# Fraud and Going Concern Discussion Paper

## 1b-1. In your view, what could be done, by the IAASB or others (please specify), to narrow the expectation gap related to fraud in an audit of financial statements?

## Q1b-1 - IAASB - 01 Add fraud as evergreen IAASB agenda item

### 1. Monitoring Group

### International Organization of Securities Commissions (IOSCO)

IAASB's strategy and work plan

To further the IAASB's efforts on the auditor's responsibility for the detection of fraud, we encourage the IAASB to consider fraud as well as professional skepticism as evergreen agenda items, given the historical occurrences of fraud and ever-changing environment in which companies and auditors operate. The way frauds are perpetrated likely will continuously evolve and increase in complexity due to the pace of change in technological advances and sophistication of schemes. Therefore, an auditor's attitude of professional skepticism will also need to evolve, as it will be critical to the auditor's ability to recognize and respond to circumstances that may exist that can result in the financial statements being materially misstated, whether caused by fraud or error. We believe ongoing attention to these topics would be prudent from a strategic and public interest perspective.

### 2. Regulators and Audit Oversight Authorities

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

(b) As the business environment is not static, we do not believe it is possible to completely eliminate the expectation gap in terms of the public's understanding; however, we believe the standard-setters and the profession can work towards narrowing the gap and suggest the following:

Given their importance to financial statement audits, (1) fraud, (2) going concern, and (3) the resulting expectation gap should be "evergreen" topics on standard-setters' and regulators' agendas.

### Q1b-1 - IAASB - 02 Perform root cause analysis of recent frauds

### 1. Monitoring Group

### Basel Committee on Banking Supervision (BCBS)

The Committee believes that the IAASB's proposed reviews of research and audit quality reviews by audit regulators, especially in cases where a material fraud has not been identified by the auditor, should help the IAASB to identify sources of the problem and possible solutions.

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

In addition to the IAASB's assessment of responses to this discussion paper, we encourage the IAASB to analyse recent financial scandals, corporate failures and their root causes. Doing so may inform the IAASB's assessment of whether areas of the standards could be enhanced, or additional guidance could be issued, to respond to the potential weaknesses shown by those experiences.

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.

### International Organization of Securities Commissions (IOSCO)

As such, during the information-gathering phase, we recommend that the IAASB engage in a multi-stakeholder approach to perform root-cause analyses into auditor’s role in fraudulent financial reporting that will lend insight as to whether there is a need for the existing auditing standards to be revised in order to remain fit-for-purpose. Looking back at recent occurrences of fraud (several of which are identified in the Paper), it appears that there may be both a failure of performance by auditors to comply with the standards in some situations and, there also may be a need to improve the standards to more clearly specify and perhaps increase the auditor’s responsibility for the detection of fraud in the financial statements.

The last component of the expectation gap outlined in the Paper is the performance gap, where we believe a critical activity for the IAASB during the information gathering phase is to analyze the root causes of recent events, in order to determine the cause(s) of the performance gap.

## 2. Regulators and Audit Oversight Authorities

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

The Discussion Paper provides some examples of corporate failures and scandals. However, there is limited information presented on their detailed circumstances. Performing a root cause analysis on such recent corporate failures or scandals would be highly beneficial to understand the roles of the different parties and, in any cases involving audit failure, the reasons for that failure. This analysis should be carried out before considering which aspects of the audit engagement to change in the auditing standards.

## 3. National Audit Standard Setters

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

We encourage the IAASB to conduct a root cause analysis of recent fraud cases and entity failures. Such an analysis will assist the IAASB in understanding what changes to standards may enable auditors to appropriately respond to such situations in the future and in addressing the expectation gap.

We encourage the IAASB to conduct a root cause analysis of recent fraud cases and entity failures. Such an analysis will assist the IAASB in understanding what changes to standards may enable auditors to appropriately respond to such situations in the future and in addressing the expectation gap.

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

Using an evidence-based approach

The nature of the agenda papers in relation to fraud in the December webmeeting of the IAAB appear to indicate to us that the IAASB may already be considering potential changes to its standards without having undertaken a systematic analysis yet of the causes of the supposed audit scandals relating to fraud and going concern. This can only lead to longer, more complex standards with more requirements and application material – not necessarily better standards that address the causes.

We believe that for issues as important as going concern and fraud, the IAASB’s approach needs to be evidence-based – that is, the IAASB should concentrate on finding out “what went wrong” in supposed audit scandals over the last several years to the extent robust information about this is available and then, only if the problem is identified as a deficiency in existing standards (i.e., not a performance issue resulting from failure to apply a clear standard) should the IAASB undertake focused changes to its standards. In investigating and considering the underlying causes, it may be fruitful for the IAASB to dig deeper than just the high level causes often given by audit regulators and inspectors (e.g., the "catch-all" reasons such as "inadequate exercise of professional skepticism" or "not gathering sufficient appropriate evidence") to address issues such as why certain "red flags" for fraud or going concern issues were missed or not appropriately taken into account in auditor actions. This is not to say that the IAASB should not explore all avenues, including augmenting its standards, but the IAASB should take an evidence-based approach when moving beyond exploration.

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

We strongly recommend to perform a root-cause analysis first before changes are made to the ISAs. For some well-known fraud cases there might be some material available already. Lessons should be learnt and it should become clear how these fraud cases could have been prevented and detected earlier by the audit profession. Often international aspects seem to play a role in the well-known fraud cases and it seems worthwhile investigating whether the draft revised ISA 600 has appropriate responses to this aspect.

Furthermore, the connection between revised ISA 315 and ISA 240 might be reconsidered. Although the inherent risk factors in revised ISA 315 do include fraud, the importance thereof could be stressed. Finally, It should also be investigated whether clear agreements between all parties involved can be made Management and those charged with governance are responsible for the control of fraud risks and have to play their role.  For fraud where management is involved, those charged with governance should act.

## 4. Accounting Firms

### BDO International Limited (BDO)

We received mixed views about whether the auditor should have enhanced or more requirements with regards to fraud in an audit of financial statements.

Where there was support for enhancement this was counterbalanced by the need for greater clarity about what it is that stakeholders want or need. There was general agreement that before enhancing or creating additional requirements, it was important to perform appropriate root cause analysis to determine what it is that users of financial statements require in relation to fraud and how this can best be communicated.

### Deloitte (DTTL).pdf

In addition, given the IAASB's position within the profession, DTTL recommends (1) interfacing with regulatory bodies to collect information on exposed corporate fraud schemes (similar to what has been suggested in the Brydon report), (2) collaborating with academia to perform root cause analysis of actual cases, identify fraud characteristics, and highlight how the fraud was uncovered, and then (3) sharing redacted "lessons learned" (perhaps in the form of a database of cases) to provide auditors with examples and insights of how fraud can be perpetrated and detected. Further, the IAASB could use this information to determine if the current standards for performance are adequate given the evolution of the topic and may consider partnering with academia or other stakeholders to identify and develop examples of effective data analytics for use on the audit.

### GTI

Financial statement fraud can manifest itself in many ways. It is much broader than just misstatement of the financial statements and can be perpetrated through the omission of information, through focus on reporting measures that are not required by generally accepted accounting principles, and through the other information provided with the financial statements. Other frauds, especially those that involve collusion, or complex technology, and cyber security attacks are often highly complex and difficult to detect.

We are of the view that to significantly move the needle on the detection of fraud in an audit of financial statements, a substantial change in the auditor's approach to fraud would be needed, such as requiring a forensic audit to be performed. However, we believe that such a change in approach would not produce a net benefit to investors, either because of the excessive cost or the increased time needed to perform the audit resulting in delays in the provision of financial information.

It is also important to note that changes to the auditing standards are changes to the audit of all companies; the vast majority of which will not be subject to financial reporting or other fraud. It is incumbent on the standard setters to consider the cost versus the benefit to the market of such changes.

As such, we would recommend that before developing additional auditing requirements, root cause analysis is performed to determine whether financial reporting frauds have resulted from insufficient requirements in the auditing standards leading to an ineffective or inadequate audit or whether the frauds resulted from an inappropriately executed audit based on existing auditing standard requirements.

We believe that it is necessary to 'stand back' and consider whether, if additional requirements were in place, these requirements would result in the detection of fraud; and if not, how we can address these issues in a different manner. Frauds are not generally being identified in new areas of the financial statements, yet they continue to be perpetrated, which raises the question of whether the root cause of such frauds has really been understood. We need to fully understand why frauds are occurring before we can implement measures aimed at preventing or detecting future frauds.

### KPMG

Exploration of Proposed Solutions

When considering the proposed solutions themselves, we highlight the importance of understanding in depth the underlying causes of corporate failures, to help ensure that all contributors to those failures can be clearly identified and that solutions implemented, across all roles/responsibilities in the corporate reporting ecosystem (including in respect of management/ those charged with governance and regulators, as well as auditors) properly address these issues.

### MNP LLP (MNP)

We do believe that a root cause analysis of recent corporate failures and frauds would assist the IAASB to understand whether enhancements to the ISAs would be effective at addressing the expectation gap.

### Moore (MGN)

One area which we feel could be further explored is the provision of case-study examples targeted at honing scepticism, in particular training that leverages real life examples of frauds that actually took place. Leveraging real world experiences to provide auditors with genuine insight seems to us to be potentially a very useful path to improving audit quality around fraud.

### PricewaterhouseCoopers (PWC)

Focus on root causes in making an informed decision on the way forward

Stakeholders' needs are evolving, and we support consideration of whether the scope of the audit needs to also evolve to fully meet stakeholders' expectations in relation to fraud and going concern. Gaining an understanding of the root causes behind stakeholders' calls to further expand the auditor's responsibilities will be important in making an informed decision on the way forward.

Today's ISA audit focuses on the fair presentation of the financial statements prepared by the entity. The scope of the audit is not designed to address wider business model viability or risk, or the design and effectiveness of entities' fraud and other internal controls overall, nor are entities in most jurisdictions required to report on them. Leveraging the experience and findings from work undertaken across jurisdictions to date will provide useful input as to what actions could reasonably narrow the expectation gap. For example, outreach by our network firm in the UK indicated there may be a general lack of understanding in that market over whether an audit gives comfort over an entity more broadly (its behaviours, its culture, its business model, and its viability), or over the financial statements alone. Outreach also found that many users of financial statements in that market are calling for more insight into the risks that entities are facing and the future prospects of the business. There are opportunities to be explored with regard to assurance that could be provided in these areas. As noted above, addressing stakeholders' evolving needs will necessarily involve regulators looking at how the responsibilities of all of those in the corporate reporting ecosystem may need to change, and interrelate, to provide the infrastructure needed to support such insight.

In our view, the auditor's responsibilities to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to error or fraud, remain appropriate in principle. We believe targeted changes to the ISAs can be made to better drive consistency in interpretation and application. However, change that "moves the dial" on fraud and going concern and addresses the expectation gap will require broader coordinated reform across the corporate reporting ecosystem.

### SRA

The Background paragraph of the Paper prominently mentions a number of corporate failures and scandals across the globe. We feel that this discussion suggests that the project, which is the subject of the Paper, should resolve issues which played a role in these corporate failures and scandals.

The failures and scandals mentioned relate to public interest audits only. The extent to which the problems also relate to non-public interest companies is not discussed in the Paper. For example, in non-public interest entities fraud may often occur in the form of unapproved withdrawal of funds from the entity or charging private expenses to the entity.

A root cause analysis of the failures and scandals in relation to the two issues, discussed in the Paper is not provided. Such an analysis could substantiate whether the proposals put forward in the Paper could resolve the causes of the failures and scandals. An example of relevant findings of such an analysis would be to analyze to what extent fraud is related to either management fraud or fraud by staff personnel.

## 6. Member Bodies and Other Professional Organizations

### CPA Australia (CPAA)

In addition, we consider that there is a need for a more co-ordinated approach to collation of fraud cases to share with auditors and entities, so they can better understand the methods employed to perpetrate fraud. This would assist auditors by raising awareness of how frauds are being perpetrated and emerging fraud risks, which would be considered in planning their audit procedures. It would also be beneficial for entities, which are on the front line of fraud prevention and detection, to inform adjustments to internal controls and processes necessary to respond to evolving fraud risks and to better identify red flags. Such a role may be fulfilled by national regulators, government bodies or indeed the IAASB itself

### Institute of Singapore Chartered Accountants (ISCA)

In 2015, the IAASB released an Invitation to Comment, Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits (ITC), which highlighted the potential standard-setting activities which the IAASB could take to enhance audit quality. In the ITC, one of the areas being explored was whether a professional skepticism framework should be developed.

It was noted that, pursuant to the ITC, there were mixed views on developing such a framework, and consequently, the approach undertaken by the IAASB was to reinforce professional skepticism through different sections of the ISAs and embedding the expectation of professional skepticism into the design of the requirements of the ISAs.

We acknowledge that this deserves a rethink with high-profile corporate collapses becoming increasingly common globally in recent years. These are often followed by investigations revealing lapses in financial reporting which may indicate deficiencies in the audit. For example, where material fictitious revenue was recorded over a prolonged period of time, or where assets on the balance sheet were materially inflated or did not exist. We concur that an expectation gap may exist in the context of such findings which is consistent with the feedback from stakeholders from our outreach activities whom have unanimously agreed that while auditors are not expected to purposefully sniff out all types of fraud, detecting material fraud in financial reporting is the responsibility of auditors.

Accordingly, these recent developments warrant a need to relook at the approach towards audit quality, and in particular, the application of professional skepticism. This is also an important element in the context of the current Discussion Paper on Fraud and Going Concern.

In light of this trend, it might be worthwhile for the IAASB to delve into:

Whether the underlying factors behind audit failures are isolated occurrences or if they are indicative of a more prevalent concern; and

The root cause of audit failures – due to deficiency in audit quality or are there other contributing factors?

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

External Messaging

It is always appropriate to evaluate the root causes of audit deficiencies. We believe the stakeholders in the accountancy profession are committed to continuous improvement, recognize the negative consequences of audit failures, and take their public interest role seriously. However, we consider that the profession, as a whole (including regulators), needs to be more robust in challenging statements made by politicians and commentators in the media about the role of the auditor and more clearly explain what an audit actually is, what it is designed to do, and the inherent limitations involved.

For example, one need identified is for more case studies which cover what went wrong in different fraud examples and what the various stakeholders can learn.

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

In addition to enhancing the auditing standards, the IAASB should take the lead to understand the root causes of the concerns raised by the various stakeholders. The understanding of the root causes would be important for the IAASB in formulating what additional actions could be taken across the ecosystem to provide the insights the stakeholders are seeking in relation to fraud and going concern. This will involve looking at the responsibilities of management and those charged with governance in relation to risk assessment, controls, disclosure and transparency, as well as the legal and regulatory infrastructure needed to underpin them, in addition to the role of the auditor.

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

The Discussion Paper identifies several high-profile financial frauds. The paper would have been more instructive if the text outlined the circumstances that allowed the frauds to go undetected for extended periods. Within many international auditing networks, if there is a significant audit failure within the network, the affected firm may change its methodology and procedures if their regulators require that, and the network generally integrates a discussion of the failure into its training programs. Regulators of public interest entities generally require prompt notification.

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

Significant changes to the ISAs should only be made after a thorough analysis of the investigations into the corporate failures indicates that the root cause was an audit failure due to the ISAs being insufficient or inappropriate. Transparency is required from regulatory authorities in this regard. The IAASB should interact with them in order to ascertain whether the underlying problems are with the requirements included in the ISAs, the application thereof or something else entirely.

The International Forum of Independent Audit Regulators (IFIAR) is an example of a structure that could provide the IAASB with meaningful information on what the causes of the corporate failures could be as this is a forum representative of independent audit regulators from multiple jurisdictions. The IAASB should seek to use its influence to promote transparent and consistent reporting with these type of stakeholders globally in order to get understanding of some of the root causes for these failures. Such reporting may not necessarily prevent corporate failures may give the IAASB insights on how the ISAs may be improved to better serve the needs of the public.

## 8. Academics

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

Research provides several insights relevant to the auditor’s fraud-related requirements.

Fraud Case Profile

First, research findings paint a picture of the common fraud case profile. Beasley, Carcello, and Hermanson (1999) and Beasley, Carcello, Hermanson, and Neal (2010) find that the two most likely perpetrators of U.S. public company fraudulent financial reporting are the CEO and the CFO, with nearly 90 percent of cases from 1998-2007 involving one or both parties. In addition, these two studies highlight the financial statement element most commonly manipulated in fraudulent financial reporting cases – revenue (61 percent of cases from 1998-2007) and that the number one specialized industry for fraudulent reporting is computer hardware and software. Other studies (beginning with Beasley (1996) and Dechow, Sloan, and Sweeney (1996), and summarized by Carcello, Hermanson, and Ye (2011)) demonstrate a link between weaker corporate governance and a greater risk of fraud. Further, Donelson, Ege, and McInnis (2017) find a link between weak entity-level controls and future fraud. Thus, research provides us with a picture of who is most likely to engage in fraudulent financial reporting, which element of the financial statements is most likely to be manipulated, and which specialized industry is most commonly cited for fraudulent financial reporting. Research also links fraud risk with weak corporate governance and weak entity-level internal controls.

## Q1b-1 - IAASB - 03 Educational efforts or additional guidance

### 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)

Expectation gap with respect to the auditor's responsibility for the detection of fraud

While we support the IAASB's efforts, the Paper appropriately highlighted the important role of each stakeholder group in the financial reporting ecosystem in improving external reporting. A collaborative, multi-stakeholder solution is necessary to address the challenges and achieve the desired progress to narrow (with the goal to minimize as much as possible) the expectation gap. For example, each stakeholder group could consider educational communications to their target audiences as one effective step to narrow the expectation gap.

What can be done to narrow the expectation gap – education, collaboration and coordination

In addition to potential standard-setting discussed above, we encourage the IAASB to consider whether other approaches such as robust investor education may assist in enhancing investors' understanding of the current role and responsibilities of the auditor with respect to fraud.

One of the core building blocks to continue to make progress on narrowing the expectation gap, in our view, is that each stakeholder group not only contributes to the educational effort, but also commits to a collaborative and coordinated approach. With that being said, we applaud the IAASB's recent stakeholder outreach (e.g., three roundtables on fraud and going concern in September and October 2020 with various stakeholder groups) to help inform the degree to which an expectation gap exists today.

We welcome the IAASB's engagement to identify what education and/or incremental collaboration and coordination amongst the various stakeholders in the financial reporting ecosystem is needed to achieve the common goal of narrowing the expectation gap.

### 2. Regulators and Audit Oversight Authorities

#### Botswana Accountancy Oversight Authority (BAOA)

Awareness or educating the stakeholders and users of financial statements on the Auditors responsibilities on fraud and going concern.

Educate Those Charged with Governance and Management of the entities on their responsibilities on fraud and going concern and encourage them to adopt a culture that is anti-fraud.

### 3. National Audit Standard Setters

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

The AUASB encourages the IAASB to explore ways in which the auditor can better engage with the users of the audit report, both in terms of exploring the scope of the audit and through other forms of communications e.g. annual report.  Broader engagement outside of the auditor's report may be a more effective way to promote a better understanding of what an audit is and provide an opportunity for auditors to "educate" users as to what it is they do. This would also provide more information to auditors about how users consider the audit may evolve to start to narrow the evolution gap, bearing in mind trade-offs around cost and benefit.  This could be achieved through an IAASB staff paper about the role of those parties that comprise the whole of financial reporting ecosystem.  The focus would include the role of TCWG and management, reporting requirements, what an audit is and is not, auditors' responsibilities, common terminology e.g. materiality and the gaps that have been identified through the research phase of this project, and how the IAASB and other parties may look to address these gaps for the users of the financial statements.

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

For example, as it relates to the IAASB's role, we support its continued efforts, including through the Discussion Paper, to highlight and discuss the expectation gap and the roles of each of the parties in the financial reporting ecosystem. As a next step, the IAASB could consider whether there is further outreach it can undertake to educate financial statement users.

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

We believe that in order to narrow the expectation gap, it would be important to clarify:

the expectations of stakeholders;

the role of each party (including audit committees, management, internal audit, regulators and supervisory authorities) in the financial reporting ecosystem to address these expectations;

the responsibilities of each party in terms of preventing and detecting fraud and assessing the entity's ability to continue as a going concern.

As at today, we note a real transfer of responsibilities to the auditor.

An audit conducted under the ISA follows a risk-based approach and does not provide an absolute assurance. Accordingly, auditors identify and assess risks of material misstatement and response to these risks by designing and performing audit procedures.

Such clarification should involve more “education” from the IAASB and more communication in the auditor’s report on the work of the auditor performed on going concern and fraud.

We consider that the IAASB should further communicate to clarify the auditors’ role on fraud and clarify commonly misinterpreted responsibilities. This includes:

auditor’s responsibility and inherent limitations, especially related to fraud and in particular related to senior management frauds, which are the most spectacular with major financial impacts,

materiality with regards to misstatements in the financial statements due to fraud,

effective two-way communications with audit committees on fraud risk.

We believe that the IAASB’s communication on the auditor’s role which focus on fraud that has a significant impact on the accounts and fraud from internal management is essential. This excludes frauds perpetrated by third parties external to the entity.

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

Based on the feedback from stakeholders, we recommend that the IAASB work with local professional accountancy bodies and standard setters to educate the general public through discussion forums or publications. A full understanding of the work performed by auditors and its limitations and the responsibility of those charged with governance (TCWG) related to fraud and going concern would be helpful to narrow the expectation gap. The HKICPA is willing to work with the IAASB to organise discussion forums or develop publications.

Educational sessions for the public on the role of the auditor in respect of fraud and going concern and to explain the limitation and inherent risk of an audit could help to narrow, but would not fully eliminate, the expectation gap.

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

With respect to the knowledge and reasonableness gaps, we note that the IAASB has an important public interest role in explaining to stakeholders what auditors ought to do and what auditors do (both related to the knowledge gap) as well as what auditors cannot do (reasonableness gap). This educational role of the IAASB – particularly in relation to the reasonableness gap – has not been adequately taken up by the IAASB in the past due to concerns about appearing “defensive”. We believe that the IAASB, national standard setters and the profession need to engage in a frank dialogue with other stakeholders about the knowledge and reasonableness gaps to seek to significantly reduce these gaps.

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

IAASB and auditor should communicate strongly efforts that enable stakeholders, including the government, regulators, media, investors, and general information users, to sufficiently understand inherent limitation of audits, the limitation of responsibilities of auditors, entities and those charged with governance (or ‘TCWG’), respectively.

## 4. Accounting Firms

### BDO International Limited (BDO)

Auditors may also have a responsibility to seek to provide more transparency about the work that they perform on fraud – this could be through provision of thought leadership to explain how and when fraud may occur, the extent of the auditor's role and respective responsibilities of management/TCWG.

Suggestions for what could be done to narrow the expectation gap related to fraud and going concern, included:

Fraud:

We noted in part 1(a) about the importance of communication as a key driver of the knowledge gap. The IAASB could explore how best to communicate:

The role of the auditor and extent of ISA-required fraud procedures.

The role of other participants of the financial reporting ecosystem (i.e., management and TCWG who have responsibilities for prevention and detection of fraud).

### CohnReznick (CR)

We believe an advocacy effort by the IAASB targeted to management, investors, and governments may be appropriate. Such an effort may be a website written in plainly-spoken language with simple wording articulating what is and what is not the role of the auditor. Much of this will just be a recitation of the audit report itself, combined with an emphasis to the readers of the website to "Read the Report" to understand more.

### Deloitte (DTTL).pdf

IAASB

The IAASB has the ability to influence both the performance gap and the evolution gap by providing auditors with guidance to enhance the implementation of the existing principles-based requirements and improve consistency in application. Broadly speaking, there is an opportunity to:

Emphasize the foundational requirement to plan and perform the audit to detect material misstatement due to fraud (regardless of the increased sophistication of fraud schemes), as well as the importance of a deep understanding of the business and transaction flows to be able to identify ways in which the financial statements could be manipulated.

Better link existing requirements in individual ISAs (beyond ISA 240 and ISA 570) to their ability to detect fraud and identify issues related to going concern (e.g., by noting that a procedure could achieve the objective of both that individual ISA and ISA 240, or by explaining the "why" behind requiring a certain procedure—obtaining an understanding of and testing internal controls is a good example).

Provide guidance on the use of increased professional skepticism (for example, related to fraud inquiries and when evaluating management's plans to alleviate any going concern issues).

Provide examples of how advances in technology enable fraud to be perpetrated in new and unique ways and develop guidance to demonstrate the use of audit data analytics and other automated tools to execute audit procedures.

More detail on the above suggestions and other material which could be developed by the IAASB are provided in the responses to Questions 2 and 3.

### GTI

IAASB – Issuing guidance that helps apply the standards in the context of the current environment. The manner in which auditors may execute their procedures under the auditing standards through the use of technology has advanced significantly over the past few years. This facilitates different methods or means for auditors to obtain sufficient appropriate audit evidence in support of the audit opinion. In some cases, it facilitates the analysis of an entire class of transactions or account balance. Guidance on how this affects more traditional types of testing is key in promoting the use of new technology to enable auditors to focus on the riskier areas of the audit without fear that regulators would not, in principle, accept the approach.

### HLB International (HLB)

In our view, to narrow this knowledge gap, the IAASB and others could undertake public education campaigns regarding the concept of reasonable assurance, and the importance of other participants in the financial reporting ecosystem. The responsibility for fraud and going concern is a shared responsibility with those in the financial reporting ecosystem, in particular management and those charged with governance.

To reduce the performance gap, the IAASB could provide more support for practical examples, audit programs or checklists and other tools to assist practitioners in appropriate implementation and documentation of the ISA requirements. We note size and complexity matter in the performance of an audit engagement, and that these practical examples and tools would need to be responsive to the differences encountered across publicly traded entities and small and medium sized entities. In addition, we expect these issues would also be dealt with through implementation of the ISQM1 and ISA 220 revisions.

### Mazars (MAZ)

On the fraud topic:

We could say that there is a short-term action which consists in reaffirming and better communicating our current limited liability for fraud. Especially there could be a reinforcement of the understanding of the concept of materiality through public/stakeholder engagement. This would be helpful regarding the fraud topic to avoid expectations on immaterial fraud;

On a medium/longer term, the auditor could be given more resources, to enable him to go further in identifying the risks of fraud;

### Mazars USA (MAZUSA)

One area where the IAASB could provide support to auditors through non-authoritative guidance would be around the application of professional skepticism as it relates to fraud and going concern. For example, a frequently asked questions document regarding the design of auditing procedures for fraud and going concern could heighten auditor awareness in specific circumstances. Familiarity with an entity may create a challenge to detecting fraud on longer term clients on the part of the auditors. One way that this familiarity can be mitigated is by varying the procedures performed in recurring engagements. While ISA 240 requires, and auditors incorporate, a level of unpredictability in the selection of audit procedures, often the audit work follows similar procedures year over year, making it less likely that fraud will be identified over time. Familiarity can also cause bias when auditors consider the going concern assumption, especially in client situations where there is a history of financial challenge, but the client continues to manage such challenges. Guidance from the IAASB in these special circumstances could benefit auditors in performing their audits and, in doing so, assist in closing the expectation gap.

### MHA Macintyre Hudson (MHA)

A significant aspect of auditor behaviour underpinning the work on fraud and going concern is the application of professional scepticism. In particular challenge of management, including challenging assumptions in estimates may indicate management bias or the basis of the going concern assessment. We believe that the IAASB, and other stakeholders, can do much more to assist auditors in effectively challenging management through better standards, application material, training and guidance. A key part of such materials would be clarity for auditors on the different types of bias, how they manifest themselves during an audit and how they can be mitigated when undertaking audits.

We also suggest that the IAASB considers how it can support the education of other stakeholders, helping to address the knowledge gap, including for the differences between requirements for Public Interest Entities and SME stakeholders.

### Moore (MGN)

Clarification and explanation of widely misunderstood audit related concepts including but not limited to:

The scope and purpose of an audit;

Inherent limitations;

Scepticism;

Materiality.

We believe that the clarification and explanation exercise above should be the priority. To try and revise standards before clarifying these concepts would potentially result in lower quality standards.

### Nexia International (NI)

Some of this expectation gap is perpetuated by litigators and regulators looking to assign blame for a perceived shortcoming, such as a high-profile restatement. We encourage the IAASB to work with regulators to narrow this gap. We believe an advocacy effort by the IAASB targeted to management, investors, regulators and governments may be appropriate.

### PKF International Limited (PKF)

Continual improvement of the ISAs as they relate to the audit of fraud and going concern. In the short-term further improvements could be made including on the requirements and guidance around:

the level of skepticism to be exercised by the auditor.

the design and scope of requirements for risk assessment and identification.

how the auditor identifies and assesses indicators of management bias.

the extent of review procedures performed by more experienced members of the audit team over the conclusions reached by junior members of the audit team.

Enhanced requirements over communications to those charged with governance relating to the audit procedures performed and conclusions reached in respect to the audit of fraud and going concern.

Examples of measures that could be taken by the IAASB to narrow the expectation gap related to fraud and going concern in an audit of financial statements include:

More effective communication by the IAASB to users of financial statements on the scope and requirements of an audit in context of fraud and going concern:

The profession is frequently criticized on the approach of auditors to fraud and going concern, especially in those instances where a significant fraud or a going concern issue has affected a public interest entity. Regardless of whether the audit in question has complied with the relevant auditing requirements, public criticism may still be directed at the auditor including via significant press attention. Where it is left to an individual firm or network to respond to such, the firm's explanation can often be taken as being a defense of a poorly conducted audit. Rather than leave firms to be the lone voice in justifying audit requirements that they did not themselves set, there is an opportunity for the IAASB to contribute more openly to the debate and to speak with authority and credibility about the scope and requirements of an audit.

### PricewaterhouseCoopers (PWC)

Role of technology

Auditors are exploring ways of leveraging new technologies to identify anomalies (potential material misstatements) in large populations of transactional data reflected in an entity's accounting records. This can help inform risk assessments and the design of responses. This is mentioned in ISA 315 (Revised 2019), but implementation guidance that emphasises how auditors can consider the results of applying such technologies and how the auditor's approach to assessing fraud risks may be adapted could be helpful. We also encourage the IAASB to consider this in its revision of ISA 500, to avoid any risk that the ISAs might be interpreted in a way that inadvertently discourages, rather than encourages, the use of technologies in an effective way in the audit.

While we do not believe there is a need for changes to requirements of the respective ISAs, updates to application material or the development of supplementary non-authoritative guidance outside the standard could helpfully clarify areas of inconsistent interpretation, better reflect the evolving business environment, or further underscore the appropriate exercise of professional scepticism.

Our suggestions include:

consideration of targeted revisions to the relevant ISAs to improve consistency in interpretation and application, together with supplementary non-authoritative guidance, such as providing practical worked examples or case studies explaining common fraud schemes and fraud risk indicators; and

Fraud schemes

In addition to the matters we note in response to question 2, we believe there is merit in developing practical worked examples or case studies explaining common fraud schemes and fraud risk indicators. Fraud schemes constantly evolve. Drawing on the experience and insight of forensic specialists to develop current examples of common or emerging fraud schemes and related indicators could heighten awareness and better enable auditors to be alert to fraud risk indicators in their audits. The IAASB (or IFAC) could play a valuable role by developing examples or case studies. A digital repository, updated on an appropriate periodic basis, supplemented by an annual Staff Practice Alert drawing attention to any changes, might be one way to do this. Regulatory authorities are also well placed to share insights from oversight activities, including investigations. The IAASB (or IFAC) could collaborate with jurisdictions to obtain examples of findings, guidance or other similar example repositories that may have been developed that could inform any such global guidance materials. For example, in the UK, the Brydon recommendations call for an open access case study register detailing corporate frauds. More frequent touchpoints with jurisdictional bodies could also facilitate more timely updating of any such materials.

In our view, the auditor's responsibilities to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to error or fraud, remain appropriate in principle. The ISAs are principles-based standards, which is important as it enables the auditor to adapt to addressing the evolving business environment, including new fraud and going concern risks, and innovations including technology.

It is useful to keep in mind that some occurrence of fraud is inevitable in the corporate world; no proportionate system of internal control or audit can fully eliminate the risk of fraud, particularly where financial impact is relatively low. Further, neither entities nor auditors can predict the future, and some entities will fail. It may also be that some expectations of stakeholders may not be achievable.

All of which does not diminish the importance of addressing the expectation gap. In doing so, it is important, however, not to dismiss that ISA 200 explicitly acknowledges: a) the inherent limitations of an audit to detect fraud because it may involve sophisticated schemes to conceal it; and b) the inherent limitations of the auditor's ability to detect future events or conditions that may cause an entity to cease to continue as a going concern because the auditor cannot predict such future events and conditions. Promoting an understanding and awareness of these explicit acknowledgements is important, as is the awareness of the cost/benefit to be weighed in considering options.

### RSM International Limited (RSM)

Given the current responsibilities under the extant ISAs, the IAASB and others should continue the focus on communicating the responsibilities of management, those charged with governance and auditors to equip users of the financial statements with an understanding of their respective responsibilities with regards to fraud and going concern

### SRA

It is of the essence to frequently communicate with relevant stakeholders about the role of the financial statement auditor, in order to narrow the expectation gap, the knowledge gap in particular. Communication in general terms is, in our view, more effective, than communication via the auditors' report as the latter will quickly result in boiler plate language. Both frequency and the contents of communication with relevant stakeholders should be carefully considered.

## 5. Public Sector Organizations

### Auditor General of South Africa (AGSA)

b) More guidance can be developed to help auditors to better understand the fraud and going concern standards and how to apply these as well as how the needs of the general public may need to be considered.

Public awareness on the objective of an audit, roles and responsibilities of an auditor and other role players such as management and those charged with governance as well as other areas of misconception with regards to audits can be increased through e.g. articles, social media posts and journals in various media.

### Australasian Council of Auditors General (ACAG)

Educating users about why fraud may not be detected. There should also be an emphasis that the auditor is not signing an opinion stating that the entity and its financial statements are free from fraud and error, they are signing an opinion to state that the financial statements are not materially misstated.

Enhancements to auditing standards, such as:

Improved guidance on the relationship between fraud and internal control frameworks.

Better guidance on evidence requirements within ISA 240. Further guidance on risk factors, for example, in the public sector red flags could include under-resourced internal audit function and/or insufficient focus on routine financial hygiene topics, long-serving people in key senior roles and many short-term or acting people reporting to them, lack of capability and training to ensure strong financial management, the pattern/nature of complaints/referrals/protected interest disclosures received by the audit office or other public sector integrity agencies, history of previous audit findings, distance from/opacity to central Treasury scrutiny and accountability etc.

Improved guidance on the use of data analytics as a substantive test of detail or other tests of detail.

Guidance on the use of forensic accountants.

### New Zealand Auditor General (NZAG)

Above, we identified what we consider to be the main causes of the expectation gap relating to fraud. Here, we:

comment on some steps we have taken towards narrowing the expectation gap; and

make some suggestions about narrowing the expectation gap.

The knowledge gap

We consider the knowledge gap in relation to fraud will continue to exist. However, we encourage the IAASB to educate all parties (preparers, auditors and users) about their roles and responsibilities in respect of fraud. We also encourage the IAASB to keep improving communication, including within the audit report, about the respective roles and responsibilities of preparers and auditors to users.

Clarifying the respective roles and responsibilities of preparers and auditors for financial statements, and clearly communicating these respective roles and responsibilities to users (including, for example, through the auditor's report). This may help address the expectation and knowledge gaps that users have about the work of an auditor.

## 6. Member Bodies and Other Professional Organizations

### Accountancy Europe (AE)

The knowledge gap seems to be the one where the IAASB can play a crucial role by clarifying key concepts and definitions, as well as what an audit can and cannot do (i.e., inherent limitations) through communication and education directed to all stakeholders. We note that for both fraud and going concern there are certain concepts which are commonly misinterpreted or understood differently by stakeholders.

There could however be quick wins to consider without changing the standards, such as the development of guidance, the publication of educational papers with examples, etc. In any case, if the IAASB were to substantially change the standards, it should also ensure that the drivers of any changes to the ISAs are evidence-based.

As emphasised by the IAASB, part of the expectation gap is linked to a knowledge gap. There is a certain level of inconsistency in stakeholders' understanding with regards to what the purpose of the audit actually is. In this regard, the IAASB should clarify the requirements and concepts that are commonly misunderstood by stakeholders. These include:

the auditor's responsibility and the inherent limitations for both fraud and going concern

the relationship between fraud and intentional non-compliance with laws and regulations, including topics like money laundering and corruption

the meaning and implications of quantitative and qualitative materiality with regards to misstatements due to fraud

We believe that the IAASB has a further role in actively informing stakeholders (i.e., through targeted outreach), especially as to the inherent limitations the auditor faces in an audit of financial statements. Although this information is available in ISAs and other materials issued by the IAASB, the inherent limitations are not necessarily comprehended. Hence, a more proactive stance is needed from the IAASB to ensure it reaches all stakeholders.

We also need to further explore how to address the performance gap, and in particular around the issues below that are recurrent in quality reviews:

what professional scepticism is and how it should be applied better in an audit

how to ensure effective two-way communication with audit committees on risks related to fraud and going concern

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

We also recommend the IAASB consider enhancing education efforts with users of the financial statements and the auditor's report to better explain the role of the auditor relating to fraud.

Response: We recommend the IAASB consider various options available to address factors contributing to the expectation gap that the IAASB identifies. Users of the financial statements are looking for more insight about the entity, and providing such information, for example, disclosures relating to going concern, begins first with management and those charged with governance. Therefore, further education to users around management's responsibilities might be helpful.

Furthermore, we encourage the IAASB to consider various ways in which it may respond to the challenges outlined in the Discussion Paper beyond setting new standards, including non-authoritative guidance and education, and outreach with other members of the ecosystem.

### Center for Audit Quality (CAQ)

In addition to seeking feedback from regulators and accounting standard setters, we encourage the Board to carefully consider whether making changes to the ISAs is the most appropriate response to the challenges outlined in the Discussion Paper with respect to fraud and going concern. We believe the Board has a menu of options when it comes to affecting change in these areas. Implementation guidance, non-authoritative support materials, and staff audit practice alerts supporting sufficiently principles-based standards likely can achieve many of the objectives laid out in the Discussion Paper.

### CFO Forum

In terms of evolution and performance gaps it would be useful for the IAASB to provide additional guidance for practitioners in the current auditing standards. Please refer to sections 2.2 and 2.3 below for a more detailed response on this aspect.

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

The IAASB, IFAC, and the Argentine Federation of Professional Councils in Economic Sciences, in the latter case, for the scope of application in Argentina, should redouble their efforts to publicize the objectives of an audit of financial statements in general (ISA 200.11 and 12 ) and the auditor's responsibilities with regard to fraud in an audit of financial statements (ISA 240.10) and as regards going concern issues (ISA 570.9).

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

IAASB in conjunction with other Professional Accountancy Organisations and Regulators should carry out some publicity in order to inform the public about the role of the auditor in an audit of financial statements. The increased public awareness of the nature and limitations of an audit enhances users' knowledge and limits their level of expectation as well as the gap. According to Epstein and Geiger (1994) more educated investors (with respect to accounting, finance and investment analysis knowledge) are less likely to demand higher auditor assurance.

The expectation gap related to fraud and going concern in an audit of financial statements may be narrowed through the following measures;

The IAASB is encouraged to develop more implementation guidance to support the auditors to fulfill their requirements under the auditing standards. This will help to narrow the performance gap caused by complexity of certain auditing standards or differences in interpretation of auditing standards or regulatory requirements between practitioners and regulators.

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

Guidance for when to apply forensics (e.g., how much, where and by whom) might be needed to determine whether forensics are needed.

Providing leadership and initiatives focused on audit as a valued service (e.g., importance of insights from the audit process) and narrowing the expectation gap ("knowledge gap"). One of the key public interest roles for the IAASB is to be open and transparent to stakeholders about the realities of what an audit can achieve and what it cannot under the current model, given the constraints in terms of time and cost.

Providing leadership and initiatives focused on audit as a valued service (e.g., importance of insights from the audit process) and narrowing the expectation gap ("knowledge gap"). One of the key public interest roles for the IAASB is to be open and transparent to stakeholders about the realities of what an audit can achieve and what it cannot under the current model, given the constraints in terms of time and cost.

Value of Audit

In the 2019 IFAC Survey "users not valuing audit as a service" was the most significant matter impacting the audit environment for audits of less complex entities. IFAC believes that audit stakeholders—particularly company boards, governing bodies, and management—should view audit as a value-added process rather than a compliance exercise that simply results in an audit opinion on the financial statements (see the IFAC Audit PoV). The IAASB and other stakeholders should continue to highlight the value of audit, including the importance of insights from the audit process (e.g., weaknesses in internal controls) to management and TCWG. A related area is for audit firms to ensure that staff also have appropriate training in communication (e.g., "soft skills").

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

From the auditor's perspective, we believe more guidance on the communication between the auditors, management and those charged with governance to encourage the timely and two-way communication between these parties would be useful. We believe that with such guidance, the auditors will be able to design and implement appropriate responses to identify, assess the appropriate fraud indicators to design appropriate responses to the risk of fraud or suspected fraud identified during the audit.

We suggest the IAASB or local standard-setters with the support of these authorities and regulators to provide education and awareness sessions to the various stakeholders i.e. explaining the roles, responsibilities, scopes and practices of the different parties and how they interrelate and reinforce one another is important to the efficacy of the system as a whole. This will assist to promote a shared commitment for all participants in the ecosystem to improve the quality and transparency of corporate reporting.

We also believe there is merit in providing practical worked examples or case studies explaining common fraud schemes and fraud risk indicators. Fraud schemes constantly evolve, and drawing on the experience and insight of forensic specialists to develop current examples of common or emerging fraud schemes and related indicators could heighten awareness and better enable auditors to be alert to fraud risk indicators in their audits. The IAASB or IFAC could play a valuable role in developing examples or case studies and issuing them as supplementary guidance. These supplementary guidance can be updated more frequently to reflect emerging fraud schemes and considerations related to evolving technology, including how such technologies can be used to perpetrate fraud.

### Mexican Institute of Public Accountants (IMCP)

To issue guidance to inform users of audited financial statements about the scope and limitations of the audit work on fraud and going concern matters, as well as the distinction of the different types of fraud.

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

Additional guidance on fraud-related procedures and quality control considerations when a suspicion of material misstatement due to fraud exists may increase audit quality and help narrow the expectation gap and further distinguish between the roles and responsibilities of an auditor and a forensic specialist.

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

In our opinion, the problem that gives rise to the expectations gap is due, as we indicated in the answer to question a) above, to the lack of knowledge on the part of the users of what an audit of accounts consists of and the technical auditing standards (ISAs). For this reason, we think that a good measure would be to increase the actions aimed at its disclosure and better understanding of the object of an audit.

Increase the publication of articles in the press and specialized magazines, as well as other informative documents, information sessions, etc. on financial information and verification procedures would help to encourage healthy concern in society about this matter that would help to understand what the role of the auditor is and how they should interpret audited financial statements.

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

Fraud and the auditors' related responsibilities is probably the most complex and most misunderstood area in relation to auditors' duties, why this area needs specific focus. It is important that the public understands that fraud is a broad legal concept and that the auditor does not make legal determinations as to whether or not fraud has occurred. The IAASB could release guidance explaining the auditor's role relating to fraud.

In order to narrow the expectation gap each participants role and responsibilities, and how they relate to each other, in what in the Discussion Paper is called the "financial reporting ecosystem", needs to be clarified. The focus should be on the roles and responsibilities of management, those charged with governance and the auditor.

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

IAASB together with IFAC, IASB, professional accountancy organizations and their groupings such as Accountancy Europe, and the regulator communities should coherently communicate and demonstrate the extent of responsibility of the auditor as well as the responsibility of other parties such as companies' management, audit committees and relevant governmental agencies.

### Wirtschaftspruferkammer (WPK)

Nevertheless, we believe that educational work for the public in general, policy makers and multipliers in particular, is need in order to address the expectation gap. We consider the IAASB to take the leadership for the global profession and to develop brochures, guidance and support material addressed either directly or through its members to relevant stakeholders.

## 7. Investors and Analysts

### Corporate Reporting Users Forum (CRUF)

Whistleblowing is a major trigger for revealing corporate fraud. We would like the IAASB to include the utilization of the whistleblowing system in the standard, show the desirable form of the system and examples of effective utilization methods by the auditor in the audit practice notes.

## 9. Individuals and Others

### Christian Minarriz (CM)

For auditors and IAASB: Provide guidance, application material and training about common fraud schemes (especially for revenue recognition); internal controls and audit procedures which may be relevant for specific fraud risks and schemes; red flags commonly associated with specific fraud schemes.

For auditors and IAASB: create guidance and application material about the use of technology to find fraud and the new risks arising from new technology and how to address them

For IAASB: Inform the public about the difference between the scope, nature and objectives of an audit of financial statements and a fraud examination, and about the limitations of an audit (probably in the audit report). Inform of the limitations of technology to find fraud and the new fraud risks arising from new technology

**Q1b-1 - IAASB - 04 Look at work done in other jurisdictions**

### 1. Monitoring Group

### International Association of Insurance Supervisors (IAIS)

Additionally, it may be instructive for the IAASB to look to jurisdictions that have addressed some of the issues in the Discussion Paper to determine if there are standards/guidance that could be beneficial in a global context.

### 2. Regulators and Audit Oversight Authorities

### Financial Reporting Council (FRC)

The UK Government's Department for Business, Energy and Industrial Strategy (BEIS) is likely to consult on statutory requirements for directors to report on the actions they have taken to fulfil their obligations and for auditors to report in relation to such a director's statement. We will address these recommendations in due course, taking account of the outcome of the BEIS consultation. With regard to Sir Donald's recommendation that auditors should state what steps they have taken to assess the effectiveness of the relevant controls and to detect any such fraud, we intend to address that separately from this proposed revision of ISA (UK) 240 as it relates to auditor reporting and we will consider it holistically with other recommendations in relation to the content of the auditor's report.

We have sought to address this in our proposed revision of ISA (UK) 240 by adding the following statement in the Introduction after paragraph 7:

"While, as described above, the risk of not detecting a material misstatement resulting from fraud may be higher than the risk of detecting one resulting from error, that does not diminish the auditor's responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement due to fraud. Reasonable assurance is a high, but not absolute, level of assurance."

We have also supplemented the ISA 240 objectives of the auditor to clarify they include "To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement due to fraud" which is consistent with the overall objectives set out in ISA 200.

In addition, we have supplemented the text in paragraph 3 of the Introduction to clarify that the evaluation of whether suspected or identified fraud is material takes into account the qualitative as well as quantitative characteristics of the fraud. For example, if a fraud was undertaken by a member of senior management it would likely be regarded by stakeholders as material regardless of the amount.

Proposing supplementary text, and not completely rewriting parts of the standard, reflects our continuing support for the underlying international standard. However, we recommend that the IAASB undertakes a more fundamental review of the standard.

### Independent Regulatory Board for Auditors (IRBA)

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.

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

Consider the numerous studies and work of previous commissions that have examined the expectation gap.

### 3. National Audit Standard Setters

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

The following is an excerpt of the description of "2. Impact of the Standard to Address Risks of Fraud on audit practices (1) total responses" included in the "Fact-finding Survey Report on Inconsistency of Opinions on Audited Companies in Fraudulent Financial Reporting and Audit – Summary Version" published by the JICPA in May 2016.

Regarding the impact of the Standard to Address Risks of Fraud on audit practice, 35.7% of respondents answered #4 that the Standard to Address Risks of Fraud had positive effects on reducing the risk that auditor overlook the material misstatements due to fraud. The respondents also noted that required auditors' work efforts related to risk of fraud was increased. The answer was followed by #1 (21.9%) that the audit practice was not changed that much, because suggested procedures have been already conducted in accordance with the extant Audit Standards Committee Statements in Japan. Then, #5 (21.3%) that the required auditors' work efforts related to risk of fraud had increased, whereas the Standard had limited effects on reducing the risk that auditor overlook the material misstatements due to fraud. 16.2% of the respondents (#2 and #3) stated that the Standard to Address Risks of Fraud had significant positive effects on audit practice. The reason why the number of respondents chose #2 and #3 was limited to 16.2% because the Standard to Address Risks of Fraud did not fundamentally change the previous audit methodology. Overall, we found that 55% of the respondents gave positive rating on the Standard to

Address Risks of Fraud, which consist of #2 and #3 that noted significant positive effects, #4 that noted positive effects and some responses in #6 that noted positive effects.

Response

Number of responses

Percentage of total

The suggested procedures have been already conducted in audit practice in accordance with the extant Audit Standards Committee Statements in Japan. As such, the audit practice was not changed that much by the Standard to Address Risks of Fraud.

155

21.9%

The Standard to Address Risks of Fraud had significant positive effects to reduce the risk that auditor overlook the material misstatements due to fraud, because the Standard raised auditors' awareness for risks of fraud. Although many elements of the Standard were included in the extant Audit Standards Committee Statements, specifying the requirements in new and separate standards resulted in the significant positive effects.

66

9.3%

The Standard to Address Risks of Fraud had significant positive effects on reducing the risk that auditor overlook the material misstatements due to fraud, because the Standard enabled auditors to perform audit procedures that have not been conducted before. This is because the Standard clarified that an auditor has to inquire management and perform certain additional procedures, when auditor identifies the circumstances that indicated the possibility of a material misstatement due to fraud.

49

6.9%

The Standard to Address Risks of Fraud had positive effects to reduce the risk that auditor overlook the material misstatements due to fraud. In addition, the required auditors' work efforts related to risk of fraud was increased at many audit engagements of listed entities. The additional work efforts include procedures and documentation that may/may not be directly related to material misstatement due to fraud.

253

35.7%

The Standard to Address Risks of Fraud had limited effects on reducing the risk that auditor overlook the material misstatements due to fraud. In addition, the required auditors' work efforts related to risk of fraud had increased at many audit engagements of listed entities, including procedures and documentation that may/may not be directly related to material misstatement due to fraud.

151

21.3%

Others (Please describe them specifically.)

35

4.9%

Total

709

100%

The IAASB should determine whether to enhance the requirements. Specifically, we recommend that the following areas should be thoroughly considered, which are included in the “Standard to Address Risks of Fraud in an Audit” (hereinafter referred to as the “Standard to Address Risks of Fraud”) that have already been introduced in an audit of financial statements of publicly traded companies in Japan.

While the Discussion Paper explains that a number of corporate failures and scandals across the globe have occurred, we do not believe that such significant fraud has occurred in all jurisdictions. For example, in the US, we understand that there have been no such significant incidents in recent years, compared with other jurisdictions. Therefore, in jurisdictions where the financial reporting ecosystem is considered to be functioning effectively in relation to fraud, it is worth considering what systems (e.g. disclosure systems, penalty provisions for management and/or auditors) exist and how they function for the prevention and/or detection of fraud.

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

It is also important to learn from practice. In New Zealand all public sector entities are required to report all instances of identified fraud to their auditor, regardless of the perceived materiality of the incident. The Office of Auditor-General analyses these cases and uses it to better train public sector auditors in being fraud aware.

## 4. Accounting Firms

### BDO International Limited (BDO)

A final observation we received from internal stakeholders was that there may be a difference in the expectation gap country to country due to different cultures, legal frameworks, history of the audit profession, political systems and (as already referenced above) applicable financial reporting frameworks.

Other suggestions included:

Certain jurisdictions (such as the Netherlands and the UK) have already started to enhance procedures related to fraud – such as a fraud protocol or enhanced fraud standard – this may be something the IAASB should monitor in order to see if it has the potential for global application to help reduce the expectation gap.

### CohnReznick (CR)

Instead, we recommend the IAASB emphasize the concept of professional skepticism, similar to how the AICPA Auditing Standards Board (ASB) did in its recent update to AU-C 500 with various mentions and examples of the concept.

No, we do not believe the auditor should have enhanced or more requirements with regard to fraud in an audit of financial statements. Instead, we recommend the IAASB emphasize the concept of professional skepticism, similar to how the AICPA Auditing Standards Board (ASB) did in its recent update to AU-C 500 with various mentions and examples of the concept.

We encourage the IAASB to consider the following:

Recently issued AICPA SAS 142. We recommend the IAASB emphasize the concept of professional skepticism, similar to how the AICPA Auditing Standards Board (ASB) did in its recent update to AU-C 500 with various mentions and examples of the concept.

Further enabling professional skepticism. We recommend the IAASB look to AU-C 570, specifically:

AU-C 570.17 articulates the concept of obtaining sufficient appropriate audit evidence about “intent” and “ability” and the related application guidance provides context on the concept, thus provides useful guidance and some clarity to:

auditors

management (thus aiding the auditor in performing an effective and efficient audit)

users, thus helping to lower the expectation gap.

Also, the requirement to obtain written evidence of third-party support when third-party support is necessary in supporting management’s assertion about the entity’s ability to continue as a going concern for a reasonable period of time, contributes to the rigor of the audit and, by extension, the quality.

We encourage the IAASB to consider the following:

Recently issued AICPA SAS 142. We recommend the IAASB emphasize the concept of professional skepticism, similar to how the AICPA Auditing Standards Board (ASB) did in its recent update to AU-C 500 with various mentions and examples of the concept.

Further enabling professional skepticism. We recommend the IAASB look to AU-C 570, specifically:

AU-C 570.17 articulates the concept of obtaining sufficient appropriate audit evidence about “intent” and “ability” and the related application guidance provides context on the concept, thus provides useful guidance and some clarity to:

auditors

management (thus aiding the auditor in performing an effective and efficient audit)

users, thus helping to lower the expectation gap.

Also, the requirement to obtain written evidence of third-party support when third-party support is necessary in supporting management’s assertion about the entity’s ability to continue as a going concern for a reasonable period of time, contributes to the rigor of the audit and, by extension, the quality.

### Crowe (CG)

(a) Should the auditor have enhanced or more requirements with regard to fraud in an audit of financial statements? If yes, in what areas?

We agree that the requirements for auditors with regard to fraud in an audit of financial statements ought to change, particularly for the audit of listed entities. This is a recognition that auditors have to take steps towards closing the expectation gap through their actions and responsibilities. Changed requirements ought to reflect the recommendations arising from due purpose inquiries such as Brydon in the United Kingdom and the experience from countries such as Japan where requirements have been changed.

### Deloitte (DTTL).pdf

Addition to the management representation letter

In its proposed revisions to ISA 240 (UK), the UK Financial Reporting Council suggests an extension of the existing management representation on fraud as follows: “They acknowledge their responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud and that they believe they have appropriately fulfilled those responsibilities.” If regulators and listing exchanges do not create laws and regulations requiring management to personally certify the effectiveness of internal control over financial reporting, a similar addition to the management representation letter in the ISAs may persuade management to perform additional procedures to ascertain the effectiveness of its system of internal control.

In response to recent corporate collapses due to fraud, the call to action for proposing enhancements to auditing standards has already been undertaken by other national standard setters (e.g., the UK’s Financial Reporting Council) and it is critical that the IAASB understands the basis for proposals by groups that are already considering changes for auditors, and to coordinate with global regulators so as to endeavor to implement a consistent and effective world-wide solution. We strongly believe that the profession must adapt to the changing environment, and DTTL is open to new ideas and stands ready to be an active participant in innovating and responding to recent challenges.

### Ernst and Young (EY)

ISA 550 Related parties

As part of the IAASB’s consideration of the auditor’s responsibilities for fraud, we encourage the IAASB to consider whether any revisions may be warranted to ISA 550. This may include a comparison analysis to the US PCAOB Auditing Standard 2410.

In addition, the prominence in ISA 240 of the work performed to address risks related to related party transactions as it relates to the auditor’s responsibilities for fraud could be enhanced.

### Nexia International (NI)

We do not believe the auditor should have enhanced or more requirements regarding fraud in an audit of financial statements. Instead, we recommend the IAASB emphasise the concept of professional scepticism, similar to how the AICPA Auditing Standards Board did in its recent update to AU-C 500 with various mentions and examples of the concept.

Audits are not designed to detect and/or prevent a fraud from occurring. Audit procedures and rules seek to determine whether a company’s financial statements are fairly stated without any material discrepancies. They are not aimed at detecting and remediating a fraudulent occurrence. Rather the focus is detecting material misstatement.

### PKF International Limited (PKF)

Review the guidance and requirements for the content of the auditor’s report on the financial statements, as it relates to fraud and going concern:

Recently, other standard setters in some countries have taken measures to enhance their auditing standards on the auditor’s report by expanding and improving the wording to provide the user with greater context of how the audit was conducted in these areas. The IAASB should monitor the outcomes of these country specific initiatives and consider whether there are benefits that could be brought into the ISAs.

### PricewaterhouseCoopers (PWC)

Leveraging the experience and findings from work undertaken across jurisdictions to date will provide useful input as to what actions could reasonably narrow the expectation gap. For example, outreach by our network firm in the UK indicated there may be a general lack of understanding in that market over whether an audit gives comfort over an entity more broadly (its behaviours, its culture, its business model, and its viability), or over the financial statements alone. Outreach also found that many users of financial statements in that market are calling for more insight into the risks that entities are facing and the future prospects of the business. There are opportunities to be explored with regard to assurance that could be provided in these areas.

Updated fraud risk factors, at an appropriately granular level, could provide a basis for a more focused discussion within the engagement team about the potential for fraud, tailored to the nature and circumstances of the entity. This could assist in promoting better identification of risks and more tailored responses that reflect the audit engagement in question, taking into account the entity's system of internal control, to help mitigate the potential risk of generic, untailored risks and responses. We also believe there is merit in exploring the benefits of changes regarding the engagement team discussion being proposed by the UK FRC in this area. This includes, for example, more specificity in the standard regarding the engagement team discussion, including an exchange of ideas among engagement team members about fraud risk factors such as incentives for management or others within the entity to commit fraud, how management could perpetrate and conceal fraudulent financial reporting, and how assets of the entity could be misappropriated.

## 5. Public Sector Organizations

### New Zealand Auditor General (NZAG)

An important measure that the New Zealand Auditor-General has put in place is to establish a high standard of audit independence that prohibits auditors from carrying out non-assurance work for public sector entities that they audit. The purpose of this is to give those parties who rely on the work of the Auditor-General confidence that the auditor's attention is solely devoted to auditing, and that other interests that might influence, or be seen to influence, objectivity have either been eliminated or appropriately mitigated.

Although this measure may not directly address the expectation gap, it does mitigate the criticism that auditors often attract when material fraud or going concern issues arise when affected parties and commentators express concerns that the auditor's attention was "distracted" because of the provision of non-assurance services to the entity for which their primary role is the auditor.

Enhanced external reporting by auditors

We agree with the comments made by the IAASB in the discussion paper that the synergies between auditors, standard-setters and regulators and audit oversight bodies is critical to the effective functioning of the financial reporting ecosystem.

We believe that some matters related to the expectation and performance gap can be addressed through stronger direction from regulators and audit oversight bodies, combined with a strong focus of independence on auditors, as discussed earlier.

The IAASB may be aware of legislation in South Africa that requires "reportable irregularities" observed by an auditor for certain categories of audit to be communicated to a regulator – a form of mandatory whistle-blowing.

We raise this because whistle-blowing can play an important role in enhancing the effectiveness of corporate governance. In particular, legislation mandating that auditors' blow the whistle can assist in overcoming agency-related costs and improve confidence in external audit.

The IAASB could consider setting requirements for auditors to report externally on particular irregularities.

The evolution gap

The definition of fraud in paragraph 12 of ISA 240 could be expanded to include bribery and corruption.

New Zealand, together with 43 other countries, is a signatory to the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. The OECD has commented that they see auditors as playing an important role in identifying and reporting bribery. Furthermore, the OECD has noted that the auditing standards do not explicitly refer to bribery as falling within the definition of fraud.

In audits carried out by the New Zealand Auditor-General, we have explicitly included bribery and corruption in the definition of fraud because bribery and corruption is an intentional act … involving the use of deception to obtain an unjust or illegal advantage.

We encourage the IAASB to engage with the OECD about the appropriate role of the auditor in respect of bribery and corruption in the context of the audits of financial statements.

The performance gap

We comment on the performance gap under three sub-headings, below.

Improving understanding of the entity's controls in relation to fraud

The New Zealand Auditor-General has adopted the practice of requiring the entities we audit to inform us of all instances of suspected fraud, irrespective of materiality, as part of the terms of the engagement. Possession and analysis of this information is intended to serve several purposes, including:

providing us with insights into the entity's attitude towards fraud including the extent of investigation carried out by the entity, the action taken by the entity, and whether the suspected fraud was referred to a law enforcement agency;

providing us with information about how the suspected fraud was detected, and about the entity's system of internal control;

allowing us to consider if the suspected fraud could be more extensive than what was actually found, or whether the opportunity exists for similar frauds to be carried out within, or on, the entity; and

assessing if the suspected fraud has implications for our audits of other entities.

Overall, possession of this information gives us information about the effectiveness of the control environment within the entity; in particular, how management is carrying out its responsibilities in creating and maintaining the entity's culture and in demonstrating management's commitment to integrity and ethical values.

## 6. Member Bodies and Other Professional Organizations

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

Response: National Standard Setters have developed guidance incremental to what is in the ISAs that the IAASB might find helpful. For example, in GAAS, various sections from ISA 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements have been expanded or elevated from application material into requirements. We recommend the IAASB consider whether these differences (those related to GAAS are highlighted in appendix B "Substantive Differences Between the International Standards on Auditing and Generally Accepted Auditing Standards" in the AICPA Professional Standards (appendix B)), should be included in the ISAs. We also recommend the IAASB consider enhancing education efforts with users of the financial statements and the auditor's report to better explain the role of the auditor relating to fraud.

The following is taken from appendix B and contains a listing of requirements that are in GAAS in AU-C section 240, Consideration of Fraud in a Financial Statement Audit but are not included as requirements in ISA 240.

The requirement in paragraph 15 of ISA 240 for the auditor to investigate inconsistent responses to auditor inquiries of management or those charged with governance has been expanded in paragraph .14 of AU-C section 240 to also include responses that are otherwise unsatisfactory (for example, vague or implausible responses).

The requirement in paragraph 16 of ISA 240 for members of the engagement team to discuss the susceptibility of the entity's financial statements to material misstatements has been expanded in paragraph .15 of AU-C section 240 to include, as requirements, additional discussion items from application and other explanatory material in ISA 240. These items include a required brainstorming session focused very specifically on, among other things, internal and external fraud factors and the possibility of management override of controls. In addition, AU-C section 240 further clarifies the requirement for participation of key engagement team members and the engagement partner in the discussion and brainstorming sessions. Lastly, AU-C section 240 requires appropriate communication throughout the audit among the engagement team members. Several of these discussion items have been elevated from paragraphs A11–A12 of ISA 240.

The requirement in paragraph 45 of ISA 240 to document the significant decisions reached during the discussion among the engagement team regarding fraud-related matters has been expanded in paragraph .43 of AU-C section 240 to also require documenting how and when the discussion occurred and the audit team members who participated.

Procedures have been elevated from paragraph A19 of ISA 240 to requirements in paragraph .19 of AU-C section 240; these procedures relate to making inquiries of internal audit as part of performing risk assessment procedures, and include determining (a) whether internal audit has performed any procedures to identify or detect fraud during the year, and (b) whether management has satisfactorily responded to any findings resulting from these inquiries.

The requirement in paragraph 35 of ISA 240 to evaluate whether the results of analytical procedures at or near the end of the reporting period indicate a previously unrecognized risk of material misstatement due to fraud has been expanded in paragraph .34 of AU-C section 240 to include the accumulated results of auditing procedures, including analytical procedures performed as substantive tests or when forming an overall conclusion. AU-C section 240 also specifically requires performance of analytical procedures relating to revenue accounts through the end of the reporting period, in light of the generally presumed higher risk of financial statement fraud involving revenue.

The requirements in paragraph 33(a) of ISA 240 address designing and performing auditing procedures to test the appropriateness of journal entries. In addition to essential guidance about addressing the risk of possible management override of controls, included in paragraph .32a of AU-C section 240, are requirements to

obtain an understanding of the entity's financial reporting process and controls over journal entries and other adjustments, and determine whether such controls are suitably designed and have been implemented.

consider fraud risk factors, the nature and complexity of accounts, and entries processed outside the normal course of business, elevated from the application and other explanatory material contained in paragraph A44 of ISA 240 in order to emphasize the importance of these considerations.

include identification and testing of specific journal entries regardless of controls.

The requirement for the auditor to design and perform auditing procedures to review accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud, in paragraph 33(b) of ISA 240, has been expanded in paragraph .32b of AU-C section 240 to specifically include those estimates that are based on highly sensitive assumptions.

In addition, the following requirements in AU-C section 240 were expanded from the requirements of ISA 240 to be consistent with requirements in PCAOB AS 2410, Related Parties, as the ASB believes these requirements will enhance audit quality for audits of financial statements of nonissuers.

The requirement in paragraphs 17–19 of ISA 240 relating to required inquiries has been expanded. Paragraph .17 of AU-C section 240 has been expanded to require inquiries of management about the existence, and if so, the nature, terms, and business purpose of, and involvement of related parties in, any significant unusual transactions. Similarly, the requirements in paragraphs .19 and .21 of AU-C section 240 have been expanded to include inquiry about whether the entity entered into any significant unusual transactions.

The requirement in paragraph 33(c) of ISA 240 for the evaluation of significant transactions that are outside the normal course of business (that is, significant unusual transactions) has been expanded in paragraph .32 of AU-C section 240 to include the following procedures:

Reading the underlying documentation and evaluating whether the terms and other information about the transaction are consistent with explanations from inquiries and other audit evidence about the business purpose (or the lack thereof) of the

transaction

Determining whether the transaction has been authorized and approved in accordance with the entity's established policies and procedures

Evaluating whether significant unusual transactions that the auditor has identified have been properly accounted for and disclosed in the financial statements

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.

### Center for Audit Quality (CAQ)

Our views herein are provided from the perspective of the existing United States public company auditing regulatory and legal environment, where the Sarbanes-Oxley Act (SOX) and its cascading impact has helped to highlight the shared responsibility of fraud deterrence and detection among those charged with governance, management, and internal and external auditors. The Securities and Exchange Commission's (SEC) guidance for management related to management's report on internal controls, together with the 2013 Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control - Integrated Framework, provide management and boards of directors a means to identify and analyze risks, and to develop and manage appropriate responses to risks within acceptable levels and with a greater focus on anti-fraud measures.

In addition, enhancements by the Financial Accounting Standards Board to establish a disclosure framework, together with incremental requirements that govern SEC filings, has served to provide transparency about a company's ability to continue as a going concern and related risks (e.g., liquidity, financing and other risks that could adversely affect a company).

These actions, together with United States public company auditing standards have, in our view, had a positive impact on providing useful information from the company's perspective and providing a robust foundation for auditor involvement. These actions have served the public interest well. As such, we encourage the Board to not only seek feedback on the auditing standards but to work collaboratively with others in the financial reporting ecosystem to seek holistic solutions where possible. As the primary responsibility for fraud deterrence and detection rests with management and those charged with governance, we believe that any potential solution should align with, and consider the efforts by, the International Accounting Standards Board (IASB) and International Ethics Standards Board for Accountants (IESBA), among others.

We believe current auditing requirements, including recent changes to auditing and ethical standards (e.g., the IESBA's revised International Code of Ethics for Professional Accountants [the Code] to promote the role and mindset of professional accountants), strike the appropriate balance between investor expectations of performance and costs to complete a financial statement audit. With respect to listed entities, we would recommend that the Board consider the differences in the broader financial reporting system in the United States and international jurisdictions and assess whether any potential new or revised requirements in the ISAs would achieve the objectives in the Discussion Paper without complementary systemic changes. As described earlier in our letter, SOX was enacted in 2002 in response to significant corporate frauds and has had profound effects on financial reporting in the United States. SOX enhanced requirements for all participants in the financial reporting system including management, those charged with governance and the auditor. Among other changes, we would highlight sections 301, 302, 404(a) and 404(b) as key sections that helped to shape the financial reporting landscape in the United States. Additional regulatory actions, such as the establishment of the SEC's Whistleblower Program, have placed greater attention on fraud detection to complement actions by auditors.

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

As noted in the DP, in certain jurisdictions, such as in Japan, such procedures have already been implemented and based on to the feedback received in our outreach, we suggest that the IAASB should explore this further. The introduction of additional engagement quality control review procedures was considered one of the easier developments to implemented compared to the other potential areas that were included in the DP. A starting point could be following up with jurisdictions that have already implemented such procedures and consider whether post implementation reviews suggest that these procedures were effective.

As noted earlier in our response to 1(a), the UK FRC is currently consulting on certain revisions to ISA (UK) 240, the equivalent standard on Fraud in the UK. One of the revisions under the Identification and Assessment of the Risks of Material Misstatement Due to Fraud, is the addition of para 27-1 which states 'If the auditor identifies a misstatement due to fraud or suspected fraud, the auditor shall determine whether a forensic expert is needed to investigate further'. We consider that this revision would reflect the views that represent the majority of our stakeholders as noted above, and we therefore suggest the IAASB to consider this.

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

In practice, a fraud can start with directors changing an accounting policy or method, or pushing the boundaries within existing policies or methods, at which point there is no error, still less a fraud. Over time, changes and boundary pushing degenerate into fraud. We believe IAASB should better articulate this type of nuance in order to emphasise the role of professional judgement, the need for auditors to address red flags on a timely basis, and to manage expectations about the limitations of auditing standards. The UK's Auditing Practices Committee's 2001 publication Aggressive Earnings Management, provides A simple example to demonstrate how legitimate business practices can develop into unacceptable financial reporting.

The PCAOB in the USA considered requirements for forensic audits in 2007. A paper by its Standard Advisory Group (SAG) noted that the purpose of forensic audits is clearly different from those of financial statement audits:

….users of forensic audits (e.g., audit or special investigative committees, management, and regulators) establish their objectives on a case-by-case basis. For example, an audit committee may engage an accountant or other person with specialized expertise to determine whether an accounting error was intentional and, if so, to then determine the participants in the fraud and how it was orchestrated.

With regard to companies though, some of those we consulted believe that little will change in this area until SOX style reporting by companies and auditors on internal controls over financial reporting becomes more widespread. We believe that IAASB should acknowledge the contribution of such regimes to the prevention, detection and reporting of fraud in ISA 240

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

Firstly, we believe it is essential that it is remembered that the primary responsibility in relation to the prevention and detection of fraud rest with the directors of the entity. Therefore, we are supportive of a more holistic approach, that will involve additional requirements on those charged with governance. However, such an approach is not within IAASB's mandate which is solely focussed on setting standards for auditors. Therefore, whilst we believe there is scope for enhancement of the auditor's procedures, these would be most beneficial in an environment in which additional responsibilities are also being placed on those charged with governance of an entity.

That said, we do believe there is room for improving extant ISA 240 and would flag the proposals in the recent consultation by the UK FRC which proposed a number of enhancements to the standard. These including those intended to further promote the exercise of professional scepticism by the auditor and the addition of new paragraphs requiring that the auditor shall determine whether the engagement team requires specialised skills or knowledge to perform particular procedures and, that if the auditor identifies a misstatement due to fraud or suspected fraud, the auditor shall determine whether a forensic expert is needed to investigate further.

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.

With respect to fraud, a first stage would be to provide greater clarity in ISA 240 as to the responsibilities of the auditor. The UK FRC has recently consulted on proposed revisions to the UK version of ISA 240 which we believe better clarify the auditor's responsibilities in relation to fraud and promote a more consistent and robust approach to those responsibilities. We would therefore draw the IAASB's attention to the FRC's proposed changes which include requirements and guidance to enhance the auditors' procedures to identify and assess risks of material misstatement due to fraud and to plan and perform procedures responsive to those risks.

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

We strongly believe that the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management. An enhanced disclosure requirement should be created for those charged with governance of the entity and management as explained. For example, Malaysia has introduced a corporate liability provision, i.e. Section 17A of the Malaysian Anti-Corruption Commission Act 2009. This provision sets out that a commercial organisation is regarded as committing an offence if any person associated with the commercial organisation commits a corrupt act in order to obtain or retain business for the advantage of the commercial organisation. The only defence available to this offence is to have in place "adequate procedures". Such "adequate procedures" refer to top-level management's commitment to prevent corruption; a periodic, informed and documented assessment of the external and internal risks of corruption; establishment and implementation of the anti-corruption policies, procedures and controls; monitoring and reviewing procedures that check the efficiency and effectiveness of the anti-corruption programme; and adequate internal and external training programme. We believe similar disclosure requirements should be introduced in relation to fraud.

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

There are several areas that we would characterize as current weaknesses in the International Financial Accounting Framework (IFRS) and the International Auditing Standards (ISAs) for which some remedies have been made by certain national regulators in Canada and Japan, as discussed in the Discussion Paper. Since the professional standards have a large degree of conformity, these changes, that were deemed necessary to improve audit quality even though they created differences at the time of their issuance, can be easily adapted into the international versions.

As the Discussion Paper mentions, other national standard setters, namely those in Canada, the UK, Japan and Australia, launched initiatives and made revisions to their own standards and regulations to address fraud and going concern in the last several years. The IAASB and the IASB should look at these projects as part of any contemplated future revisions. In looking at the reports and standards issued in these countries more closely, we wish to emphasize the importance of the duty to prevent and detect fraud remaining with directors and management, while the auditor's duty remains to be to assess the effectiveness of controls and perform certain procedures should suspected fraud come to the auditor's attention.

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

Globally, numerous inquiries are taking place to review practices in the auditing profession. Proposed recommendations from these inquiries could provide useful insights to the IAASB on what the needs of the public are from an audit of financial statements, in particular as it relates to fraud and going concern.

It is interesting to note that in South Africa, the Johannesburg Stock Exchange recently amended their Listings Requirements to require the CEO and Financial Director to make a positive statement attesting that the annual financial statements fairly present the state of affairs of the company and/or group, that internal financial controls are adequate and effective and that where deficiencies and any fraud involving directors have been identified, these have been disclosed to the Audit Committee and the auditor and the necessary remedial action has been taken.

There is currently no requirement within the ISAs to describe specific procedures performed and findings obtained regarding risks of material misstatement due to fraud in the auditor's report, although such information may be included if it is determined by the auditor to be a key audit matter. We highlight, however, that such information is now required to be communicated by auditors in the UK. We suggest that the IAASB explore the inclusion of enhanced material in the ISAs in this regard, including factors to consider in determining whether fraud, or fraud risk, may be a KAM. We also recommend that the IAASB monitor UK investor views regarding the provision of more information by the auditor as to the fraud risks that the auditor considered and their related audit response to help inform their considerations in this area.

### Wirtschaftspruferkammer (WPK)

The Discussion Paper correctly presents, that the expectation gap has existed for decades. Various measures have been implemented in order to reduce the gap. One prominent example is the IAASB's revision of the auditor's report in 2015 by increasing the informational value of the auditor's report. Another example is the addition of a new Article 25a to the EU Audit Directive (2006/43/EC) in the context of the European Audit Reform. This Article states in particular that the scope of the statutory audit shall not include assurance on the future viability of the audited entity. Unfortunately, it is hardly measurable to what extend these measures lead to a reduction in the expectation gap.

### 9. Individuals and Others

#### Alvaro Fonseca Vivas (AFV)

Yes, it seems to me great that it is strengthened in all areas even if it is not going to handle them, it knows them because every day the perpetrators generate new ways of committing illicit acts and include them in the stream of operations or transactions of the organizations or that are typified by law as not feasible, and these are not so easily determined, therefore working with risk matrices and managing them is important, relying on the models, among others, the Committee of Sponsoring Organizations of the Treadway - COSO or the Control Criteria Committee of Canada - COCO or the UK Cadbury Committee - CADBURY.

## Q1b-1 - IAASB - 05 Consider impact of technology

### 1. Monitoring Group

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

Whether technology has an impact on the ability of management of the entity or others to perpetrate fraud. Specifically, we suggest considering whether the standard provides sufficient guidance to the auditor about the resulting risks and also about the opportunities offered by technology to respond to the risks.

### 2. Regulators and Audit Oversight Authorities

#### Canadian Public Accountability Board (CPAB)

Technology

Consistent with the IAASB's efforts to modernize other standards (i.e., ISA 315 (revised), ISQM 1, etc.) to reflect the greater use by auditors of automated tools and techniques in audits, we encourage the IAASB to evaluate whether ISA 240 also deserves some attention. Certainly, the capabilities of auditors to detect fraud in audits have increased considerably. Auditors are now able to query entire data sets and to discern anomalies, including some that indicate fraud, which were inaccessible when the standard was last revised. The lack of references to the use of audit technology in ISA 240, including how it may aid an auditor's fraud risk assessment or responses to assessed fraud risks, is conspicuous in its absence.

#### Canadian Securities Administrators (CSA)

We recommend the IAASB consider modernising the standards to reflect technological advances, for example where an auditor can use technology (e.g., data analytics, data mining, or other forensic techniques) for fraud detection, to increase the coverage of audit samples or to reduce some of the more mundane or routine procedures that have to be done so that auditors can focus on the areas of greatest risk and on key judgments that management is making.

#### Financial Reporting Council (FRC)

In addition to the matters we are addressing in our proposed revision, we strongly support the IAASB considering the impact of technology, both in relation to how frauds are committed and methods available to auditors to detect them.

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

Modernise the audit standards to adapt to evolution in the corporate environment; for example, modernised business models and financial reporting systems. We do not believe that it is feasible to fully resolve the evolution gap, especially as it pertains to fraud, without a concurrent consideration of the use of technology in assessing fraud risks and identifying misstatements due to fraud, as well as how technology is used to perpetrate fraud.

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

Advance use of the latest technology in performing audits to increase audit quality in these areas.

## 3. National Audit Standard Setters

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

Consistent views were also expressed by stakeholders in the area of the evolution of the financial statement audit alongside the expectations of the general public and entities on the use of technological advances e.g. data analytics and other data mining tools to enhance the audit and add more value. At the same time, auditors still face challenges when it comes to acquiring and analysing the relevant data from companies, either due to systems infrastructure, formatting issues, or data privacy rules. If the use of technology is now more deeply embedded in audit methodology and the way firms conduct an audit has evolved, then this may be an area which could be better reflected through a modernisation of ISA 240.

With technological advances there may be a greater capacity to detect fraud through data analytics and other analytical tools. The AUASB encourages the IAASB to consider how auditors can better employ emerging technologies to enhance auditor performance regarding fraud as part of the IAASB's Technology working group project. Feedback from our stakeholders is that the IAASB's initiative to provide non-authoritative guidance on how auditors may use technology in harmony with auditing standards can be particularly helpful in this area. However, it was also noted that technology is not a universal remedy for this issue - an important human element also comes into play. There is an opportunity for all involved - management and boards, auditors and regulators - to focus more on corporate culture and behaviours to support fraud detection. Appropriate risk identification and in-depth knowledge of the entity, its industry and the environment it operates in are required to observe fraud-indicating red flags and feed into a fraud risk assessment process, and it is unrealistic to expect the auditor alone can be responsible for all of these aspects.

### Malaysian Institute of Accountants (MIA)

Areas to be considered

Comments

Use of technology

ISA 240 should be expanded to include: i) guidance on risks created by the technology used by entities and ii) the use of automated tools and techniques in audits by developing application material or other implementation guidance on how such tools and techniques could be used by the auditor to enhance the auditor's procedures to identify and respond to risks of material misstatement due to fraud.

The IAASB should consider providing more specific guidance and support materials in respect of the use of technology by auditors (such as automated and data analytics tools) especially in audits of financial statements. The auditing standards should evolve quickly from time to time in catching up with this latest trend.

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

With technological advances there may be a greater capacity for the auditor to detect fraud through data analytics and other analytical tools. The NZAuASB encourages the IAASB to consider how auditors can better employ emerging technologies to enhance auditor performance regarding fraud. This would presumably be done as part of the IAASB's technology project. Feedback from our stakeholders is that the IAASB's initiative to provide non-authoritative guidance on how auditors may use technology in harmony with auditing standards can be particularly helpful in this area. However, it was also noted that technology is not a panacea and that technology would have been unlikely to have helped auditors to detect the Carillion and Wire Card frauds. Appropriate risk identification and in-depth knowledge of the entity, its industry and the environment it operates in are required to identify fraud-indicating red flags.

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

Finally, using (automated) detection tools could also help to provide more understanding of the risks (e.g. patterns, unusual transactions), but are not the ultimate solution either.

## 4. Accounting Firms

### BDO International Limited (BDO)

There may be an opportunity to reduce the evolution gap by auditors meeting stakeholders' expectations through the use of automated tools and techniques (such as use of virtual procedures, real-time audit procedures, real-time access to systems, and application of audit data analytics).

Management/TCWG and public expectations of what auditors can do has evolved and there may be a responsibility for auditors to better explain their procedures and also explain how they have used technology to help identify or respond to fraud risks.

Increasing use of technology (audit data analytics, auditor access to online confirmations or bank accounts, greater insights through improved data pool comparisons, opportunities for skills development, etc.) has the potential to evolve the nature and extent of fraud and going concern procedures.

Further exploration about the nature and extent of automated tools and techniques and how these can aid identification of potential frauds by analyzing large data sets over multiple periods.

Further exploration about the nature and extent of automated tools and techniques and how these can aid identification of potential frauds by analyzing large data sets over multiple periods.

### Ernst and Young (EY)

Although the use of technology is not included in the scope of the Discussion Paper, we encourage the IAASB to consider how technology can be used to obtain audit evidence directly from third parties (e.g., electronic confirmation services, open banking arrangements) and how tools, similar to those used by forensic specialists today, can assist the auditor in evaluating the authenticity of audit evidence obtained from the entity as well as from third parties (e.g., bank statements, contracts).

Use of technology in addressing risk of fraud

Although the use of technology in assessing fraud risks and identifying misstatements due to fraud, as well as how technology is used to perpetrate fraud is not included in the scope of the Discussion Paper, we recommend that the IAASB address the fact that an entity's technology is critical to the opportunities for fraud (i.e., committing fraud is likely to involve use of technology) and the auditor's use of technology is equally important to the ability to analyze complete sets of data, analyze trends and identify anomalies.

Entities have never been as data-rich as they are today, potentially providing entirely new opportunities for auditors to detect material frauds through data mining, analysis and interpretation. Auditors are already increasingly using automated tools and techniques to identify unusual transactions and patterns of transactions that may indicate a material fraud. We would be supportive of the IAASB modernizing ISA 240 to embed the use of automated tools and techniques by developing application material or other implementation guidance on how such tools and techniques could be used by the auditor to enhance the auditor's procedures to identify and respond to risks of material misstatement due to fraud.

Further, entities are implementing new technology applications, including adoption of innovative technologies, at an increasing pace. This continual change in an entity's IT environment needs to be subject to appropriate governance and monitoring to mitigate the creation of opportunities for fraud through technology.

Also, as noted in our EY publication, we believe that developments in technology and research on human behaviors could enhance the assessments by entities and auditors of the pressure and rationalization elements of the fraud triangle.

We acknowledge that the scope of the Discussion Paper excludes the auditor's use of technology in addressing fraud risks, as well as how technology is used to perpetrate fraud. As noted in our EY publication, the availability of electronic data and use of technology features prominently in how EY is evolving the audit to address fraud risks. We believe addressing the auditor's use of automated tools and techniques, as well as expanding guidance on risks created by the technologies used by entities, are critical components of any standard-setting project on fraud. We strongly encourage the IAASB to continue its outreach on topics related to technology and we would welcome a future opportunity to provide further input.

### GTI

Exploration of how the profession can use advancements in technology to be more effective at detecting fraud may also be helpful in adapting the audit response to the underlying cause of the risk of material misstatement. This includes consideration of advancements such as:

Continuous auditing

Enhanced audit data analytics

Greater use of technology for analysis of classes of transactions, account balances and disclosures

Further, we are of the view that the way in which cyber-crimes can be perpetrated is very different and consideration could be given to developing separate guidance for auditors in these areas, having regard to requirements and guidance that currently exists in other ISAs, for example ISA 315 (Revised 2019). This guidance could be through, for example, a 'Staff Audit Practice Alert', which can be issued on a timelier basis and as such will be more responsive to market developments.

We further recommend outreach in these areas to promote further discussion.

Further, as we explain in more detail in our response below; technology has advanced significantly since these standards were originally developed and is now widely available to firms of all size; as such, exploring how technology can be used better in the performance of an audit, may result in a better outcome than modifying the existing requirements and guidance.

### KPMG

Requirements for auditors to use other specialists e.g. data or information technology experts to perform data mining or data analytics techniques

We are supportive of the direction of travel of this proposal, highlighting that there have been significant developments in the area of data and analytics in recent years, enabling auditors to evaluate whole populations and mine and analyse large quantities of data, which can be a powerful tool. We note that recently revised ISAs, e.g. ISA 315 (Revised), pave the way for the use of such techniques as they evolve and auditors become more familiar with these.

However, we note that this approach is not a panacea in respect of detecting fraud and there are limitations to these techniques. We consider that it remains vital for auditors to continue to examine the data flow through an entity's systems; to understand the underlying rationale for transactions, as well as contractual terms. We also note there are challenges to use as a result of entities' systems of data infrastructure, as well as jurisdictional laws and regulation governing matters such as data privacy/ data sharing. Therefore, whilst we consider that technology-based solutions are very useful additions to the suite of tools and techniques that an auditor may use, when deployed in a thoughtful and targeted manner at the judgement of the engagement team, we do not consider that broad requirements should be introduced into ISAs in this area. For example, we do not recommend that such techniques are mandated for use on all audits, or on audits of listed entities, and neither should they be intended to replace current audit concepts and procedures.

We recognise that there are other IAASB work-streams in this area as well as other bodies which are actively exploring the use of such technology in an audit and we suggest that a coordinated approach be taken by such groups to arrive at a solution that is effective and capable of consistent global implementation.

In this regard, we recommend that the IAASB consider enhancing ISA 240 to expand requirements and guidance related to responding to financial statement level fraud risks, such as consideration of involvement of specialists to assist the auditor in evaluation of subjective judgements to help identify indicators of possible management bias that may be intentional and fraudulent (e.g. in relation to estimates).

### Mazars (MAZ)

More guidance for auditors on how to use of technology and data analytics in addressing the fraud consideration, and to a lesser extent going concern, would help all practitioners.

The cyber risk review must become mandatory in the auditors' mission.

### MHA Macintyre Hudson (MHA)

Although ISA 240 includes required procedures concerning fraud, these are a mix of high-level responses (e.g. assigning personnel, evaluating accounting policies) and procedural responses (e.g. journal entry testing and considering management bias in estimates). The current journal entry testing and data analytics procedures performed by many auditors focus on anomaly testing, rather than necessarily on identifying fraud. Greater clarity about when and where technology can and should be used in an audit will help address the gap between the complexity of fraudsters' tools and how audits are currently responding to fraud risk. For example, whether the use of Artificial Intelligence and machine learning is acceptable under auditing standards.

### PKF International Limited (PKF)

Yes. The ISAs could be enhanced, or more requirements developed, with regard to fraud in an audit of financial statements. The IAASB could consider the following areas:

A project should be initiated to identify how wider application of new audit technologies over larger populations of data can be encouraged. The ISAs could be adapted in this regard to help facilitate a modernization of the audit approach.

A project should be initiated to identify how wider application of new audit technologies over larger populations of data can be encouraged. The ISAs could be adapted in this regard to help facilitate a modernization of the audit approach.

How ISAs can be improved to encourage better use of automated audit technologies (such as data analytic procedures) to work with bigger populations of client data.

### PricewaterhouseCoopers (PWC)

Role of technology

Auditors are exploring ways of leveraging new technologies to identify anomalies (potential material misstatements) in large populations of transactional data reflected in an entity's accounting records. This can help inform risk assessments and the design of responses. This is mentioned in ISA 315 (Revised 2019), but implementation guidance that emphasises how auditors can consider the results of applying such technologies and how the auditor's approach to assessing fraud risks may be adapted could be helpful. We also encourage the IAASB to consider this in its revision of ISA 500, to avoid any risk that the ISAs might be interpreted in a way that inadvertently discourages, rather than encourages, the use of technologies in an effective way in the audit.

While we do not believe there is a need for changes to requirements of the respective ISAs, updates to application material or the development of supplementary non-authoritative guidance outside the standard could helpfully clarify areas of inconsistent interpretation, better reflect the evolving business environment, or further underscore the appropriate exercise of professional scepticism.

### RSM International Limited (RSM)

Incorporating the feedback received from financial statement users, we recommend that the IAASB evaluate the current ISAs to assess whether enhanced procedures, such as updates to incorporate new technologies used by auditors, could be incorporated. We also recommend the IAASB collaborate with Accounting Standards setters to improve the financial statements disclosures upon which auditors express an opinion.

## 5. Public Sector Organizations

### New Zealand Auditor General (NZAG)

Developments in technology have created complexities that management and those charged with governance need to understand, and respond to, if they are to effectively meet their responsibility to prevent and detect fraud within an entity. Identity theft, the creation of false documentation, the ability to infiltrate IT systems, and so on is the modus operandi of the modern fraudster. Unless the entity has addressed the threat of fraud posed by technology (usually by enhancing its system of internal control), the auditor will have difficulty in completing their audit.

For example, paragraph 14 of ISA 240 states that “unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine…”. Advances in technology and associated invoice fraud has increased the importance of a robust system of internal control to support the legitimacy of records and documents that auditors place reliance on.

We believe the threat of fraud posed by technology is a responsibility that management and those charged with governance within an entity should address. However, the awareness of threats of this nature amongst management and those charged with governance is often low, with the consequence that the auditor is not able to fully rely on the entity’s system of internal control to mitigate the threat. The auditor may rely on paragraph 14 of ISA 240 and not carry out any extended procedures to mitigate this threat (a threat that is clearly present) with the consequence of risking audit effectiveness.

We consider that this is a matter to be considered by the IAASB.

### 6. Member Bodies and Other Professional Organizations

#### Accountancy Europe (AE)

Use of Technology

Auditors already use computer-assisted audit techniques such as data analytics to identify anomalies and patterns of unusual transactions that might indicate a fraud risk. This enables auditors to target their work effort more effectively on areas with higher risk.

While more extensive use of data and advanced technologies presents an opportunity for identifying and better addressing fraud risks, there are some challenges such as the ones highlighted in the key takeaways from IAASB’s roundtable series.

With increased dependence on technology, auditors should continue improving their skills in using the tools available. Technologies could particularly help auditors in performing mechanical audit procedures that require limited application of professional judgement. This would allow the auditor to invest more in testing critical areas.

#### Center for Audit Quality (CAQ)

In considering recent corporate failures, we recommend that the IAASB seek to understand through discussion with regulators and others whether these issues were due in part to an auditor failing to perform under the auditing standards, or a perception thereof, or whether the auditor’s responsibilities under the current standards are viewed as being unclear. Fraud may be perpetrated in different ways and fraud schemes and the methods of perpetrating them continue to evolve with technological advances. The Board could consider formally evaluating the auditing standards and related guidance in light of these technological developments. Such evaluation could provide insight as to whether supplemental guidance would be helpful to facilitate auditors applying the current auditing standards through a modern lens that considers the latest technologies used to perpetrate fraud.

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

We understand that technology did not form part of this discussion paper, however, we do note that many of our stakeholders suggested that the advancements in technology can help narrowing the expectation gap and more specifically the evolution gap. ACCA’s thought leadership report titled, Machine learning: more science than fiction, found that machine learning (ML) can help improve fraud detection. For example, in risk assessment, supervised learning algorithms can be used to help identify specific types or characteristics that warrant greater scrutiny; and improve targeting of the areas of focus for the audit. In this context, the choice of an appropriate ML method can be valuable for audit testing. This is only an example and we therefore suggest the IAASB to explore further the opportunities where technology can help.

### CPA Australia (CPAA)

Enhance the current standards to address the evolution gap with respect to technology by encouraging auditors to use technological tools, such as data analytics, process mining and visualisation. For example, data analytics tools can be used to analyse whole populations within high risk accounts to identify anomalies which may be indicative of fraud and can be the target of further procedures. Process mining can be used to identify internal control overrides, where standard processes are not applied, which can show controls weaknesses and high-risk transactions. We note that technological tools are not available yet to all auditors and cannot be applied to all clients or accounts, as software systems used by entities do not universally enable access to data in a form suitable for extraction and analysis. Nevertheless, we observe an acceleration in the uptake of technological tools by external auditors, as third-party providers proliferate and products become more viable, both economically and in terms of IT skills required in-house. As a consequence, our expectation is that external audit techniques will change significantly in coming years, with greater reliance on technological tools, which are typically more sophisticated than traditional sampling techniques and are more effective in identifying anomalous transactions and balances. We expect this foreshadows a greater role for external auditors in fraud detection in the future.

Enhancements could also be made regarding how data analytics and other technological tools can be utilised to help auditors identify fraud.

### European Audit Committee Leadership Network (EACLN)

Current audit standards seem to strike the right balance, but enhancements to recognize advancements in the use of data analytics would be appropriate. External auditors are already doing most of what can feasibly be done to prevent and detect fraud. While improvement is always possible and standards should evolve – to recommend, for example, expanded use of data analytics and forensics – fundamental changes in approaches and procedures (such as adopting a "suspicious mindset") are not necessary today.

Data analytics are powerful tools for detecting and preventing fraud, but concerns exist

Several audit chairs said that requiring the use of data analytics to detect and prevent fraud would be a positive step. "You need more procedures with data analytics. There's no other practical way," one said. "I would mandate the use of data analytics because the technology is available and it's so efficient and comprehensive," another said. Most chairs endorsed the use of data analytics and supported its continued adoption. Many reported that such technologies already are in productive use by management among large global companies.

An increased emphasis on fraud and data analytics will call for sharpened skills in both management teams and external auditors. An audit chair pointed to a skills gap between the partners in audit firms and some of the junior auditors, who may have stronger capabilities in advanced technology: "Sometimes the partners see data analytics as a black art."

Some audit chairs expressed hesitation about requiring the use of data analytics. One observed that the technology, while powerful, is not fail-safe: "Data analytics depends on all the systems it touches. Poor systems, such as insufficient controls around data, curtail the ability of data analytics to do its work. Data analytics is only as good as the data." Another audit chair observed that not all companies have data of sufficient volume or sophistication to enable effective analytics: "Not all companies are equipped for the auditor to use those tools on their data. We still have a long way to go."

Conversely, sometimes the auditor's systems are not well aligned with the client's data: "Auditors have a concept of a tool, but they deploy it with data hierarchies and analytics. The question arises, How big is the sample going to be, and is it enough? It would be great if we all had big data lakes and our taxonomies were sorted out to enable data analytics, but data is one of the biggest weaknesses in the European environment. Will the external auditor have to test all these things too?"

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

Automated tools and techniques

Technological advances, including increased usage of data analytics will also help auditors to enhance their respective fraud detection capabilities and further develop professional scepticism.

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

We also recognize that data or information technology experts may be used to help perform procedures using advanced technologies to test full populations or identify populations subject to greater risk. It is important for audit firms to ensure they have training specifically on fraud and the use of technologies as appropriate to their audit client's circumstances. We note that with respect to large public accountancy practices, the multidisciplinary firm model best supports bringing this type of additional expertise to more audits. Guidance could be helpful to practitioners on how to investigate and conclude in different going concern examples and circumstances, since ultimately professional judgement is needed in determining the appropriate response in individual audit circumstances.

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

Use of technology

Technology is clearly a new and powerful tool being leveraged by auditors. ISA 240 The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements should be expanded to provide guidance on the use of automated tools and techniques in audits by developing application material or other implementation guidance on how such tools and techniques could be used by the auditor to enhance the auditor's procedures to identify and respond to risks of material misstatement due to fraud. However, care should be taken to ensure that the revisions of ISA 500 Audit Evidence might not be interpreted in a way that inadvertently discourages, rather than encourages, the use of technologies in an effective way in the audit.

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

We believe that artificial intelligence tools now being utilized by many internal and external auditors can be a valuable addition to the auditor's toolbox. Fundamental changes to auditing standards prompted by this initiative, if any, should be deferred until the effectiveness of these tools can be evaluated.

We believe that artificial intelligence tools now being utilized by many internal and external auditors can be a valuable addition to the auditor's toolbox. Fundamental changes to auditing standards prompted by this initiative, if any, should be deferred until the effectiveness of these tools can be evaluated.

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

The ISAs need to provide a framework on the appropriate use of technology in an audit of financial statements. This goes wider than the considerations of fraud and going concern. While technology may provide benefits to the auditor, there are also accompanying risks that it poses, particularly to the inexperienced auditor. Audit clients also make use of different types of technologies and this may create a lot of inconsistencies in the absence of an appropriate framework in the ISAs. It remains vital for auditors to continue to examine the data flow through an entity's systems; to understand the underlying rationale for transactions, as well as contractual terms. We also note there are challenges to use as a result of entities' systems of data infrastructure, as well as jurisdictional laws and regulation governing matters such as data privacy and data sharing. Therefore, whilst we consider that technology-based solutions are extremely useful additions to the suite of tools and techniques that an auditor may use, when deployed in a thoughtful and targeted manner at the discretion of the engagement team, we do not recommend that such techniques are mandated for use on all audits, or on audits of listed entities, and neither should they be intended to replace current audit concepts and procedures.

The IAASB should seek to consider the impact of matters such as cybersecurity, non-material frauds and technology within the context of the objective of the audit of financial statement which is to provide reasonable assurance on the financial statements. If considerations move beyond this objective there is a risk that auditors may be perceived to be providing absolute assurance which may widen the expectation gap. Due to the fact that auditors may not possess the skillset to provide assurance beyond the objective of a financial statement audit, there is a risk that the IAASB may be unsuccessful in pursuing these additional issues in great detail.

### 7. Investors and Analysts

### Corporate Reporting Users Forum (CRUF)

Advances in IT can enable the analysis of all transactions, rather than sampled transactions. The use of AI to detect fraud has also been researched. In addition, if there is a high possibility that fraud has been committed, use of a certified fraud examiner or conducting a forensic audit could be a choice. An audit procedure without prior notice by the auditor could also be an effective method, provided the those charged with governance acknowledges its importance. However, in such a case, it is necessary to consider whether the auditor can have such authority and resources, as well as the impact it may have on the regular audit work. We would like the IAASB to conduct research and analysis about the usage of new technology, the use of a certified fraud examiner, conducting forensic audits, and audit procedure without prior notice to management then issue audit practice notes or reflect the findings in the standards.

## Q1b-1 - IAASB - 06 Standard setting (see question 2a for more details)

### 1. Monitoring Group

### Basel Committee on Banking Supervision (BCBS)

In order to narrow these gaps, the Committee suggests a review of current audit standards to identify the source of the expectations gaps. For example, the basic requirement of an audit "to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error" (ISA 200 para 11) may be weakened by ISA 240 on fraud (para 6) which states that "the potential effects of inherent limitations [on the auditor's ability to detect material misstatements]

misstatement resulting from fraud" without clearly stating that are particularly significant in the case of the auditor's

responsibilities are not affected by these limitations. An additional area of focus to mitigate the expectations gap could be for the IAASB to consider whether the requirements in auditing standards result in auditors providing the same level of assurance in relation to both material fraud and error. The primary responsibility for the prevention and detection of fraud rests with both those charged with governance and management of responsibilities.

the entity, though that does not lessen the auditor's

### International Association of Insurance Supervisors (IAIS)

Focus on audit quality: The IAIS suggests that a key focus of the IAASB's review should be to set out clearly the responsibility of auditors in relation to fraud and going concern and what is expected from auditors with the objective of enhancing audit quality. This should aim to help to ensure that auditors are able to deliver high quality audits.

The issue of whether there is an expectations gap in relation to fraud and going concern may be of some use but would appear to be of secondary importance given the IAASB's role. If the focus of the IAASB's review is a perceived expectation gap then this could lead to the review focusing on what auditors are not able to do rather than what they can and should. Similarly, it could also focus on communications and managing expectations rather than on auditors' appropriate responsibilities and activities, factors that are more likely to improve audit quality.

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

We are in support of the overall objective of an audit as described in the auditing standards, but at the same time we encourage the IAASB to examine the benefits of strengthening the standards or providing additional guidance as set out in the remainder of this letter. Our comments are not intended, at this early stage of the IAASB project, to provide definitive direction. IFIAR will further assess its position based on the evidence gathered during the next steps of the process.

### International Organization of Securities Commissions (IOSCO)

In addition to a multi-stakeholder educational effort, we believe that the perspectives gathered from various stakeholder groups as part of the feedback to the Paper can inform the IAASB about possible further standard setting responses to narrow the expectation gap which the IAASB can begin while a more holistic multi-stakeholder solution is developed.

## 2. Regulators and Audit Oversight Authorities

### Canadian Securities Administrators (CSA)

Related to this knowledge gap, in response to the evolution gap, the IAASB should consider expanding the requirements and enhancing procedures in the auditing standards targeted at the identification of risks relating to fraud for better detection of fraud. However, the IAASB should ensure that the costs to implement and apply any new requirements do not outweigh the benefits. It appears auditors themselves are considering changes to address the evolution gap, as highlighted by the response to the Wirecard scandal by EY Global Chairman Carmine Di Sibio, where he noted: “Many people believe that the fraud at Wirecard should have been detected earlier and we fully understand that. Even though we were successful in uncovering the fraud, we regret that it was not uncovered sooner”.

We note that if an auditor knowingly does not meet existing standards, changing the terminology used in the audit standard (as proposed in the Discussion Paper) or changing the requirements in the audit standards will not address this type of performance problem. We recommend to the Board to pursue these types of performance concerns separately.

### Financial Reporting Council (FRC)

ISA 240 contains a significant number of requirements, with related application material, designed to assist the auditor in identifying and assessing the risks of material misstatement due to fraud and in designing procedures to detect such misstatement. However, there is ongoing concern that auditors are not doing enough to detect material fraud and that this may, at least in part, be due to a lack of clarity as to their obligation to plan and perform the audit to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement due to fraud. Sir Donald Brydon's report identified that he "found the question of fraud and auditors' related responsibilities the most complex and most misunderstood in relation to auditors' duties". He commented that "[ISA 240] appears to be a balancing act between managing, or possibly lowering, expectations whilst seeking to avoid going so far as to affect significantly users' perceptions as to the value of audit. The messaging in this standard is therefore somewhat ambiguous, in my view, contributing to a lack of clarity as to what exactly is expected of auditors in this area. Indeed, a number of respondents called for auditors' responsibilities to be clarified, whether or not they believed there is or may be a case for increasing them."

Sir Donald's concern is shared by other stakeholders who believe that the introductory text in the standard places too much emphasis on the inherent limitations of an audit and that this may lead to auditors not planning and performing appropriate procedures to detect material misstatements due to fraud.

The overall objectives of the auditor, as set out in ISA 200, include "to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error". This responsibility is reiterated in paragraph 5 of ISA 240. Both ISA 200 (paragraph A49) and ISA 240 (paragraph 6) identify that fraud may involve sophisticated and carefully organised schemes to conceal it. ISA 200 goes on to say "Therefore, audit procedures used to gather audit evidence may be ineffective for detecting an intentional misstatement that involves, for example, collusion to falsify documentation which may cause the auditor to believe that audit evidence is valid when it is not. The auditor is neither trained as nor expected to be an expert in the authentication of documents". There is no suggestion that the auditor should, for example, assess whether there are fraud risk factors and design appropriate audit procedures to respond to those. The impression, unfortunately, is given that auditors should not concern themselves very much about trying to find material misstatement due to sophisticated fraud, which is unacceptable to stakeholders.

ISA 240 does not repeat the statement that "audit procedures used to gather audit evidence may be ineffective for detecting an intentional misstatement" but rather identifies that the risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error.

We agree that the circumstances of some frauds may make them difficult to detect. Nonetheless, it remains the case that the 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 fraud or error". Reasonable assurance is defined as a high but not absolute level of assurance and accordingly it follows that the auditor should seek to obtain a high level of assurance that the financial statements are free from material misstatement due to fraud. Unfortunately the text in paragraph A49 of ISA 200 and paragraph 6 of ISA 240 can give the impression that is not the case.

We have sought to address this in our proposed revision of ISA (UK) 240 by adding the following statement in the Introduction after paragraph 7:

"While, as described above, the risk of not detecting a material misstatement resulting from fraud may be higher than the risk of detecting one resulting from error, that does not diminish the auditor's responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement due to fraud. Reasonable assurance is a high, but not absolute, level of assurance."

We have also supplemented the ISA 240 objectives of the auditor to clarify they include "To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement due to fraud" which is consistent with the overall objectives set out in ISA 200.

In addition, we have supplemented the text in paragraph 3 of the Introduction to clarify that the evaluation of whether suspected or identified fraud is material takes into account the qualitative as well as quantitative characteristics of the fraud. For example, if a fraud was undertaken by a member of senior management it would likely be regarded by stakeholders as material regardless of the amount.

Proposing supplementary text, and not completely rewriting parts of the standard, reflects our continuing support for the

underlying international standard. However, we recommend that the IAASB undertakes a more fundamental review of the standard.

The above revisions should help reduce both a knowledge gap and performance gap. But there is still more that could be done by the IAASB as we have. For example, increased transparency in the auditor's report about the auditor's responsibilities in relation to fraud and what the auditor has done in the circumstances of a particular audit may help further reduce the knowledge gap. Clarifying and enhancing the requirements and application material in the standard could help reduce performance gaps. We comment further on these possibilities in our responses to the other questions below.

### Independent Regulatory Board for Auditors (IRBA)

We do, however, agree that the IAASB can contribute to resolving the performance and knowledge gaps through:

Drafting enhanced requirements that are clear and provide sufficient application guidance, so that such guidance lends itself to consistent practical application and enforceability, to enable regulators to hold those responsible for quality execution accountable when the execution is substandard.

It is our view that, as an international standard setter that serves the public interest, the IAASB needs to prioritise the resolution of the evolution gap, as this is the most direct response to the public need. As the audit regulator in South Africa, we also share in this responsibility, for the purpose of enhancing public confidence.

5) Therefore, we support proposals to:

Enhance audit procedures in relation to fraud and going concern, and for these to extend beyond what is currently required in the audit standards (refer to discussions under Sections C and D, respectively).

Modernise the audit standards to adapt to evolution in the corporate environment; for example, modernised business models and financial reporting systems. We do not believe that it is feasible to fully resolve the evolution gap, especially as it pertains to fraud, without a concurrent consideration of the use of technology in assessing fraud risks and identifying misstatements due to fraud, as well as how technology is used to perpetrate fraud.

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

Clarify, and as further described below, enhance existing auditing standards to better communicate how auditors can more effectively fulfill the current requirements, which should lead to increased understanding and consistency in practice.

## 3. National Audit Standard Setters

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

Overall the consistent view from the AUASB and its stakeholders was that ISA 240 The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report is fit for purpose and does not require a fundamental overhaul. It was acknowledged however that the standard could be modernised to address some of the issues raised relating to the performance gap (e.g. closer links to ISA 540 Auditing Accounting Estimates and Related Disclosures) and the evolution gap (e.g. technological advancements on the audit approach and users expectations). This is outlined in more detail in Attachment 1 of our response.

Our stakeholders felt there could be an opportunity to simplify language in the auditing standards, as well as the use of more practical examples. The AUASB note however that the use of examples for principles-based standards should not be over simplified.  These examples may be best placed in the Appendices to the standard or guidance. Some of the language and requirements are complicated, which allows auditors to hide behind complexity at times.

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

Additionally, should stakeholders action the enhancements proposed in the above paragraphs, there may be a follow-on action for the IAASB to develop or amend standards to enable external auditors, where requested, to provide assurance on additional information, processes and controls. For example, if regulators require management to design, implement and report on compliance with a system of internal controls for the prevention and detection of fraud, there may be a need for assurance to be provided on the compliance report.

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

IAASB should provide auditing standards on fraud and going concern and relevant specified practice guidance fit for each case (e.g., circumstances in which forensic audit are necessary).

### Malaysian Institute of Accountants (MIA)

The IAASB may consider providing more granular guidance and support materials to assist with effective application of the auditing standards. There can be continued efforts in setting requirements to foster a sceptical mindset such as “stand back” requirements.

The IAASB may review on the sufficiency and effectiveness of reporting requirements and revise the going concern and fraud standards where necessary. Enhanced procedures can be introduced such as requirement to engage with forensic specialist by auditors to deal with the fraud matters. The ISA should provide a stronger framework for auditors in detection of fraud and assessment of entity’s going concern assumptions.

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

With respect to the auditing standards, the NZAuASB is supportive of an initiative to explore how the fraud standard can be enhanced, albeit in a limited sense, to clarify and enhance auditor responsibility after due consideration of a cost benefit analysis and the impact on audit fees.

## 4. Accounting Firms

### Crowe (CG)

However, the "expectation gap" is a perennial issue, and the IAASB and those who oversee and deliver audit have a responsibility to listen to concerns. There is a public case to strengthen audit requirements in these areas with a view to closing the gap. We all have to accept that the gap can never be fully closed as it will evolve with the economic and business environment.

### Ernst and Young (EY)

We support the IAASB pursuing standard-setting projects to revise the ISAs for both fraud and going concern, as we believe there are valuable enhancements that should be made to modernize and strengthen the auditor's work and reporting in these areas. Our thoughts on what can be done within the ISAs to narrow the expectation gap are included in our responses to Q2 and Q3.

### KPMG

In addition, we also recommend that the IAASB explore the concept of 'fraud' in an audit of financial statements and provide further specificity as to how 'fraud' is defined in the financial statements, as well as the interaction between ISA 240 and ISA 250 in terms of fraud and breaches of laws and regulations

Other potential solutions proposed, in our view, would constitute enhancements to existing ISA requirements, rather than representing fundamental changes to the ISAs. For example, in respect of fraud, introducing a 'standback' requirement to evaluate audit evidence obtained and how that affects our fraud risk assessment and the nature, timing and extent of our procedures to address fraud risks, and in respect of going concern, ISA 570 (Revised) may benefit from an enhancement that expresses the time-period for management's going concern assessment as covering at least, but not limited to, 12 months from the date of authorisation of the financial statements, rather than from the reporting date. However, this change would only be appropriate if it was aligned with the requirements of the relevant financial reporting framework. We also support the provision of training for auditors in forensic accounting and fraud awareness.

We consider that the DP sets out a thoughtful and thorough analysis of potential solutions to address the different aspects of the expectation gap in respect of the important areas of fraud and going concern.

We set out our views regarding potential solutions to address the expectation gap in detail in our responses to question 2 (in respect of fraud) and question 3 (in respect of going concern).

In general, we consider that the ISAs are fit for purpose in respect of addressing fraud and going concern, in the context of enabling auditors to fulfil their responsibilities in respect of each of these areas when performing an audit of financial statements. We set out our recommendations for solutions to clarify/ enhance certain aspects of ISAs, however, we do not consider that these would constitute fundamental changes to the role and responsibilities of the auditor as currently envisaged.

Nevertheless, we also recognise the extent of the evolution gap in respect of both areas and we set out recommendations to address this in our responses to questions 2 and 3. We note in those responses that such solutions would, in our view, be most appropriately implemented by way of an integrated audit with separate reporting by the auditor over the entity's system of internal control (including fraud), or in the form of specific, separate assurance engagements in these areas in accordance with the ISAE 3000 (Revised) suite of standards, rather than attempting to fundamentally change/ broaden the underlying scope and purpose of the financial statement audit and the role and responsibilities of the auditor.

### Mazars (MAZ)

However, we caution that, regardless of any additional requirements performed by the auditors, we believe that the expectation gap will never be reduced to zero. As a matter of fact, the auditing standards require the auditor to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. The additional work required to provide much higher assurance, or for example, reasonable assurance related to immaterial fraud, if this is a clear expectation from the stakeholders, may be so significant that it could challenge the economic viability of the audit process as a whole.

The fraud and going concern topics require auditor professional judgement and professional skepticism in an evolving environment. To allow for the need for auditors to adapt and be agile, we suggest that the IAASB keep the principles-based approach of the standards and avoid a "check-the-box approach" or create a "one size fits all" approach as it will impeded adaptation and weaken professional skepticism.

### MHA Macintyre Hudson (MHA)

Other gaps will involve different parties to a greater or lesser extent.

Regarding actions that the IAASB itself can undertake regarding fraud, we believe that standards should be updated to reflect technological advancements and the reality of many audited entities, in particular SMEs. Auditors are currently required to consider management override of controls as a significant risk and undertake specific work on journal entries as part of the response to that risk. For many SMEs, where management is the control, having a significant risk of management override makes little sense. In relation to Going Concern, enhancing requirements around the challenge of management's assessment of going concern and auditor reporting will help, but again this needs to be scalable to reflect the needs of a range of entities. We are hopeful that the LCE Auditing Standard may address some of the concerns relating to SMEs relating to fraud and going concern.

### MNP LLP (MNP)

Regarding the evolution gap, IAASB should explore targeted improvements to the audit standards. However in order to ensure a path for private enterprises to list in public markets, as well as to keep public markets accessible for issuers of various sizes, there should not be a significant bifurcation in audit requirements between SMEs, emerging growth public companies and larger publicly accountable enterprises.

### PKF International Limited (PKF)

Continual improvement of the ISAs as they relate to the audit of fraud and going concern. In the short-term further improvements could be made including on the requirements and guidance around:

the level of skepticism to be exercised by the auditor.

the design and scope of requirements for risk assessment and identification.

how the auditor identifies and assesses indicators of management bias.

the extent of review procedures performed by more experienced members of the audit team over the conclusions reached by junior members of the audit team.

Enhanced requirements over communications to those charged with governance relating to the audit procedures performed and conclusions reached in respect to the audit of fraud and going concern.

### PricewaterhouseCoopers (PWC)

Our suggestions include:

consideration of targeted revisions to the relevant ISAs to improve consistency in interpretation and application, together with supplementary non-authoritative guidance, such as providing practical worked examples or case studies explaining common fraud schemes and fraud risk indicators; and

Auditing standards

In addition to the matters addressed in our cover letter and in response to the questions that follow, we support the IAASB considering what, if any, changes are needed to respond to what it learns from its outreach regarding ways to reinforce the consistent application of those ISAs, including the appropriate application of professional scepticism. To the extent that the IAASB's outreach shows that the root causes of a failure to detect recent frauds or material uncertainties that precipitate corporate failures can be attributed to a lack of clarity in the ISAs or inconsistent application of requirements, we support making clarifications to the ISA requirements and application material.

In our view, the auditor's responsibilities to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to error or fraud, remain appropriate in principle. We believe targeted changes to the ISAs can be made to better drive consistency in interpretation and application. However, change that "moves the dial" on fraud and going concern and addresses the expectation gap will require broader coordinated reform across the corporate reporting ecosystem.

### RSM International Limited (RSM)

We suggest that the IAASB begins to explore whether the current foundational principles of the auditor's responsibilities still meet the needs of those users. The audit of the future might need to have more layers to it, for example forensics or environmental issues, and could evolve into a base financial statements audit with additional assurance provided in specialist areas as needed or requested by the users. This would clearly have financial implications for audited entities and present challenges for audit firms in training staff with the appropriate skills but may be necessary to comprehensively address the current issues.

## 5. Public Sector Organizations

### Australasian Council of Auditors General (ACAG)

Better defining the minimum requirements to be communicated to those charged with governance (TCWG). The reporting of auditor's fraud risk assessment and procedure performed by auditors to address fraud risk may reduce the expectation gap.

Consideration of a requirement of a more detailed entity assessment regarding the risk of fraud similar to the current assessment for going concern.

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

In order to narrow the expectation gap related to fraud and going concern in an audit of financial statements, the scope and methods of the traditional financial statement audit and/or related services should be reassessed to enable them to meet, to the maximum extent possible, the needs of the marketplace. If the gap is real, and is having a significant impact on the value of financial statement audit, one should consider whether the audit is meeting the needs of its intended users. Where no changes are made to audit scope, additional information concerning the scope of the audit may help to reduce the gap.

### US Government Accountability Office (GAO)

In our view, it will be challenging to revise both auditing standards and the auditor's report in a meaningful way to help financial statement users understand auditing standards requirements, thereby closing the expectation gap related to fraud and going concern.

## 6. Member Bodies and Other Professional Organizations

### Accountancy Europe (AE)

As emphasised in the DP, the auditor is not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations. Nevertheless, it is part of the auditor's role to perform specific procedures to help identify instances of non-compliance with laws and regulations that may have a material effect on the financial statements. In some stakeholders' view, non-compliance with certain laws and regulations, such as anti-money laundering laws, should be considered as a fraud risk in an audit of financial statements.

The IAASB should explore how to make the distinction clear between the prevention/deterrence of material fraud and detection thereof. As included in a Factsheet we published on The Auditor's Role in Fighting Financial Crime, the auditor's role in fraud prevention/deterrence is limited and mainly linked to the procedures put in place to accept a new audit client and to properly understand the entity and its control environment.

Regarding the auditor's role in fraud detection, it is currently linked to the responsibility of obtaining reasonable assurance that the financial statements are free from material misstatement, whether due to fraud or error. The term 'fraud' and the associated auditor's responsibilities in the ISAs refer to fraud as a result of fraudulent financial reporting or misappropriation of assets. The IAASB should explore whether the scope and the limits of these two categories are sufficiently understood by stakeholders.

The efforts of the IAASB should focus on responding to valid and reasonable expectations and proposed changes should take account of the outcome of a cost/benefit analysis. Stakeholders and users of financial statements consist of a very broad and heterogeneous group. As a prerequisite to suggesting any changes, we need to understand what the valid expectations are. The way the IAASB is referring to "the" expectation gap and "the" stakeholders could be seen as simplifying the issues at stake.

The starting point for reducing the expectation gap should be to understand:

various stakeholders' expectations

the role of each party in the financial reporting ecosystem (including audit committees, management, internal audit, accounting and reporting standards-setters, regulators and supervisory authorities) to address these expectations

When these are clear, a forward-looking discussion can commence considering whether it is possible and viable, in order to reduce the expectation gap, to (i) adapt the scope of the audit of financial statements or (ii) reflect on complementary engagements that auditors could undertake alongside the statutory audit. As a principle, additional requirements for entities and enforcing robust corporate governance should be the starting point and the driver for any enhanced role of the auditor.

Some stakeholders seem to expect auditors to detect and communicate all instances of fraud committed within an entity and to make a decisive conclusion about the entity's ability to continue as going concern. We believe that these are not necessarily reasonable expectations.

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

Consideration should also be given to the appropriate methods by which forensic specialists could be utilised in audit engagements where the auditor's judgement indicates it is appropriate to use such expertise.

### Confederation of Indian Industry (CII)

The IAASB should revise the auditing standards to provide a higher level of 'reasonable assurance' in respect of the risk of material misstatement due to fraud. This may be achieved by requiring more conclusive evidence for assertions that are identified as susceptible to fraud risk. The "evolution" gaps identified need to be examined and bridged considering the associated costs and benefits.

### CPA Australia (CPAA)

The IAASB could:

Develop assurance standards to address the evolution gap for:

Internal control assurance engagements which would provide a basis for engagements on the design, implementation and operating effectiveness of controls over financial reporting or controls specifically to prevent or detect fraud. This would provide a platform for national policy-makers and regulators to introduce requirements for such engagements for certain public interest entities. The most notable existing regime of internal control reporting and assurance is that in the United States under Section 404 of the Sarbanes-Oxley Act, requiring both a management assessment of controls and external assurance. A standard exists in Australia for conducting such engagements, ASAE 3150 Assurance Engagements on Controls, although without requirements for entities to make an assertion or obtain external assurance.

Assurance engagements on management commentary, encompassing Director's reports, which may address fraud and going concern risk assessments, viability or resilience statements and future prospects. Whilst these engagements cannot be mandated by the IAASB, standards would provide a basis for the development of national regulatory requirements for such engagements.

Enhance current standards to minimise the performance gap by making it absolutely clear as to the extent of work required by the auditor on fraud risks in ISA 240 and going concern in ISA 570. Whilst we consider that the standards are essentially fit for purpose, some enhancements could include:

Revising requirements which may currently have the effect of reducing the auditor's professional scepticism, such as ISA 240 paragraph 14 which states: Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine.

The risk of fraud is increased where the control environment is weak so further work in responding to fraud risks could be explicitly required when controls are not operating effectively. Currently the requirements focus on the response to the risk of management override of controls rather than more broadly on weak controls.

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

On the other hand, the IAASB and the IESBA should review the EEFF audit procedures and the provisions on skepticism and their application.

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

IAASB should avoid further widening the expectation gap: it should not overplay the likely impact of changes to auditing standards alone on audit quality, scope or auditor performance and in particular, on levels of fraud detection. We make a similar comment to the UK's FRC in this context, particularly in relation to its proposed requirement for auditors to consider the need to engage forensic specialists.

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

The IAASB should firstly reconsider whether the scope of work currently done by auditors could and should be increased to provide greater insight into and/or assurance over the fraud and going concern elements of an audit.

Simultaneously the IAASB should consider the possibility of auditors extending the amount of work done over the management's controls and reporting over fraud.

### Institute of Singapore Chartered Accountants (ISCA)

Based on our observation and feedback from our stakeholders, the factors affecting the rigor and quality of the audit of financial statements can be largely attributed to three key areas:

Lack of professional skepticism/professional judgment

Professional skepticism, which is critical to audit quality, is defined in the ISAs as 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.

Professional judgment, on the other hand, is defined as the application of relevant training, knowledge and experience, within the context provided by auditing, accounting and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement.

We are concerned with audits that are performed using a "checklist" approach, which potentially reduces professional skepticism and professional judgment. This is consistent with the findings reported in the UK Financial Reporting Council's Annual Enforcement Review (2020), that an overwhelming majority of cases of audit failures have involved a failure by the auditors to exercise professional skepticism when assessing the decisions and judgments made by management.

One of the reasons for the lack of professional skepticism is an insufficient focus on the importance of understanding the audited entity and its environment. When such understanding is lacking, auditors would not have the right frame of mind to exercise professional skepticism or professional judgment.

Understanding the entity and its environment is a critical process, especially in this day and age where transactions and business models of companies are becoming increasingly complex. If this process is not performed in a robust manner, auditors would not have an appreciation of the business rationale behind transactions made that would help them pick up irregularities.

We considered the factors behind engagement teams spending insufficient time/resources on understanding the entity and its environment, and below are some suggestions we have for the IAASB's consideration:

More robust risk assessment requirements and emphasis on understanding the entity and its environment

The IAASB's efforts in issuing ISA 315 (Revised 2019) Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment is timely to address some of the gaps in the existing standard.

We note that ISA 315 (Revised 2019) stresses the importance of exercising professional skepticism. However, this in itself may not be sufficiently robust to direct auditors towards obtaining a robust understanding of the entity and its environment. This could still result in a "light touch" approach where auditors would obtain a basic understanding of the entity for the purpose of complying with the standard, with the intention of focusing mainly on substantive procedures.

In such "light touch" approach, junior members of the audit engagement team are usually tasked to obtain an understanding of the entity via a checklist of considerations with only the entity's finance personnel, which limits the efficacy of the risk assessment process. In our view, in order to obtain a meaningful understanding of the entity, in addition to engaging with the entity's finance team, the auditors need to engage with senior personnel from other relevant business units of the client's organisation.

Some companies have enterprise risk management frameworks that describe key risk indicators, which could potentially be helpful towards such understanding. The seniority and areas of responsibility of the personnel whom the auditors engage with would enhance the quality of insights gained towards understanding the entity. Correspondingly, senior audit engagement team members, including the engagement partner, will need to be sufficiently involved in the process. In this regard, ISA 315 should include explicit requirements with the clear objective of achieving a robust understanding of the entity and its environment. One example would be to stipulate the manner in which this process should be performed and how it should be documented.

While we understand that the auditing standards are meant to be principles-based and scalable for audits of entities of varying sizes, the application of professional skepticism will improve from more robust and specific requirements in the areas of understanding the entity and its environment, together with a critical identification of risk indicators. This in turn will contribute towards higher audit quality.

Linkage between risk assessment procedures, professional skepticism and sufficient appropriate audit evidence

While paragraph A10 of ISA 500 Audit Evidence recognizes that audit evidence can be obtained through performing risk assessment procedures, paragraph 5 of ISA 315 states that risk assessment procedures by themselves do not provide sufficient appropriate audit evidence.

As a result, the insights obtained from understanding the entity may not be seen as a persuasive form of audit evidence but rather, only viewed as the basis for designing further procedures.

This could have an unintended consequence of engagement teams spending insufficient time on understanding the entity and instead only focusing on substantive procedures and obtaining evidence over financial statement line items.

Without a robust risk assessment, the auditor might not be able to appropriately identify risks and design and perform procedures to respond to those risks. In addition, insights obtained from understanding the entity and its environment would enable the auditor to exercise professional skepticism, especially in identifying unusual transactions or irregularities in audit evidence obtained.

The IAASB could relook into how the ISAs can promote an increased focus on risk assessment procedures.

Developing a framework on professional skepticism

We do appreciate that the concept of professional skepticism is one which is abstract and principle-based, and as a consequence, there are differing levels of interpretations and applications.

In this regard, we wish to propose for the IAASB to embark on a project to develop a framework which solidifies the concept of professional skepticism. This may be done by extending upon the work of the IAASB Professional Skepticism Working Group to date.

Although we recognise that this may be a challenging task, we think that it may be worthwhile for the IAASB to look into a project in defining professional skepticism in more pragmatic and measurable terms, given that it is the cornerstone of the audit profession.

One factor to consider could be to introduce a criteria or measurement, to help auditors assess how professional skepticism has been applied.

Firm culture

We agree with the DP that firm culture is a key component of audit quality and a lack of clear firm policies and procedures with regard to audit quality is a cause for poor audit quality. While standards can endeavour to influence mindset and behaviour, firm culture plays a critical role in driving behaviour that impact audit quality.

Paragraph 32 (b) of the recently issued ISQM 1 requires personnel to demonstrate a commitment to quality through their actions and behaviors, develop and maintain the appropriate competence to perform their roles, and are held accountable or recognized through timely evaluations, compensation, promotion and other incentives.

In our view, there needs to be an increased emphasis within ISQM 1 on the accountability of the engagement partner vis-à-vis other firm personnel. We note some commendable firm practices where engagement partner remuneration is linked to audit quality. Any major audit quality issues will have a direct impact on an engagement partner's remuneration and prolonged audit quality issues may even result in an engagement partner's dismissal from the firm.

Appropriate actions which commensurate with the engagement partner's responsibilities are important as the tone from the top ultimately cascades down to the engagement team and drive how the audit is carried out.

Choice of audit strategy

The alignment of choice of audit strategy to audit quality is another important component towards achieving high audit quality.

The ISAs generally provide flexibility in the choice of audit strategy. For instance, paragraph A4 of ISA 330 The Auditor's Responses to Assessed Risks allows the auditor to determine that only substantive procedures are performed (fully substantive strategy) if the auditor finds testing of controls to be inefficient and therefore does not intend to rely on the operating effectiveness of controls. We note that the above allows the auditor to adopt an audit strategy based on efficiency, which may not always equate with audit quality. While we understand that the intention behind the flexibility may be to allow for scalability and application of the auditor's judgment, we notice that it may potentially lead to audit teams determining audit strategy based on factors such as resources, fees or time pressure, instead of audit quality.

Audit quality should be a key determination factor when the auditor decides on the audit strategy. A fully substantive strategy would not be able to highlight any lapses in key internal controls over financial reporting. Where there are such lapses, the risk of fraud in the financial statements would increase.

With efficiency in mind, audit teams might be inclined to adopt a fully substantive strategy. However, there may be situations where substantive procedures may not by themselves provide sufficient appropriate audit evidence, such as when checking the completeness of revenue.

In this regard, tests of controls may be more effective as the auditor might be able to identify lapses in key internal controls over financial reporting which might have led to fictitious or fraudulent transactions.

Accordingly, we recommend that IAASB relook into paragraph A4 of ISA 330 which allows for efficiency to be the determining factor in the auditor's choice of strategy. IAASB should require audit quality to be a key determinant when the auditor decides on the audit strategy to be employed.

The following are several suggestions we have which the IAASB could consider exploring in relation to improving audit quality:

Develop a framework for the application of professional skepticism in audits;

Develop more robust procedures in relation to fraud;

Align the determination of the auditor's audit strategy with a specific emphasis on audit quality; and

Develop more robust requirements under ISA 315 Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment.

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

IFAC acknowledges the suggestion that the use of forensic procedures/specialists on an audit engagement may be an effective way to reduce the risk of undetected fraud (recognizing the need to apply relevant ethical requirements, including independence). Guidance for when to apply forensics (e.g., how much, where and by whom) might be needed to determine whether forensics are needed. The procedures are similar to those used in an audit – the difference is that forensics focus intensively on certain matters and go into more depth etc. Some forensic-type procedures might by performed by the audit firm and we note that SMPs may be at a disadvantage when they need to engage external forensic specialists as the cost can be higher compared to larger firms who are able to access inhouse forensic specialists.

IFAC supports the IAASB taking an evidence-based approach to distinguish what aspects could possibly be addressed by standard setting and those aspects that may require action from others (e.g., professional accountancy organizations, regulators, investors, audit firms, academia etc.) in relation to the standards and their adoption and implementation.

Taking an evidence-based approach to changes to the ISAs and ensuring they remain both principle and risk-based and retain the alignment with requirements under the applicable financial reporting framework. The exploration of additional reporting to management and those charged with governance (TCWG) may have the benefit of fostering better two-way communication, potentially improving audit quality. However, more detailed external reporting by the auditor is more contentious as the auditor may either be seen in hindsight as justifying a bad decision if things go wrong, or potentially falsely blowing the whistle on going concern or fraud that might have turned out to not be as severe after all.

Exploring the need for (and potential development of) assurance standards for (voluntary or required in some jurisdictions) assurance engagements that could focus on the detection of fraud or going concern issues, in addition to the audit.

### Kriton (KNL)

Clarifying the definition of fraud, as used in professional regulations.

IAASB

Expanding the scope of ISA 240 (proposal: financial and economic crime, including fraud, corruption, deliberate non-compliance with laws and regulations, money laundering and terrorist financing).

IAASB

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

Consideration can then be given to a requirement for the auditor to make a corresponding attestation on internal control and the assertion made by management/those charged with governance.

Use of forensic specialist or other relevant specialist (such as data analytics specialist) on audits

We do not support the mandating of the use of forensic specialists on audits. The involvement of forensic specialists in the audit needs to have the proper context. The expectation gap may in fact widen if stakeholders perceive the involvement of forensic specialists as implying an extended or different scope of the auditor's work. There is a clear distinction between the use of specialists in an audit support capacity than that of a specialist performing a forensic investigation. We are of the view that forensic specialists, like any other experts, should only be called upon if there are clear fraud risk indicators as opposed to a blanket mandate of their involvement.

### Mexican Institute of Public Accountants (IMCP)

To require the external auditor to indicate clearly and broader, in the communications with those charged with governance of the entity (ISA 260), the responsibilities for the entity's management, those charged with governance of the entity, and the auditors regarding fraud and going concern matters. Similarly, to enhance the description of the auditor's responsibility for fraud in both the engagement letter and the management representation letter.

### Pan African Federation of Accountants (PAFA)

In addition to that, while we note that the IAASB has over the years made effort to simplify auditing standards, there still remains some complexity in these which leaves room for interpretation and inconsistent application in practice and this should be addressed. Further enhancements are proposed below.

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

In addressing the evolution gap, the focus should not be solely on broadening the underlying scope and purpose of an audit of financial statements and the role and responsibilities of the auditor. Separate assurance engagements in areas such as the entity's system of internal control (including fraud) or forward-looking information used in assessing the resilience of entities could be performed in accordance with the International Standard on Assurance Engagements 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information, (ISAE 3000 (Revised)) suite of standards. The appropriate reporting frameworks would need to be developed before such engagements may be conducted and this requires collaboration with the relevant reporting bodies.

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

The IAASB should also allow recent changes to auditing and ethical standards to be implemented and monitored before introducing new procedures.

## 7. Investors and Analysts

### Corporate Reporting Users Forum (CRUF)

Whistleblowing is a major trigger for revealing corporate fraud. We would like the IAASB to include the utilization of the whistleblowing system in the standard, show the desirable form of the system and examples of effective utilization methods by the auditor in the audit practice notes.

In addition, it is strongly encouraged that auditors and those charged with governance discuss risk of material misstatements due to fraud.

Advances in IT can enable the analysis of all transactions, rather than sampled transactions. The use of AI to detect fraud has also been researched. In addition, if there is a high possibility that fraud has been committed, use of a certified fraud examiner or conducting a forensic audit could be a choice. An audit procedure without prior notice by the auditor could also be an effective method, provided the those charged with governance acknowledges its importance. However, in such a case, it is necessary to consider whether the auditor can have such authority and resources, as well as the impact it may have on the regular audit work. We would like the IAASB to conduct research and analysis about the usage of new technology, the use of a certified fraud examiner, conducting forensic audits, and audit procedure without prior notice to management then issue audit practice notes or reflect the findings in the standards.

And we suggest the following

The audit standard relating to fraud in financial statements should consider including the following audit processes to identify and assess the risk of material misstatement due to fraud:

Discussions amongst the audit engagement team

Discussions with management and those charged with governance

Discussions with an audited entity's available shareholders, especially those who may have expressed previous concerns in financial statements indicative of fraud, and

Discussions with an audited entity's operational management, especially those tasked with implementing controls mitigating against material frauds.

Another enhancement to the fraud audit standard would be to identify transactions and balances with a rebuttable presumption that there are risks of fraud, such as revenue and cash.

From known past reported alleged frauds, it appears that material frauds (as they have usually resulted in the collapse of the group or company) missed by auditors tend to be those where there has been senior management collusion and/or falsification of asset records, especially cash at bank. We suggest that a sharper focus is brought on an auditor's responsibility to consider whether or not a record or document is authentic. While this should reduce the risk of auditors missing material falsifications of asset records, we would also recommend any new requirement in this respect to say “For each record or document, the auditor should conclude whether they can rely upon it being authentic, and document that conclusion either for specific records and documents or for categories of records and documents as appropriate.” We consider that this requirement would more effectively sharpen the focus of auditors on the issue.

**Q1b-1 - IAASB - 07 Changes to auditor reporting (see question 2d for details)**

### 2. Regulators and Audit Oversight Authorities

#### Botswana Accountancy Oversight Authority (BAOA)

Additional disclosure requirements in relation to fraud and going concern by both the Auditor and Management. The disclosure requirements should be defined in ISAs to avoid inconsistencies in reporting.

#### Financial Reporting Council (FRC)

The above revisions should help reduce both a knowledge gap and performance gap. But there is still more that could be done by the IAASB as we have. For example, increased transparency in the auditor's report about the auditor's responsibilities in relation to fraud and what the auditor has done in the circumstances of a particular audit may help further reduce the knowledge gap. Clarifying and enhancing the requirements and application material in the standard could help reduce performance gaps. We comment further on these possibilities in our responses to the other questions below.

The auditor's report - emphasising that, as required by ISA (UK) 700, the auditor's report shall explain to what extent the audit was considered capable of detecting irregularities, including fraud. To clarify that this is not intended to be 'boilerplate', it is required that this explanation shall be specific to the circumstances of the audited entity and take account of how the auditor planned and performed procedures to address the identification and assessment of the risks of material misstatement. This ISA (UK) 700 requirement was originally introduced to reflect EU law in relation to the audit of public interest entities (PIEs). We have widened the scope of the requirement to apply for all audits. Currently there is no equivalent requirement in the IAASB's ISA 700.

The IAASB cannot introduce in ISAs requirements for management and those charged with governance. However, it should consider whether the transparency of auditor reporting in relation to fraud could be improved as is being proposed in the UK.

The UK Government's Department for Business, Energy and Industrial Strategy (BEIS) is likely to consult on statutory requirements for directors to report on the actions they have taken to fulfil their obligations and for auditors to report in relation to such a director's statement. We will address these recommendations in due course, taking account of the outcome of the BEIS consultation. With regard to Sir Donald's recommendation that auditors should state what steps they have taken to assess the effectiveness of the relevant controls and to detect any such fraud, we intend to address that separately from this proposed revision of ISA (UK) 240 as it relates to auditor reporting and we will consider it holistically with other recommendations in relation to the content of the auditor's report.

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

Enhanced communication of the auditor’s responsibilities in relation to fraud and going concern in the audit opinion. The audit opinion remains the sole evidence of the result of the audit, from a public perspective. The public does not see conversations between management/those charged with governance and the auditor, nor the extensive audit file documentation. Thus, enhanced requirements for the auditors' role and responsibilities in relation to fraud and going concern in the absence of enhanced reporting requirements will not have the same public benefit or impact. (Refer to discussions under Section C, question 2.d), and Section D, question 3.c), respectively.)

That the IAASB explores whether there is a means for the auditor to complete the audit and report the presence of open investigations. An example would be through modifying the audit opinion and/or reporting on "suspicion of material misstatement due to fraud" and how the auditor came to this conclusion.

Our rationale for proposing this is as follows:

The purpose is transparency and narrowing the expectation gap. If discussions and procedures to respond to suspected fraud occur solely "behind closed doors" or "in the boardroom", no number of procedures will help narrow the expectation gap, as the only consequence will be more elaborate documentation in an audit file that no one, except the auditors and/or management, see.

Also, if this is disclosed in the financial statements OR the auditor's report, with emphasis on the disclosure made by management, it is a means to hold management, instead of the auditor, accountable for "cleaning house".

Investigations do not take days or weeks. They take months and years, and the battle between auditors and management, caused by the commercial and legal implications of these investigations, is real. Auditors cannot always delay the completion of the audit indefinitely based on "suspicion" alone.

Thus, we recommend that the IAASB explores whether there is a middle ground between the auditor's responsibility, legal limitations and transparency (e.g. disclosure of the matter in the notes to the financial statements) that will allow for a more thorough conclusion of audits in the face of suspicion of fraud and open investigations.

### 3. National Audit Standard Setters

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

We believe that in order to narrow the expectation gap, it would be important to clarify:

the expectations of stakeholders;

the role of each party (including audit committees, management, internal audit, regulators and supervisory authorities) in the financial reporting ecosystem to address these expectations;

the responsibilities of each party in terms of preventing and detecting fraud and assessing the entity's ability to continue as a going concern.

As at today, we note a real transfer of responsibilities to the auditor.

An audit conducted under the ISA follows a risk-based approach and does not provide an absolute assurance. Accordingly, auditors identify and assess risks of material misstatement and response to these risks by designing and performing audit procedures.

Such clarification should involve more "education" from the IAASB and more communication in the auditor's report on the work of the auditor performed on going concern and fraud.

### Malaysian Institute of Accountants (MIA)

The IAASB may consider reviewing the sufficiency and effectiveness of auditors' reporting requirements relating to other information in the annual reports and providing more specific guidance and support materials to assist auditors under ISA 720 The Auditor's Responsibilities Relating to Other Information, in particular, whether requirement should be imposed on auditors to provide a separate assurance report on other information such as on the corporate governance report and non-financial indicators relating to fraud and going concern as disclosed in annual reports.

The IAASB may consider enhancing the communicative value of auditor's report by considering the following:

the location of the going concern paragraph.

the disclosures on the nature, extent and limitations of the auditors' responsibilities in relation to fraud and going concern.

## 4. Accounting Firms

### BDO International Limited (BDO)

Improving requirements to communicate what has been done (this could be through greater two-way communication with management or TCWG, alternative reporting methods or additional reporting requirements within auditors' reports) although this was counterbalanced by a concern that in many jurisdictions, auditors' reports are already quite lengthy.

### CohnReznick (CR)

We also believe the changes below to the auditor's report may narrow the expectation gap related to fraud and going concern:

Fraud

We believe users of ISA reports may benefit from a more-clear indication about the risk of not detecting a material misstatement from fraud. We suggest the requirements in AU-C 700.35 and related application guidance (ADDENDUM 1) be incorporated into ISA 700 thus providing a more transparent description for users of ISA reports.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

### Mazars (MAZ)

The audit report must cover more extensively the work carried out on internal control and the conclusions of the auditors.

The auditor should be required to report specifically on fraud risk and the quality of company's internal control and fraud detection systems, based on an annual declaration from management on the measures implemented to prevent or detect significant fraud;

### Nexia International (NI)

We also believe that changes to the auditor's report may help narrow the expectation gap related to fraud and going concern:

We believe users of ISA reports may benefit from a more-clear indication about the risk of not detecting a material misstatement from fraud. This could be achieved by incorporating the requirements in AU-C 700.35 and related application guidance (ADDENDUM 1) into ISA 700 thus providing a more transparent description for users of ISA reports.

### PKF International Limited (PKF)

ISA requirements could also be enhanced on other areas of fraud, for example:

regarding how the auditor applies professional skepticism to the identification of fraud,

risk identification and assessment procedures on fraud,

communications to Those Charged with Governance on procedures and conclusions relating to fraud, and

on the commentary on fraud provided in the Auditor's report.

Review the guidance and requirements for the content of the auditor's report on the financial statements, as it relates to fraud and going concern:

Recently, other standard setters in some countries have taken measures to enhance their auditing standards on the auditor's report by expanding and improving the wording to provide the user with greater context of how the audit was conducted in these areas. The IAASB should monitor the outcomes of these country specific initiatives and consider whether there are benefits that could be brought into the ISAs.

### RSM International Limited (RSM)

This knowledge gap could also be addressed by improving the description in the audit report of the purpose and scope of an audit regarding the detection of material fraud and the consideration of going concern. However, it is important that any such wording is in "plain English" rather than technical language.

## 5. Public Sector Organizations

### Auditor General of South Africa (AGSA)

Although the auditor should not have any responsibility with regards to identification of fraud related to third parties, the auditor cannot ignore it if it comes to their attention. Fraud related to third parties already detected by management, those charged with governance, reported on by the media, or investigating authorities should be considered in terms of the impact that it may have on the risk of misstatement of the financial statements as well as its possible impact on the assessment of the integrity of management. There should also be a consideration of whether the auditor has any professional or ethical responsibility to alert another authority of such instances. To manage public perception the auditor could also consider including reference to investigations currently underway with regards to their auditees in their audit reports.

### Australasian Council of Auditors General (ACAG)

Improve users understanding by:

Increasing auditor reporting transparency. Global auditor reporting reforms in recent years has been a significant step in this regard. The information about the auditor's and preparer's respective responsibilities in the current standards strike an appropriate balance between detail and brevity, however, there are opportunities for auditors to outline engagement-specific information related to fraud or going concern which may be helpful. For example, there may be an opportunity to increase transparency and understanding of the scope of an audit by including summary information around going concern, about the risk assessment made and procedures performed by the auditor, consistent with how the matter might be described if it were a key audit matter. However, this option is less likely to be suitable for fraud response where unpredictability is an essential element in the audit work.

## 6. Member Bodies and Other Professional Organizations

### CFO Forum

The expectation gap could be narrowed if users are able to better understand the nature and extent of audit work performed and not performed, together with any associated limitations. Users also need to be made more aware of the areas that require them to perform their own analysis of the available information and form their own opinion. One way to assist to address the knowledge gap is for auditors to include a paragraph like the one on "other information" in the audit opinion to state the role and responsibility of the auditor relating to fraud and going concern.

### Confederation of Indian Industry (CII)

The IAASB may also consider addressing the circumstances in which the auditors may be required to address this in Key Audit Matters as required by ISA 701.

### CPA Australia (CPAA)

Enhance current standards to address the knowledge gap by allowing communication of the auditor's work on going concern in Key Audit Matters (KAMs), even if a material uncertainty related to going concern (MURGC) is reported under an appropriately titled paragraph, as the KAM can provide greater detail regarding the matters which the auditor considered than would be the case in the MURGC paragraph. This could be informative for users.

Whilst further explanation could be included in the auditor's report on the work undertaken with respect to fraud or going concern, we don't see that this would provide significant value if it is always required, as it will become boilerplate unless it reflects additional requirements which the auditor needs to address.

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

The IAASB may consider expanding the auditor's report further to give a fuller understanding of the scope, nature and significance of the audit which may influence the reader's perceptions concerning the audit and the auditor's role. Kelly and Mohrweis (1989) found that users' perceptions of the nature of an audit were significantly changed by wording modifications in audit reports. Miller et al. (1990)reported that bankers found expanded audit reports to be more useful and understandable than the short form reports. The expanded auditor's report should thus be able to narrow the expectation gap particularly from the angle of informed stakeholders' perspective. The report should bear a distinct section that demonstrates the procedures performed by the auditor around fraud for public interest entities.

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

Our discussions in the past suggest that they would like to see audits scoped more widely with respect to fraud, at greater cost, and in particular more nuanced communication in audit reports about where on the spectrum an entity's fraud risks lie. IAASB should reach out to this constituency.

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

As relates to fraud, the IAASB should consider the feasibility of increasing the disclosure of what auditors currently do around fraud. If the users of the financials have a better understanding of the nature and extent of work performed by the audit team, they will be in a better position to derive an independent informed conclusion and narrow the expectation gap.

### Mexican Institute of Public Accountants (IMCP)

To require the auditors, through professional standards, to explain with greater clarity and precision, their level of responsibility, as well as the responsibility of the entity's management and those charged with governance, regarding fraud and going concern in the Auditor's Responsibilities for the Audit of the Financial Statements section of the audit report. Also, through the professional standards, require the auditors to disclose in their audit report, in a summarized manner and without issuing a specific conclusion on each case:

The results obtained from their fraud risk assessment and the procedures applied indicating that, despite this, the possibility of an error due to fraud remains

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

Deficiencies in the overall control environment and in the design of the internal controls or failure to implement such internal controls are contributing factors to fraudulent activities. At some point significant internal control deficiencies are usually identified by the auditor, even if it is not during the financial period when fraud occurred. However, such deficiencies are not reported to the users of financial statements in the auditor's report when they are initially identified. There is room for the IAASB to enhance the reporting requirements in the auditor's report when it comes to deficiencies in the overall control environment and the internal controls. Reporting on internal control deficiencies would alert the users of financial statements of areas where the opportunities to perpetrate fraud may exist due to weaknesses in the overall control environment and the internal controls. This is a reporting requirement that can be made applicable to all types of engagements where internal control deficiencies are identified by the auditor, including both public interest entities as well as LCEs. Such disclosure, should, however, not be done in isolation but off the back of enhanced management disclosures. . The IAASB would further need to assess the impact of such requirement on other ISAs such as ISA 265, Communicating Deficiencies in Internal Control to Those Charged with Governance and Management, as this would require that enhanced guidance may need to be provided on what constitutes 'significant deficiencies.

### 7. Investors and Analysts

#### Corporate Reporting Users Forum (CRUF)

Yes. It is already clear that auditors need to look for fraud as a potential cause of financial misstatements. They must do their job on this front. We request improvement on the points mentioned in Questions 1 (a) and (b). It is understandable that it is difficult for the auditor to detect the kind of fraud that does not lead to misstatement of financial statements. However, ISA720 requires the auditor to read and consider other information beyond the financial statements. Other information, including non-financial information, includes the description of a wide range of matters such as corporate risks, business models, governance systems. Auditors need to pay close attention to these as well. This means better communication is needed between the auditor, those charged with governance at the company and others. By strengthening the checking of non-financial information by auditors, it is expected that they will have more opportunities to notice fraud that does not directly lead to misstatement of financial statements.

It is not entirely clear to us whether IAS require auditors to carry out procedures to consider or identify material non-compliance with laws and regulations, as such would highlight a risk of fraud. If ISAs do not or they are ambiguous, some CRUF members suggest that it is made clear that auditors have an obligation to carry out such procedures.

## Q1b-1 - IAASB - 08 Continued outreach with stakeholders

### 1. Monitoring Group

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

We are also supportive of the process that the IAASB has outlined in the discussion paper to review these areas. This includes the engagement with stakeholders, discussions with national standard setters, holding roundtable discussions and consideration of other reviews and research. These steps should help to ensure that the work of the IAASB takes account of lessons learned from recent examples of fraud and going concern issues.

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

Expectation gap with respect to the auditor's responsibility for the detection of fraud

While we support the IAASB's efforts, the Paper appropriately highlighted the important role of each stakeholder group in the financial reporting ecosystem in improving external reporting. A collaborative, multi-stakeholder solution is necessary to address the challenges and achieve the desired progress to narrow (with the goal to minimize as much as possible) the expectation gap. For example, each stakeholder group could consider educational communications to their target audiences as one effective step to narrow the expectation gap. In addition to a multi-stakeholder educational effort, we believe that the perspectives gathered from various stakeholder groups as part of the feedback to the Paper can inform the IAASB about possible further standard setting responses to narrow the expectation gap which the IAASB can begin while a more holistic multi-stakeholder solution is developed.

Acknowledging our role as securities regulators around the world, we welcome the initiation of dialogue by the IAASB through the Paper, and we look forward to further engagement with all relevant stakeholders to work towards a collaborative, multi-stakeholder approach.

We believe the IAASB should consider as part of its information gathering activities what, if any, expectations that users have of auditors beyond the core responsibilities to provide reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error, when it pertains to undetected fraud.

## 2. Regulators and Audit Oversight Authorities

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

We encourage the IAASB to liaise with relevant other parties which are likely to take action on the following matters to ensure a convergence of efforts to address fraud and going concern issues.

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

We encourage the IAASB to liaise with relevant other parties which are likely to take action to ensure coordination of efforts to address fraud and going concern issues.

## 3. National Audit Standard Setters

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

Before including additional specific procedures in the auditing standards for example to address the risk of senior management fraud by including additional responsibilities for the engagement quality reviewer, we consider it would be advisable to first wait for the feedback from the implementation of the new ISQM1 - Quality Management for Firms that Perform Audits or Reviews of Financial Statements and Other Assurance and Related Services Engagements, ISQM2 – Engagement Quality reviews and ISA 220 – Quality management for and Audit of Financial Statements standards.

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

No overselling of supposed panaceas

Given the fact that the IAASB (and its predecessor, the IAPC) have previously revised the standards on going concern and fraud a few times since the late 1990's, the IAASB needs to be particularly careful not to leave the impression that any actions it takes will more than just incrementally ameliorate supposed deficiencies in the role of auditors or audit effectiveness with respect to fraud or going concern. Both issues are excruciatingly difficult matters of public policy for which there will never be a "silver bullet" that will satisfy all stakeholders in all respects: it is therefore incumbent upon the IAASB to seek to not "oversell" its ability to resolve these issues and to engage in a frank dialogue with its stakeholders about some of the largely intractable aspects of these issues.

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

Finally, in our opinion it is necessary to have a public debate with all stakeholders involved to discuss what really is expected from auditors including a cost-benefit analysis. The various roles and responsibilities of the parties involved in the financial ecosystem should be clear. In this debate it should also become clear whether additional audit costs are publicly justified. This discussion paper might be a first step in this debate.

## 4. Accounting Firms

### BDO International Limited (BDO)

Both fraud and going concern:

There should be an open and honest debate – engaging with relevant stakeholders – to establish what is really expected from auditors in these areas and including, if requested by stakeholders, a cost-benefit analysis of more in-depth or additional testing or procedures that may be proposed. The IAASB can help facilitate this dialogue.

### Deloitte (DTTL).pdf

We strongly encourage the IAASB to continue its outreach to key stakeholders throughout the duration of these projects and work together with other national auditing standard setting bodies to develop guidance that is consistent across multiple jurisdictions to reduce confusion and inconsistency in execution.

### Ernst and Young (EY)

We strongly encourage the IAASB to continue its outreach with investors and other users to better understand and define the information that is being sought about both management responsibilities and the auditor's work related to fraud and going concern. This understanding is critical to determining the appropriate parties and mechanisms for providing the desired information.

### KPMG

An evaluation of the needs of investors and other stakeholders should be made, especially in respect of the more granular proposals noted. We believe that stakeholders have an important role to play in driving decisions about what additional information needs they may have; whether such information should be independently assured, and whether and how the role of the auditor (and others in the financial ecosystem) should evolve.

We believe that the potential solutions described in the DP are not mutually exclusive and therefore it is helpful to explore the merits of each both individually as well as when part of a suite of potential solutions, some of which may be implemented in the short term and others may be deployed over a longer term, in response to market demands.

### Mazars (MAZ)

It would be relevant to have the SMP committee is, at least, consulted to make sure that scalability is taken into account at an early stage.

We would encourage the IAASB to seek dialogue with other stakeholders, such as the IASB on accounting matters for going concern. We believe that stakeholder engagement to ensure that investors and other users of financial statements have a thorough understanding of an auditor's responsibility in relation to going concern and fraud, will go a long way towards addressing these issues.

### Mazars USA (MAZUSA)

We encourage the IAASB to continue to collaborate with the other audit standards setters, market regulators, financial reporting standards setters and the various stakeholder groups to reduce the present gap between the expected role and responsibilities of the auditor for fraud and going concern in a financial statement audit and public perceptions.

### PricewaterhouseCoopers (PWC)

As part of these broader considerations, we recommend the IAASB engage with relevant stakeholders to:

Seek support from governments and national standard-setters (both accounting and auditing) in encouraging holistic action across relevant stakeholders;

Further explore whether changes to financial and broader corporate reporting frameworks could help to address users' evolution and knowledge gap concerns. For example:

Whether additional disclosure by entities about risks to their business, including fraud risks and how they were addressed, would be helpful. This could include, for example, matters such as cybersecurity and third-party fraud (see further discussion in response to question 2(a));

Enhancing disclosures of liquidity and other risk factors, and how the entity has considered its future longer-term viability (see further discussion in response to question 3(a)); and

Clarifying or replacing terminology or key concepts, for example, considering whether changing certain terms applied across the financial reporting ecosystem (e.g., "going concern basis of accounting" and "material uncertainty") to more readily understandable terms would have a tangible impact on users' understanding.

Exploring such changes would require concerted action across stakeholders.

Discuss how regulators of certain types of entities, for example financial institutions, may be in a position to provide timely communication of relevant information to which they have access in order to assist auditors in the assessment of risks of material misstatement and design of responses;

Through IFIAR, understand from national and global audit regulators the nature of deficiencies identified relating to fraud and going concern as well as any best practices identified while conducting inspections;

Through IOSCO, discuss with regulators about if, and how, relevant securities regulations might be providing, or could facilitate, the provision of information users are seeking; and

Highlight that the current scope of the audit does help to mitigate fraud (incidence of fraud would be exponentially higher in the absence of an audit) and, in that context, have open and honest dialogue about the practicalities and cost/benefits of the changes that stakeholders seek (for example see our response to question 2(a) with respect to non-material fraud).

### RSM International Limited (RSM)

In addition to continuing efforts to ensure clarity of respective responsibilities, the IAASB should initiate a wider discussion with users of financial statements and regulators on the scope and purpose of an audit. This would be valuable in closing the expectation gap, not by reaffirming the status quo, but by exploring new ways in which the audit could better serve the users of the financial statements. The audit should continue to evolve to the changing needs of users. This substantive work is key in addressing the evolution gap. We encourage the IAASB to continue the evaluation of these topics that has begun in this Discussion Paper and begin this substantive evaluation process.

Overall, our view is that, whilst there is a continuing need to ensure that the users of the financial statements understand the current respective responsibilities of management, those charged with governance and auditors, it is not the only solution to the expectation gap.

### 6. Member Bodies and Other Professional Organizations

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

Furthermore, we encourage the IAASB to consider various ways in which it may respond to the challenges outlined in the Discussion Paper beyond setting new standards, including non-authoritative guidance and education, and outreach with other members of the ecosystem.

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

It is important that the outreach goes beyond professionals to address all potential users of financial statements and audit reports.

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

Fraud

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

We note in our main points above the need for IAASB to engage with investors to understand their need for more nuanced reporting of fraud risks and what they are prepared to pay, for IAASB to understand and acknowledge the role of reporting on internal controls over financial reporting in fraud prevention, detection and reporting, and the need for IAASB to encourage audit regulators to share their detailed understanding of how frauds are perpetrated.

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

We are encouraged by the outreach of the various national standard setters, the IAASB, and the large international networks of firms. Many have programs that include podcasts, educational initiatives, and implantation guides to support broader understanding of the issues and a consequential reduction in the expectation gap. These outreach efforts need to continue.

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

Stakeholders such as financial institutions may be in a position to provide insight on the latest fraud schemes that auditors and entities need to be aware of. SAICA recommends that the IAASB maintains interactions with these institutions and their regulators in order to communicate and provide regular guidance to auditors on how to deal with these fraud schemes.

### Q1b-1 - IAASB - 09 Other suggestions

#### 1. Monitoring Group

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

Clarity of role and purpose: In working to update the relevant auditing standards, the IAASB should remain robust in relation to comments and advice that may detract from its objectives and the public interest. For example, the statement on page 27 of the discussion paper states that "…some have raised concerns that this [i.e. a suspicious mindset] may jeopardise the audit relationship". This argument is presented without challenge and we note that arguments along those lines have presumably already been dismissed in relation to professional scepticism.  We would encourage the IAASB to focus on what is required for a high quality audit.

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

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

#### 3. National Audit Standard Setters

#### Malaysian Institute of Accountants (MIA)

Those Charged with Governance

In relation to TCWC, the following may be considered:

Creating a stronger framework of responsibility and reporting by management through the implementation of a sound system of internal control over financial reporting that specifically includes controls over fraud risks could facilitate the prevention and detection of fraud.

Exploring management and director certifications on the content of financial statements as well as internal control over financial reporting.

Expanding responsibilities for measuring and overseeing corporate culture and the influence of incentives.

Establishing strong whistle-blower programs that both encourage and protect those who make reports.

Disclosing how management under the oversight of TCWG has discharged its responsibility on the prevention and detection of fraud within an entity in the entity's corporate reporting.

Focusing on broader issues and incidences relating to industry fraud which may impact the reporting entity and not limiting to assessment by management during the conversations between TCWG and auditors.

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

We believe that separate explanation and interpretation of the standards for the public as well as for auditors will at least help to better understand what can be expected from auditors in an audit of financial statements. For the public this could be done on a more high level manner. For auditors it will reduce discussions about various interpretations. A special organization could be established to provide this explanation and interpretation (e.g. such as IFRIC for IFRS interpretations).

Further improving the quality of the audits including quality management by the audit firms and better communicating the results of the audits performed will also contribute to (partly) narrow the expectation gap (see also below Q2d and Q3c). In all phases of the audit, there should be attention for material fraud and going concern issues. Adequate support in all phases of the audit from audit firms and for smaller firms maybe from external sources will contribute to improve the quality of audits. It will take some time before the new quality standards will have effect, but in the meantime a focus on quality management will also help.

### Q1b-1A - Suggestions for other stakeholders

#### 1. Monitoring Group

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

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

financial

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

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

Expectation gap with respect to the auditor's responsibility for the detection of fraud

While we support the IAASB's efforts, the Paper appropriately highlighted the important role of each stakeholder group in the financial reporting ecosystem in improving external reporting. A collaborative, multi-stakeholder solution is necessary to address the challenges and achieve the desired progress to narrow (with the goal to minimize as much as possible) the expectation gap. For example, each stakeholder group could consider educational communications to their target audiences as one effective step to narrow the expectation gap. In addition to a multi-stakeholder educational effort, we believe that the perspectives gathered from various stakeholder groups as part of the feedback to the Paper can inform the IAASB about possible further standard setting responses to narrow the expectation gap which the IAASB can begin while a more holistic multi-stakeholder solution is developed.

Acknowledging our role as securities regulators around the world, we welcome the initiation of dialogue by the IAASB through the Paper, and we look forward to further engagement with all relevant stakeholders to work towards a collaborative, multi-stakeholder approach.

What can be done to narrow the expectation gap – education, collaboration and coordination

In addition to potential standard-setting discussed above, we encourage the IAASB to consider whether other approaches such as robust investor education may assist in enhancing investors' understanding of the current role and responsibilities of the auditor with respect to fraud.

One of the core building blocks to continue to make progress on narrowing the expectation gap, in our view, is that each stakeholder group not only contributes to the educational effort, but also commits to a collaborative and coordinated approach. With that being said, we applaud the IAASB's recent stakeholder outreach (e.g., three roundtables on fraud and going concern in September and October 2020 with various stakeholder groups) to help inform the degree to which an expectation gap exists today.

We welcome the IAASB's engagement to identify what education and/or incremental collaboration and coordination amongst the various stakeholders in the financial reporting ecosystem is needed to achieve the common goal of narrowing the expectation gap.

### 2. Regulators and Audit Oversight Authorities

#### Botswana Accountancy Oversight Authority (BAOA)

Additional disclosure requirements in relation to fraud and going concern by both the Auditor and Management. The disclosure requirements should be defined in ISAs to avoid inconsistencies in reporting.

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

We encourage the IAASB to liaise with relevant other parties which are likely to take action on the following matters to ensure a convergence of efforts to address fraud and going concern issues.

Actions that should be further explored by other parties include for example:

Delivering educational actions for instance explaining the role of auditors regarding fraud and going concern more clearly and precisely to stakeholders;

Further developing the two-way communication culture in the audit profession with audit committees and those charged with governance (hereafter "TCWG"), in order to facilitate efficiency of the dialogue on fraud risks and going concern;

Considering whether corporate rules need to be enhanced or clarified regarding the roles and responsibilities within the entity (management, audit committees, TCWG) with respect to preventing and detecting potential fraud and going concern issues as well as the monitoring of compliance with corporate governance requirements. This includes consideration of the entity's internal control requirements as discussed below in paragraph 26.

#### Financial Reporting Council (FRC)

With regard to evolution gaps, we believe that the IAASB should address only matters for which there is a general global consensus. Expectations of how audit should evolve in the public interest, especially in relation to its scope and how much stakeholders are willing to pay for any extension thereof, may vary significantly across and within different jurisdictions and may be more appropriately and better addressed by national standard setters and regulators.

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

As it pertains to what can be done by others, we agree that "each participant in the financial reporting ecosystem plays a unique and essential role that contributes towards quality financial reporting and therefore that it will take efforts from all participants of the financial reporting ecosystem to bring about meaningful change and improve financial transparency". Specifically:

We agree that the successful evolution of the auditing standards also requires the relevant accounting standard setters to make changes to the applicable financial reporting framework, particularly around going concern. The clarification and/or simplification of accounting requirements may contribute to the narrowing of the performance and knowledge gaps.

Universities and professional accounting bodies that determine the training curriculum for auditors can contribute to the resolution of the knowledge gap through the evolution of the training curriculum. For example, this could include training on evolving information systems and common fair value models. We do not necessarily agree that forensic training is required, as this is a separate field of expertise. However, a general enhanced understanding of information systems, how fraud can be perpetrated through the use of information systems and fraud awareness can better enable auditors to apply auditor requirements in this regard in practice.

We agree that, as it pertains to key dependencies on others, “management has a primary responsibility for the prevention and detection of fraud” and “assessing the entity’s ability to continue as a going concern”. In addition, “robust requirements for those charged with governance with regard to their role will increase the effectiveness of the financial reporting system as they may also be in a position to influence the quality of the audit”, as per the examples provided.

The Discussion Paper, however, does not detail the role of preparers of financial statements, boards and audit committees (collectively, those charged with governance) in narrowing the expectation gap. These players, who are usually professional accountants, hold the primary responsibility for narrowing the performance and knowledge gaps as, collectively, they have the professional obligation to account for and correctly report financial results in accordance with the applicable financial reporting framework; design and implement internal controls and operating procedures that ensure quality financial reporting; and monitor the implementation of controls and operating procedures to identify weaknesses, including fraud and error, that negatively impact the performance of the company. Preparers and those charged with governance also play a pivotal role in narrowing the knowledge gap of the users of the financial statements through transparency in their communications with investors, analysts, lenders, consumers, the public and other stakeholders.

To enable themselves to do this, they have a professional responsibility to:

Remain up to date with financial reporting developments through maintaining their accreditation and ensuring their Continued Professional Development (CPD).

Apply fair presentation, as opposed to a compliance mindset, to financial (and integrated) reporting.

Emphasise the importance of compliance with operating procedures and internal controls across the organisation, to ensure operations are accurately recorded, to begin with, rather than trying to fix failures in operating procedures and control from the top down.

Appoint resources where the entity does not have the appropriate internal resources (including time) to effectively manage and monitor internal operating procedures and controls. This is where internal audit can also play a pivotal role.

Auditors are responsible for narrowing the performance gap through:

Quality execution of audits. Audits should adhere to minimum requirements and also demonstrate the fundamental principle behaviours and a professional mindset. In doing so, auditors should maintain independence of mind throughout, regardless of the circumstances, and appropriately challenge preparers of the financial statements, as this pertains to fair presentation and judgements applied.

Remaining up to date with financial reporting and auditing developments by maintaining their accreditation and ensuring their CPD.

Regulators of private and public corporate entities need to assess where reporting requirements for preparers and monitoring requirements for those charged with governance need to be enhanced to meet the evolving public expectations; and through this, they can help narrow the evolution and performance gaps.

Audit oversight bodies have a duty to actively participate in and feed into initiatives around enhanced education and standards (contributing to resolve the knowledge and evolution gaps); and to monitor the quality execution of enhanced requirements in the areas of fraud and going concern (to address the performance gap).

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

Actions that should be further explored by other parties include for example:

delivering educational actions, for instance explaining the role of auditors regarding fraud and going concern more clearly and precisely to stakeholders;

further developing the two-way communication culture in the audit profession with audit committees and those charged with governance ("TCWG"), in order to facilitate dialogue on fraud risks and going concern; and

considering whether corporate rules need to be enhanced or clarified regarding the roles and responsibilities within the entity (management, audit committees, TCWG) with respect to preventing and detecting potential fraud and going concern issues as well as the monitoring of compliance with corporate governance requirements. This includes consideration of the entity's internal control requirements as discussed below in paragraph 25.

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

Consider whether regulatory bodies and other standard-setters should require training on fraud in the context of a financial statement audit as part of an auditor's continuing professional education (CPE). For example, the California Board of Accountancy requires its licensees performing attest services to complete four hours of CPE in fraud every two years. California Code of Regulations Title 16. Professional and Vocational Regulations Division 1. Board of Accountancy Regulations Article 12 Section 87 (f)

Enhance training provided to auditors in these areas. Auditors must assess fraud and going concern issues in every financial statement audit, which requires certain critical skill sets.

## 3. National Audit Standard Setters

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

Fraud

The AUASB and its stakeholders agree with the IAASB's view that significant matters related to fraud are a whole of financial reporting ecosystem responsibility, and that changing auditors' responsibilities relating to fraud is only part of the answer. Stakeholders provided feedback to the AUASB that, without addressing other factors (such as the responsibilities of management and those charged with governance (TCWG) in the areas of financial reporting, corporate risk management and internal controls) changes to auditors' responsibilities on their own will have little impact in addressing the expectation gap.

It was strongly acknowledged by our stakeholders that one way to address the performance gap relating to fraud would be to improve the education and professional training requirements auditors undertake. Educators (i.e. Universities and Professional Accounting Bodies) play a significant role in ensuring that our next generation of auditors are appropriately trained in the application of fraud risk assessment, forensic skills and applying a sceptical mindset. This is the case at both the undergraduate level and as part of the ongoing training and development auditors undertake in these areas once they join the profession. The

AUASB received feedback that auditors' skills in fraud detection could be enhanced throughout each stage of their formative and continuing professional development. Our stakeholders communicated that the performance gap could be reduced by identifying better ways to share knowledge and experience from more senior team members with students and less experienced staff about how to appropriately respond to fraud throughout the audit process. This coupled with a greater degree of supervision and involvement by senior team members throughout the audit engagement in this area would assist in reducing the performance gap.

It was strongly acknowledged by our stakeholders that one way to address the performance gap relating to fraud would be to improve the education and professional training requirements auditors undertake. Educators (i.e. Universities and Professional Accounting Bodies) play a significant role in ensuring that our next generation of auditors are appropriately trained in the application of fraud risk assessment, forensic skills and applying a sceptical mindset. This is the case at both the undergraduate level and as part of the ongoing training and development auditors undertake in these areas once they join the profession. The AUASB received feedback that auditors' skills in fraud detection could be enhanced throughout each stage of their formative and continuing professional development. Our stakeholders communicated that the performance gap could be reduced by identifying better ways to share knowledge and experience from more senior team members with students and less experienced staff about how to appropriately respond to fraud throughout the audit process. This coupled with a greater degree of supervision and involvement by senior team members throughout the audit engagement in this area would assist in reducing the performance gap.

Finally, the AUASB's outreach and consultation on this topic identified that management and TCWG also need to be better skilled in preventing and detecting fraud, and that it can't just be left to auditors to address the issue. This is particularly the case for Boards and Audit Committees, who oversee management's responsibility to prevent and detect fraud from occurring. Many of our stakeholders fed back that there should be a greater focus on regulating the internal control requirements relating to fraud at an entity, which then auditors could address as part of an extended audit scope if external assurance on this is desired.

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

Encouraging educational institutions and professional bodies to require additional fraud training for auditors – Requiring specific fraud training, as well as how to utilize data analytics to conduct audit procedures related to fraud would enhance an auditor's skillset. There is also an opportunity for auditors to learn how to utilize forensic tools and techniques on financial data since there are similarities in application. The IAASB should encourage educational institutions and professional bodies to add fraud courses to certification requirements for auditors.

What our stakeholders told us

As it relates to a lack of understanding by financial statement users of the role played by each party in the financial reporting ecosystem, our stakeholders struggled with what actions, if any, could be taken to make meaningful progress.

Regulators questioned the value of focusing efforts on this lack of understanding, expressing concerns that it would be a distraction from actions which could be taken to support the evolution of the auditor's role. Other stakeholders felt this lack of understanding by users cannot be ignored as it will continue to hurt the audit profession. They also had the view that without addressing the lack of understanding, it may undermine efforts for the profession to evolve (i.e., widen the expectation gap).

On balance, stakeholders agreed that it was worthwhile that additional effort be put into educating financial statement users on the roles of all parties in the financial reporting ecosystem. This includes a role for the accounting profession to assist in educating stakeholders on each party's respective role.

In addition to the role of education in narrowing the expectation gap, our stakeholders raised certain other specific actions that they felt could be taken by each of the parties within the financial reporting ecosystem.

Entity and its Management

Our stakeholders acknowledged that the entity and its management play a foundational role for both fraud prevention and assessing and disclosing the entity's ability to continue as a going concern. As such, many felt that management's actions could have the most significant impact in narrowing the expectation gap.

When asked about the entity and management's role regarding going concern, stakeholders were of the view that management should be required to conduct a more in-depth going concern analysis, which would in turn support more robust disclosure within financial statements.

As it relates to fraud, stakeholders emphasized the importance of an entity's anti-fraud procedures/controls and the overall tone at the top of the organization in reducing the opportunity for fraud and improving fraud detection. As such, stakeholders supported additional requirements for management to develop and implement anti-fraud procedures and controls within their organization.

Finally, some stakeholders highlighted that the Discussion Paper did not include internal audit in the financial reporting ecosystem discussion. Internal audit plays a unique role within some organizations. Several stakeholders felt internal audit could be a starting point in addressing the need for enhancements as it relates to fraud controls and detection. For example, an entity's internal audit function could include enhanced responsibilities to review and assess anti-fraud procedures and controls.

Boards and Audit Committees

Our stakeholders emphasized the important leadership role that boards and audit committees (also referred to as those charged with governance) have over the entity and its management.

Stakeholders raised concerns over a perceived lack of accountability of those in oversight roles as to whether they are appropriately fulfilling their responsibilities. Some possible actions to address the lack of accountability include:

Composition and training – Introducing requirements for minimum skills and training to ensure boards and audit committees have the appropriate knowledge and expertise to perform their responsibilities; and

External reporting – Exploring whether those charged with governance should externally report on their actions to fulfill their obligations.

External Auditors

Please refer to responses to questions 2 and 3 for ways in which our stakeholders felt the expectation gap could be narrowed by external auditors.

Regulators

Our stakeholders acknowledged that regulators, including auditor oversight bodies, play a key role in ensuring the accountability of entity management and directors, and auditors. Stakeholders emphasized that regulators need to consider whether additional or enhanced rules and regulations are necessary to narrow the expectation gap.

Standard-Setters

Stakeholders believe there are actions that accounting standard setters could take in enhancing management's going concern analysis and disclosure, as noted above and in the response to question 3(a).

Please refer to responses to questions 2 and 3 for ways in which our stakeholders felt the expectation gap could be narrowed by the IAASB.

AASB views and recommendation

We believe that all parties within the financial reporting ecosystem have a role to play in narrowing the expectation gap.

Many of our stakeholders acknowledged the long-standing challenges around the expectation gap. We believe this is largely because all parties need to recognize that they not only have a role to play but also need to commit to working collaboratively towards a solution.

As a first step, we believe all parties can assist in the education of users of financial information on the role of each party within the financial reporting ecosystem. In our view, if we are unable to help users better understand everyone's role, there will be a limit in the progress that can be made in narrowing the expectation gap.

For example, as it relates to the IAASB's role, we support its continued efforts, including through the Discussion Paper, to

highlight and discuss the expectation gap and the roles of each of the parties in the financial reporting ecosystem. As a next step, the IAASB could consider whether there is further outreach it can undertake to educate financial statement users.

In addition to educating financial statement users, we recommend the following additional actions which could be explored by each of the parties within the financial reporting ecosystem. However, in doing so, we acknowledge that each stakeholder group may wish to perform their own analysis to determine if these actions will be effective in narrowing the expectation gap.

The Entity and its Management

We agree with our stakeholders that an entity and its management play a foundational role for fraud prevention and assessing and disclosing an entity's ability to continue as a going concern.

We encourage the IAASB to consider working with relevant parties to promote more robust going concern assessments and financial statement disclosures by management, through financial reporting framework requirements.

In our view, an entity's internal controls are an important first line of defense in the prevention and detection of fraud. We support exploring whether additional requirements should be imposed on management and directors to enhance the entity's anti-fraud procedures and controls. This could include consideration by regulators of whether internal control reporting requirements, similar to the Sarbanes Oxley Act in the United States, should be required.

Finally, we agree with our stakeholders that the role of internal audit in narrowing the expectation gap should be explored. The IAASB could consider whether there are internal audit organizations they could engage to discuss what specific enhancements could be made to the roles and responsibilities of the internal auditor, and where appropriate, how those actions might be leveraged by the external auditor.

Boards and Audit Committees

We think it is important that additional requirements be put in place around board and audit committee composition and training. In our view, there should be minimum requirements in these areas to ensure that all boards/audit committees have the appropriate skills to fulfill their responsibilities.

Additionally, we support exploring a requirement for those charged with governance to externally report how they met their oversight responsibilities.

External Auditors

Please refer to actions set out in response to questions 2 and 3.

Regulators

All regulators have an important role in establishing and enforcing their requirements.

Consistent with the view of our stakeholders, regulators need to consider whether additional or enhanced rules and regulations are required that will assist in narrowing the expectation gap. For example, securities and prudential regulators may conclude there is merit in establishing requirements for entities to implement additional procedures and controls to prevent and detect fraud.

Standard-Setters

We support accounting standard-setters exploring the development of additional requirements or guidance around management's going concern analysis and disclosure, including those outlined in our response to question 3(a).

As it relates to the role of the IAASB, please refer to actions set out in response to questions 2 and 3.

Additionally, should stakeholders action the enhancements proposed in the above paragraphs, there may be a follow-on action for the IAASB to develop or amend standards to enable external auditors, where requested, to provide assurance on additional information, processes and controls. For example, if regulators require management to design, implement and report on compliance with a system of internal controls for the prevention and detection of fraud, there may be a need for assurance to be provided on the compliance report.

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

All parties in the financial reporting ecosystem have a role to play in addressing the expectation gap related to fraud and going concern in an audit of financial statements. We should focus possible actions to respond to valid expectations and proposed changes on the outcome of a cost/benefit analysis.

As mentioned in question 1, the prevention and detection of fraud within a company is primarily the responsibility of management under the oversight of those charged with the governance. Together with other members of the corporate governance and reporting ecosystem, auditors also play and important role in the detection of material frauds (but in a second step).

When a fraud extends to a broad network across management and third parties, it is very difficult to find the evidence and may take more than a normal audit to find them. We believe that detecting fraud goes far beyond the auditing profession but implies a broader collaboration among members of the financial reporting ecosystem. Large-scale fraud is mostly very well thought through and very difficult to detect. Auditing is an important step but it is not the only one. Nor should it be, if we are to maximize the number of opportunities to prevent or detect fraud as efficiently as possible. In this regard we believe that preventing and detecting fraud needs a collective effort, depending on a joint effort by all relevant parties, i.e. (1) corporate governance and management, (2) public oversights bodies, (3) standards setters and (4) auditors.

Corporate governance and management

Role of boards and management

The primary responsibility for preventing and detecting fraud lies with management as overseen by boards of company. Consequently, they establish systems and structures in order to manage fraud risks. Managing fraud risks is vital for achieving a company's operational, reporting and compliance objectives. It is also a key aspect for shareholder protection and management's role as their agent.

We consider that legislation, at any appropriate level, whether national, regional or federal should provide that companies' risk management include anti-fraud mechanism. These mechanisms should set out specific procedures and clear responsibilities for boards, i.e. audit committees and management boards respectively. Legislation could require the entities to publicly disclose a statement about the effectiveness of this program and relevant controls. This disclosure could be made as part of a broader statement included in a company's annual report for example. Moreover, auditors could be required, in a separate assurance engagement to:

Assess the effectiveness of these systems and controls to prevent and detect material fraud in the financial statements;

Express an opinion on the boards and management board's statement;

Report their conclusions to the boards and to the public.

Role of audit committees in terms of senior management fraud

A control environment that is effective for preventing employee fraud may not be sufficient on its own against fraud involving senior management.

We therefore consider it important that legislations strengthen the role of the audit committee to prevent and detect senior management fraud. Inquiries around potential fraud by senior management could be required by the EU and national legislation.

An active collaboration and interaction of audit committee with auditors is also essential for addressing senior management fraud risk. We believe that such a commitment and cooperation lead to greater efficiency in the prevention and detection of senior management fraud.

Public oversight bodies

As mentioned in question 1, French law requires the auditor to inform the public prosecutor of all criminal acts he may have discovered during his audit. The expression "criminal acts" covers all categories of offences, regardless of their legal classification as a crime, misdemeanour or contravention, and regardless of the status or function of the person or entity that committed them. It refers to established, objectively observed situations, as opposed to suppositions or suspicions.

We believe that such a reporting obligation to public oversight bodies provided for by law or regulation would strengthen the fraud detection and prevention process.

Finally, another option to narrow the expectation gap related to fraud could be national legislators to tighten the rules of entities in terms of the internal control system on fraud and the role of auditors in such procedures. However, even if such provisions are not within the purview of the IAASB, we think it is important to point out this line of action.

Increase auditor awareness of fraud cases

We consider it important to make auditors as aware as possible of cases of fraud (both at the level of initial and ongoing education).

We recommend the implementation and maintenance of a platform recording cases of fraud and accessible to auditors. Such a platform could be a powerful tool for auditors to be all the more vigilant and informed of the main indicators of fraud schemes. Audit teams could use this information when developing certain fraud risk scenarios during their assessment process and when designing specific audit procedures accordingly.

It emerges from the document that one aspect common to both fraud and going concern is the expectation gap.

The expectation gap is probably the most burning issue for the entire corporate reporting ecosystem and if we do not manage to collectively reduce it, it will seriously impair trust for the years to come, at a time when the economy requires trust more than ever to recover from Covid 19. We are also convinced that the auditors cannot narrow the expectation gap alone. The best way to reduce fraud loss, is to prevent it from happening. Part of the solution certainly lies in enhancing entities' internal control and (because disclosure drives behaviour) in requiring Management and/or Those Charged With Governance to publicly report on the effectiveness of the entity's internal control. It is a prerequisite to the auditor providing assurance on such public reporting by Management and/or Those Charged With Governance. If Governments do not require such assessment and public reporting by the entities on their internal controls, the auditor cannot do anything alone. Because whatever the work effort and the communication around fraud and going concern by the auditor, each time a fraud will be discovered or a company will go bankrupt the question will remain why the auditor did not discover it or why did he/she not warn the public of the entity's fragility.

We also believe that the respective responsibilities of the various stakeholders support and reinforce one another. Generally speaking, even if we are in favour of enhancing the role of the auditor in such circumstances, we consider that such enhanced responsibilities will require the IAASB to work with other stakeholders in the financial reporting ecosystem, since we believe that the effectiveness of any potential changes will depend partly on the actions of other stakeholders.

We believe in particular that IFAC, because it is the global voice of the profession and because of its thought leadership role at international level, could help in moving forward those ideas in the Public arena and towards global leaders, such as it does when it works with the G20, for example.

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

With respect to the knowledge and reasonableness gaps, we note that the IAASB has an important public interest role in explaining to stakeholders what auditors ought to do and what auditors do (both related to the knowledge gap) as well as what auditors cannot do (reasonableness gap). This educational role of the IAASB – particularly in relation to the reasonableness gap – has not been adequately taken up by the IAASB in the past due to concerns about appearing "defensive". We believe that the IAASB, national standard setters and the profession need to engage in a frank dialogue with other stakeholders about the knowledge and reasonableness gaps to seek to significantly reduce these gaps.

Certainly, the IAASB can also explore whether the ISAs can be augmented to further improve auditor performance or whether other voluntary assurance engagements might be helpful to deal with the evolution gap. We just believe it to be unlikely that the IAASB will be able to improve auditor performance more than just incrementally with respect to fraud and going concern by means of auditing standards at reasonable cost. Furthermore, as noted in the body to our letter, expanding the required scope of the ISAs is not possible and the IAASB cannot require the performance of other assurance engagements. For the reasons noted in our response to (a), improving transparency in auditors' reports may require financial reporting frameworks to require additional disclosures related to going concern and fraud by management in the financial statements, which we understand is unlikely to occur in the short or medium-term – if at all.

The IAASB can explore whether there are matters within the ISAs that are unclear that could be clarified and therefore might marginally improve auditor performance, but it seems to us that such measures will not narrow the performance gap significantly. Other causes of the performance gap (inadequate: time, auditor competence, compliance with clear standards, firm policies or procedures, etc.), which are likely to be significantly greater than issues of clarity of standards and insufficient implementation support, can only be addressed by other participants in the audit environment (legislators, regulators, those charged with governance, firms, educators, etc.), but the IAASB may have a role in facilitating work in this area.

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

Here, we describe what could be done by those other than IAASB. See the comments on question 3 for information on enhancing audit standards.

Enhancement of the disclosure system about the responses of management and those charged with governance for preventing and detecting fraud

Management and those charged with governance are responsible for corporate governance of the entity, including preventing and detecting fraud. Corporate governance matters may be disclosed as non-financial information in a section outside the financial statements of the annual report. Disclosing the efforts of management and those charged with governance for preventing and detecting fraud could lead to reaffirmation of their respective roles and encourage the establishment of enhanced corporate governance.

In order to introduce this framework effectively, it is crucial that auditors be able to identify an indication of fraud. To this end, we believe that the firm needs to implement policies to foster such a mindset enable auditors to identify an indication of fraud, deliver training programs on fraud cases, establish the firm's quality control system that address fraud issues, and consider audit methodologies that effectively respond to fraud. In this regard, the Standard to Address Risks of Fraud requires that the firm establish appropriate quality control policies and procedures taking into consideration the risks of fraud (Standard to Address Risks of Fraud section III paragraph 1). In relation to education and training on fraud, the JICPA mandates audit quality and fraud risk training in the continuing professional education (CPE) system for the members who are engaged in an audit engagement.

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

IAASB and auditor should also persuade governments and regulators at the respective jurisdictional level into making the management and TCWG provide sufficient information to auditors, and enhancement of the responsibilities of the management and TCWG to assess as to the findings of events and circumstances related to going concern assumptions and set-up applicable implementation plans accordingly.

Management and TCWG should address the expectation gap on frauds via work audit reports conducted by internal auditors or the disclosure of inspection reports prepared by external experts based on a separate contract, instead of being addressed by auditors. They should address the expectation gap on going concern via the disclosure of assessment reports of the management and board of directors.

Regulators should supervise procedures performed by auditors within the context of what the auditing standards requires to auditors, even though stakeholders (e.g., information users) have strong expectations on the detection of frauds. If the auditing standards are considered to fail to track increasing fraud risks in an effective manner, the auditing standards or practical guidance could begin with revising various laws and regulations or common practice to prevent accounting frauds.

### Malaysian Institute of Accountants (MIA)

Although we agree there are opportunities for enhancements to the ISAs for both fraud and going concern that would assist in addressing the expectation gap, it is important for all stakeholders which includes those charged with governance (TCWG), regulatory bodies as well as auditors to recognise that enhancements to the ISAs alone will not have a substantial effect on the expectation gap. There should be a holistic study involving stakeholders and collective efforts from them to achieve a meaningful change.

We also believe that fraud and going concern issues, are in fact, governance issues as the primary responsibility for fraud and going concern assessment rests with TCWG. The management should acknowledge their responsibilities and clearly discuss their going concern assessment in the financial statements. Hence, for any efforts to change on the auditing standards relating to going concern, there should be a corresponding change on the accounting standards. Auditors should not be expecting to disclose matters in addition to those that have been reported by TCWG in the financial statements.

The IAASB and other regulatory bodies should engage with key stakeholders of financial reporting as, although the auditor plays an important role in detecting material fraud, the public should be educated to understand the nature of work of the auditors relating to fraud and that the prevention and detection of fraud within an organisation is primarily the responsibility of management under the oversight of TCWG.

Where auditors have obligations to escalate, or determine whether to escalate, any breaches of laws or regulations that may impact the financial statements, the circumstances in which auditors have to report should be clearly defined in law or regulation and the reporting channels should protect disclosures done in good faith. The regulator receiving reports should also have a corresponding obligation and the requisite resources to act on the information it receives.

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

Fraud

The 'evolution expectation gap' related to fraud will not be narrowed by standard-setting alone–it will require efforts from all participants in the financial reporting ecosystem.

Management and those charged with governance play a key role in preventing fraud by fostering an appropriate corporate culture and implementing effective internal controls. Adopting appropriate strategies for preventing fraud is likely to be far more effective than trying to identify instances of perpetrated fraud.

In New Zealand, about 60% of all instances of identified fraud in 2020 with values greater than NZD 100,000 are attributed to weak internal control. Of particular importance is the risk of management override of controls. Indeed, with very few exceptions, most of the major fraud cases in the past 50 years that had catastrophic results for the victim organisations were perpetrated by senior members of management circumventing or overriding seemingly sound systems of internal control. Those charged with governance's responsibility to implement and oversee adequate and appropriate procedures to mitigate the risk of management override of controls is of crucial significance.

Better training of auditors can help to narrow the performance gap. Limited on the job learning opportunities mean that there must be a stronger focus on formal training on fraud. It may be beneficial to train auditors in forensic accounting skills and fraud awareness. Sharing knowledge between audit firms can help to improve professional knowledge to better identify, assess and respond to risks of fraud in the financial statements. While this is mostly outside of the scope of the IAASB's standard setting work, it is important for the IAASB to work closely with the International Panel on Accounting Education (IPAE) to address this issue which would help to narrow the performance gap.

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

Finally, It should also be investigated whether clear agreements between all parties involved can be made Management and those charged with governance are responsible for the control of fraud risks and have to play their role. For fraud where management is involved, those charged with governance should act.

## 4. Accounting Firms

### BDO International Limited (BDO)

To help improve skills and the vigilance of auditors when performing extant fraud procedures, with the aim of reducing the performance gap, our internal contacts suggested a range of options (that could be provided by the IAASB, professional bodies, groups of firms, etc.), including:

Providing case studies of different types of fraud, potential red flags and examining how forensics expertise helped to reveal the existence of frauds

Providing access to good quality information about corporate fraud – such as national fraud registers (which would help auditors and provide greater information to the public)

Use of video learning (such as the ICAEW's False Assurance and Without Question series of video learning)

Relaying real cases within firms to share knowledge and approaches, for example, when forensics or fraud examiners have been used, or frauds identified

Having jurisdiction regulators prepare FAQ-style resources based on real frauds and taking into account that the nature and prevalence of frauds may differ in different countries/cultures

A potential role for standard setters or perhaps audit regulators in each jurisdiction could be to establish guidance that clearly defines the scope of the work to be carried out by the auditor regarding fraud (and error).

Working in partnership with others (entities, director and governance bodies, etc.) the IAASB should also consider the skills needs of management and TCWG.

When frauds are discovered and then reported in the media, in some cases there is a tendency to immediately blame the auditors for failure to detect the fraud. In addition, there often tends to be little discussion about how the audited entity failed to prevent or detect the fraud.

In such situations, few comments can be made by the firm under scrutiny as an investigation into the facts and circumstances are still pending, they do not have direct access to the entity's information and there may be legal impediments to providing further comment.

Perhaps when these types of high profile cases occur, this could be an opportunity for standard setters, local professional bodies and regulators to educate the public about the role of the auditor, respective responsibilities of auditors and management/TCWG and some reasons why frauds are often difficult to detect.

There is a role for continued and targeted regulator and/or national standard setter education of the public and users of financial statements with respect to the distinctive nature of management and audit responsibilities.

We recognize that the IAASB has a difficult balancing act to ensure that the ISAs remain principles-based, sufficiently flexible to accommodate different situations, entities or applicable financial reporting frameworks, while also helping to drive greater consistency to help reduce the expectation gap.

As we noted earlier, the solutions for fraud and going concern should also be considered separately and need to involve all parts of the financial reporting ecosystem (otherwise the expectation gap as it relates to the role of auditors could potentially increase).

### Crowe (CG)

In part, the IAASB and others (such as investor groups, oversight bodies, auditors' professional bodies and professional firms) have a collective responsibility to inform stakeholders as to the purpose and objectives of the audit.

However, the "expectation gap" is a perennial issue, and the IAASB and those who oversee and deliver audit have a responsibility to listen to concerns. There is a public case to strengthen audit requirements in these areas with a view to closing the gap. We all have to accept that the gap can never be fully closed as it will evolve with the economic and business environment.

In addition, alongside a discussion about audit requirements, corporate governance requirements also have to be addressed. Those Charged With Governance also have responsibilities with regard to fraud and going concern. In some jurisdictions corporate governance requirements are likely to be enhanced, but broader international agreement is needed.

### Deloitte (DTTL).pdf

DTTL does not believe that adding a requirement for the use of a forensic specialist or a specialist to evaluate management's plans to mitigate going concern issues is appropriate, as this is not a risk-based approach, and involvement of a specialist is not necessary on every audit. It is also important to note that, in the current state, it may not be feasible to fulfill a requirement to include such types of specialists on every audit due to lack of available resources with the necessary training and certification. A consideration for colleges and universities is to add courses to their curriculum in these specialized areas and include related elements to the minimum requirements for professional certification of auditors.

Others

Greater capital market regulator emphasis on the importance of and responsibility for internal control over financial reporting by management and TCWG, including fraud prevention and detection programs.

As noted in the discussion paper and elsewhere, the responsibility for detecting fraud rests first and foremost with management and TCWG of an entity. Discharging that responsibility occurs through the proper design and operation of internal controls over financial reporting. Policy makers, regulators, and listing exchanges play a key role in the financial reporting ecosystem and have the ability to swiftly impose requirements to increase awareness and accountability of management and TCWG for developing and adhering to robust fraud prevention and detection programs. Such requirements could include those similar to Sarbanes-Oxley (SOX) requirements in the US or analogous regulations in other countries. In particular, it is worth considering the merits, balanced against other factors such as cost, of establishing requirements for management to assess and provide personal certifications regarding the operating effectiveness of internal controls, including controls to prevent and detect fraud. Disclosure by management and TCWG of its fraud risk assessment processes and anti-fraud programs and controls would provide users with valuable information and insight into the entity's corporate culture. Such internal control programs could then be subject to audit procedures consistent with increasing the auditor's focus on internal controls.

Metrics or studies related to the impact of SOX or analogous regulations on the quality of financial reporting warrant consideration by the IAASB and regulators, as stronger regulation could result in providing more reliable financial information to the investing public.

Stronger laws and regulations to impose serious consequences for individuals and entities for fraudulent financial reporting or misleading the auditors and protecting employees who provide evidence of fraud.

The regulatory and legal frameworks in many countries do not provide for adequate or equal oversight across the various constituents in the financial ecosystem. While auditors are closely regulated, in some jurisdictions only the entity itself is authorized to hold executives accountable for inappropriate actions.

Providing a strong legal deterrent (power to investigate and sanction) to willfully issuing inaccurate financial statements, providing false personal certifications to the public, or misleading or lying to auditors would result in the reduction of such acts. Additionally, research has shown that internal tipoffs are by far the most common method of initial fraud detection (see 2018 Global Study on Occupational Fraud and Abuse by the Association of Certified Fraud Examiners, which states that "tips account for 40% of initial fraud detection"). Preventing retaliation against whistleblowers by imposing strict penalties (fines and/or other appropriate punitive measures) would increase the willingness of employees with inside information, suspicion, or evidence of possible fraud to speak up.

Improved financial reporting requirements by the IASB (and where needed, other accounting standard setters) related to going concern.

We believe that many of the current challenges related to going concern are due to a lack of clarity in the requirements within certain accounting standards (IFRS Standards and possibly other jurisdictional accounting standards). Management is responsible for the assessment of the entity's ability to continue as a going concern and the preparation of the financial statements in accordance with that assessment. Because of the lack of clarity in IAS 1, Presentation of Financial Statements, related to how management performs that assessment, auditors may look to requirements in the auditing standards to challenge management on the adequacy of their assessment and disclosure. Instead of creating accounting requirements via auditing standards, IFRS Standards should provide a clear framework which:

Requires the performance by management of an assessment of the entity's ability to continue as a going concern;

Expands the time period of management's assessment to cover twelve months from the date of approval of the financial statements, not the reporting date (for example, as already required by the UK Corporate Governance Code) and US GAAP);

Specifies that developments after the reporting date but before the financial statements are approved should, as necessary, be factored into the assessment of going concern even if they are not themselves adjusting events under the general requirements of IAS 10, Events After the Reporting Period; and

Clearly defines what is meant by “material uncertainty” and “significant doubt.”

In addition, DTTL notes that the requirement to disclose the judgments made by management in “close call” scenarios (where it is unclear whether a material uncertainty over going concern exists) is currently encapsulated only in an IFRS Interpretation Committee Agenda Decision (July 2014) referring to the general requirements of paragraph 122 of IAS 1 on significant judgments made in the process of applying the entity’s accounting policies. This Agenda Decision is used in the IFRS Foundation’s recently published educational material “Going Concern – A Focus on Disclosure” to illustrate different disclosures that might become appropriate as an entity’s circumstances deteriorate. While we believe this illustration is useful (and consistent with existing guidance, for example, from the UK Financial Reporting Council), its recommended that a clear and concise framework for disclosure relating to going concern be added to the IFRS Standards themselves.

The IASB may also consider including, in its Practice Statement on Management Commentary, a requirement (similar to those already in existence in some jurisdictions) for management to provide a longer-term viability statement to the public which includes specific information (not simply boilerplate language) that articulates their business model, short/medium/long term strategies, and risks to the business model.

Application by management of a clear framework laid out in IFRS Standards related to going concern would enable

auditors, under existing auditing standards, to more consistently evaluate management’s assessment, plans, and disclosures. In addition, more robust disclosures would provide financial statement users with more insights into an entity’s future performance.

Increasing focus of internal audit on detecting fraud.

For those entities which have established an internal audit function, this group of individuals plays an important role which management and TCWG could leverage to increase the ability to detect fraud. For example, an entity’s internal audit function could be given enhanced responsibilities to review and assess management’s anti-fraud procedures and controls. Policy makers, regulators, and listing exchanges could encourage entities to establish internal audit functions and suggest potential areas of focus to enhance monitoring of internal control over financial reporting.

Education for the public regarding inherent limitations of predicting prospective performance as it relates to evaluating an entity’s ability to continue as a going concern.

Regardless of the thoroughness of assessments performed by management, evaluations performed by the auditors, disclosures included in the financial statements, and explanatory material provided in the auditor’s report, predicting prospective performance is difficult. Potential effects of the inherent limitations on the auditor’s ability to detect material misstatements are greater for future events or conditions, including those that may cause an entity to cease to continue as a going concern. Professional accountancy organizations, policy makers, regulators, and listing exchanges should collaborate on how to educate users of the financial statements about how to identify potential red flags of poor future performance themselves—by more thoroughly understanding the entity, industry, competitors and business environment, as well as considering additional information available outside of the financial statements.

Education or educational requirements for entity management and TCWG.

It is critical for TCWG to play an active and informed part in overseeing the entity. Additional education to management and TCWG in matters such as the development and execution of effective anti-fraud programs and controls could be championed by professional accountancy organizations, board associations, shareholder groups, or required by listing exchanges, and would help enhance their knowledge of matters key to responsible governance.

With that in mind, DTTL urges the IAASB to keep in mind the points of principle outlined below when considering the scope of revisions necessary to requirements in the auditing standards in order to achieve the overall objective of improved financial reporting and reliability of audited financial statements.

As pointed out in the discussion paper, the responsibility for identifying and providing users with information on fraud and going concern is shared across multiple participants in the financial reporting ecosystem (e.g., the board of directors, audit committees, senior management, internal auditors, and external auditors) beginning with management and those charged with governance ("TCWG") through the proper design and operation of internal controls over financial reporting.

DTTL believes that, in jurisdictions where there is currently limited or no requirements or guidance for entities with respect to such areas, more assistance should be provided to enable management and TCWG to more effectively discharge their responsibilities for the prevention, detection, and communication of matters related to fraud and going concern.

High quality financial reporting requirements, including requirements for transparent disclosures and accountability for strong entity internal controls, are foundational.

DTTL encourages policy makers, regulators and listing exchanges to create requirements to increase awareness and accountability of management and TCWG for developing and adhering to robust fraud prevention and detection programs and impose serious consequences for individuals and entities for fraudulent financial reporting or misleading the auditors.

### Ernst and Young (EY)

Additional actions that could be taken by others include enhancements to corporate reporting, with a focus on expanding transparency related to management's responsibilities for prevention of fraud and assessing the entity's ability to continue as a going concern. We also see an opportunity for improvements in corporate governance for Public Interest Entities (PIEs), such as setting expectations for a system of strong internal control that includes fraud risk specifically and management and director certifications on the content of financial statements as well as internal control over financial reporting. Such enhancements would also enable more substantial enhancements to auditor responsibilities.

Fraud

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

As it relates to corporate governance, the recommendations outlined in the EY publication for public interest entities (PIEs) include:

Implementing a system of strong internal control over financial reporting that includes fraud risk specifically. Lack of or weak internal controls increase the risk of fraud as such weaknesses provide greater opportunity for fraud to be perpetrated. According to findings by the Association of Certified Fraud Examiners (ACFE) in its 2020 Report to the Nations, a lack of internal controls could contribute to nearly one third of all frauds.

Exploring management and director certifications on the content of financial statements as well as internal control over financial reporting. Such certifications could provide a basis for expanded reporting by the auditor (refer to our response to Q2(d)).

Expanding responsibilities for measuring and overseeing corporate culture and the influence of incentives. We agree with the observations on the importance of corporate culture and tone at the top made in the Management and Those Charged with Governance section of the Discussion Paper. There is an opportunity for all involved — management, boards, auditors and regulators — to focus more on corporate culture and behaviors to support fraud detection.

Establishing strong whistleblower programs that both encourage and protect those who make reports. We note that the Discussion Paper does not include any specific discussion on whistleblower programs. These programs are often the channel of last resort available internally before issues are taken up externally with other than the company. The ACFE views whistleblower programs as an effective entity-level control that an entity can implement as part of its fraud risk management programs. Where such programs exist, the auditor could understand the types of information being reported through such mechanisms as part of procedures performed to identify fraud or non-compliance with laws or regulations.

Where similar measures, as those recommended above, have been implemented (e.g., in the Sarbanes-Oxley Act in the US), they have led to better accountability of management and those charged with governance over the financial reporting process, improvements in audit quality, decreased severity of restatements and increased investor confidence.

As it relates to capital markets supervision, the recommendations outlined in the EY publication for PIEs include:

Minimum corporate governance and reporting standards should be required as a precondition for a listing on a major stock market index.

Where auditors have obligations to escalate, or determine whether to escalate, any breaches of laws or regulations that may impact the financial statements, the circumstances in which auditors have to report should be clearly defined in law or regulation and the reporting channels should protect good faith disclosure. Importantly, the regulator receiving reports should have a corresponding obligation and the resources to act on the information they receive.

In addition to the above, we agree with the suggestion in the Discussion Paper that an understanding of forensics and fraud awareness should be part of the formal qualifications and continuing professional development for all auditors. We also believe that steps could be taken to enhance auditor's professional skepticism through education and training in topics such as behavioral science, including the concepts of conscious and unconscious bias. We encourage the IAASB to liaise with the International Panel on Accountancy Education to encourage their consideration of embedding such skills and training into education standards and curricula.

However, it is critically important for all stakeholders to recognize that enhancements to the ISAs alone are not likely to have a substantial enough effect on the expectation gap. All members of the financial reporting ecosystem (as listed on page 8 of the Discussion Paper) need to work together to achieve meaningful change, including establishing increased reporting requirements for entities that address both fraud and going concern.

### GTI

An alternative approach may be to focus on providing training for auditors on forensic skills. This could be developed by IFAC in conjunction with jurisdictional member bodies and could be required as part of the accountancy qualification for those new to the profession and required as continuing professional education or development for qualified professionals.

An alternative approach may be to focus on providing training for auditors on forensic skills. This could be developed by IFAC in conjunction with jurisdictional member bodies and could be required as part of the accountancy qualification for those new to the profession and required as continuing professional education or development for qualified professionals.

In our view, all stakeholders in the financial reporting ecosystem need to be responsible and accountable for narrowing the expectations gap. Only through this shared responsibility can the expectations gap ever be decreased. More specifically, we believe that the knowledge gap can be decreased through the following actions:

All stakeholders – Better education of, and understanding by, the public on the following:

The difference between the different types of engagements, for example, an audit, a review engagement, including interim reviews of historical financial information, or a compilation engagement and the differing levels of assurance, if any, provided by those engagements;

Management's responsibilities under the applicable financial reporting framework, including specific responsibilities in relation to fraud and going concern;

The auditor's responsibilities in relation to fraud and going concern in each of those engagements, as well as the true nature and inherent limitations of "reasonable assurance;" and

The differences between the going concern basis of accounting, the identification of a material uncertainty relating to going concern and the future viability of an entity.

Regulators and others responsible for developing financial reporting frameworks – Clarifying the responsibility of management and those charged with governance, as the first line of defence, to:

Consider the potential for fraud in assessing risks to the organisation's objectives;

Develop a robust system of internal control to address the assessed risks to the organisation;

Identify suspected or actual non-compliance with laws and regulations;

Identify suspected or actual fraud;

Identify and remediate weak control environments;

Perform robust analyses of an entity's ability to continue as a going concern;

Include robust disclosures in the financial statements in respect of these matters.

Regulators – Performing research to form a better understanding of the specific causes of corporate failures or scandals concerning accounting improprieties. By fully understanding the root causes, actions can be taken by the appropriate parties to prevent future occurrence. As noted in our response to question 1(a), thematic reviews could be used to add to the general understanding through the anonymous analysis of the work of auditors in the areas of fraud and going concern, including situations where the auditor has been effective in identifying and responding to risks of material misstatement arising from fraud and going concern.

**KPMG**

We set out our views on each of the solutions proposed in the DP in further detail below:

Requirements for auditors to receive training in forensic accounting and fraud awareness as part of the formal qualification and continuous learning process

We are supportive of initiatives to upskill auditors in this area, both at the start of, and then throughout, their professional careers, which we believe would be beneficial across all audit engagements. We recommend that training be closely aligned to core audit principles with a focus on identifying 'red flags' in respect of fraud risks; when it is most necessary, and how, to exercise professional scepticism in this area, and relevant considerations for determining when it would be appropriate to involve forensic specialists.

We also suggest that such training, in focusing on risk identification and exercise of professional scepticism, cover aspects of corporate culture and tone in relation to the elements of the 'fraud triangle' regarding pressure and rationalisation. To date, much of an auditor's focus has been directed towards the 'opportunity' aspect. However, broadening of training to also incorporate wider consideration of corporate culture and economic circumstances in relation to 'pressure', as well as human behavioural science to address 'rationalisation', including aspects of auditors' own behaviour such as conscious and unconscious bias, and cultural differences in business practices, given that audits are performed on an increasingly global basis, would also be of significant benefit.

We highlight, however, that care needs to be taken with this solution not to widen the expectation gap by creating the impression that in undergoing such training auditors would have a similar skillset to forensic specialists and would be effectively performing a 'forensic audit' as part of a financial statements audit.

We also highlight that any changes to requirements in auditing standards regarding the role of the auditor and information to be included in the auditor's report may need to be predicated on corresponding and equivalent changes to financial reporting standards, e.g. IFRS Standards (in particular IAS 1), as well as legal/ regulatory/ corporate governance framework requirements, including in relation to disclosure requirements. Similarly, we highlight that new information about going concern and fraud matters should not be introduced via the auditor's report, which is focused instead on clarifying what the auditor has done to evaluate management's assessment and may provide commentary about procedures, when relevant. Instead, such information should be provided by the entity itself, e.g. in Other Information such as the front section of the annual report, as management is primarily responsible for these areas and is best placed to perform (initial) assessments and provide detailed information about these areas.

Audit is One Piece of the Puzzle

An audit is only one piece of the puzzle in the wider financial reporting ecosystem. Notwithstanding the fact that the auditor has a very important role to play in facilitating public trust in the capital markets, we consider that any changes made to the role and responsibilities of auditors in the ISAs, or the pursuit of separate engagements in the form of an integrated audit or assurance engagement in accordance with the ISAE 3000 (Revised) suite of standards, would need other stakeholders to make corresponding changes in respect of the roles and responsibilities of others in this ecosystem. Changes to roles and responsibilities would need to be substantially aligned and implementation would need to be appropriately sequenced to enable the ecosystem to operate effectively as a whole. We recognise that this would necessitate the introduction of legal/ regulatory/ corporate governance code requirements, which would take place on a jurisdiction by jurisdiction basis, with this evolution occurring at a different pace across different jurisdictions.

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

### Mazars (MAZ)

Entities should dedicate more time and resources to the implementation of an internal control framework dedicated to the prevention, identification and correction of fraud. Consideration could be given to specific reporting from the entity for at least PIE entities;

In addition to the above, what could be done for all entities:

On the two topics of fraud and going concern:

More education, pedagogy around the two topics throughout the audit process, in the auditor’s report and during Shareholders‘ meetings. Focus by regulators and standards setters on developing educational material, as has been done by the IAASB, that can be presented to Audit committees and other stakeholders to give more explanations, insights about the role of the auditor and main concepts around audit (risk-based approach, materiality, key audit matters etc.) ;

Although the IAASB has no authority to call for local laws, defining internationally established best practices for good corporate governance, such as compulsory audit committees with independent members for entities with certain characteristics (PIE; size etc.) . This is especially important to have a robust governance when there is a very dominant senior management. Also, the senior member of the supervisory board and audit committee need to have appropriate qualifications and knowledge in the area of financial statements, and the relevant industry to be able to challenge management independently and properly. Defined expectations on the financial qualifications (“financial expert”) should be considered.

Increased guidance from regulators and standards setters including guidance and examples, including:

Fraud use cases / accounting schemes;

Around the enhanced risks resulting from the increasing extent of electronic audit evidence and highly automated entity processes.

Make it compulsory to enrich the training course for auditors on risk management, fraud investigations, CSR and IT security;

More guidance from standard setters around the application of professional skepticism and unpredictability in audits could facilitate better audit fraud procedures;

One of the challenges to developing consistent approaches to address fraud and going concern comes from the fact that, no international bodies addressing corporate law or corporate governance. We recognize that such mechanisms are difficult to design given the desire for a level of autonomy by countries when it comes to national law or regulation. However, having some universal and guiding principles would benefit all members in the financial reporting ecosystem. For example, in France, there is an alert procedure that allows the auditors to require the entities to call for a general shareholders meeting whenever it is necessary.

So, the question raised in the discussion paper is what more can be done by the auditors to reduce the expectation gap.

As a pre-requisite for the effective implementation of any new proposals or measures on both topics of fraud and going concern, we strongly believe that, at least as a short term for most-exposed entities and PIE as a priority, the following could be done:

In terms of Corporate Governance

The evolution of Corporate Governance, to manage and mitigate risks associated with dominance of certain individuals in the management, or as executive directors, is a must;

Non-financial reporting should be high on the agenda of Corporate Governance, to drive CEOs to be accountable for long term value creation, instead of short-term financial results and shares plans for management.

In terms of internal control

Introduction of increased internal and external reporting on key controls, increasing the personal responsibility and accountability of management, and board members (via Audit Committee oversight re shareholder protection / resilience / sustainability / fraud / cash forecasts);

Improving and / or expanding corporate fraud prevention efforts (including robust internal control) and developing going concern red flags (including basic but reliable cash forecasts in all entities) to identify issues arising timely;

More timely and transparent communication and reporting, not only from the auditors, but also, and first, from the Management and Those Charged With Governance. This includes especially the public disclosure of the basis for the going concern assumption, even if there is “no problem”, in the notes of the financial statements;

Management must report on the effectiveness of internal control

The audit committee must exercise greater responsibility for the company’s internal control, by setting up a risk and internal control quality dashboard

More active involvement and challenging of the Management by Those Charged With Governance, especially when there are dominant individuals; and

For PIE, reporting from the audit committee (AC) / Board to be public on select areas, including the key elements of challenge by the AC or the Board vis à vis Management. Such reporting which is already encouraged in some jurisdictions, could be helpful to enhance robust governance and transparency.

While the role of the auditor is key, the role of the Management and Those Charged With Governance (TCWG) is crucial together with different stakeholders (such as banks when focusing on going concern issues). As mentioned in the paper by the IAASB chair “we [the auditors] cannot narrow the expectation gap alone”.

However, a reminder of the primary responsibilities of the role-players, including the differences between management, governance (TCWG. Boards, Audit committees), and the auditor, through public / stakeholder engagement, is necessary but not sufficient.

We believe it is high time to join efforts and forces for an integrated approach among legislators, corporate governance actors, accounting and auditing standard setters. Benefits of an integrated approach include:

Enabling all stakeholders to approach the going concern and fraud risks with a more consistent view of business risk and financial information;

Increase usefulness of information for all stakeholders compared to a solely auditing approach or silo approach;

Aid in the development of best practices for governance and audit committees (using for example the ones issued by the International Organization of Securities Commission (IOSCO) ;

Improving consistence in thought leadership papers focused on addressing and mitigating fraud and going concern issues produced by institutions, organisations, and other stakeholders, with a common view of the how all parties can support the public interest and design a kind of coordinated action plan with an effective, but limited number of integrated measures ; and

Reinforcing the need for an improvement in the training and education of all stakeholders in a common set of expectations and understanding.

The status quo is not an option, neither for the auditors nor for the other stakeholders. Actions must be taken if we are to reduce the expectation gap.

### Mazars USA (MAZUSA)

Response: Given our response to Question 1(a) is focused on a lack of common understanding, education of the preparers and external users of financial statements is the best way to narrow the expectation gap. Such education should address the key roles that lead to the divide, namely, the respective responsibilities of management, TCWG and the auditors. This education can be accomplished in a variety of forms, and would best to come from all interested parties, management, the auditors, regulators, institutional investors, and standards setters in the form of expanded communication and tools related to what is expected from each participant in the financial reporting ecosystem. This interconnected approach would help narrow the expectation gap.

While we recognize that financial reporting standards and certain other disclosures required by regulators are not the purview of the IAASB, we believe that improving disclosures around fraud prevention and the consideration of the going concern assumption would assist with closing the expectation gap. Disclosure regarding fraud prevention might focus on detailing the client’s key processes, structure and controls that support the accurate reporting of financial information. Enhanced disclosures around going concern might address both the key assumptions that support the conclusion as to the appropriateness of reporting on a going concern basis and greater transparency around management’s assessment of potential risks. When there is a close call, or the going concern basis is not warranted, additional disclosures of key assumptions around financial modeling may be appropriate. Given management assessments of going concern vary widely in terms of approach and diligence, we believe that financial reporting standards globally should establish a more detailed, diligent financial reporting framework for management to follow in building their going concern analysis. We believe that convergence among regulators and financial reporting standard setters on these topics would benefit the users of the financial statements and assist in closing the expectation gap.

### MHA Macintyre Hudson (MHA)

Other gaps will involve different parties to a greater or lesser extent.

There is an increasing necessity for auditors to be proficient in fraud risk assessment and the use of technology (e.g. data analytics) and we suggest that the training of auditors should be enhanced in these areas, as highlighted by Sir Donald Brydon's review in the UK.

While we accept that auditors can do more and that IAASB can contribute to this through standard setting, the expectation gap cannot be addressed by any one or a small number of players in the financial reporting ecosystem. It will require a fully joined up, intelligent response from all stakeholders involved to ensure that all aspects of the expectation gap can be effectively addressed. Therefore, the IAASB must ensure that it is engaging with all the relevant communities to ensure successful changes are introduced.

For example, taking just the performance gap at a high level:

improving auditor performance alone cannot address the expectation gap, even if audit quality were perfect, as the knowledge and evolution gaps are still relevant

the IAASB, in combination with auditors and mature, sophisticated and balanced regulators, can help address the performance gap by setting standards which are clear, understandable and can be applied and understood consistently by both auditors and regulators without the need for extensive interpretation

the importance of management and those charged with governance in ensuring that the auditor receives timely, effective documentation to support, for example, a going concern assessment, and in ensuring effective controls to prevent and detect fraud cannot be underestimated. For example, the lack of proper management assessment of going concern in many instances is an issue which needs to be addressed by other stakeholders (e.g. accounting standards setters, boards and management).

### MNP LLP (MNP)

Securities regulators may contribute to investor needs with more refined guidance regarding expectations for Directors and management of organizations about their responsibilities regarding fraud and going concern.

### Moore (MGN)

In terms of what could be done, by the IAASB or others, we believe considering the following could be a good starting point:

Promoting and facilitating a mutual understanding and knowledge of the expectations and roles of stakeholders and all participants in the financial reporting ecosystem (this could not be done by IAASB alone, in all likelihood, but IAASB could play a key coordinating role).

### Nexia International (NI)

There should be enhanced regulatory requirements for TCWG to connect with other stakeholders to make sure that the public perception is being managed, rather than leave this responsibility to the auditors. Regulators and accounting standard setters need emphasise that this is primarily a management and corporate governance issue. There should also be requirements for TCWG to communicate significant matters from the audit to the wider stakeholder group.

We also believe that the IAASB should encourage the IASB to enhance the requirements in accounting standards to disclose management’s approach regarding the risk of fraud and the evaluation of going concern.

### PricewaterhouseCoopers (PWC)

As noted above, addressing stakeholders' evolving needs will necessarily involve regulators looking at how the responsibilities of all of those in the corporate reporting ecosystem may need to change, and interrelate, to provide the infrastructure needed to support such insight.

broader accountability reforms, such as giving consideration to a requirement for entities to provide a statement on the effectiveness of their internal control over financial reporting, with associated assurance required for some entities.

Exploring such changes would require concerted action across stakeholders.

Discuss how regulators of certain types of entities, for example financial institutions, may be in a position to provide timely communication of relevant information to which they have access in order to assist auditors in the assessment of risks of material misstatement and design of responses;

Through IFIAR, understand from national and global audit regulators the nature of deficiencies identified relating to fraud and going concern as well as any best practices identified while conducting inspections;

Through IOSCO, discuss with regulators about if, and how, relevant securities regulations might be providing, or could facilitate, the provision of information users are seeking; and

Highlight that the current scope of the audit does help to mitigate fraud (incidence of fraud would be exponentially higher in the absence of an audit) and, in that context, have open and honest dialogue about the practicalities and cost/benefits of the changes that stakeholders seek (for example see our response to question 2(a) with respect to non-material fraud).

Fraud schemes

In addition to the matters we note in response to question 2, we believe there is merit in developing practical worked examples or case studies explaining common fraud schemes and fraud risk indicators. Fraud schemes constantly evolve. Drawing on the experience and insight of forensic specialists to develop current examples of common or emerging fraud schemes and related indicators could heighten awareness and better enable auditors to be alert to fraud risk indicators in their audits. The IAASB (or IFAC) could play a valuable role by developing examples or case studies. A digital repository, updated on an appropriate periodic basis, supplemented by an annual Staff Practice Alert drawing attention to any changes, might be one way to do this. Regulatory authorities are also well placed to share insights from oversight activities, including investigations. The IAASB (or IFAC) could collaborate with jurisdictions to obtain examples of findings, guidance or other similar example repositories that may have been developed that could inform any such global guidance materials. For example, in the UK, the Brydon recommendations call for an open access case study register detailing corporate frauds. More frequent touchpoints with jurisdictional bodies could also facilitate more timely updating of any such materials.

Need for coordinated reform across the ecosystem

More could be done to help stakeholders better understand the risks of fraud facing an entity, the controls in place to mitigate those risks and the relative responsibilities of management/directors and auditors. To achieve these sorts of reforms, the responsibilities of the auditor need to be aligned with the responsibilities and disclosures required of management, supplemented by robust dialogue with those charged with governance about their observations and oversight. The accountability and governance of preparers creates a necessary foundation for complete, accurate and insightful corporate reporting. Audit cannot effectively compensate for weaknesses in the corporate reporting regime. We encourage the Board to focus on broad ecosystem-based solutions. Solutions based on limited scope changes to the auditing standards alone are unlikely to meaningfully address stakeholders' calls or reduce the expectation gap. Change that "moves the dial" on fraud and going concern will require broader coordinated reform.

The legal and regulatory environment in a jurisdiction also has direct implications for the audit, perceptions of the audit, and the effectiveness of the corporate reporting ecosystem as a whole. The strength of the legal and regulatory environment is an important contributor to the perceived usefulness of information provided to stakeholders, in terms of promoting an environment of accountability, transparency and communication. However, the legal and regulatory regimes that underpin individual jurisdictional reporting ecosystems vary. It may be difficult for the IAASB to develop broader solutions that work globally across entities of all sizes and complexities (listed and unlisted entities). Changes to auditing standards may also not be operable in isolation of other important considerations, such as auditor legal liability frameworks.

Recognising this, we believe there would be significant benefit in the IAASB working with others to coordinate a country-by-country analysis to better understand the conditions (regulatory and legal structures) in which the ISAs are expected to be applied, to provide insight and help inform further consideration of appropriate responses (for example, leveraging any work done by IFAC, the IASB, the OECD, Transparency International, the World Bank and the IMF, to highlight opacity-related accounting/financial reporting and business issues). This has been done for income tax compliance and corruption indices and can serve as a catalyst for change. More transparency for users about the landscape in which ISA audits are conducted, and the strengths (or weaknesses) of other elements of the financial reporting ecosystem, could be helpful to reduce the expectation gap and to potentially further the dialogue about what actions could be taken by others that would complement actions by the IAASB. For example, we believe it would be useful to understand:

the types of information stakeholders are seeking and the consistency of provision of such information across jurisdictions; and

where viability problems were identified for entities in a jurisdiction, what went wrong with the sufficiency or credibility of information reported by those entities such that stakeholders were unaware of the issues.

### RSM International Limited (RSM)

A further possibility would be for financial statements to include an explicit statement by those charged with governance regarding the responsibilities of management with regards to fraud and going concern. This is already in use in certain jurisdictions, sometimes in the form of a solvency statement. Broader adoption of this approach should be evaluated and engagement with key local legislative bodies could be considered. This consideration should also include the needs of users of the financial statements, such as whether such explicit statements are of equal value to all users of financial statements or of heightened value to public interest entity or listed entity financial statement users.

Given the current responsibilities under the extant ISAs, the IAASB and others should continue the focus on communicating the responsibilities of management, those charged with governance and auditors to equip users of the financial statements with an understanding of their respective responsibilities with regards to fraud and going concern

In terms of the evolution gap, as the expectations of users of the financial statements change, the audit profession should change to be responsive to user needs. It will be imperative that changes to the audit profession are done in concert with changes to the entire financial reporting ecosystem. Activities and responsibilities of management and those charged with governance are foundational to all changes made by auditors and will also need to evolve to align with user needs.

We also recommend the IAASB collaborate with Accounting Standards setters to improve the financial statements disclosures upon which auditors express an opinion.

With respect to the performance gap, the increased focus on quality management at firm level that will be introduced through the International Standards on Quality Management should, in our view, improve the performance of audits in these areas. Individual firms and networks will be enhancing existing processes and controls to mitigate the risks associated with the poor performance of procedures on fraud and going concern.

### 5. Public Sector Organizations

### Auditor General of South Africa (AGSA)

Increased reporting related to the primary responsibility of management and those charged with governance for the assessment of going concern and the prevention and detection of fraud may be considered as part of the annual report. This could include specifying who is responsible for these functions as well as cases of fraud identified and which actions or consequences have been taken in response. This may provide some relevant information to the public and also serve as a deterrent to those considering to commit fraud. This may be a matter for IPSASB/IASB to consider.

### Australasian Council of Auditors General (ACAG)

Considering the inclusion of disclosures about what has caused (control breakdowns or misstatement in judgements) material restatements of a financial report due to fraud.

Improving disclosures of the stress testing or scenario analysis within financial statements for going concern within IAS 1 Presentation of Financial Statements

Considering whether Director's Declaration or equivalent attestation to fraud and error controls may make a difference to the emphasis placed by the Directors on the control environment.

Continued development of auditors in:

the application of the requirements of ISA 240 including analysis of information (clients' processes and monitoring of fraud risk and communication in managing fraud risk, data), and risk assessments, to apply scepticism and where appropriate collaboration of management's fraud risk assessments with other evidence.

data analytics

professional scepticism.

The requirements of the current standards are considered adequate with respect to identifying and assessing risk of material misstatement in the financial statements due to fraud. . Execution is critical in terms of professional scepticism and improved ability for analysis with data analytics.

If enhanced requirements are introduced, they need to be risk based and scalable. There also needs to be a holistic approach, starting with management and those charged with governance to set the tone at the top, in conjunction with efforts from standard setters, professional bodies and the profession itself, in order for any changes to be successful.

In the public sector the mandate of the Auditor-General may include considerations that relate to probity, propriety and compliance. There may be enhanced expectations around fraud as a matter of public or parliamentary interest. The response to any such interest is better placed in the hands of Auditors-General than to be dealt with by general auditing standards given that any such work is set out with the intention of being additional and informed by that audit office's user interest. Additional complications for public sector auditors with respect to third party fraud in item eight below.

### New Zealand Auditor General (NZAG)

Enhanced external reporting by auditors

We agree with the comments made by the IAASB in the discussion paper that the synergies between auditors, standard-setters and regulators and audit oversight bodies is critical to the effective functioning of the financial reporting ecosystem.

We believe that some matters related to the expectation and performance gap can be addressed through stronger direction from regulators and audit oversight bodies, combined with a strong focus of independence on auditors, as discussed earlier.

The IAASB may be aware of legislation in South Africa that requires "reportable irregularities" observed by an auditor for certain categories of audit to be communicated to a regulator – a form of mandatory whistle-blowing.

We raise this because whistle-blowing can play an important role in enhancing the effectiveness of corporate governance. In particular, legislation mandating that auditors' blow the whistle can assist in overcoming agency-related costs and improve confidence in external audit.

The IAASB could consider setting requirements for auditors to report externally on particular irregularities.

Ensuring preparers and auditors have continuing education on their roles, responsibilities and knowledge. This may help address the knowledge, performance and evolution gaps of the auditors.

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

In addition, the introduction of mandatory auditor rotation, either via ethical requirements or assurance requirements could serve to heighten or renew auditor skepticism and objectivity, while simultaneously introducing greater variation in audit approaches which may serve to improve auditor performance in the detection of fraud and going concern issues, which may then serve to narrow the gap via improvements in performance.

We note the other matters presented on page 31 of the Discussion Paper included required forensic training for auditors. We would support initiatives to deepen auditors' understanding of fraud, in particular management reporting fraud and its detection. Given the ever changing audit environment, such training should be an ongoing activity and specific annual professional development obligation of the auditor.

We note the other matters presented on page 31 of the Discussion Paper included required forensic training for auditors. We would support initiatives to deepen auditors' understanding of fraud, in particular management reporting fraud and its detection. Given the ever changing audit environment, such training should be an ongoing activity and specific annual professional development obligation of the auditor.

### 6. Member Bodies and Other Professional Organizations

### Accountancy Europe (AE)

General considerations on what could be done

All parties in the financial reporting ecosystem have a role to play in addressing the expectation gap related to fraud and going concern in an audit of financial statements.

What could be done

As a prerequisite for the auditor to do and report more on fraud, it is first necessary that management:

designs and implements internal controls to mitigate fraud risk

discloses publicly the operating effectiveness of the internal controls designed to mitigate fraud risks

A cost/benefit analysis is important to make sure that those actions are practical for small and medium and/or less complex entities. For PIEs, the cost/benefit analysis should also take account of the public interest with any effect on the timeliness of reporting.

### Botswana Institute of Chartered Accountants (BICA)

At the moment there are a few audit regulators across the world. In Africa, there are less than 10 Audit specific regulators, out of 54 countries. This means the work of auditors goes unchecked and therefore performance gap will continue to widen. Jurisdictions should take reasonable steps to come up with measures to ensure that the audit profession is regulated and their work reviewed against the adopted auditing standards.

National Audit Regulators should take the responsibility of educating the public about the nature of an audit of financial statements. The main focus should be those charged with governance and Institutional investors. This will reduce the knowledge gap and help better decision making by those charged with governance and investors.

### Center for Audit Quality (CAQ)

Continued, targeted regulator and/or standard setter education of the public with respect to the responsibilities of management and those charged with governance under International Financial Reporting Standards (IFRS) and the auditor's responsibilities under the standards set by the IAASB may assist with narrowing the "Knowledge Gap" with respect to both fraud and going concern. For example, in response to COVID-19, both the IOSCO and the SEC issued statements that reminded the public that management has a responsibility to assess an entity's ability to continue as a going concern and that such responsibility is not solely the responsibility of the auditor.

Further, we believe that all other participants in the financial reporting ecosystem, including internal and external auditors, audit committees, and management, should continue to educate the public and users of the financial statements as to their particular role and responsibilities when it comes to deterring and detecting fraud. Education also could come in the form of additional guidance related to what is expected from each participant in the financial reporting ecosystem, which may help further narrow the "Knowledge Gap". For example, in the United States, the COSO 2013 Internal Control-Integrated Framework outlines 17 principles to consider for effective internal control over financial reporting, one of which specifically relates to management's fraud risk assessment. Such clarity as to what is expected of management could help users of the financial statements understand how the responsibilities of management, auditors and others interrelate.

As such, we encourage the Board to not only seek feedback on the auditing standards but to work collaboratively with others in the financial reporting ecosystem to seek holistic solutions where possible. As the primary responsibility for fraud deterrence and detection rests with management and those charged with governance, we believe that any potential solution should align with, and consider the efforts by, the International Accounting Standards Board (IASB) and International Ethics Standards Board for Accountants (IESBA), among others.

### CFO Forum

The many accounting scandals over recent years have certainly not helped this matter and have inevitably widened the gap. A further solution for narrowing the gap is for there to be more transparency on recent failings as this normally does not get shared or takes far too long to share with the general public. The envisaged transparency should include the publication of a report detailing the reasons why the auditors did not identify the material matters as well as whether sufficient and appropriate audit work was performed in accordance with all the relevant standards. In addition to general outreach and socialization, impacted regulators may also consider publishing educational material on the topic.

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

b) In your view, what could be done, by the IAASB and / or others (please specify), to narrow the expectation gap related to fraud and going concern in an audit of financial statements?

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

The key areas where an impact can be made that were identified during our outreach are:

The need to refine and improve auditor's skills in relation to fraud detection. This was viewed as preferable to simply including fraud specialists on all engagements, though there may be a role for such specialists in some engagements. Fraud detection skills should be addressed at the university, qualification and continuing professional education levels. This includes finding mechanisms for practitioners to learn from actual fraud cases which often is prevented by long litigation time-frames, non-disclosure agreements and other legal impediments. Sharing of such cases would assist auditors to refine knowledge to adjust risk assessment and audit procedures.

Enhance the responsibilities of management and those charged with governance to manage, and provide transparent reporting over how they have managed, business risks related to financial reporting (including fraud) and other areas which maybe be of interest to stakeholders. This could be achieved by some form of internal controls reporting, subject, where appropriate by assurance. Calls for such regimes have been made in both as per the Independent Review Report of Sir Donald Brydon (the Brydon report) and the recent Australian Parliamentary Joint Committee Inquiry in the regulation of auditing in Australia. We also recognise the cost of such reporting involved for smaller entities, so they need to be developed with appropriate consultation and consideration of which entities should be subject to such regimes.

Similar points were raised during the IAASB's roundtable on fraud and going concern session with the wider stakeholder groups, where some stakeholders noted that there is not much information shared regarding fraud cases after they are discovered which could be used as lessons learned for the wider financial reporting ecosystem. This could also help prevent similar cases occurring in the future. The Brydon report in the UK includes a relevant recommendation that 'ARGA maintains an open access case study register detailing corporate frauds that have occurred in order that auditors can learn in real time from these frauds.' Although this recommendation has yet to be publicly consulted, similar developments could be a starting point at the international level.

The need to refine and improve auditor's skills in relation to fraud detection. This was viewed as preferable to simply including fraud specialists on all engagements, though there may be a role for such specialists in some engagements. Fraud detection skills should be addressed at the university, qualification and continuing professional education levels. This includes finding mechanisms for practitioners to learn from actual fraud cases which often is prevented by long litigation time-frames, non-disclosure agreements and other legal impediments. Sharing of such cases would assist auditors to refine knowledge to adjust risk assessment and audit procedures. Consideration should also be given to the appropriate methods by which forensic specialists could be utilised in audit engagements where the auditor's judgement indicates it is appropriate to use such expertise.

We believe that auditors require enhancements to their skills in fraud detection, but these enhancements would be obtained via training, not via changes to the standards. There was recognition that it is often difficult for experienced auditors to share the knowledge they have gained dealing with frauds as major frauds often involve legal proceedings with associated non-disclosure responsibilities. There should be mechanisms for these lessons to be shared

We have previously heard similar concerns from audit committee chairs about how it is difficult for directors to learn from other directors who have been through corporate failures as they often get tied up in litigation and confidentiality agreements. Management and TCWG also need to be skilled in preventing and detecting fraud, particularly TCWG, as management can often be the perpetrators of major financial statement fraud.

### Confederation of Indian Industry (CII)

There is also a need from professional bodies overseeing the audit profession and accounting qualification to enhance the skills of auditors in areas of professional scepticism, risk identification, technology and analytics to lead to greater detection of fraud. Regulators may set up early warning systems and provide better access to auditors of such data that may be examined during audit. In respect to the standard on going concern there should be greater guidance on implementation and examples of behaviours that reflect professional scepticism.

### CPA Australia (CPAA)

Fraud could be addressed by:

Regulatory requirements for internal control assessments to be reported by management and externally assured, which may be limited to selected categories of entities, such as listed or public interest entities.

Entities electing to obtain periodic fraud risk assessments from a suitable expert.

A centralised register of fraud cases, including how they were perpetrated, how they could have been prevented, red flags which arose and how they were detected.

Governments strengthening whistleblower protection.

An increasing uptake by entities of data analytics and technological tools to monitor controls and activities within the entity, and identify anomalies, coupled with processes to follow up on the output of such techniques.

In addition, we consider that there is a need for a more co-ordinated approach to collation of fraud cases to share with auditors and entities, so they can better understand the methods employed to perpetrate fraud. This would assist auditors by raising awareness of how frauds are being perpetrated and emerging fraud risks, which would be considered in planning their audit procedures. It would also be beneficial for entities, which are on the front line of fraud prevention and detection, to inform adjustments to internal controls and processes necessary to respond to evolving fraud risks and to better identify red flags. Such a role may be fulfilled by national regulators, government bodies or indeed the IAASB itself

Nevertheless, we consider that understanding the fraud risks relevant to the industries and environments in which audited entities operate and methods by which frauds may be perpetrated are critical for external auditors. Such knowledge needs to be part of the education gained by auditors in university, through professional membership and on-going professional development, as well as experience gained in audits and from audit team leadership. This is certainly an area where there may be scope for enhancement and where the experience and observations of forensic accountants are most relevant.

Other stakeholders typically have scope to address fraud and monitor going concern more effectively and in a more timely manner than the external auditors. Prevention and detection of fraud and ensuring the entity remains a going concern is primarily the entity's responsibility and all parts of the reporting eco-system need to be working together to maximise the opportunity to effectively address fraud and the risk of unexpected corporate collapse, thereby reducing the expectation gap. Whistleblowers and effective internal controls systems have historically been the most effective means of fraud prevention and detection. External auditors' work is based on materiality and risk assessment, as a result only selected amounts and usually a sample of transactions and balances, are examined in detail. In contrast, an entity's system of internal controls should monitor and control every transaction and balance. Likewise, an entity's internal monitoring of cash flows and cash flow forecasts, and the viability of its business, is likely to be more effective and timely in identifying going concern issues than the auditor's periodic work after the fact, albeit management may be more optimistic about the likely business outcomes.

### European Audit Committee Leadership Network (EACLN)

Perspectives on the role of the board and the audit committee

European chairs agreed that boards and specifically their audit committees play an important role in fraud prevention and detection. An audit chair explained the tasks that audit committees should undertake: "In the audit committees I'm on, we review the processes that are in place to prevent fraud, including the controls that are in place and the mechanisms whereby individuals who see something wrong can raise them through whistleblowing." The audit chair noted that these tasks are standard for many audit committees: "They are nothing new. Setting those tasks as requirements would be no problem for many audit committees."

In addition to reviewing processes and controls, audit committees and boards can also study specific instances of fraud. An audit chair said that audit committees should assess any cases of fraud that have occurred and the specific actions the company is taking in response. Another noted that this approach can be instrumental in making whistleblower programs effective: "The 'speak-out' program can report back to the board through the audit committee. It sends a powerful signal that the process works if reports to the board get follow-ups. The audit committee can have a huge influence on this."

Again, internal audit is a key ally in these efforts, audit chairs said, and the audit committee should be sure that it is adequately staffed. As one audit chair explained, "The audit committee should use internal audit to receive independent assurance about the adequacy of controls around prevention and detection. I think this is the most important area. We've hired two more internal audit forensics experts at our company to strengthen this function. That's where the main audit function should be when it comes to fraud."

Audit committee oversight could be improved

European audit chairs acknowledged that there is room for improvement in how audit committees handle their responsibilities. "At the end of the day, I think many audit committees need to up their game," one chair said. One approach is through board composition. An audit chair said, "It's about putting together diverse boards. By definition, you then have people of different backgrounds and you end up with just a few sector specialists. What you're trying to do is look at the company from many angles. You're looking for some dimension to the board that isn't related to the sector but that, for other reasons, the board views as important."

Training is also critical, particularly in certain areas. "We probably should have more mandatory education for audit committee members on things like data analytics. We need to decide on a core curriculum and mandate a certain number of hours of education per year," one audit chair said. Another added, "Audit committees would benefit from an awareness and training piece on forensics. One company requires non-executives to do antibribery, anticorruption, and cyber training." Ultimately, audit committees also need to cultivate a certain mindset, an audit chair suggested: "It's not a bad thing for the audit committee to have a questioning mind—it's a collective duty. We are non-executives and independent; we should have a good nose for where risk is and what questions to ask."

However, audit chairs also noted that, even with enhanced training and effort, there are inherent difficulties in overseeing fraud prevention and detection. One issue is the need to have a good relationship with management. As one audit chair put it, "A challenge for boards is the difficulty of having a discussion with the management team that you're supposed to trust. When the news is bad, you naturally dig deeper. But when the news is good, you may be tempted not to question it."

Another issue stems from the inevitable disparity in knowledge between board members and executives. An audit chair explained, "CEOs spend 24 hours per day on the job; they live and breathe it. Boards spend a couple of weeks per year on the company, and it's all stage-managed. You are in meetings planned by executives; visits are preplanned. The shadow of the leader is very powerful. Many executives are hesitant to contradict the CEO, their boss." That imbalance means that one of the most important tasks of the board is selecting the right executives, the audit chair noted: "The board relies heavily on the CEO. Getting that choice right is 90%. If you get it wrong, they can easily deceive you."

Should there be attestation by the board or audit committee?

Attestation along the lines of the US Sarbanes-Oxley legislation, which requires extensive management certification of the internal-control system, already exists or is under consideration in European countries, but the discussion also includes the possibility of attestation by boards or audit committees as well as management. Audit chairs noted that attestation by management has added accountability, consistency, and focus in implementing and maintaining the controls framework.

They had mixed views, however, on requiring such attestation by the board or audit committee. One audit chair tentatively supported the idea: “So long as it’s phrased appropriately, I wouldn’t have problems signing off for the audit committee. It does push liability exposure to board members further, so that would have to be thought through. At the end of the day, the attestation is that the controls are in place but not that they’re fail-safe.” Other audit chairs were opposed to attestation by boards. “If the board also has to sign off, you mix up the supervisory role and the operational role. You have to draw the line somewhere. The signing of the annual report should be sufficient,” one audit chair noted.

Effective internal audit can be a critical resource

Audit chairs were confident in the ability of management, supported by robust, independent internal audit functions, to prevent and detect fraud and generally believed that they should continue filling that role. “Preventing and detecting fraud is management’s job through the first and second lines of defense. You need robust controls, a framework, and a strong tone from the top to manage this kind of risk. That’s the major starting point.” An audit chair emphasized that “solid information-technology general controls are one of the cornerstones of fraud prevention and detection.” These audit chairs serve on the boards of some of Europe’s largest companies. Not all internal audit organizations will have the same level of sophistication and available resources as found in these companies.

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

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

There are strong parallels between compliance oversight and fraud detection and prevention

Several audit chairs noted that overseeing fraud prevention and detection is closely related to overseeing a company’s compliance function, an important component of its second line of defense. Many audit chairs agreed that whistleblower programs are critical to detecting fraud. One explained, “Companies need whistleblowing systems that are managed with independence and proficiency. The audit committee and external auditor should have transparency into specific cases, and internal audit should be involved. We’ve strengthened that role recently in part because whistleblowing is less common in certain geographic regions.” The same audit chair said that one company created an ombudsman role to independently handle whistleblower matters, which would encourage more reporting of potential fraud concerns.

Another audit chair emphasized that, more than facilitating a so-called speak-up mentality, companies should foster a “speak-up obligation, meaning that you are in trouble if you do not speak up when you see something wrong or get a strong indication that unethical activity is taking place. You should have an obligation to raise hands and voices, and not be permitted to look the other way."

Audit committees could do more in their oversight capacity to encourage the detection and prevention of fraud at their companies. Audit committees review the internal control and whistleblowing systems, as well as the company culture, and they can study specific instances of fraud to glean lessons and demonstrate the importance of fraud prevention. Through training and attention to the experience and skills of committee members, they can better overcome the inherent imbalances in knowledge between non-executive directors and management.

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

The IAASB, IFAC, and the Argentine Federation of Professional Councils in Economic Sciences, in the latter case, for the scope of application in Argentina, should redouble their efforts to publicize the objectives of an audit of financial statements in general (ISA 200.11 and 12 ) and the auditor's responsibilities with regard to fraud in an audit of financial statements (ISA 240.10) and as regards going concern issues (ISA 570.9).

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

IAASB in conjunction with other Professional Accountancy Organisations and Regulators should carry out some publicity in order to inform the public about the role of the auditor in an audit of financial statements. The increased public awareness of the nature and limitations of an audit enhances users' knowledge and limits their level of expectation as well as the gap. According to Epstein and Geiger (1994) more educated investors (with respect to accounting, finance and investment analysis knowledge) are less likely to demand higher auditor assurance.

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

Audit regulators should share their detailed knowledge of corporate fraud: good quality information about corporate fraud is hard to find. In the UK, the Brydon report recommended that the new UK audit regulator maintain an open access case study register detailing corporate frauds. We urge IAASB to engage with the audit and capital market regulators who oversee it on this issue. If regulators have it within their power to help achieve their own objectives by their own actions, they should do so. We understand the difficulties associated with opening such registers safely, but these difficulties are not insurmountable. The potential benefits in terms of improved auditor training and enhanced risk responses should reduce the expectation gap.

Fraud demands an intelligent joined up response from companies, investors, auditors, audit regulators and standard-setters. Auditors can and should do more, and those we consulted were clear that they were willing to do so, but a corresponding effort must also be made by others.

We believe that the emphasis should instead be on training auditors with regard to the nature of fraud, in challenging management and in basic forensic techniques. Sir Donald Brydon in the UK recommended that… training in both forensic accounting and fraud awareness be parts of the formal qualification and continuous learning process to practice as a financial statements auditor.

We note in our response to the FRC the Brydon recommendation that the new UK audit regulator maintain an open access case study register detailing corporate frauds. It is surprisingly difficult to obtain good quality information on corporate fraud without trawling through hundreds of pages, often long after the event.

Consistent with IAASB's public interest mandate, we encourage it to engage with audit and capital markets regulators on this issue.

It is not enough for regulators simply to demand that others do more, when it is within their power to help achieve their own objectives by their own actions. We understand the difficulties associated with opening such registers safely, but we do not believe that these difficulties are insurmountable. The potential benefits in terms of reducing the expectation gap are significant and far outweigh the costs. The resulting benefits to auditor training and education will be manifest in better quality risk assessment and design of responses.

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

Effective system of internal controls

We also believe that a strong focus by management and those charged with governance on having an effective system of internal controls over financial reporting can also play a key part in seeking to mitigate the risk of fraud occurring within an organisation. We do therefore believe that there is merit in jurisdictions considering whether they should impose requirements on directors to attest as to whether the entity concerned does have an effective system of internal control over financial reporting. Consideration would also need to be given to the potential involvement of the auditor, if any, in such attestations.

In terms of future steps, we believe there is a need for discussions to take place with regulatory bodies around the globe to try and arrive at a more holistic approach to addressing fraud in the corporate environment. Matters such as internal controls, responsibilities of directors and requirements of financial reporting standards should be considered. A holistic approach would then depend on additional requirements being placed on directors. This could follow the approach as envisioned in Sir Donald Brydon’s report, however, this will be difficult to achieve at the global level and to some extent will require to be jurisdiction specific.

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

Working with other regulatory bodies – the IAASB should encourage greater reporting on the controls management has over fraud, and possibly considering extending the auditors brief to a review or assurance over these controls.

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

We believe that the IAASB, professional bodies, global and regional AUDIT FIRM FORUMS, as well as other groupings can do much to reduce the expectation gap related to fraud and the going concern in a financial statement audit, especially the IAASB for the great prestige and respect of the professional and business community, for the high quality of the standards issued. It is important to delve into the knowledge gap since many times, especially in our Latin American countries, there is an erroneous perception of what the public thinks that auditors do and what we really do. On the other hand, we consider that the IAASB could propose more practical elements and specific recommendations to be taken into consideration in constantly changing environments, especially in extreme situations such as the Pandemic caused by COVID 19 as well as the constant exposure to the derived risk. of money laundering and financing of terrorism in Latin American countries, as well as the scourge of corruption since in these scenarios the risk of fraud and going concern increases.

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

The IAASB and other stakeholders should continue to highlight the value of audit, including the importance of insights from the audit process (e.g., weaknesses in internal controls) to management and TCWG. A related area is for audit firms to ensure that staff also have appropriate training in communication (e.g., “soft skills”).

One of the challenges for the accountancy profession is attracting talent, especially in the field of audit. A more positive portrayal in the media about the value and role of an audit of financial statements for all stakeholders may also help address this important issue. This matter was highlighted well by Sir Donald Brydon in 2019: “It is not auditors that cause companies to fail, that’s the result of the actions of directors. I’m a little troubled by the current mood that reaches for a shotgun aimed at auditors every time there’s a corporate problem. Audit needs to be an attractive profession that attracts the brightest and the best who can have confidence that a good piece of professional work will not be misdescribed in times of stress” .

In our view, the IAASB’s immediate focus should be on developing support material outside the ISAs (non-authoritative guidance) and encouraging other stakeholders (e.g. PAOs and audit firms) to provide further education and training. For example, this could address the mind-set of the audit team and issues such as unconscious bias, which may occur during the phases of fraud identification and fraud response procedures.

IFAC supports the IAASB taking an evidence-based approach to distinguish what aspects could possibly be addressed by standard setting and those aspects that may require action from others (e.g., professional accountancy organizations, regulators, investors, audit firms, academia etc.) in relation to the standards and their adoption and implementation. We agree that the IAASB alone will not be able to address such a perennial issue, but it does have a key role in exploring how it can narrow the expectation gap and in demonstrating leadership (such as through the DP and Roundtables), while encouraging others in the financial reporting ecosystem to also act. For example, one need identified is for more case studies which cover what went wrong in different fraud examples and what the various stakeholders can learn.

Education and Training

We note the suggestion that both forensic accounting and fraud awareness could be enhanced as part of the formal qualification and continuous learning process for financial statement auditors. The IFAC Audit PoV encouraged Professional Accountancy Organizations (PAOs) to ensure professional accountants have access to relevant, high-quality continuing education and certification programs. It is vital that education takes full account of the growing need for technological competence, forensic accounting, and fraud awareness. The International Accounting Education Standards Board’s (IAESB) four International Education Standards (IESs) addressing learning and development for information and communications technologies (ICT) and professional skepticism are effective from January 1, 2021. Whilst it is important for technological competence and fraud awareness to be part of initial and continuing education, forensic accounting is often a post-qualification specialization.

We see a crucial role for audit firms to ensure all staff receive specific fraud training (e.g., on fraud indicators and issues such as confirmation bias). In addition, a greater emphasis could be placed on introducing unpredictability by requiring auditors to adapt or change their audit procedures. In this context it is highly important that the IAASB remains committed to developing principles-based standards that allow innovation where appropriate. Establishing and maintaining a proper tone and culture around fraud, honesty and ethics and professional skepticism is important for the firm’s leadership. Engaging with client’s management and those charged with governance can be challenging for individual staff, so having confidence they will be supported by senior leadership is important.

In general, IFAC also considers that other professional organizations responsible for training and certification of members who rely on financial information (e.g., investors) also play an important education and training role. For example, in relation to communicating the benefits and limitations of audit and assurance engagements.

### Kriton (KNL)

The following measures could help narrow the expectation gap.

Fraud

What

Who

Communicating about fraud risk management (for example in the directors' report or the in-control statement).

Audited entity

National and international regulators (reporting)

Clarifying the definition of fraud, as used in professional regulations.

IAASB

Expanding the scope of ISA 240 (proposal: financial and economic crime, including fraud, corruption, deliberate non-compliance with laws and regulations, money laundering and terrorist financing).

IAASB

Increasing the compulsory theoretical knowledge and facilitating an adequate interaction between theoretical training, practical training and continuous education. Areas of attention include:

Concepts and manifestations of financial-economic crime

Investigation methods and skills (such as interview techniques, CAAT)

Sociology and psychology (aspects of human behaviour)

Specialisation, where necessary (for example, based on risk profiles of audit clients, the role of the professional within the audit firm).

National institutions that determine the exit qualifications for theoretical study, including postgraduate programmes

Providers of theoretical study (universities (of applied sciences))

National professional organizations/regulators

Clarifying ISA 240 (see Appendix 1).

IAASB

National professional organizations/regulators

Providing guidance and good practices regarding activities that might be appropriate in the given circumstances, taking into account the local and cultural context. Examples include subjects such as:

Fraud risk analysis

Brainstorming and discussing fraud during the team meeting

Investigation methods and (technical) resources to be deployed.

National professional organizations

Removing shortcomings in laws and regulations. By way of illustration: in the Netherlands, there is a legal obligation to assess whether an audit client's recovery plan is adequate in the event of a suspicion of material fraud. However, criteria for determining adequacy are lacking.

National regulators

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

Comment:

In order to narrow the expectation gap relating to fraud and going concern in an audit of financial statements, there is a need to adopt a more holistic approach involving different stakeholders (preparers, management, those charged with governance, investors, regulators as well as auditors) in the financial reporting ecosystem.

In addition to enhancing the auditing standards, the IAASB should take the lead to understand the root causes of the concerns raised by the various stakeholders. The understanding of the root causes would be important for the IAASB in formulating what additional actions could be taken across the ecosystem to provide the insights the stakeholders are seeking in relation to fraud and going concern. This will involve looking at the responsibilities of management and those charged with governance in relation to risk assessment, controls, disclosure and transparency, as well as the legal and regulatory infrastructure needed to underpin them, in addition to the role of the auditor.

In this respect, we propose the IAASB to engage the authorities and regulators at the global level to narrow or close the expectation gap relating to fraud and going concern in an audit of financial statements in order that the understanding and messaging cascading down from the respective jurisdictional authorities and regulators are aligned. These institutions can institute jurisdictional changes which can encourage holistic action across relevant stakeholders and bring about positive and sustained reforms.

We suggest the IAASB or local standard-setters with the support of these authorities and regulators to provide education and awareness sessions to the various stakeholders i.e. explaining the roles, responsibilities, scopes and practices of the different parties and how they interrelate and reinforce one another is important to the efficacy of the system as a whole. This will assist to promote a shared commitment for all participants in the ecosystem to improve the quality and transparency of corporate reporting.

We also believe there is merit in providing practical worked examples or case studies explaining common fraud schemes and fraud risk indicators. Fraud schemes constantly evolve, and drawing on the experience and insight of forensic specialists to develop current examples of common or emerging fraud schemes and related indicators could heighten awareness and better enable auditors to be alert to fraud risk indicators in their audits. The IAASB or IFAC could play a valuable role in developing examples or case studies and issuing them as supplementary guidance. These supplementary guidance can be updated more frequently to reflect emerging fraud schemes and considerations related to evolving technology, including how such technologies can be used to perpetrate fraud.

The importance of management having appropriate responsibilities for the identification and management of risks of fraud is evident.  Creating a stronger framework of responsibility and reporting in respect of a company's system of internal control could help improve the prevention and detection of fraud.

We therefore propose the introduction of a framework of responsibility and reporting in respect of an entity's internal control relevant to financial reporting, including fraud-related controls.  The framework would require a clear, public assertion from management/those charged with governance as to the design and operating effectiveness of the entity's internal controls, which would be underpinned by:

A clearly communicated expectation of the level of rigour and diligence to be applied in making that assertion; and

an accountability mechanism with consequences for management/those charged with governance in the event of non-compliance.

Consideration can then be given to a requirement for the auditor to make a corresponding attestation on internal control and the assertion made by management/those charged with governance.

We strongly believe that the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.  An enhanced disclosure requirement should be created for those charged with governance of the entity and management as explained.  For example, Malaysia has introduced a corporate liability provision, i.e. Section 17A of the Malaysian Anti-Corruption Commission Act 2009.  This provision sets out that a commercial organisation is regarded as committing an offence if any person associated with the commercial organisation commits a corrupt act in order to obtain or retain business for the advantage of the commercial organisation.  The only defence available to this offence is to have in place "adequate procedures".  Such "adequate procedures" refer to top-level management's commitment to prevent corruption; a periodic, informed and documented assessment of the external and internal risks of corruption; establishment and implementation of the anti-corruption policies, procedures and controls; monitoring and reviewing procedures that check the efficiency and effectiveness of the anti-corruption programme; and adequate internal and external training programme.  We believe similar disclosure requirements should be introduced in relation to fraud.

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

While it is our view that a knowledge gap is the main contributor to the expectation gap, it is our view that the Profession need to own the process of addressing this gap and one of the ways this can be done is by telling more of the good stories as a way of raising awareness of the successes of external audits (without compromising confidentiality).

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

To begin with, we consider that economic and auditing training should be established from the earliest levels of university education (perhaps even earlier). This is a very topical debate in Spain that is being promoted in different economic and academic forums.

## South African Institute of Chartered Accountants (SAICA)

There is a need to also place more accountability on the other role players such as the preparers of financial statements (Chief Executive Officers and Chief Financial Officers) and those charged with governance (e.g. Audit Committees). Corporate culture and the quality of the reporting and internal controls at the organisation have a significant impact on whether fraud will be detected even without involving the auditor and on whether the going concern basis of accounting is appropriate. Therefore, explicit reporting could be required from both the preparers and those charged with governance on actions that they have undertaken to ensure that they fulfil their responsibilities in these two areas. This management responsibility needs to be given increased public acknowledgement.

The responsibility for identifying, detecting and preventing fraud sits primarily with management and not necessarily with the auditor. Internal controls over the financial reporting process are not, in themselves, designed to address fraud risks. Management have a responsibility to assess fraud risks and to design appropriate responses and controls to mitigate the fraud risks. There is room for enhancements to be made in the financial reporting frameworks to create more transparency on the procedures performed by management in relation to fraud and how they have responded to the fraud risk factors that they have identified. Enhanced reporting by management would clarify their responsibility for the internal control environment and give users of the financial statements an understanding of how they have discharged their responsibilities in relation to fraud in accordance with a clear framework. The auditor would then be required to perform a secondary function of assessing the procedures performed by management against this recognised framework. Therefore, SAICA's view is that the starting point for any enhanced requirements with regard to fraud should first be on the preparers before imposing additional requirements on the auditor. For example, entities should have updated fraud registers that the auditors could review as part of their planning procedures. Transparency should be made in the auditor's report about both the responsibilities of management and the auditor as they relate to fraud. This could assist in narrowing the knowledge gap.

In addressing the evolution gap, the focus should not be solely on broadening the underlying scope and purpose of an audit of financial statements and the role and responsibilities of the auditor. Separate assurance engagements in areas such as the entity's system of internal control (including fraud) or forward-looking information used in assessing the resilience of entities could be performed in accordance with the International Standard on Assurance Engagements 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information, (ISAE 3000 (Revised)) suite of standards. The appropriate reporting frameworks would need to be developed before such engagements may be conducted and this requires collaboration with the relevant reporting bodies.

SAICA is of the view that there is room for improvement when it comes to communication of the reasons for the corporate failures when these occur and after the appropriate investigations have been made by the regulatory authorities. This would give clarity in terms of whether auditors are failing in carrying out their responsibilities in accordance with the current ISAs or not. Significant changes to the ISAs should only be made after a thorough analysis of the investigations into the corporate failures indicates that the root cause was an audit failure due to the ISAs being insufficient or inappropriate. Transparency is required from regulatory authorities in this regard. The IAASB should interact with them in order to ascertain whether the underlying problems are with the requirements included in the ISAs, the application thereof or something else entirely.

The International Forum of Independent Audit Regulators (IFIAR) is an example of a structure that could provide the IAASB with meaningful information on what the causes of the corporate failures could be as this is a forum representative of independent audit regulators from multiple jurisdictions. The IAASB should seek to use its influence to promote transparent and consistent reporting with these type of stakeholders globally in order to get understanding of some of the root causes for these failures. Such reporting may not necessarily prevent corporate failures may give the IAASB insights on how the ISAs may be improved to better serve the needs of the public.

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

The requirements imposed on the auditor must be proportionate to the requirements imposed on the companies. We think that there is room to clarify the auditor's role, but this needs to go hand in hand with enhanced responsibilities of those charged with governance, management and others in the financial reporting ecosystem. In order to achieve the desired results and respond to stakeholders' expectations, changes must be timely and coordinated for all parties. The IAASB should work to influence standard setters to improve financial reporting requirements (e.g., require interim reviews, broaden disclosures of information on material changes in financial conditions or operations). The IAASB should also work with authorities to help them design reasonable consequences for non-compliance.

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

IAASB together with IFAC, IASB, professional accountancy organizations and their groupings such as Accountancy Europe, and the regulator communities should coherently communicate and demonstrate the extent of responsibility of the auditor as well as the responsibility of other parties such as companies' management, audit committees and relevant governmental agencies.

### Wirtschaftspruferkammer (WPK)

At this point we would like to emphasize, that the primary responsibility for preventing and detecting fraud lies with management as overseen by those charged with governance. Management needs to establish internal controls as part of the corporate governance structure and those charged with governance (e.g. supervisory board) are responsible for overseeing this. Enforcing corporate governance should be the starting point and the driver for any measures addressing fraud prevention. This requires a joint effort by all relevant parties, including those charged with governance, management, auditors, regulators and standard-setters.

## 7. Investors and Analysts

### Corporate Reporting Users Forum (CRUF)

All participants in the financial reporting ecosystem, that means: 1) auditors, 2) issuers who should be primarily responsible for preparing appropriate financial statements and preventing fraud, and 3) users of financial statements such as investors and analysts who should properly evaluate and analyze the issuers, are expected to strive to narrow the expectation gap, with the mindset to prevent fraud, as well as understanding the role, necessity and function of an audit. The interest of companies and users of financial statements in audit has increased with the introduction of KAMs and, in the USA, CAMS. Taking this opportunity, further efforts are expected by the participants in the financial reporting ecosystem, including business organizations, investors / analyst groups, and supervisors.

**9. Individuals and Others**

**Alvaro Fonseca Vivas (AFV)**

I have always recommended it and it is training in these topics of fraud, crimes and going business as well as case work and practice in exercises on aspects related to them, with the IES and with the organizations that support the work of the IAASB.

**Christian Minarriz (CM)**

For auditors and IAASB: Provide guidance, application material and training about common fraud schemes (especially for revenue recognition); internal controls and audit procedures which may be relevant for specific fraud risks and schemes; red flags commonly associated with specific fraud schemes.

For auditors and IAASB: create guidance and application material about the use of technology to find fraud and the new risks arising from new technology and how to address them

For regulators: agree to an international convention of basic policies and requirements expected for fraud prevention and detection worldwide (jurisdictions may have more strict but not less strict requirements)

Education standard setters: require minimum training about fraud prevention and detection for public accountants (including basic knowledge of fraud schemes)

**Q1b-1B - No comment**

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

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

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

**International Ait Transport Association (IATA)**

**PIRC**

**9. Individuals and Others**

**Ahmed Al-Qawasmi (AAQ)**

**Constantine Cotsilinis (CC)**

**Dmitrii Timofeev (DT)**

**Michael Bradbury (MB)**

**The Unlimited (TU)**