

Fraud and Going Concern Discussion Paper

2ci. Should the IAASB enhance the auditor's considerations around fraud to include a 'suspicious mindset'? If yes, for all audits or only in some circumstances?

Q2ci.1 - Yes\Q2ci.1.1 Yes - For all audits

6. Member Bodies and Other Professional Organizations

Pan African Federation of Accountants (PAFA)

For the reasons detailed above, all audit would benefit from an enhancement to incorporate a “suspicious mindset.”

Q2ci.1 - Yes\Q2ci.1.2 Yes - Only in some circumstances

6. Member Bodies and Other Professional Organizations

Federacion Argentina de Consejos Profesionales de Ciencias (FACP)

Yes

Only for listed entities that offer their shares publicly and for those that make up lists of public interest entities, in the countries that have this categorization defined.

9. Individuals and Others

Alvaro Fonseca Vivas (AFV)

I consider this aspect in my humble opinion that it is important to take it into account, when having a value judgment of the entity to be audited, such as its behavior, history of suspicious operations, questioned executives among other aspects, I would not believe that it was for All although on many occasions those that appear to be more correct are those that have the most fraudulent acts hidden by the management of lawyers, governments among others, that goes in the knowledge of the client or future client, that is when the risk matrices with their evaluation and analysis of the results. This would determine whether or not it is worth the “suspicious mentality”

Q2ci.1 - Yes\Q2ci.1.3 Yes - Silent or undecided on applicability

2. Regulators and Audit Oversight Authorities

Botswana Accountancy Oversight Authority (BAOA)

Yes, having a ‘suspicious mindset’ should be included as a requirement in the ISAs. This is in view of the world robust requirements surrounding Anti Money Laundering where there is a requirement to reporting suspicious transaction. For one to identify such transactions there is need to have a ‘suspicious mindset’.

8. Academics

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

We believe that a “suspicious mindset” in the presence of factors listed in 2(b) above, as well as other relevant factors, would contribute to the identification of fraud. Beasley et al. (2013) find that in 60 percent of enforcement actions against auditors in fraud cases, the SEC alleges insufficient auditor skepticism. The authors state (p. 3), “...some of the cases examined highlight challenges in maintaining appropriate levels of professional skepticism that affect the auditor’s mindset. Interestingly, the concept of professional skepticism has been embedded in auditing standards for decades; however, in some cases auditors may have struggled in maintaining an appropriate mindset throughout the various stages of the audit process.”

Several studies have examined the impact of mindset on skepticism. For example, Hurtt, Eining, and Plumlee (2011) find that auditors who rate higher on trait skepticism (have a more questioning mind) tend to exhibit higher levels of skepticism. Similarly, Bowlin, Hobson, and Piercey (2015) find that having participants assess dishonesty versus honesty could improve audit quality. In addition, Quadackers, Groot, and Wright (2014) find that where auditors fall on a scale of presumptive doubt is predictive of their skepticism. While it appears based on research that a suspicious mindset would likely enhance auditors’ considerations around fraud, it is less clear whether it should apply for all audits or whether it might be more effective if it applied only in some circumstances (i.e., when there is elevated fraud risk). It is also unclear what the costs would be related to requiring auditors to have a suspicious mindset (e.g., additional audit fees, conservative bias in estimates, etc.).

Q2ci.2 - Yes but with comments Q2ci.2.1 Yes but with comments - For all audits

5. Public Sector Organizations

Auditor General of South Africa (AGSA)

The IAASB could therefore consider enhancing the auditor’s considerations with regards to certain accounts of auditees where due to the nature of their business these accounts could be more prone to fraudulent reporting. Examples of procedures to be carried out with a suspicious mindset could be looking for sources of contradictory information which could bring into question certain estimates made by management. This could be required for all audits, but with consideration of whether the accounts and nature of the auditee’s business could be indicative of an inherent fraud risk. Utilising fraud experts to assist in executing certain audit procedures.

6. Member Bodies and Other Professional Organizations

CFO Forum

Yes, the IAASB should enhance the auditor’s considerations around fraud to include a “suspicious mindset”. We believe this should be for all audits, however the extent and level of application should be based on the risk and materiality assessment of the underlying accounts and assertions. In other words, enhanced procedures should be more extensive for high risk and material items, and less extensive for low risk items.

Institute of Singapore Chartered Accountants (ISCA)

In furtherance to our comments in response to Questions 2 (a) and (b) above, while it is meaningful to introduce the concept of suspicious mindset, it is critical to first solidify the concept of professional skepticism as suggested in our response to Question 1.

There needs to be clear distinction between the two states of mind. Guidance is necessary for the auditor to assess their circumstances within the spectrum of professional skepticism and suspicion.

This distinction and guidance to navigate between professional skepticism and suspicion are critical as the implications to the nature of the audit and its costs could be very different. Once suspicion is warranted, there will be wide ranging implications to the auditor's strategy, procedures and reporting.

We think that the above considerations on professional skepticism and suspicious mindset should be applied consistently across all audits. When there is sufficient clarity as to how the auditor navigates between professional skepticism and suspicion, enhanced considerations and/or procedures will then be applied to those instances where there is merit for suspicion.

Kriton (KNL)

Suspicious mindset

The 'neutral mindset' currently demanded offers too little guidance to identify fraud risks and to evaluate audit evidence critically enough. As stated in §1.2, we believe that the knowledge and skills of the auditor must be increased. This is necessary to be able to adequately identify and assess fraud risks. In the case of identified fraud risks, auditors should be more suspicious of the authenticity and reliability of audit evidence obtained. The audit evidence obtained must clearly show how the auditor has implemented the suspicious mindset. We are also in favour of tightening the requirements for professional scepticism throughout the audit process, in accordance with revised ISA 315 and ISA 540. In addition, the introduction of the stand-back principle in ISA 240, as well as the inclusion of professional scepticism in relation to fraud risks as a mandatory point of attention in internal (engagement) quality assurance reviews, are in our opinion necessary. This applies to all audit engagements.

Q2ci.2 - Yes but with comments\Q2ci.2.2 Yes but with comments - Only in some circumstances

2. Regulators and Audit Oversight Authorities

3. National Audit Standard Setters

Korean Institute of Certified Public Accountants (KICPA)

(KICPA response) We believe auditors should exercise "professional skepticism" throughout audits, while the requirement of a "suspicious mindset," which stands at a higher level than above, should be confined to a certain circumstance in which a fraud is identified (that requires a suspicious mindset), thereby making it appropriate for the "suspicious mindset" to be performed in a separate engagement, apart from audit engagements.

7. Investors and Analysts

Corporate Reporting Users Forum (CRUF)

Question 2 (c)

Would requiring a "suspicious mindset" contribute to enhanced fraud identification when planning and performing the audit? Why or why not?

Conditionally, yes. However, the definition of Suspicious Mindset needs to be clarified. It is usually sufficient for auditors to conduct audits with professional skepticism. This is because there are some executives who do not convey the inconvenient facts of the company to the auditor, and some of those charged with governance who are not active in coordinating with the auditor. Professional skepticism should identify the most inconvenient facts or ensure questions are asked and discussed with those charged with governance.

Professional skepticism is not supposed to change the initially neutral view of management's integrity, but in the event of suspicion of fraud that could lead to misstatement, the auditor needs to exercise a more suspicious mindset when engaging in audit work. In such a case, it may be determined that there is a high possibility of fraud, and the auditor has to engage in an audit on the premise that the management is dishonest or those charged with governance are uncooperative. However, if such doubts have not arisen, in order to produce proper financial reporting, it is desirable for auditors to remain neutral but skeptical and to maintain a constructive relationship with those charged with governance as well as management.

Some UK CRUF members insist that the above is not strong enough. They indicated that the UK's proposed revisions to ISA 240 set out how the engagement team should consider the entity's susceptibility to fraud and it includes several important steps to promote a skeptical mindset. They explain these steps include seeking contradictory evidence, considering in what ways the entity might be susceptible to fraud and the potential role of management bias and incentives among fraud risks.

Q2ci.2 - Yes but with comments\Q2ci.2.3 Yes but with comments - Silent or undecided on applicability

6. Member Bodies and Other Professional Organizations

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

Yes, the change of base case from a "sceptical mindset" to a "suspicious mind-set" would be one way to enhance the evaluation of management's controls over fraud prevention and detection. The introduction of a different set of terminology from that used in the past (i.e. sceptical v suspicious) ensures that auditors' attention is drawn to this matter. There are however downsides to the constructive working relationships needed for an effective audit, and should a "suspicious mindset" not be handled correctly this could actually impede the effectiveness of the audit. This is an area that the auditing standards should provide clear guidance on.

The issuing of enhanced standards may ensure consistency in this regard and strengthen supervision and review requirements relating to auditor's response to the risk of fraud.

Yes, the risk grading of the audit should drive the level of application and the extent of any additional required audit work. The IAASB could assist in providing a matrix framework for the factors to consider in determining the inherent risk of fraud in an entity on the one hand, as well as the public interest impact of the fraud on the other. This could drive consistency in audit treatment of the level and nature of work done in this area by auditors, including the level of specialist forensic involvement on the audit.

Q2ci.3 - Further evidence needed

1. Monitoring Group

International Forum of Independent Audit Regulators (IFIAR)

The IAASB raised the question about whether requiring a "suspicious mindset" could contribute to enhanced fraud identification. We suggest performing further research to understand the root causes of the issues that the IAASB expects to be addressed by the introduction of the "suspicious mindset". Clear linkage to the root cause of the underlying issues will help the IAASB to evaluate whether the introduction of this new concept could result in meaningful improvements to audit quality.

Q2ci.4 - No\Q2ci.4.1 - No - Rather, focus on enhancements to existing concept of professional skepticism

1. Monitoring Group

International Association of Insurance Supervisors (IAIS)

Auditor mindset: The difference between a suspicious mindset and a sceptical one is not adequately explained, and so it is not clear that this is a helpful or necessary distinction. Although the auditor mindset is important, we suggest that this issue might be better addressed through clarification and training in relation to the application of existing requirements rather than the creation of a new concept.

International Organization of Securities Commissions (IOSCO)

The Paper on page 6 asks respondents whether “requiring a ‘suspicious mindset’ [would] contribute to enhanced fraud identification when planning and performing the audit? Why or why not?” as well as “Should the IAASB enhance the auditor’s considerations around fraud to include a ‘suspicious mindset’? If yes, for all audits or only in some circumstances?” In our view, there may be unintended consequences when introducing new terminology (especially if similar in nature to professional skepticism which is universally accepted), which could widen the expectation gap or create confusion for auditors of when and how to apply a suspicious mindset versus professional skepticism during the course of an audit. Rather, we believe that professional skepticism should be emphasized and enhanced to “raise the bar” in how it is applied in practice (to evolve Professional Skepticism to an enhanced version 2.0).

2. Regulators and Audit Oversight Authorities

Canadian Public Accountability Board (CPAB)

Auditor mindset

We welcome a reconsideration of which auditor mindset is most conducive to enhancing an auditor’s ability to assess and respond to fraud risks in the public interest. We continue to observe a high rate of audit deficiencies in our inspections that are attributable to a lack of professional skepticism related to conditions that could be indicative of fraud. Examples include acceptance by auditors of less persuasive audit evidence when responding to identified fraud risks and insufficient evaluation of contradictory audit evidence during the audit.

The prevailing auditor mindset in the ISAs has been characterized as neutral: one that neither assumes the honesty nor dishonesty of the preparers of financial information. The question posed in the discussion paper is whether this mindset remains appropriate, or whether requiring auditors to adopt a suspicious mindset would enhance an auditor’s ability to detect fraud.

A suspicious mindset may in fact enhance an auditor’s ability to detect fraud. It is the mindset that is applied by forensic specialists and is, accordingly, well suited to fraud detection. However, additional research is needed to evaluate whether the benefits to stakeholders outweigh the incremental costs and this is likely to unnecessarily delay exposure of changes that are urgently needed to ISA 240.

A more pragmatic solution would be to use stronger language in the ISAs, such as challenge, question, and re-consider, to strengthen definitions and application guidance related to exercising professional skepticism. It is surprising to us that the concept of auditors challenging management only appears once in the ISAs. The reference is in the application guidance of ISA 540, Auditing Accounting Estimates and Related

Disclosures, paragraph A95 which deals with situations when auditors identify changes in estimation methods, significant assumptions and the related data from prior periods.

Integrating the concept of effective challenge of management in application guidance in each of the relevant ISAs on how to apply professional skepticism, including ISA 240, would require auditors to assume a more active stance when critically evaluating the evidence obtained from management. This contrasts to the more passive definition of professional skepticism in ISA 200 which requires auditors to remain alert to, among other things, audit evidence that contradicts other audit evidence obtained. Effective challenge of management may also be more closely aligned with how the public perceives the role of the auditor.

Canadian Securities Administrators (CSA)

Question 2(c) – Enhanced fraud identification by inclusion of a “suspicious mindset”

We have some concerns about the use of the term “suspicious mindset” as this term is not defined in the Discussion Paper. The introduction of a new term could exacerbate the expectations gap. Furthermore, since the “professional skepticism” concept, as described in IAS 200 – Overall objectives of the independent auditor and the conduct of an audit in accordance with Canadian Auditing Standards, already covers the identification and the assessment of material misstatement, whether due to fraud or error, it is unclear how using the term “suspicious mindset” would contribute to enhanced fraud identification. However, we do think that there is an opportunity for the IAASB to enhance and evolve the concept of “professional skepticism” and reconsider how it should be applied throughout the audit. Notwithstanding the above, if a “suspicious mindset” concept is proposed in the standard, it should be well defined and clearly distinguished from the term “professional skepticism.”

Independent Regulatory Board for Auditors (IRBA)

Professional skepticism requires “an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence”. Suspicion, in turn, means “a cognition of mistrust in which a person doubts the honesty of another person or believes another person to be guilty of some type of wrongdoing or crime, but without sure proof”. The latter thus implies a more inherently mistrusting attitude, as opposed to an attitude of doubt in general or in response to a particular trigger.

While this may contribute to enhanced fraud identification, we do not believe that this will overcome the practical challenges or the inherent limitations auditors are facing in applying an appropriate mindset. Consideration should be given to the following matters before introducing another “mindset” concept into the standards:

Although “lack of professional skepticism” is one of the top five root causes identified by auditors in response to the most common findings raised in inspection reports in South Africa, there is no clarity as to what is giving rise to this. It is possible that the underpinning cause could be a technical misunderstanding or misapplication of the concept of professional skepticism, but it may also be behavioural (as implied in the Discussion Paper). This needs to be further investigated. If the underpinning issue is technical clarity, this can be addressed through introducing additional requirements around how to apply professional skepticism consistently in practice (like the enhancements introduced in other revised standards). If the issue is behavioural, additional monitoring and enforcement may be required, on top of expanded requirements.

As it pertains to inherent limitations, observations of the IAASB-IAESB-IESBA Professional Skepticism Working Group have highlighted challenges to the application of professional skepticism in practice that may equally apply to the application of a “suspicious mindset”, such as:

Environmental factors that influence the ability of the auditor to exercise professional skepticism, for example, tight deadlines, resource constraints and culture.

Personal traits and biases, e.g. independence, confidence, an inquisitive nature and an individual's response to stress.

Lack of business acumen in a complex and ever-changing business environment.

Thus, introducing a new mindset concept into the standards may not address the underpinning practical application or behavioural issues.

The IESBA has just approved the Role and Mindset revisions to the Code which include a new requirement for professional accountants to have an “inquiring mind” and differentiate having an inquiring mind from the exercise of professional skepticism when performing audits, reviews and other assurance engagements. The implication of this is two-fold:

The new requirements may already contribute to the identification of fraud without the need to introduce a third mindset concept.

Introducing a third mindset concept further complicates the application and enforcement of application – both of which are already challenging to do under the current “professional skepticism” requirement.

We note that the FRC is driving a “challenge culture” campaign in response to its audit quality inspections results analysis that identified “ineffective management challenge”, in the execution of professional skepticism, as a critical root cause for poor quality results. Monitoring its further research and outputs from the conference to be hosted in June 2021 may provide further insight into practical professional skepticism application challenges and how the requirements could be enhanced/expanded to incorporate some of these “challenge” concepts.

Therefore, we recommend that the IAASB should prioritise the work commenced by the Professional Skepticism Working Group and continue to monitor existing research and developments in this area before concluding on whether introducing an additional mindset concept is justified. We, however, agree that more is needed when it comes to professional skepticism requirements about identifying, assessing and responding to fraud risk factors.

Irish Auditing and Accounting Supervisory Authority (IAASA).pdf

However, as mentioned in our general comments, IAASA is of the view that the IAASB should strengthen the requirements regarding the exercise of professional scepticism in relation to fraud throughout the audit of financial statements. Specific requirements should be added to the conditions mentioned in paragraph 27.

For example, the IAASB should include requirements in ISA 240 that are similar to those recently added in ISA 315 (revised) i.e.:

a requirement to design and perform audit procedures in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory; and

a requirement to “stand-back” by taking into account all audit evidence obtained in forming conclusions at the end of the audit.

In the same vein, use of stronger language in ISA 240 (such as “challenge”, “question” and “reconsider”) would be a good way to foster an appropriate mindset and action by the auditor.

The IAASB should also emphasise the importance for the auditor to investigate responses to inquiries of management and TCWG that are implausible or inconsistent, for example with the business rationale behind transactions.

ISA 240 paragraph 14 stipulates that, unless the auditor has a reason to believe the contrary, the auditor may accept records and documents as genuine and that if conditions are identified the auditor shall investigate further. The IAASB should require auditors to be more sceptical when evaluating audit evidence (including external confirmations) of crucial importance for obtaining reasonable assurance on specific issues.

The standards (e.g., ISA 580) should provide that, in any case, written representations by management do not relieve the auditor from the requirement to obtain sufficient and appropriate audit evidence, to avoid overreliance by the auditor on management representations.

Introducing a new concept of “suspicious mindset” in parallel with that of professional scepticism in ISA 240 might be a source of confusion and be negatively perceived by the management and employees of the audited entity. We do not believe that introducing this concept in the standard will add value.

National Association of State Boards of Accountancy (NASBA)

NASBA does not believe that requiring a “suspicious mindset” would contribute to enhanced fraud detection when planning and performing an audit. Rather, we are concerned that the term’s adversarial connotation could damage the auditor/client relationship, which requires full disclosure and candor regarding all aspects of the client’s business.

We believe “professional skepticism” remains the appropriate frame of mind for financial statement auditors and support the profession’s efforts to operationalize its application. We believe enhancing the guidance in ISA 240 when fraud is suspected would be helpful.

3. National Audit Standard Setters

Australian Auditing and Assurance Standards Board (AUASB)

On the whole, the AUASB and its stakeholders did not agree that requiring a “suspicious mindset” would contribute to enhanced fraud identification when planning and performing the audit. Stakeholders agreed that the profession should try to determine how to better apply professional scepticism and encourage sceptical behaviour in the right circumstances.

Stakeholders perceived there to be a cultural aspect to audit team members being able to understand and implement the difference between suspicious mindset and professional scepticism. It is difficult to adopt a sceptical mindset – it is a behaviour that comes with experience and application in challenging, not just corroborating the evidence (i.e. it is natural to seek confirming rather than disconfirming evidence; anchoring on client numbers). Hindsight bias is always present in evaluating auditor performance after the fact. There may be a need for involvement from the more senior audit team members in performing work around fraud coupled with effective supervision and review.

Adopting a suspicious mindset may have a detrimental impact on the auditor’s relationship with management, which could in turn impact audit efficiency and effectiveness.

The concept of “suspicious mindset” being introduced to contribute to enhanced fraud identification was not strongly supported by the AUASB or its stakeholders, as they felt that professional scepticism was sufficient in the audit of the financial statements and more widely understood and defined concept in the auditing standards. It was also noted that professional scepticism is still in the process of being properly embedded throughout all areas of the financial statement audit through the recent changes to ISAs and relevant application material and guidance.

Canadian Auditing and Assurance Standards Board (AASB)

What our stakeholders told us

Stakeholders struggled to understand how the application of a “suspicious mindset” would enhance fraud identification. Stakeholders are concerned that having a suspicious mindset would mean a greater burden of proof when collecting audit evidence, and it could lead to onerous information demands on entities. There is also concern that a suspicious mindset would lead to an adversarial auditor-client relationship which would not be conducive to conducting an effective and efficient audit.

Stakeholders supported the concept of professional skepticism but were of the view that practitioners struggle with how to apply and document it.

AASB views and recommendation

We do not support the concept of a “suspicious mindset”. In our outreach, there was inconsistent interpretation by stakeholders as to what the concept meant since it has not been defined. We believe the concept of professional skepticism is appropriate when conducting an audit of financial statements.

We recommend the IAASB consider:

Adding application material to ISA 240 to explain how auditors can apply and document their application of professional skepticism in the audit - Professional judgment is required to appropriately apply professional skepticism in response to specific audit circumstances. Professional skepticism is a mindset held by the auditor and is used in assessing audit evidence. Additional training and guidance to assist auditors in developing this mindset would be beneficial.

Developing non-authoritative guidance on how to apply professional skepticism in remote audits (when an audit is completed offsite) - The importance of professional skepticism is heightened in a remote audit environment because certain indicators of potential fraud (e.g., uncommon behaviour displayed by management) may be less apparent to the auditor.

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

Suspicious mindset

While we agree that it is important for the auditor to demonstrate professional scepticism at all stages of the risk-based audit process, it would not be possible to begin an audit by questioning the integrity of management or assuming that any information provided by management is inaccurate. We encourage the IAASB to more clearly emphasize the importance of applying professional scepticism rather than introducing new concepts and additional requirements.

Japanese Institute of Certified Public Accountants (JICPA)

The Standard to Address Risks of Fraud does not use the term “suspicious mindset.” When identifying circumstances that indicate the possibility of a material misstatement due to fraud, however, the auditor shall exercise increased professional skepticism, determine whether there is any suspicion of a material misstatement due to fraud, and perform the audit procedures to address such a suspicion. We believe it is appropriate to require the level of professional skepticism to be raised in certain phases when the likelihood of fraud has become higher.

However, we do not agree that “suspicious mindset” be implemented as a basic stance of audits, requiring audit procedures to be performed based on the assumption that fraud exists in all circumstances. If audits were conducted on the assumption that fraud exists in all circumstances, the performance of audits might be hindered, such as difficulty in obtaining information during the course of audits, and the quality of audits would decline as a result.

In addition, we believe it is necessary to carefully consider whether it is appropriate to introduce the different term “suspicious mindset” in addition to “professional skepticism.” If the new different term is introduced even though the term “professional skepticism” already exists in ISAs, it may cause confusion.

Malaysian Institute of Accountants (MIA)

We are not supportive of requiring the auditor to apply a “suspicious mindset” when planning and performing the audit due to potential unintended consequences result from management and TCWG being less likely to cooperate fully with auditor’s requests and hence, impact the effectiveness of the two-way communication. It may so change the whole landscape of the purpose and the objectives of audit.

We believe that the concept of professional scepticism remains the appropriate concept to apply and the IAASB should continue to emphasise the concept of “maintaining healthy professional scepticism”. The auditors should obtain sufficient appropriate audit about whether material misstatements exist rather work based on “suspicious mindset” from the start of the audit as financial statement audits are not forensic in nature.

However, in certain circumstances when the auditors have doubt on the integrity of the management or frauds have been identified, the auditor may need to scale up their professional scepticism to the level of “suspicious mindset”. Therefore, we suggest that ISA 240 be enhanced to include guidance on scaling professional scepticism, including how facts and circumstances should affect the level of professional scepticism applied.

We also believe more could be done in ISA 240 to emphasise risks related to auditor bias, in particular guidance specific to how such biases could negatively affect the effectiveness of the auditor's identification, assessment, and response to fraud risks.

Royal Netherlands Institute of Chartered Accountants (NBA)

In normal situations the auditor should have professional skepticism. We do not consider it necessary to be suspicious at all times and distrust all information. In some circumstances a suspicious mindset might be warranted. For example, when received information is contradictory or documents do not seem to be authentic, the auditor should be alert. However, it is not possible to make this a general requirement and it will be difficult to regulate this in standards.

As mentioned above, it is impossible for the auditor to have a suspicious mindset about all information. Rather, the auditor should act upon contradictory information received and/or when the auditor has doubts about the authenticity of documents.

4. Accounting Firms

BDO International Limited (BDO)

No, the IAASB should not include the concept of 'suspicious mindset' as part of considerations around fraud. In our view, it would be far better to reinforce the concept of a spectrum of professional skepticism.

By applying a spectrum approach (which can also be linked to ISA 315 (Revised) assessment of risks), auditors and engagement teams can address those situations when facts and circumstances do require the level of skepticism to be 'dialled-up'. This may mean that in certain circumstances, it may be appropriate for an auditor and engagement team to apply a heightened level of professional skepticism that treats what they are being told or the information provided by the entity (IPE) with suspicion – but it is not the starting point for every engagement.

We believe there could be some value in providing an insight for other members of the financial reporting ecosystem about how auditors form their views about fraud by applying professional skepticism and conducting engagement team discussions and other activities throughout an audit. This could include providing more transparency about how we analyze indicators of fraud risk, look at information cumulatively, explore and examine contradictory information or IPE – and how, in combination, these could lead to heightened professional skepticism at one end of a spectrum. This may help to reduce the knowledge gap about what is meant by professional skepticism and how it is applied practically by auditors.

Crowe (CG)

The concentration ought to be on developing "professional scepticism".

Deloitte (DTTL).pdf

In October 2020, International Ethics Standards Board for Accountants released revisions to the International Code of Ethics for Professional Accountants to better promote the role and mindset expected of all professional accountants. Among other matters, the revisions require accountants to have an inquiring mind when undertaking their professional activities and emphasize the importance of being aware of the potential influence of bias in their judgments and decisions. DTTL recommends that the IAASB allow for these revisions to take effect (31 December 2021), monitor implementation, and then consider whether there is a need for further guidance specific to implementation within the auditing standards.

In addition, it is important to note that professional skepticism is already well-defined and foundational in the auditing standards and, while it does not mean to be automatically suspicious, it does mean a questioning and unassuming mind and a critical assessment of all audit evidence, including contradictory evidence. A "suspicious mindset" is a negative starting position and implies that there has been previous wrongdoing, which is not justified in all audits. Introducing this new concept into the auditing standards could result in a change in the auditor/management relationship to an adversarial one that may inhibit the free flow of information between entity personnel and the auditor, which would not be in the public interest. Effective professional skepticism means using professional judgment to question information which contradicts other evidence obtained, seems to be indicative of management bias, or just doesn't "feel right."

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.

Ernst and Young (EY)

We are not supportive of requiring that the auditor apply a “suspicious mindset” when executing procedures to identify and respond to fraud in all cases for all audits. We believe that the concept of professional skepticism remains the appropriate concept to apply. Throughout the audit, the auditor should scale professional skepticism based on its understanding of the entity, the risk assessments performed, and the circumstances encountered through the audit.

For the auditor’s procedures related to fraud, we would agree that a heightened level of professional skepticism is warranted, and in certain circumstances (e.g., when concerns about management integrity have been identified) the auditor may need to scale up their skepticism to the level that one may equate with a “suspicious mindset”. This approach is consistent with the continuum of professional skepticism described in the Global Public Policy Committee publication, Enhancing Auditor Professional Skepticism. Therefore, we suggest an approach whereby ISA 240 be enhanced to include guidance on the scaling of professional skepticism, including how facts and circumstances affect the level of professional skepticism applied.

Should the IAASB determine to continue to pursue a requirement for a “suspicious mindset” as the default mindset for audit procedures related to fraud, we believe that specific consideration needs to be given to the consequences, including potential unintended consequences. For example, requiring the auditor to act with suspicion in all cases may result in management and those charged with governance being less likely to cooperate fully with auditor’s requests and may also impact the effectiveness of two-way communication with management and those charged with governance, including fraud discussions. We suggest there be consideration given to whether this could impact the attractiveness of the profession.

In addition to enhancing the guidance on professional skepticism, we believe more could be done in ISA 240 to emphasize risks related to auditor bias. The enhanced guidance on types of auditor biases included in ISA 220 (Revised) is useful and could be supplemented in ISA 240 with guidance specific to how such biases could negatively affect the effectiveness of the auditor’s identification, assessment and response to fraud risks.

KPMG

We would not be supportive of such an approach. As we note above, we do not recommend that the IAASB make fundamental changes to the concept of professional scepticism as we believe that, as a mindset, this is already capable of, and required to be, adaptive to the entity’s circumstances and the risk environment.

In circumstances where presumptive doubt or complete doubt would be required, ISAs, as well as the IESBA International Code of Ethics for Professional Accountants (including International Independence Standards) (the “IESBA Code”) currently address this by other mechanisms, including during client/engagement acceptance/ continuance procedures, as well as consideration of withdrawal from engagements. We believe that requiring a default mindset of “deep suspicion” would be contradictory to and may undermine the principles embedded in both the ISAs and the IESBA Code.

Instead, since professional scepticism is fundamentally a mindset/ behaviour and therefore it cannot be improved by simply requiring auditors to be 'more sceptical', we recommend exploration of additional enhancements to the ISAs that emphasise how to exercise professional scepticism in respect of fraud during the audit, including when this is most critical, as well as how to do this. For example, ISA 240 could introduce a 'stand back' requirement to consider all audit evidence obtained, similar to that included in ISA 315 (Revised), as well as guidance regarding auditor biases and how to address disconfirming audit evidence. This could be linked to the Examples of Circumstances that Indicate the Possibility of Fraud, set out in Appendix 3 of ISA 240. This requirement could emphasise the importance of discussion between members of the engagement team, similar to the Risk Assessment and Planning Discussion that is required by ISA 315 (Revised), as such matters may only be identified on a collective basis across the engagement team as a whole. We also suggest the inclusion of improved linkage to proposed ISA 600 (Revised), addressing frauds that arise at components and highlighting the importance of involvement of component auditors, given their greater knowledge of the component environment, including local language, prevailing business culture, risks, laws and regulations, ethical standards, corporate governance standards, and established business customs/ practices. This may be especially important when the component is in a jurisdiction that is considered to be "higher risk", because, for example, it involves a rapidly changing regulatory and business landscape, and is subject to heightened fraud risks.

We welcome the proposal to strengthen language used in the ISAs, e.g. to focus on 'challenging' management, or 'reconsidering evaluations/ assessments' when new information comes to light.

We are also supportive of the proposal to require auditors to evaluate whether judgements made by management in making its assessment of going concern are indicators of possible management bias, noting that this approach is required in the UK. The IAASB would need to provide guidance to support such assessments, including factors to consider.

We acknowledge the Board's commentary that, in order to avoid a bias for obtaining confirming evidence, the ISAs and financial reporting standards could be worded to place emphasis on negative rather than positive statements for management assertions, based on their research, which suggests that auditors are less likely to seek confirming evidence for negative statements. We believe it would be helpful to explore this approach, noting that ISA 540 (Revised) requires the auditor to design and perform their further audit procedures in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory. Similar changes are proposed in other ISAs, e.g. proposed ISA 600 (Revised) and therefore the aims of this proposal would be aligned with other ISAs.

MHA Macintyre Hudson (MHA)

We do not believe that introducing another term, to replace professional scepticism and alongside a "questioning mindset", will be either helpful or would necessarily change behaviour significantly. A key auditor behaviour which should underpin scepticism is effective challenge of management. A greater emphasis in standards, application material, and other guidance on how auditors can challenge management (e.g. on assumptions, estimates, going concern assessment) and, equally importantly, demonstrate that challenge will be of greater value than introducing another term which is not easy to define or demonstrate. Further guidance on situations where application of a more "suspicious" approach might be appropriate and helpful (e.g. where there are indications of management bias).

Moore (MGN)

We are uncomfortable with the phrase 'suspicious mindset' although we accept that it is becoming a popular concept. We feel that the word 'suspicious' carries unfortunate nuances and runs counter to professional scepticism which should not be rooted in distrust but rather in absolute neutrality. If a new word is considered necessary, then we prefer 'questioning'. We do, however, agree as indicated above that scepticism as a concept could and should be better understood (by all parties) deployed and documented (by auditors). However, we believe that the best way to achieve this is through enhanced guidance and examples rather than enhanced/expanded requirements.

Nexia International (NI)

We believe the focus should still be on professional scepticism. Professional scepticism is an attitude that includes a suspicious mind. This "suspicious mind" ties in with the understanding of the business and knowing what questions to ask. Demonstrating professional scepticism will differ from auditor to auditor depending on a situation at hand and include amongst other things, a critical assessment of audit evidence, devoting special attention to inconsistencies and performing validations on evidence collected. Again, this relates to skills and competence. Skills and competence create the mindset necessary. Training plays a key role in developing a suspicious mind and giving auditors the skills to challenge a client.

Standards must emphasise the rigor component such as "robustly" challenging management's assessment of fraud.

PricewaterhouseCoopers (PWC)

The exercise of professional scepticism is a fundamental element of the audit. It has been the subject of many reviews and debates both by the IAASB and the broader profession for many years. Indeed, the IAASB has an ongoing project, which has already looked at various terms associated with professional scepticism.

Scepticism and suspicion are terms describing the auditor's mindset and are therefore inherently behavioural in nature. In recent projects, the IAASB has concluded that simply adding the words "professional scepticism" throughout the standards does not change behaviours. We agree with that conclusion. Further, a clear understanding of the behaviours and outcomes that are sought seems more pertinent than the phrase or term to be applied.

Actions that change behaviours are likely to have a more meaningful impact in achieving the desired outcomes than adding a new term. What seems more important is to reinforce key concepts that underpin critical behaviours, including:

Tone at the top and commitment to quality across the engagement team – conveying the importance of scepticism, and the need for more persuasive evidence the higher the assessed risk. The recently approved changes to ISQM 1, ISA 220 (Revised) and ISA 315 (Revised 2019) may assist in that regard;

Avoiding bias when seeking audit evidence – designing and performing procedures in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory. This principle has already been emphasised in the recent revisions of ISA 540 and ISA 315.

Bringing effective challenge to bear on the audit – linked to tone at the top, but empowering engagement teams to bring appropriate challenge to bear, and not accepting explanations at face value if they are not persuasive. Some of the measures we describe in our responses above relating to practical guidance around fraud schemes, updated fraud risk factors and involvement of specialists, and engagement team

discussion, combined with relevant training, could support auditor awareness and provide the foundation for effective challenge.

Where specific risk factors are identified, additional emphasis could be given to the need to remain alert for indicators of fraud when conducting further audit procedures (which could again be supported through non-authoritative illustrative examples of fraud schemes and indicators). Reinforcing the importance of robust two-way dialogue with those charged with governance when the auditor has become aware of potential or actual fraud would also be helpful.

Lastly, we note that moving to a concept where the auditor starts from a base of suspicion (or presumptive doubt) could move the financial statement audit toward that of a forensic audit and may not be timely or cost-effective. It could also have the unintended consequence of potentially chilling important dialogue with management and those charged with governance. Robust fraud inquiries of management and those charged with governance are critical steps in the audit process but approaching such discussions with a “suspicious mindset” could put management and those charged with governance on the defensive and significantly diminish the effectiveness of such inquiries over time.

RSM International Limited (RSM)

No, having a suspicious mindset would not be appropriate. The relationship between auditor and management begins with mutual trust and an assumption of integrity on both sides. In ISA 315 the auditor assesses the culture of honesty and integrity at the entity and, therefore, a default position that the auditor should always have a suspicious mindset might lead to situations of distrust between auditors and management. This could lead to the break down of effective communication and working relationships such that the auditor could not complete the audit.

In our view the current principle of professional scepticism is appropriate, recognising that, if the auditor suspects fraud or obtains information during the audit which calls the integrity of management into doubt, their professional scepticism may well be heightened to the level of suspicion.

The issue that needs to be addressed is that the requirement to exercise professional scepticism is not being consistently applied on all audits. We believe the enhancements to ISA 220, Quality Control for an Audit of Financial Statements, as a result of the issue of the International Quality Management Standards will improve the consistency of auditors’ understanding of how to apply the concept of professional scepticism. In addition, we suggest:

Increased guidance in ISAs on exercising professional scepticism by challenging management and ensuring that auditors fully investigate issues that arise on the audit.

More emphasis in ISAs in general on seeking disconfirming or contradictory evidence so that auditors do not just focus on confirming evidence. It is important that, when auditing the data and assumptions used by management in areas such as valuations, impairments and going concern, auditors stress test the models used to breaking point. This would entail varying management’s assumptions to see where the model results in a material misstatement. If the data and assumptions used to “break the model” are reasonably possible outcomes, then the auditor needs to challenge management on whether its own data and assumptions are appropriate.

SRA

In our view the concept of professional skepticism is relevant to each audit in performing audit procedures regarding fraud and going concern. We do not advocate however to apply a mindset of deep suspicion.

Such a mindset is in our view contradictory to the purpose and basic concepts of an audit of financial statements. Introduction of such a mindset would also blur the concept of professional skepticism.

5. Public Sector Organizations

Australasian Council of Auditors General (ACAG)

No, the current wording (i.e. professional scepticism) is more appropriate. We agree with the suggestion of amending the standards to describe professional scepticism on a continuum, with guidance to help auditors identify red flags (e.g. conflicting audit evidence or conditions that may indicate possible fraud) and therefore increase the level of scepticism in these instances.

The introduction of a 'suspicious mindset' is likely to lead to confusion especially when the concept of professional scepticism has not always been either well understood or applied, as highlighted by the findings from regulatory reviews. We question whether a suspicious mindset, with the accompanying training, would enhance fraud identification compared to the appropriate practice of professional scepticism in the first instance.

There is a significant distinction between a financial audit and a fraud audit or forensic investigation. In an audit, the risk of not detecting a material misstatement from fraud is higher than not detecting one from error. This is because frauds can involve collusion, override of controls by senior individuals, highly knowledgeable perpetrators, and the size and frequency of the amounts manipulated. An auditor's scope is constrained by materiality. An auditor cannot make any legal determination of whether a fraud has occurred.

However, 'Deep suspicion' suggests a higher evidentiary standard with respect to fraud than other aspects of the audit. Whereas professional scepticism requires the auditor to have a questioning mind and take critical assessments about the sufficiency and appropriateness of evidence, deep suspicion could cause the auditor to not give appropriate weight to high quality evidence.

There may be a risk associated with introducing and crystallising the term "suspicious mindset". This will be impacted by and may impact materiality. The auditor is not appointed to form an opinion that the entity and its financial statements are free from fraud and error particularly where the Directors are not equally focused on the existence of effective controls.

Additionally, adding an element of suspicion into audit tests still leaves auditors vulnerable to issues with the expectation gap because it is an inherent risk of audit that frauds, including those that are potentially material, will go undetected.

Office of the Auditor General of Canada (OAGC)

We are not supportive of the suspicious mindset concept, preferring instead the continuum of skepticism referred to from the Global Public Policy Committee where a neutral mindset may be appropriate in certain low-risk circumstances, but presumptive or complete doubt may be warranted in other higher-risk circumstances. We believe this continuum approach is a more balanced and efficient approach to that of a suspicious mindset. We believe that overburdening the auditor's evidence obligations will actually limit their ability to properly perceive and detect material fraud as the auditor may be unable to see the big picture beyond the detailed evidence gathering.

US Government Accountability Office (GAO)

the paper that it is helpful to think of professional skepticism on a continuum related to the risk of material misstatement and other factors. We suggest that the IAASB consider adding guidance that a neutral mindset may be appropriate in certain low-risk circumstances but presumptive or complete doubt may be warranted in other higher-risk circumstances. For this perspective to be useful, auditors need to sufficiently and accurately identify and assess risk. This further highlights the importance of providing auditors with the tools for more sufficiently identifying risks, as discussed in our response to question 2(a).

We do not believe that the IAASB should enhance auditor considerations around fraud to include a “suspicious mindset.” We find the description of professional skepticism in the paper, Enhancing Auditor Professional Skepticism, to be compelling.³ We agree with

6. Member Bodies and Other Professional Organizations

Belgian Institute of Registered Auditors (IBR-IRE)

In terms of approach, introducing the concept of a “suspicious mindset” does not appear to be useful or practical and might not address the expectation gap adequately. Instead, building on the existing concept of professional scepticism would be more effective.

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

Overall, we do not believe requiring a “suspicious mindset” would contribute to enhanced fraud identification when planning and performing the audit. The feedback received regarding this question varied according to what ‘suspicious mindset’ was perceived to mean. For example, some stakeholders perceived that it was referring to professional scepticism and that it does not involve introducing a different concept, hence, they were in support that having a suspicious mindset could enhance fraud identification.

However, most stakeholders, particularly audit practitioners, perceived that requiring a ‘suspicious mindset’ implies introducing a new concept in addition to professional scepticism. These stakeholders were therefore against requiring a ‘suspicious mindset’ for a number of reasons, including, the risk of impairing the relationship between management and auditor and the additional time that would be required for audits to be completed, given that instead of starting from a neutral mindset, they will start with suspicion. Furthermore, some stakeholders also referred to the fact that, currently professional scepticism is an area where auditors tend to lack performance and therefore introducing another concept is likely to cause more confusion rather than help. The focus should therefore be in narrowing any performance gap that exists in exercising professional scepticism rather than introducing new concepts.

We therefore consider that a ‘suspicious’ mind set would not necessarily contribute to enhanced fraud identification and could cause more harm than benefit. However, it would be beneficial for firms to embed forensic accounting and fraud awareness throughout the training of their audit staff which in turn, will result in having future professionals better equipped to detect and report actual or suspected fraud because of their enhanced set of skills and mind set. Firms should also continue to monitor the performance of their staff regarding professional scepticism and find ways to mitigate any gaps.

Confederation of Indian Industry (CII)

A “suspicious mindset” may be detrimental to the auditor/entity relationship and hinder the free exchange of information necessary to perform an audit. Also, it is important to note that professional scepticism is already well-defined and foundational in the auditing standards and, while it does not mean to be

automatically suspicious, it does mean a questioning and unassuming mind and a critical assessment of audit evidence, including contradictory evidence.

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 scepticism and aid in reducing risks associated with the “performance gap,” especially by highlighting areas which likely require increased professional scepticism (for example, via short videos that demonstrate how heightened professional scepticism led to the discovery of fraud).

European Audit Committee Leadership Network (EACLN)

While supportive of exploring ways to make auditors more effectively exercise professional skepticism, adopting a suspicious mindset in all cases may not be helpful.

A suspicious mindset goes too far

While supportive of exploring ways to make auditors adopt a “suspicious mindset” toward their clients. They foresaw several negative consequences:

Strained auditor-client relationships that impede the flow of information. Many audit chairs were concerned that a suspicious mindset would cause friction in the critical relationships between the external auditor and its clients. One audit chair described how a suspicious mindset would disrupt these engagements: “Companies try to do the right thing. The auditors are there to confirm that they have. A suspicious mindset could be detrimental to the audit by disrupting that clear and open relationship. It goes a step too far.” Audit chairs worried that an attitude of suspicion would impede audits by restricting clients from voluntarily providing information. One audit chair expected that “information flow would be constrained and everything would be looked at through liability” if a suspicious mindset were the standard.

A heightened burden for the auditor, with limited potential return. Some audit chairs doubted that a suspicious mindset would create more inquiry or meaningful improvements in fraud detection or prevention. One said, “The auditor could probably uncover questionable internal audit decisions with a suspicious mindset—but fraud? It seems unlikely, especially in a large global company. Fraud often involves three intelligent individuals colluding, and that’s hard to detect.” Another audit chair likened the suspicious mindset to “cracking a walnut with a sledgehammer” and noted that “there should be appropriate challenge, but I believe that’s already occurring.”

Unfairness to law-abiding companies. Audit chairs were concerned that requiring a suspicious mindset would unduly burden the many companies at which material fraud is not occurring or not likely to occur. “There will always be some fraud, but we can’t be suspicious of all companies,” one audit chair said. Another agreed: “A suspicious mindset implies that everyone is guilty, yet 99% of the time the right thing has been done.”

Audit chairs noted that less divisive alternatives are available. Many were comfortable with the current standard of professional skepticism; others advocated for the basic concept of “independence” or “thorough but not suspicious inquiry.” One audit chair, contrasting a suspicious mindset with healthy skepticism, said a suspicious mindset “shifts burden of proof. Healthy skepticism carries an assumption of innocence. Changing the assumptions wouldn’t necessarily prevent or detect more fraud.” Another audit chair suggested that “a curious mindset would be better—we need auditors to be independent, ready to ask questions, probing, going from a simple question to questions of the second and third order.”

Institute of Chartered Accountants in England and Wales (ICAEW)

The one area which we believe does not merit further consideration is the discussion of a 'suspicious mind-set'. We acknowledge the UK origin of this idea but none of those we consulted believe it would be possible to demonstrate any real difference in behaviour, nor did they think it right for auditors to be asked to assume that management assertions are wrong, because they are not, generally. There are also practical resource constraints. A better use of IAASB's limited resources would be to consider how, in practical terms, auditors can more effectively challenge management.

Those we consulted were concerned about the exercise of professional scepticism and noted:

the number of prior year adjustments evident on a change of audit partner or firm, suggesting that professional scepticism needs to be addressed;

that more work needs to be done by IAASB on the complex issues associated with corroborative and contradictory evidence, and the extent to which auditors can and should be required to seek out the latter.

However, we note in our main points above that we do not believe that further consideration should be given to requiring a 'suspicious mindset', despite the UK origins of this idea. None of those we consulted believe it would be possible for demonstrate a real difference in what auditors do. They did not think it right for auditors to assume that management assertions are wrong, because they are not, generally, and because of practical resource constraints. It is for these reasons that debates about a neutral mind-set moving to presumptive doubt, and a forensic stage of the audit - involving an attitudinal shift in which auditors modify their concept of professional scepticism and presume the possibility of dishonesty - have not been fruitful.

Furthermore, if a suspicious mindset was required only in certain circumstances, the translation issues would create an unacceptable level of confusion as both terms are often defined in terms of such other.

It would be a better use of IAASB's limited resources for it to consider how, in practical terms, auditors can challenge management, and how they can address confirmation bias.

International Federation of Accountants (IFAC).pdf

As outlined earlier, in October 2020 IESBA released the revisions to the Code to better promote the role and mindset expected of all professional accountants. For example, it includes strengthening the fundamental principle of integrity by emphasizing the importance of having the strength of character to act appropriately, a new requirement for professional accountants to have an "inquiring mind" when applying the conceptual framework (this differentiates having an inquiring mind from the exercise of professional skepticism when performing audits, reviews and other assurance engagements), as well as emphasizing the importance of being aware of one's bias in the exercise of professional judgment.

IFAC is not convinced that requiring a "suspicious mindset" would contribute to enhanced fraud identification when planning and performing every audit. This is similar to the IAASB recognition that "merely asking auditors to be 'more skeptical' will not drive the behavioral change needed". The key would be what a suspicious mindset means and what additional requirements would need to be performed. We would also be concerned about the potential cost implications (e.g., proving the validity of every document), as well as the impact on the auditor-client relationship.

We believe that it is more important to focus on education, training and support on "professional skepticism" (e.g., through sharing of actual fraud cases, behavioral aspects/ risks that are red flags in a company culture etc.), as well as the new IESBA role and mindset pronouncements (effective as of December 31, 2021), rather than introduce new terminology to the ISAs.

Please note that IFAC's SMP Advisory Group closely followed the IESBA project on role and mindset expected of professional accountants, providing a number of comment letters for the Board and Task Force's consideration, feedback during various meetings, as well as a formal response to the initial Consultation Paper on Professional Skepticism – Meeting Public Expectations and a response to the Exposure Draft Proposed Revisions to the Code to Promote the Role and Mindset Expected of Professional Accountants.

Malaysian Institute of Certified Public Accountants (MICPA)

We disagree with the proposal to include a "suspicious mindset" as part of the auditor's considerations around fraud in an audit of financial statements for all entities. The current practice, i.e. the exercise of professional skepticism is sufficient and adequate for the auditor's considerations around fraud. Having robust fraud inquiries with management and those charged with governance are critical steps in the audit process, but approaching such discussions with a "suspicious mindset" could have the unintended consequences of putting the management and those charged with governance on the defensive and significantly diminishing the effectiveness of such inquiries.

Professional skepticism is inherently behavioural in nature. Actions that change behaviours are likely to have a more meaningful impact than adding a new term like "suspicious mindset". Consequently, what is more important is reinforcing key concepts that will drive the right critical behaviours, including:

Tone at the top and commitment to quality

Bringing effective challenge to bear and not accepting explanations at face value

Avoid biasness when seeking and evaluating audit evidence

Mexican Institute of Public Accountants (IMCP)

The use of the concept "suspicious mindset" is not considered convenient. The term professional skepticism should be used. The need to maintain such skepticism in general, and especially in areas of high risk and prone to fraud, should be emphasized, as this would help to improve the identification of fraud when planning and executing the audit. It is necessary to have broader guidance and examples of areas and specific situations where the skepticism is critical.

South African Institute of Chartered Accountants (SAICA)

SAICA is of the view that the IAASB should continue in its endeavours to educate the profession about the concept of professional scepticism rather than introducing a new concept that may create further confusion. This could lead to a situation where there are two concepts that the profession has an inconsistent understanding of. The IAASB should consider issuing implementation guidance on professional scepticism to emphasise the practical aspects that auditors tend to struggle with on this concept. The concept of a "suspicious mindset" is likely to require the traits of a forensic auditor which an external auditor may not be appropriately trained in. Furthermore, including such a requirement in the ISAs could further widen the knowledge gap in particular as the public may expect that the auditors have these skills. The additional procedures performed as a result of this new concept could result in additional time and fees that the clients may not be readily willing or even able to absorb.

Wirtschaftsprüferkammer (WPK)

Generally, we welcome all reasonable measures that help sensitize the profession for fraud related issues, create awareness and foster professional scepticism / suspicious mind. We consider such measures to be rather of educational character than comprehensive audit standard requirements.

Nevertheless, the introduction of a new term 'suspicious mindset' will require an explanation of its meaning and a clear distinction from 'professional scepticism'. Accordingly, we rather support the specification of 'professional scepticism'.

9. Individuals and Others

Christian Minarriz (CM)

I think a "suspicious mindset" would not be appropriate.

Audits are different to fraud examinations because fraud examinations typically require the existence of "predication" as a precondition to start the engagement (according to ACFE Fraud Examiners Manual, predication "is the totality of circumstances that would lead a reasonable, professionally trained, and prudent individual to believe that a fraud has occurred, is occurring or will occur"). In an audit, it would be inefficient and impractical to have a "suspicious mindset" because it would give the idea of suspecting fraud where there are no indications of it. It would also create unnecessary friction with management. I think a correct application of professional skepticism would require to be further alert and inquisitive when red flags are found, while a more neutral attitude is applied when no red flags are found.

Q2ci.4 - No\Q2ci.4.1 - No - Rather, focus on enhancements to existing concept of professional skepticism\01 No - Focus on enhancements to professional skepticism, but Merit for suspicious mindset (May enhance an auditor's ability to detect fraud)

2. Regulators and Audit Oversight Authorities

Financial Reporting Council (FRC)

It would not be appropriate to require a "suspicious mindset" in all circumstances when planning and performing the audit. Sir Donald's suggested principles for audit include "Auditors are appropriately qualified and exercise professional judgment and appropriate scepticism or suspicion throughout their work". But he does not suggest applying a suspicious mindset in all circumstances. Rather, his comments include "The psychology of suspicion that accompanies forensic accounting should be more widely taught, equipping auditors with the ability to choose between scepticism and suspicion in different circumstances", "a high-quality audit is one which ... involves the application of scepticism throughout and suspicion where appropriate" and "auditors need to learn to be able to apply the same mindset as do forensic accountants in relevant circumstances [rather than a neutral mindset]".

We agree that auditors could in general be better able to spot red flags that may be indicative of fraud and give rise to suspicion. Partly that is down to training, which to some extent could be addressed in a firm's quality management procedures.. However, the IAASB could also enhance the requirements for the identification and assessment of risk of material misstatement due to fraud and the procedures to respond to those risks, particularly where a suspicion of fraud arises.

The team discussion should in effect include elements of a suspicious mindset (e.g. considering how could management perpetrate fraud if they were inclined to) and possibly it could be referred to in that context. But there should not be a requirement that "the auditor applies a suspicious mindset when planning and performing the audit", rather be clear the auditor responds appropriately when circumstances give rise to a

suspicion of fraud (which is already part of the objectives). However, the standard should be clearer about how the auditor responds if they identify or suspect fraud. In our exposure draft we are proposing a specific requirement to determine whether a forensic expert is needed to investigate further. Our current standard also has further communication requirements, including inviting the entity to investigate further, and informing relevant authorities if the entity does not investigate further. This is an aspect of the auditor's responsibilities that should be considered further in a more fundamental review and revision of the standard.

Canadian Public Accountability Board (CPAB)

Auditor mindset

We welcome a reconsideration of which auditor mindset is most conducive to enhancing an auditor's ability to assess and respond to fraud risks in the public interest. We continue to observe a high rate of audit deficiencies in our inspections that are attributable to a lack of professional skepticism related to conditions that could be indicative of fraud. Examples include acceptance by auditors of less persuasive audit evidence when responding to identified fraud risks and insufficient evaluation of contradictory audit evidence during the audit.

The prevailing auditor mindset in the ISAs has been characterized as neutral: one that neither assumes the honesty nor dishonesty of the preparers of financial information. The question posed in the discussion paper is whether this mindset remains appropriate, or whether requiring auditors to adopt a suspicious mindset would enhance an auditor's ability to detect fraud.

A suspicious mindset may in fact enhance an auditor's ability to detect fraud. It is the mindset that is applied by forensic specialists and is, accordingly, well suited to fraud detection. However, additional research is needed to evaluate whether the benefits to stakeholders outweigh the incremental costs and this is likely to unnecessarily delay exposure of changes that are urgently needed to ISA 240.

A more pragmatic solution would be to use stronger language in the ISAs, such as challenge, question, and re-consider, to strengthen definitions and application guidance related to exercising professional skepticism. It is surprising to us that the concept of auditors challenging management only appears once in the ISAs. The reference is in the application guidance of ISA 540, Auditing Accounting Estimates and Related Disclosures, paragraph A95 which deals with situations when auditors identify changes in estimation methods, significant assumptions and the related data from prior periods.

Integrating the concept of effective challenge of management in application guidance in each of the relevant ISAs on how to apply professional skepticism, including ISA 240, would require auditors to assume a more active stance when critically evaluating the evidence obtained from management. This contrasts to the more passive definition of professional skepticism in ISA 200 which requires auditors to remain alert to, among other things, audit evidence that contradicts other audit evidence obtained. Effective challenge of management may also be more closely aligned with how the public perceives the role of the auditor.

Independent Regulatory Board for Auditors (IRBA)

Professional skepticism requires "an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence". Suspicion, in turn, means "a cognition of mistrust in which a person doubts the honesty of another person or believes another person to be guilty of some type of wrongdoing or crime, but without sure proof". The latter thus implies a more inherently mistrusting attitude, as opposed to an attitude of doubt in general or in response to a particular trigger.

While this may contribute to enhanced fraud identification, we do not believe that this will overcome the practical challenges or the inherent limitations auditors are facing in applying an appropriate mindset. Consideration should be given to the following matters before introducing another “mindset” concept into the standards:

Although “lack of professional skepticism” is one of the top five root causes identified by auditors in response to the most common findings raised in inspection reports in South Africa, there is no clarity as to what is giving rise to this. It is possible that the underpinning cause could be a technical misunderstanding or misapplication of the concept of professional skepticism, but it may also be behavioural (as implied in the Discussion Paper). This needs to be further investigated. If the underpinning issue is technical clarity, this can be addressed through introducing additional requirements around how to apply professional skepticism consistently in practice (like the enhancements introduced in other revised standards). If the issue is behavioural, additional monitoring and enforcement may be required, on top of expanded requirements.

As it pertains to inherent limitations, observations of the IAASB-IAESB-IESBA Professional Skepticism Working Group have highlighted challenges to the application of professional skepticism in practice that may equally apply to the application of a “suspicious mindset”, such as:

Environmental factors that influence the ability of the auditor to exercise professional skepticism, for example, tight deadlines, resource constraints and culture.

Personal traits and biases, e.g. independence, confidence, an inquisitive nature and an individual’s response to stress.

Lack of business acumen in a complex and ever-changing business environment.

Thus, introducing a new mindset concept into the standards may not address the underpinning practical application or behavioural issues.

The IESBA has just approved the Role and Mindset revisions to the Code which include a new requirement for professional accountants to have an “inquiring mind” and differentiate having an inquiring mind from the exercise of professional skepticism when performing audits, reviews and other assurance engagements. The implication of this is two-fold:

The new requirements may already contribute to the identification of fraud without the need to introduce a third mindset concept.

Introducing a third mindset concept further complicates the application and enforcement of application – both of which are already challenging to do under the current “professional skepticism” requirement.

We note that the FRC is driving a “challenge culture” campaign in response to its audit quality inspections results analysis that identified “ineffective management challenge”, in the execution of professional skepticism, as a critical root cause for poor quality results. Monitoring its further research and outputs from the conference to be hosted in June 2021 may provide further insight into practical professional skepticism application challenges and how the requirements could be enhanced/expanded to incorporate some of these “challenge” concepts.

Therefore, we recommend that the IAASB should prioritise the work commenced by the Professional Skepticism Working Group and continue to monitor existing research and developments in this area before concluding on whether introducing an additional mindset concept is justified. We, however, agree that more is needed when it comes to professional skepticism requirements about identifying, assessing and responding to fraud risk factors.

Q2ci.4 - No\Q2ci.4.1 - No - Rather, focus on enhancements to existing concept of professional skepticism\02 No - Focus on enhancements to professional skepticism, but Merit for suspicious mindset (Where there are indications of management bias)

4. Accounting Firms

MHA Macintyre Hudson (MHA)

We do not believe that introducing another term, to replace professional scepticism and alongside a "questioning mindset", will be either helpful or would necessarily change behaviour significantly. A key auditor behaviour which should underpin scepticism is effective challenge of management. A greater emphasis in standards, application material, and other guidance on how auditors can challenge management (e.g. on assumptions, estimates, going concern assessment) and, equally importantly, demonstrate that challenge will be of greater value than introducing another term which is not easy to define or demonstrate. Further guidance on situations where application of a more "suspicious" approach might be appropriate and helpful (e.g. where there are indications of management bias).

Q2ci.4 - No\Q2ci.4.2 - No

2. Regulators and Audit Oversight Authorities

Committee of European Auditing Oversight Bodies (CEAOB)

Introducing a new concept of "suspicious mindset" in parallel with that of professional scepticism in ISA 240 might be a source of confusion and be negatively perceived by the management and the employees of the audited entity. We do not believe that introducing this concept in the standard will add value.

3. National Audit Standard Setters

Hong Kong Institute of Certified Public Accountants (HKICPA)

We recommend the IAASB to carefully consider if it should incorporate the concept of "suspicious mindset" in its auditing pronouncements. The term "suspicious mindset" sounds to extend far beyond the current professional skepticism concept, and some stakeholders have questioned whether "suspicious mindset" means the auditor needs to presume the client to be incorrect until proven otherwise. Some stakeholders commented that being overly suspicious may lead to low audit efficiency and put relationships with audit clients in jeopardy.

The IAASB would also need to provide guidance under what circumstances auditors should have a suspicious mindset, instead of applying professional skepticism.

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

We refer to our response to (c) above as to why we do not support the concept of "suspicious mindset" generally. In addition, we note that although the concept of professional skepticism is considered to be an invariant concept (there are no levels of professional skepticism) by the IAASB (we note the one exception in ISA 240), the actions that auditors must take to exercise professional skepticism do vary depending upon the circumstances. This means that in cases where auditors suspect instances of material misstatement due to fraud, auditors must adjust their responses accordingly to address the increased risk of material misstatement due to fraud. There is therefore no need to introduce the concept of "suspicious mindset".

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

At our roundtable event, 72% of participants did not agree that requiring a “suspicious mindset” would contribute to enhanced fraud identification, while 28% of participants agreed with such a move. Those opposing believed that professional scepticism is adequate and appropriate to describe the quality auditors must possess to be able to respond competently to risks of fraud.

Some participants noted that adopting a presumptive doubt approach may logically require authentication of records and documents (one has to assume records are not authentic until otherwise proven). It was also noted that introducing such a concept may have a detrimental impact on the relationship between auditors and management and may reduce the level of management cooperation with the audit.

However, other participants supported requiring a suspicion mindset, specifically in relation to management risk of override of controls. Requiring a suspicious mindset may prompt auditor to more vigorously respond to such significant risks thus reducing the likelihood of them being unable to identify material financial reporting frauds.

4. Accounting Firms

CohnReznick (CR)

We believe a “suspicious mindset” may, but not definitely, contribute to enhanced fraud identification. However, we believe a shift to a “suspicious mindset” in practice may negatively affect audit quality. The overall objective of the auditor is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to error or fraud. While a “suspicious mindset” may identify more fraud risk factors, we do not believe a “suspicious mindset” automatically leads to enhanced fraud identification and may lead to more audit effort expended on risks that do not have a reasonable possibility of a material misstatement. We also believe an auditor’s focus should be on the financial statements and whether such financial statements are material misstated either by error or fraud. If an auditor expends a disproportionate amount of effort on fraud at the expense of consideration of error, the value of the audit may decrease in part because a misstated financial statement, whether by error or fraud, is still a misstated financial statement.

GTI

We do not believe that it is appropriate to enhance the auditor’s considerations around fraud to include a suspicious mindset. This term can be interpreted very differently and may lead to an inconsistent practical application absent further clarification.

We are of the view that requiring a suspicious mindset will lead to significant increases in audit effort and cost that would not correspond with an increase in audit quality and may also result in an increase in the expectations gap rather than serving to decrease it.

Starting with a suspicious mindset can also have a negative impact on the way in which the audit is conducted. For example, the current ISAs require audit teams to hold discussions amongst themselves to discuss how and where the entity’s financial statements may be susceptible to material misstatement due to fraud, including how fraud might occur. Approaching such discussions with a suspicious mindset, rather than a skeptical mindset, could lead to audit teams wasting time trying to identify every possible way in which a fraud could be perpetrated without also thinking of the motivations that may drive fraud. In this example, the focus should be on achieving the right balance of not dismissing matters too quickly and not chasing down every possible way in which a fraud may be perpetrated.

We are also of the view that requiring a suspicious mindset would endanger the effectiveness of the professional relationship with management, or those charged with governance, in a way that could decrease audit quality. For example, to approach an audit with a suspicious mindset, may lead to management or those charged with governance becoming more reticent to provide information and less open to a full and frank discussion of audit matters.

As such, we are of the view that it would be preferable to retain the risk-based approach to the detection of material misstatement due to fraud.

HLB International (HLB)

We do not believe requiring a 'suspicious mindset' will contribute to enhanced fraud identification when planning and performing the audit. As a result, we do not believe the IAASB should enhance the auditor's considerations around fraud to include a suspicious mindset. We believe the current professional skepticism requirements in ISA 240 and ISA 570 are appropriate and do not require change. If auditors were to adopt a suspicious mindset we believe this would create an adversarial relationship between the entity and the auditor, which would not support effective, two-way communication. In addition, adopting a suspicious mindset is inconsistent with an auditor's assessments in engagement acceptance and continuance in which an auditor evaluates if it is appropriate to accept or continue an engagement. In this case, if an auditor had a suspicious mindset relative to a client they would likely not accept the engagement.

Mazars (MAZ)

No. We believe this new concept be counterproductive. General suspicion would transform the relationship with the company being audited and would be hugely detrimental. We cannot start an audit from a point of distrust. The use of professional skepticism provides the appropriate balance in client relationships to meet the objectives of the auditing standards.

Mazars USA (MAZUSA)

Response: We believe that the existing requirements on the application of professional skepticism in ISA 240 positions the auditor to have an objective and appropriately challenging relationship with their clients in order to fulfill their responsibilities. The proper application of professional skepticism will, when appropriate, lead to the use of additional procedures and occurrence of pointed or difficult conversations. We believe that starting an engagement from the perspective of a suspicious mindset would have unintended negative consequences. For a quality audit, management needs to feel comfortable with two-way transparent dialogue, sharing information and being honest with auditors. Applying a suspicious mindset, which implies the use of a more confrontational approach at all times, would likely cause management to be less open with the auditor and make compliance with the ISAs more difficult.

While we do not recommend a change in the definition or the present concepts of professional skepticism, we do recognize the importance that it plays in the performance of a quality audit and the ability to identify potential or actual fraud through audit procedures. We also recognize that it can be a challenge to identify when and how to augment or adjust the planned audit approach based on the application of professional skepticism. Given the interplay between professional skepticism and obtaining sufficient appropriate evidence, we encourage the IAASB to consider whether the current audit evidence project should have, as one of their focuses, the application of professional skepticism when assessing audit evidence.

MNP LLP (MNP)

As noted above, we do not believe that enhancing the auditor's consideration of a "suspicious mindset" would contribute to an enhanced fraud identification. In our view, the IAASB should explore targeted application guidance around fraud but the broad adoption of suspicious mindset may be counterproductive.

PKF International Limited (PKF)

We do not believe that the IAASB should enhance the auditor's considerations around fraud to include a "suspicious mindset":

We have outlined some areas in which the ISAs could be enhanced to support the identification of fraud, including procedures that are performed when planning and performing the audit. We believe that these measures would contribute to the objective of closing the expectation gap. As such, we do not consider that it would be necessary to also introduce further requirements on a "suspicious mindset".

A change of this nature would likely represent a significant step change to the process of auditing fraud. Its introduction could heighten the public perception of what is involved in the process of auditing fraud, leading to a further widening of the expectation gap. We believe that the outcome of any project to address the current expectation gap would be more successful if it were to focus more so on closing the current gap.

If the concept of a "suspicious mindset" were introduced into ISAs it could lead to a fundamental change in the auditor-client relationship and have a significant impact on the scope of the audit. Consequently, it would require further careful definition and very specific objectives would need to be established for the auditor. Without careful consideration of the consequences of introducing this term, there could be varying interpretations and diverging practices as to the level of evidence that is required to address the auditor's suspicions. Where the level of sufficient appropriate audit evidence required to address the auditor's suspicions is judged as being necessarily high, this might be unduly onerous on the audit process and may increase audit costs beyond the value to be gained from the intended benefits. The intended benefits might alternatively be achieved through enhancements made to other aspects of the ISAs as noted above.

5. Public Sector Organizations

New Zealand Auditor General (NZAG)

Making a formal distinction between professional scepticism and a suspicious mind-set is challenging – particularly when applying these somewhat theoretical notions in practice. We already have an understanding that the auditor will be "on alert" if they encounter situations that cause them concern. To be put "on alert" appears to be similar to the suspicious mind-set idea.

The "on alert" expectation of auditors applies to every audit. Our view is that this expectation should not be confined to certain audits or only in some circumstances.

6. Member Bodies and Other Professional Organizations

Accountancy Europe (AE)

Suspicious mindset

We cannot envisage starting all audits from a point of distrust of management. We agree it is important for the auditor to apply professional scepticism at all steps of the risk-based audit process, as well as to consider more external factors and sources of information (media, analysts, etc.). However, starting an audit while questioning management's integrity or assuming that any information provided by the management could be false would not be practicable.

It should be clear that the auditor's responsibility is an obligation of means, not an obligation of result (detecting fraud). To this end, audit firms should be encouraged to develop training and real-life examples of committed frauds to increase the auditors' awareness and scepticism. We invite the IAASB to reinforce the importance of such aspects more clearly rather than introducing new concepts and additional requirements.

American Institute of Certified Public Accountants (AICPA)

Response: No. We do not believe requiring a "suspicious mindset" would necessarily contribute to enhanced fraud identification when planning and performing an audit and would potentially have unintended negative consequences on the effective and efficient performance of an audit. For example, a "suspicious mindset" could jeopardize the auditor's ability to have effective two-way dialogue with management and those charged with governance and ultimately inhibit the auditor's ability to complete a high-quality financial statement audit. Further, the IAASB standards are defined in the IAASB's strategy for 2020-2023, as being "globally relevant, forward-looking, applicable to entities of all sizes and complexities, adaptable in an evolving environment, and operable; developed and supported through activities that are independent and free of undue influence, timely, and responsive to the needs of stakeholders." This approach to setting standards would be free from bias which is counterintuitive to the auditor using a "suspicious mindset." Accordingly, we believe that professional skepticism is the appropriate mindset for the auditor because the auditor may apply a heightened level of professional skepticism relating to fraud risk, when needed. Further, the concept of professional skepticism is broader than just for fraud and is pervasive throughout the ISAs. We are concerned that requiring a different mindset in certain situations could create confusion in practice as to when it is appropriate for the auditor to use one mindset versus another. We also question whether requiring a suspicious mindset could result in an increased expectation gap.

The ability for the auditor to scale the level of professional skepticism enables the auditor to use his or her professional judgment as to when heightened professional skepticism is necessary. This approach preserves the relationships the auditor needs to effectively audit an entity, including identifying fraud risk factors and developing the appropriate audit response. Accordingly, we are supportive of the existing framework that is used throughout the ISAs of maintaining professional skepticism throughout the audit, having auditors revise their risk assessments when necessary, and having auditors obtain more persuasive audit evidence the higher the assessed risk of material misstatement.

We encourage the IAASB to continue its efforts in regard to the audit evidence project, including consideration of SAS No. 142, Audit Evidence, that was issued by the AICPA Auditing Standards Board in July 2020. SAS No. 142 (codified in AU-C section 500) expands the objective of the extant standard to be more broadly focused on considering the attributes of information to be used as audit evidence in assessing whether sufficient appropriate audit evidence has been obtained. Previously, the objective focused on the design and performance of audit procedures to obtain sufficient appropriate audit evidence, rather than evaluating the sufficiency and appropriateness of the audit evidence itself. Attributes of reliable information include its accuracy, completeness, authenticity, and susceptibility to bias. SAS No. 142 requires the auditor to evaluate information to be used as audit evidence by taking into account the relevance and reliability of the information, including its source, and whether such information corroborates or contradicts assertions in the financial statements. We believe that such enhanced focus on the attributes of reliable information may help auditors to design a more appropriate response to fraud risk.

Botswana Institute of Chartered Accountants (BICA)

Requiring a “suspicious mindset” implies that the auditor will be doing a forensic accounting engagement and would exacerbate the expectation gap. Requirements for professional scepticism are sufficient to allow the auditor to identify risks of material misstatements due to fraud.

Center for Audit Quality (CAQ)

We have concerns with the suggestions that auditors be required to use a “suspicious mindset” in planning and performing an audit. We believe that such a requirement could jeopardize the auditor’s ability to have effective two-way dialogue with management and those charged with governance and ultimately inhibit the auditor’s ability to complete a high-quality financial statement audit. For example, robust fraud inquiries with management and those charged with governance are a critical step in the audit process. Approaching such discussions with a “suspicious mindset” could significantly diminish the effectiveness of such inquiries, with the interviewee becoming defensive and unwilling to share important information. In addition, requiring a “suspicious mindset” could result in a significant increase in audit effort that would not correspond to an increase in audit quality. A potential requirement for a suspicious mindset only in certain situations, such as higher-risk circumstances, also could create confusion in practice as to when it is appropriate for an auditor to use one mindset versus another.

A clear understanding of the behaviors and outcomes that are sought seems more pertinent than the phrase or term to be applied. Actions that change behaviors are likely to have a more meaningful impact to achieve the desired outcomes than adding a new term.

For these reasons, we remain supportive of the existing requirements in ISA 240 related to maintaining professional skepticism throughout the audit and other requirements in the ISAs for auditors to revise their risk assessments when necessary and to obtain more persuasive evidence the higher the assessed risk of material misstatement. We also recommend that the IAASB continue to monitor the implementation of IESBA’s recent revisions to the Code that require the professional accountant to have an “inquiring mind.” The IAASB also could consider whether the audit evidence project recently approved by the Board represents an opportunity to further enhance the focus on professional skepticism in the auditor’s evaluation of sufficient appropriate evidence.

CPA Australia (CPAA)

We do not see the need to apply a suspicious mindset and consider that professional scepticism is an adequate benchmark for the level of scrutiny auditors should apply. However effective and appropriate exercise of professional scepticism is enhanced by the level of knowledge and experience of the audit team, coupled with factors such as adequate time and resources to conduct a quality audit. Suspicion is aroused when anomalies or evidence of fraud are identified, which is the appropriate time for further investigation or a “deep dive” to be undertaken.

Institute of Certified Public Accountants of Uganda (ICPAU)

ICPAU does not agree with the requirement for a “suspicious mindset” in fraud identification especially when planning and performing the audit. With a suspicious mindset, management may become defensive and hence hold onto vital information that should enable the auditor form their opinion on the state of affairs in the entity. However a “suspicious mindset” approach may be appropriate, in certain circumstances, when planning and performing audits of public interest entities.

Institute of Chartered Accountants of Scotland (ICAS)

We are not convinced that starting from the premise of adopting a “suspicious mindset” is necessarily conducive to high quality audits and therefore do not believe that such an approach should be mandated. However, there would appear merit in further exploring the approach that has been adopted in Japan which appears to require more of the auditor in certain specific circumstances, particularly when the auditor has determined that any suspicion of a material misstatement due to fraud exists. Please also see our comments in our response to question 2a above.

Whilst we would not mandate the adoption of a “suspicious mindset” we do believe, however, that there is more that can be done by means of the firms with regards to training. Several audit firms have already taken steps to enhance their training in this regard and that is to be welcomed.

We do also believe that auditors should consider more external factors and sources of information to better inform their understanding of the entity being audited and to better assess its financial performance and position. Given its very nature, collusion is difficult to detect when only using information from inside the entity being audited. Therefore, consideration might be given by the auditor to accessing information from outside the entity to get better insights into the performance of the audited entity. Such additional audit procedures might include performing key ratio analysis comparisons with competitors which may help to identify any areas where the entity may appear to be an outlier.

We would also highlight that the UK FRC recently consulted on whether the rebuttable presumption that there are risks of fraud in revenue recognition should be extended to other account balances, transactions or disclosures for which such a rebuttable presumption should be established. We believe that such matters should be left to the professional judgement of the auditor and therefore would not support widening the scope of the extant rebuttable presumption. Currently, in the midst of this Covid-19 pandemic, many businesses and individuals are under extreme financial pressure. Therefore, in the current environment it would appear a reasonable assumption that the financial statements of some businesses may be more susceptible to material irregularities in a range of areas as a consequence of error and/or fraud. It will therefore be key for audit teams to look at a broad range of risks relevant to the entity being audited.

[Inter-American Accounting Association \(IAA\).pdf](#)

In the event that the IASB decides to require a “suspicious mentality”, in the first instance it should affect only the entities that are listed on the stock exchange, and then reach all audits.

We think that possibly using an expression of "suspicious mentality" would not contribute to improve the identification of fraud when planning or conducting the audit, because it could be considered as "distrustful" of the auditor by the entities and because the audit relies heavily on trust, it could have the opposite effect. For this reason, we believe that the IAASB should analyze the advisability of issuing new disclosure standards on the auditor's work in its communication of its report. This new standard should require not only the disclosure of the procedures and findings regarding the application of the ISAs referring to fraud and going concern, but should also be more comprehensive, comprehensive of all relevant standards regarding inaccuracies that could be detected through due diligence in the application of the rules.

[International Air Transport Association \(IATA\)](#)

IAWG Response: IAWG is unclear how requiring a “suspicious mindset” would contribute to enhanced fraud detection when planning and performing the audit. We believe that it would increase audit related efforts for both the auditor and auditee without a meaningful increase in fraud detection as the existing audit structure already emphasizes the detection of material fraud in relation to the financial reporting being audited.

In an industry such as aviation where an auditor is able to observe physical assets, activities and cash flows that can easily be benchmarked and evaluated against reliable expectations in relation to revenues, costs and margins we would expect that this shift to a “suspicious mindset” would result in significant increase in audit activity designed to satisfy a requirement where the risk of material fraud is low and where the current audit approach is fully effective.

Currently, due professional care requires the auditor to exercise professional skepticism. Professional skepticism is an attitude that includes a questioning mind and a critical assessment of audit evidence. This concept requires an auditor to neither assume that management is dishonest nor assume unquestioned honesty. In exercising professional skepticism, the auditor should not be satisfied with less than persuasive evidence because of a belief that management is honest. IAWG believes that this is the appropriate mindset for an auditor undertaking an audit of financial statements.

Revising this language to indicate that the auditor should exercise a “suspicious mindset” appears to move an auditor from a neutral position with regard to management’s integrity and one where management is assumed to be dishonest and perhaps even actively engaged in accounting fraud. A suspicious mindset is only appropriate when there is evidence that suggests the presence of fraud or dishonesty.

We believe that the IAASB is not interested in auditors suspecting fraud or dishonesty without evidence that suggests that these conditions may be present. We believe that the existing auditing standards address this situation and call for the auditor to address their concerns. For those reasons we are strongly opposed to the introduction of a requirement that an auditor adopt a “suspicious mindset” in planning and performing the audit. This mindset is only appropriate when sufficient evidence supports valid concerns regarding fraud or dishonesty. We believe that this is consistent with the Brydon Report with regard to their concept of “professional suspicion,” a term we find preferable to “suspicious mindset.”

New York State Society of CPAs (NYSSCPA)

No. We believe that professional skepticism as defined in the auditing literature is sufficiently helpful to address fraud identification in planning and performing the audit. Audit regulators and standard setters in the major free markets have embedded specific mention of the term professional skepticism in their standards and regulation. Many have embarked on outreach projects explaining what professional standards mean in this context, and how firms and individual need to respond to these requirements. We believe that the concept requires auditors to evaluate any information that is contrary to management’s assertions, including information that is illogical, and those issues need to be documented along with what response was taken.

In addition, the wording “suspicious mindset” has a more negative connotation, insinuating an inherent bias to believe that someone has likely done something wrong, illegal, or dishonest rather than the more neutral and objective term currently in use and well understood, “professional skepticism.” We recommend retaining the term, “professional skepticism,” as is currently in use.

REA Auditores - Consejo General de Economistas (REA)

No. We consider that the requirements of Standard 240 and the application guide in relation to professional skepticism include the necessary considerations that should be applied, in general, in all audits (In accordance with ISA 200, the auditor will maintain an attitude professional skepticism throughout the audit, recognizing that, despite prior experience with the honesty and integrity of the entity’s management and those charged with governance, it is possible that there is a material misstatement due to fraud); although it seems clear that the audit of those entities with deficient internal control and those whose sector is being most affected by the current crisis should be intensified.

The Institute for the Accountancy Profession in Sweden (FAR)

No, we do not believe that the IAASB should include the term “suspicious mindset”. To introduce a new term will not make the auditors role concerning fraud clearer. It would be more useful if the auditor’s responsibilities concerning fraud were clarified. The use of a “suspicious mindset” could affect the client’s openness and willingness to give the auditor information and access to data which could reduce the possibility to detect fraud.

However, we believe that with enhanced audit procedures and reporting concerning fraud increased training in the area will be needed, which in turn will lead to increased attention and awareness.

We also believe that the IAASB should monitor the implementation of new requirements by IESBA for the auditor to have an “inquiring mind” and be aware of their own potential bias when exercising professional scepticism.

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

An auditor should exercise professional skepticism throughout the audit. If the auditor conclude that a “suspicious mindset” beyond professional skepticism is required, the work of a forensic expert (as per ISA 620) should be used.

Q2ci.4 - No\Q2ci.4.2 - No\01 No, but Merit for suspicious mindset (Specifically in relation to management risk of override of controls)

3. National Audit Standard Setters

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

At our roundtable event, 72% of participants did not agree that requiring a “suspicious mindset” would contribute to enhanced fraud identification, while 28% of participants agreed with such a move. Those opposing believed that professional scepticism is adequate and appropriate to describe the quality auditors must possess to be able to respond competently to risks of fraud.

Some participants noted that adopting a presumptive doubt approach may logically require authentication of records and documents (one has to assume records are not authentic until otherwise proven). It was also noted that introducing such a concept may have a detrimental impact on the relationship between auditors and management and may reduce the level of management cooperation with the audit.

However, other participants supported requiring a suspicion mindset, specifically in relation to management risk of override of controls. Requiring a suspicious mindset may prompt auditor to more vigorously respond to such significant risks thus reducing the likelihood of them being unable to identify material financial reporting frauds.

Q2ci.4 - No\Q2ci.4.2 - No\02 No, but Merit for suspicious mindset (When planning and performing audits of public interest entities)

6. Member Bodies and Other Professional Organizations

Institute of Certified Public Accountants of Uganda (ICPAU)

ICPAU does not agree with the requirement for a “suspicious mindset” in fraud identification especially when planning and performing the audit. With a suspicious mindset, management may become defensive and hence hold onto vital information that should enable the auditor form their opinion on the state of affairs in

the entity. However a “suspicious mindset” approach may be appropriate, in certain circumstances, when planning and performing audits of public interest entities.

Q2ci.4 - No\Q2ci.4.2 - No\03 No, but Merit for suspicious mindset (When any suspicion of a material misstatement due to fraud exists)

6. Member Bodies and Other Professional Organizations

Institute of Chartered Accountants of Scotland (ICAS)

We are not convinced that starting from the premise of adopting a “suspicious mindset” is necessarily conducive to high quality audits and therefore do not believe that such an approach should be mandated. However, there would appear merit in further exploring the approach that has been adopted in Japan which appears to require more of the auditor in certain specific circumstances, particularly when the auditor has determined that any suspicion of a material misstatement due to fraud exists. Please also see our comments in our response to question 2a above.

Whilst we would not mandate the adoption of a “suspicious mindset” we do believe, however, that there is more that can be done by means of the firms with regards to training. Several audit firms have already taken steps to enhance their training in this regard and that is to be welcomed.

International Air Transport Association (IATA)

IAWG Response: IAWG is unclear how requiring a “suspicious mindset” would contribute to enhanced fraud detection when planning and performing the audit. We believe that it would increase audit related efforts for both the auditor and auditee without a meaningful increase in fraud detection as the existing audit structure already emphasizes the detection of material fraud in relation to the financial reporting being audited.

In an industry such as aviation where an auditor is able to observe physical assets, activities and cash flows that can easily be benchmarked and evaluated against reliable expectations in relation to revenues, costs and margins we would expect that this shift to a “suspicious mindset” would result in significant increase in audit activity designed to satisfy a requirement where the risk of material fraud is low and where the current audit approach is fully effective.

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We believe that the IAASB is not interested in auditors suspecting fraud or dishonesty without evidence that suggests that these conditions may be present. We believe that the existing auditing standards address this situation and call for the auditor to address their concerns. For those reasons we are strongly opposed to the introduction of a requirement that an auditor adopt a “suspicious mindset” in planning and performing the audit. This mindset is only appropriate when sufficient evidence supports valid concerns regarding fraud or

dishonesty. We believe that this is consistent with the Brydon Report with regard to their concept of “professional suspicion,” a term we find preferable to “suspicious mindset.”

Q2ci.4 - No\Q2ci.4.2 - No\04 No, but Merit for suspicious mindset (May identify more fraud risk factors)

4. Accounting Firms

CohnReznick (CR)

We believe a “suspicious mindset” may, but not definitely, contribute to enhanced fraud identification. However, we believe a shift to a “suspicious mindset” in practice may negatively affect audit quality. The overall objective of the auditor is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to error or fraud. While a “suspicious mindset” may identify more fraud risk factors, we do not believe a “suspicious mindset” automatically leads to enhanced fraud identification and may lead to more audit effort expended on risks that do not have a reasonable possibility of a material misstatement. We also believe an auditor’s focus should be on the financial statements and whether such financial statements are material misstated either by error or fraud. If an auditor expends a disproportionate amount of effort on fraud at the expense of consideration of error, the value of the audit may decrease in part because a misstated financial statement, whether by error or fraud, is still a misstated financial statement.

Q2ci.5 - No comment

1. Monitoring Group

Basel Committee on Banking Supervision (BCBS)

6. Member Bodies and Other Professional Organizations

Belgian National Chapter of Transparency International (BNCTI)

PIRC

9. Individuals and Others

Ahmed Al-Qawasmi (AAQ)

Constantine Cotsilinis (CC)

Dmitrii Timofeev (DT)

Michael Bradbury (MB)

The Unlimited (TU)