern, for entities of all sizes and nature.

### **9. Individuals and Others**

#### **Constantine Cotsilinis (CC)**

Although there is no doubt that there is an expectation gap regarding auditing and financial statements, I cannot see any logical reason to join Fraud and Going Concern in one document which is meant to discuss the expectation gap.

Fraud is only one of several reasons why an enterprise may need to address "Going concern". By discussing fraud and going concern in a single document, this will only confuse more unless it is intended to produce a series of documents on going concern - each one devoted to one of the matters which would lead to going concern problems. If this is so then this needs to be stated. If this is the only document that will be produced, it will leave the impression that Fraud is the primary cause of Going Concern problems (which is definitely not the case) and will increase the expectation gap.

I would submit, however, that a detailed paper addressing all the matters leading to the expectation gap, would be helpful.

#### **Michael Bradbury (MB)**

The IAASB refers to the audit environment surrounding the audit as a supply change and as an ecosystem. My recommendation is that the IAASB agree on and consistently apply a 'world view' of the process in which the audit exists. While, this is largely symbolic, it ought to lead to more consistent policy making and effective communication.

Is audit part of an eco-system?

Another concept employed in the IAASB (2020) DP is the use of the term ecosystem. In this case the concept is a symbolic representation rather than an explicit model. My main objection to the use of this term

is that in a previous IAASB document ((IAASB 2014, A Framework for Audit Quality) the environment in which the audit takes place is portrayed as the financial reporting supply chain.

Does it matter whether ecosystem or supply chain is used? Whether the concepts we use are formal models or symbolic representations they are likely to frame the issue and therefore the solution. The language used (e.g., public or report user) can both define the problem and restrict the possible solutions. More importantly, the IAASB would achieve internal consistency and improve external communications if it did not change its 'world view' of the audit environment each time it released a new document.

My preference would be to use the supply chain analogy because this is terminology well understood in a business context. The term ecosystem is not representative of the audit environment.

Audit and accounting are not ecosystems. Ecosystems are complex bio-systems that are difficult to model because of the underlying (typically not well understood) interactions. Unintended consequences can be significant. They are Darwinian in the sense that, parts of the ecosystem are in competition. In ecosystems, lions eat gazelles. This is not an appropriate view of the environment in which auditing sits. Audit and accounting are man-made constructs, where the process of producing financial statements is sequential and linear. Auditing is part of a supply chain.

#### **Q4.1 - Yes\Q4.1 - 12 Fraud - Auditor training on fraud identification**

##### **5. Public Sector Organizations**

###### **Auditor General of South Africa (AGSA)**

We are of the view that regularity auditors should be trained on matters such as the identification of fraud, verification of the authenticity of documentation and how to distinguish between acts that are intentional vs not intentional, as this could assist in identifying the perpetration of fraud. The purpose of the training would be to equip regularity auditors to be more alert and aware of possible fraudulent practices at their auditees.

#### **Q4.1 - Yes\Q4.1 - 13 Fraud - Corporate culture**

##### **1. Monitoring Group**

###### **International Association of Insurance Supervisors (IAIS)**

It may also be helpful for auditors to consider the extent to which there might be signs in governance, internal controls or corporate culture that might point to the increased risk of both financial and non-financial fraud that are material.

##### **2. Regulators and Audit Oversight Authorities**

###### **Independent Regulatory Board for Auditors (IRBA)**

The IAASB expressed specific interest in perspectives about the impact of corporate culture on fraudulent financial reporting and what, if any, additional procedures for the auditor it should consider in this regard.

We agree that a corporate entity's culture is an important factor in influencing the behaviour of its personnel. Poor governance surrounding the management of fraud risks increases the susceptibility of the financial statements to misstatement due to fraud and diminishes the auditor's ability to identify and respond to fraud. Enhancements to auditor's procedures in this regard need to complement enhancements to the requirements of preparers and those charged with governance.

A corporate entity's culture (including the “tone at the top”) and governance structures are initially assessed by the auditor at the time of client acceptance and/or continuance, as this is where the auditor first assesses the integrity and ethical values of the client. The auditor further enhances their understanding of the culture and governance structures through understanding the entity and its environment and the entity’s system of internal control.

Findings from our most recent inspections indicate that auditors are poor at assessing and/or interrogating the integrity and ethical values of management at the time of accepting the client. There is usually a presumption that management, which constitutes the key people with whom the auditor engages, has integrity and is ethical and therefore cannot or will not be involved in fraudulent financial reporting. Thus, auditors might then engage in client relationships that they should not be accepting. Secondly, our findings also indicate that poor risk assessment, due to an insufficient understanding of the entity’s environment and system of internal control, impedes the auditor’s ability to perform appropriate fraud risk assessments at the overall financial statement and assertion levels.

### **3. National Audit Standard Setters**

#### **Australian Auditing and Assurance Standards Board (AUASB)**

The IAASB is interested in perspectives about the impact of corporate culture on fraudulent financial reporting and what, if any, additional audit procedures for the auditor should be considered by the IAASB in this regard.

Overall the AUASB and its stakeholders agreed that corporate culture has a significant impact on the likelihood of fraudulent reporting and further consideration on the governance and integrity of internal controls that impact an organisation’s culture and behaviour, as lines of defence in the prevention and detection of fraud, should be given high priority. Of equal importance is TCWG’s responsibility for creating and maintaining a corporate culture and identity conducive to integrity, as well as implementing and overseeing adequate controls to mitigate the risk of management override of controls.

The links between fraud and the way senior executives are incentivised in the short term and how this may encourage more risk-taking behaviours which may not be in the longer term interests of the entity and its shareholders, continues to be an area of focus and priority for regulators and Boards internationally. Users of the financial statements (particularly shareholders) require further education and understanding on the three sides of the fraud triangle - opportunity, pressure and rationalisation and that ‘incentive’ for management to undertake fraud has been increasing over time based in part on the shareholders desire to have a growing proportion of their remuneration tied to shareholder returns. In this scenario well intentioned alignment of interests can lead to adverse consequences. Noting in Australia that the remuneration report of a listed entity is audited annually and is voted upon by shareholders for approval at the Annual General Meeting, there may still be scope to enhance the ability to detect fraud and focus on this complex area by the auditor when considering identification of material audit risk factors.

#### **Hong Kong Institute of Certified Public Accountants (HKICPA)**

Good corporate culture and integrity of the management team lay the foundations of corporate governance and internal controls system of the entity, which is important to detect and prevent fraudulent activities in an entity. The importance of setting the “tone at the top” by senior management should be periodically reiterated. We also recommend the IAASB together with professional accountancy bodies to continuously educate stakeholders that not all misstatements in the financial statements will be detected, even though the audit is properly planned and performed in accordance with ISAs.

### **Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW)**

We expect that any evidence-based analysis by the IAASB of fraudulent financial reporting over the last several years will likely show that corporate culture – particularly as it relates to management and those charged with governance – is central to whether or not such material frauds occur. Consideration may therefore be given to exploring whether auditors may need to consider certain kinds of corporate cultures as potential fraud risk factors.

### **Korean Institute of Certified Public Accountants (KICPA)**

(KICPA Comment) Tone at the top affects corporate cultures and is likely to increase audit failure risks arising from frauds, but the judgement on corporate culture is very subjective, making it difficult to provide the objective basis of judgments on the adoption of additional audit procedures in relation to corporate culture.

Given this, we believe audit procedures described in the extant auditing standards would be sufficient. In case signs of frauds are found during audit procedures, it would be enough for fraud-related auditing standards to provide guidance as to what kinds of additional procedures to be required.

### **Malaysian Institute of Accountants (MIA)**

Corporate culture

We strongly agree with the IAASB in placing importance on an entity's culture and the effects of that culture on fraud prevention and fraud deterrence.

ISA 315 Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment should be expanded to include more guidance on: (i) specific consideration on aspects of an entity's culture in order to perform a more effective evaluation of whether management, with the oversight of TCWG, has created and maintained a culture of honesty and ethical behaviour; and (ii) how auditors should respond to the consequences, including communication with TCWG, of any weaknesses in the control environment identified in conjunction with the required evaluation of the entity's culture for the risk of management override and the identification of other fraud risks.

## **4. Accounting Firms**

### **Ernst and Young (EY)**

Corporate culture

We strongly agree with the IAASB placing importance on an entity's culture and the effects of that culture on fraud prevention and fraud deterrence. ISA 315 (Revised 2019) requires an evaluation of whether management, with the oversight of those charged with governance, has created and maintained a culture of honesty and ethical behavior. We believe that auditors would benefit from more guidance on the aspects of an entity's culture to specifically consider in order to perform a more effective evaluation.

With respect to enhancements to the auditor's procedures, we suggest providing guidance on the consequences, including communication with those charged with governance, of any weaknesses in the control environment identified in conjunction with the required evaluation of the entity's culture for the risk of management override and the identification of other fraud risks.

## **Mazars USA (MAZUSA)**

“The IAASB is interested in perspectives about the impact of corporate culture on fraudulent financial reporting and what, if any, additional audit procedures for the auditor should be considered by the IAASB in this regard.” (page 15)

Response: Corporate culture and tone at the top certainly impact the financial reporting environment and the likelihood fraud may occur. This inherent risk exists and is considered during the audit risk assessment process. We do not believe that additional procedures should be considered by the Board at this time.

## **5. Public Sector Organizations**

### **Auditor General of South Africa (AGSA)**

Additional procedures which could be considered by the auditor in response to the possible impact of corporate culture on fraudulent financial reporting are tests, including CAATS to identify conflict of interest due to relationships between management and suppliers or customers.

### **Australasian Council of Auditors General (ACAG)**

It is important that the auditor understand the governance and culture of audited entities as it applies to all aspects of audit planning and risk response, including with respect to fraud. This understanding needs to be collaborated to appreciate the extent to which it is practised. We note that the increased requirements within ISA 315 relating to the overall risk response and consequential improvements to the fraud requirements promote the need to better understand an entity’s corporate culture.

Additional guidance (to that available at ISA 315 for auditors on assessing the risk of fraud where corporate culture is weak, could better support the auditor response to ISA 315. Corporate culture is reviewed through understanding the entity during the planning phase of the audit and any risks identified through this process are considered, and as such we are not of the view that additional procedures are required.

Guidance could consider:

Definition of the desired culture – has the desired culture been communicated?

Embedment – has the desired culture been embedded into every part of the organisation? What evidence supports this?

Monitoring and measurement – how are the board and senior management monitoring culture? What evidence supports this?

Governance – how does the board and those charged with governance oversight this? What evidence supports this?

## **6. Member Bodies and Other Professional Organizations**

### **Accountancy Europe (AE)**

Importance of corporate culture

An appropriate, effective and adequate corporate governance system is the first line of defence to deter and prevent fraud. Entities need to establish internal controls as part of their corporate governance structure and their board(s) are responsible for overseeing this. Tone at the top, promoting ethical behaviour and

monitoring of management's financial incentives are important elements that can reinforce this particular aspect of the control environment.

When designed and implemented properly, internal controls enable auditors to adopt a more effective and efficient approach by relying on the controls operating effectively (having tested them) and focusing on the areas where there are deficiencies.

### **American Institute of Certified Public Accountants (AICPA)**

Stakeholder Perspective Question (page 15 of the Discussion Paper): The IAASB is interested in perspectives about the impact of corporate culture on fraudulent financial reporting and what, if any, additional audit procedures for the auditor should be considered by the IAASB in this regard.

Response: As noted in the Discussion Paper, there are a variety of sources that recognize that corporate culture is important as it relates to fraudulent financial reporting. We note that corporate culture is considered by the auditor as he or she gains an understanding of the entity, including the entity's control environment. For example, paragraph 4 of ISA 315 (Revised 2019) states that "the control environment sets the tone of an organization, influencing the control consciousness of its people, and provides the overall foundation for the operation of the other components of the entity's system of internal control." Internal control frameworks, such as COSO, also recognize the importance of corporate culture as part of an effective control environment that can help to deter fraud. The consideration of corporate culture as part of risk assessment affects the auditor's professional skepticism and professional judgment and influences the audit work needed.

We recognize that corporate culture may be preliminarily considered, to some degree, as part of the client acceptance and continuance process. Accordingly, we recommend the IAASB reflect on whether additional guidance (for example, application material, staff guidance or case studies) should be developed about inquiries being performed as part of client acceptance and continuance decisions (in addition to during risk assessment procedures) relating to the tone at the top, including corporate culture and how the results of those inquiries later inform the auditor's risk assessment.

### **CPA Australia (CPAA)**

Corporate culture, comprising such factors as the tone at the top, how that tone is reflected down through middle management, risk appetite, attitudes to compliance with legal and regulatory requirements and compliance with internal controls, is critical in managing the risk of fraudulent financial reporting. Whilst auditors need to be aware of these cultural influences within the entity and remain alert to red flags that indicate a poor culture, which may impact their risk assessment and reliance on controls, we would not advocate requirements to objectively evaluate culture as part of the financial statement audit. Nevertheless, a more comprehensive exploration of the influence of culture on the effective prevention and detection of fraud would be very beneficial in ISA 240, as it is currently touched on only briefly in that standard. We further note that ISA 300 does not mention culture in planning an audit, which could be addressed in future updates by the IAASB. In contrast, understanding the entity's culture and management's commitment to integrity and ethical values is covered in the recently revised ISA 315 Identifying and Assessing the Risks of Material Misstatement.

If culture is to be meaningfully assured, we suggest that it would be more effectively addressed as part of a separate assurance engagement on internal controls, rather than specific additional procedures within the audit. Although it is not the role of the IAASB to mandate such an engagement, as noted in answer to question 1(b), a standard on assurance engagements specific to controls would be helpful.

## European Audit Committee Leadership Network (EACLN)

### Challenges in assessing corporate culture

Many audit chairs observed that corporate culture plays a central role in both fostering and discouraging fraudulent behavior. Culture can provide guide rails and cues for ethical behavior; it can strengthen the whistleblowing system by encouraging people to speak up if they believe something is wrong. But culture can also impose strong pressures on people to test the boundaries of ethical behavior. One audit chair noted, “It boils down to the culture of the organization and its values, and how people are rewarded.” Despite its importance, however, culture is challenging for boards to assess and influence, and it may be even more challenging for both internal and external auditors to audit.

An audit chair mentioned the dilemma for boards, bringing up the difference in knowledge of the company enjoyed by executives versus non-executives: “Boards should do more on culture, but it’s very difficult. After six months as an executive at a company, I knew more about the culture than after two years as a non-executive at the same company.” The same audit chair elaborated on another challenge of assessing culture: “The board most often interacts with senior executives. It can be challenging for board members to get a sense of the people lower down in the organization. And whenever people are talking to the board, they are on their best behavior.”

Nevertheless, boards should try to assess company culture, audit chairs said, and many boards are doing so. An audit chair recommended that boards “spend more time acknowledging corporate culture, not just with a bullet about oversight and incentives, but by talking more about raising hands, voices, and whistleblowing. Understand the four-eyes principle [requiring two people to approve an action] and the separation of duties.” Companies often conduct company-wide surveys that include questions about culture, and the results are reviewed by boards. Vulnerabilities to fraud risk can be exposed, allowing the board to react.

An audit chair emphasized that the audit committee plays an important role in this oversight through its responsibility for ensuring that the whistleblowing system is functioning effectively and that an effective internal-control system is in place. Sometimes an audit committee or board may decide to follow up on a hunch: “We have all been in meetings where we feel that something is wrong,” one audit chair said. Another called for special attention to areas where senior managers may be exerting pressure on more junior staff, increasing the likelihood of fraud: “profit pressure, bonus pressure, market-share pressure.” Other audit chairs agreed that aggressive bonus schemes and budgetary pressures have contributed to major frauds, and one highlighted the importance of understanding the connections between remuneration schemes and culture.

Assessments of corporate culture are critical to informing management, internal audit, the audit committee, and the external auditor in their assessments of fraud risk, but the subtler aspects of culture make it hard to audit in a more formal way, several audit chairs said. They mentioned assessing—both directly and indirectly—elements of culture such as comfort with escalating issues, confidence in working with others, and leadership. An additional complication emerges in companies that have a variety of subcultures, in which different types of activities lead to different norms and values. One audit chair suggested that it may be particularly difficult for the people who traditionally make good auditors to assess these kinds of variables: “They struggle with it; they tend to be analytical as opposed to emotional.”

Given the internal audit function’s role in fraud detection more generally, as well as its deep understanding of company processes, assessing culture should be a key consideration as part of its responsibilities, according to some audit chairs. “The internal audit plan should include culture and behavior. It makes sense

there,” one audit chair noted. Another added, “Internal audit can do it for you, with a line of sight directly to the board.” The goal is to “create a bigger dialogue around things like culture and what prevents people from whistleblowing or acting earlier. There’s not enough discussion about these soft issues. All they’re doing is putting rules and frameworks on it.” Regarding more informal reviews of culture, one member noted that both internal and external audit are the eyes and ears of the audit committee, and another mentioned assistance from the human resources function.

Corporate culture and management’s tone at the top are key factors that can create an environment that is conducive to fraudulent activity, as well as whether employees feel comfortable reporting such activity to management and the board.

## **Institute of Chartered Accountants of Scotland (ICAS)**

### **Importance of Corporate Culture**

We firmly believe that leadership that promotes an organisational culture of honesty and ethical behaviour, is a key element of helping to prevent fraud. ICAS launched its the Power of One ethics initiative in 2015 that recognised the importance of ethical leadership. IESBA last year also published its final pronouncement on its Role and Mindset project that requires all professional accountants to adopt an “inquiring mind” and also places emphasis on professional accountants to encourage and promote an ethical culture in their respective organisations. It has to be remembered that professional accountants do not just work as auditors but rather in various roles throughout the financial reporting ecosystem. By placing greater focus on their responsibilities, e.g. the inquiring mind and not just accepting information at face value, professional accountants in business will also play a part in mitigating the risk of fraud within organisations. All of those involved in the corporate governance chain, including auditors, should have strong speak-up, listen-up, whistleblow programs in place that both encourage and protect those who make reports. Speak-up lines encourage matters to be flagged at an early stage which can prevent them from escalating into something far more serious.

## **Q4.1 - Yes\Q4.1 - 14 Fraud - Separate assurance engagement**

### **2. Regulators and Audit Oversight Authorities**

#### **Independent Regulatory Board for Auditors (IRBA)**

There is also scope for additional assurance engagements outside the scope of the financial statement audit, for example, separate extended reporting engagements, to respond to fraud that does not impact the financial statements. Refer to question 2a.

### **3. National Audit Standard Setters**

#### **Australian Auditing and Assurance Standards Board (AUASB)**

The AUASB would support measures that increase an entity’s transparency about their governance processes and internal controls related to fraud prevention and detection. This could be either under separate reporting obligations, as part of the existing audit framework or potentially as a separate assurance engagement independent of the current financial reporting assurance process.

#### **New Zealand Auditing and Assurance Standards Board (NZAuASB).pdf**

Notwithstanding the above, the majority of participants in our roundtable believed that narrowing the expectation gap in respect to fraud would require changes to the responsibilities of all participants in the

financial reporting ecosystem. They favoured a separate engagement outside the scope of an audit. The NZAuASB is also of the view that a separate assurance engagement is likely to better serve the public interest. Such an engagement would require a clear scope as well as a clear specification of the responsibilities of management and those charged with governance. Auditors can then be engaged to provide an independent view on whether those responsibilities have been met. This would be similar to engagements to evaluate effectiveness of internal controls as required by the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act) in the USA. Although concerns were also raised that in New Zealand, implementing such engagements may be cost prohibitive. This may only be viable for large public interest entities.

#### **4. Accounting Firms**

##### **KPMG**

We fully acknowledge the evolution gap in this area and, in that regard, we support greater consideration of how assurance engagements over an entity's processes and controls that are designed to prevent and detect fraud may address this gap. We believe that this solution would need to be focused on the internal control system holistically, as it relates to the preparation of the financial statements. Carving out anti-fraud processes and controls from other aspects of the internal control system would likely be challenging. Furthermore, in respect of anti-fraud processes and controls, we consider that such a solution would need to be directed to corporate reporting-related fraud, which needs to be clearly defined, as opposed to 'fraud' in the broader sense, including operational/ reputational matters, as we describe above. It is critical that a suitable framework, similar to the COSO Framework that is used in an audit of Internal Control Over Financial Reporting (ICOFR), against which to measure/evaluate an entity's processes and controls be developed, with emphasis on the appropriate involvement/ oversight of those charged with governance, and which ideally is globally recognised. Furthermore, for this solution to be effective, changes would also likely need to be made to laws/ regulations/ corporate governance requirements to place appropriate responsibilities directly on management/ those charged with governance rather than attempting to effect such changes indirectly via auditors. We believe an engagement of this nature should be either in the form of an integrated audit over the entity's system of internal control in relation to financial reporting (which would include anti-fraud processes and controls) with a separate auditor's report over internal control, or a separate assurance engagement, performed in accordance with the ISAE 3000 (Revised) suite of standards.

#### **6. Member Bodies and Other Professional Organizations**

##### **Accountancy Europe (AE)**

The auditor's role can be reconsidered and expanded as a response to the evolving expectations and thus responding to the evolution gap. The IAASB should consider and consult on (i) adapting the scope of the audit of financial statements and/or (ii) developing assurance standards for complementary engagements that auditors could undertake alongside the statutory audit.

##### **CPA Australia (CPAA)**

If culture is to be meaningfully assured, we suggest that it would be more effectively addressed as part of a separate assurance engagement on internal controls, rather than specific additional procedures within the audit. Although it is not the role of the IAASB to mandate such an engagement, as noted in answer to question 1(b), a standard on assurance engagements specific to controls would be helpful.

## **Q4.2 - No or No comment**

### **1. Monitoring Group**

**Basel Committee on Banking Supervision (BCBS)**

**International Forum of Independent Audit Regulators (IFIAR)**

### **2. Regulators and Audit Oversight Authorities**

**Botswana Accountancy Oversight Authority (BAOA)**

**Canadian Public Accountability Board (CPAB)**

**Committee of European Auditing Oversight Bodies (CEAOB)**

**Irish Auditing and Accounting Supervisory Authority (IAASA).pdf**

### **4. Accounting Firms**

**CohnReznick (CR)**

At this time we do not have any other matters the IAASB should consider relating to fraud and going concern. Given the size of US capital markets and the related robustness of the US legal environment, we recommend the IAASB obtain additional input from the AICPA ASB as the issues encountered by auditors in the US may be indicators of what non-US auditors may start experiencing in the next few years.

**HLB International (HLB)**

**MNP LLP (MNP)**

**Nexia International (NI)**

**PKF International Limited (PKF)**

**RSM International Limited (RSM)**

**SRA**

### **5. Public Sector Organizations**

**New Zealand Auditor General (NZAG)**

**Office of the Auditor General of Canada (OAGC)**

### **6. Member Bodies and Other Professional Organizations**

**Belgian National Chapter of Transparency International (BNCTI)**

**Botswana Institute of Chartered Accountants (BICA)**

**CFO Forum**

**Institute of Directors in South Africa's Audit Committee Forum (IoDSA ACF)**

**Institute of Singapore Chartered Accountants (ISCA)**

**International Air Transport Association (IATA)**

**International Federation of Accountants (IFAC).pdf**

**Kriton (KNL)**

**Mexican Institute of Public Accountants (IMCP)**

**Pan African Federation of Accountants (PAFA)**

**PIRC**

**7. Investors and Analysts**

**Corporate Reporting Users Forum (CRUF)**

**8. Academics**

**Auditing Standards Committee of the Auditing Section of the American Accounting Association (ASC)**

**9. Individuals and Others**

**Alvaro Fonseca Vivas (AFV)**

**Dmitrii Timofeev (DT)**

**The Unlimited (TU)**