# Fraud and Going Concern Discussion Paper

## 2b. Is there a need for enhanced procedures only for certain entities or in specific circumstances?

### Q2b.1 - Yes\2b.1(i) If yes, for what types of entities or in what circumstances\Q2b.1(i) - Yes - 01 Anytime the auditor determines is appropriate based on circumstances of the entity

#### 2. Regulators and Audit Oversight Authorities

#### Botswana Accountancy Oversight Authority (BAOA)

Enhanced procedures should be mandatory for Public Interest Entities as defined by local laws and regulation, including listed entities and also for any other audit engagement when the Auditor determines it is appropriate based on the understanding of the facts and circumstances of the entity.

What enhancements are needed?

Enhance the auditor’s responsibility by iintroducing additional requirements over and above what is currently in the International Standards on Auditing. Requirement to:

Involve forensic expects as part of the engagement team who would focus specifically on fraud related matters at risk assessment level and throughout the audit.

Design audit procedures over and above what is currently in the ISAs to address non-material frauds at substantive level. Any non-material frauds identified should be reported to Management and Those charged with Governance.

For an Engagement Quality Reviewer to review audit work performed on fraud at risk assessment level and conclusions reached thereon for audits of public interest entities, including listed entities, and any other entity which the firm has determined an Engagement Quality Reviewer is required.

Design audit procedures that specifically address any fraud that might be perpetrated by use of the systems that feed into the ledger of an entity.

Should these changes be made within the ISAs or outside the scope of an audit (e.g., a different engagement)? Please explain your answer.

The changes should be made within the ISAs, so that these become requirements that are enforceable and considered before issuing any Auditor’s Report.

#### 4. Accounting Firms

#### BDO International Limited (BDO)

On balance, we did not support a differentiated approach to enhanced audit procedures for different types of entities. However, we did acknowledge that our responsibility is to tailor our approach to suit the facts and circumstances of each entity being audited.

While the Discussion Paper cited several high profile, multinational, large-scale frauds, our internal contacts noted that the majority of entities worldwide do not fit into this category and that any changes to the ISAs with respect to fraud should apply to all types of entities. Failure to do this could lead to a two-tier audit approach or addressing the expectation gap only for a certain type of entity, potentially creating a comparatively bigger expectation gap for some entities.

We did acknowledge that where certain risks, facts or circumstances are present (as they related to fraud), there could be a need to adopt more rigorous fraud testing procedures (linked to the suggestion about greater use of forensics expertise). There may be an opportunity for the IAASB, working with others such as fraud examiner organisations and linked to our earlier suggestion about increased access to information about corporate frauds, to help identify when more rigorous testing may be necessary.

In our view, enhanced procedures should not just be attached to the auditor, as the IAASB's Discussion Paper makes clear; there is as important a role to be played in improving consideration and responses to fraud by management and TCWG as part of the financial reporting ecosystem. It is also important that regulators/governments/accounting standards-setters take a more proactive approach to reflect the information that is required from a public interest perspective and that securities and exchange commissions also determine what is needed by investors and markets.

Where investors or the public desire more assurance about the potential presence of large-scale frauds, such assurance could be provided by a separate 'fraud' assurance engagement, which could sit outside the normal audit. This may enable users of financial statements to receive more targeted information and would permit a more flexible response based on the entity and jurisdiction. Such an engagement would need to be carefully designed to meet the needs of respective users to avoid creating another expectation gap.

## 6. Member Bodies and Other Professional Organizations

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

Rather than articulating different requirements for different types of entities, specific procedures to be performed should depend upon the auditor's professional judgment based upon the auditor's risk assessment and the facts and circumstances of the engagement.

As noted in our previous response, we encourage the IAASB to explore ways in which engagement teams can be further trained to better identify fraud risk factors and develop the appropriate audit response in accordance with ISA 315 (Revised 2019) and ISA 330, The Auditor's Responses to Assessed Risks, and ISA 450, Evaluation of Misstatements Identified During the Audit. Furthermore, as we noted in our cover letter, we encourage the IAASB to continue to develop principles-based standards, without being overly prescriptive considering that these standards may serve as the basis for audits of all entities, whether public or private.

### Center for Audit Quality (CAQ)

As ISA 240 is sufficiently principles-based, we do not believe that there is a need for enhanced auditor requirements only for certain entities or in specific circumstances, but additional application material or other implementation guidance may be helpful to support a more consistent execution of the requirements as noted in our response to Question 2(a). Having principles-based standards allows for innovation and flexibility in how auditors comply with auditing standards. Auditors are increasingly leveraging new technologies and techniques to detect potential fraud. As an example, even though not required by the auditing standards, technology can now be used to analyze entire populations of data with thousands, sometimes millions of individual transactions. Such use of technology can allow the auditor to identify and focus on those transactions that exhibit unique or unexpected characteristics, including those that are potentially indicative of fraud. While this is mentioned in ISA 315 (Revised), implementation guidance that emphasizes how auditors may consider the results of applying such technologies and how the auditor's approach to assessing fraud risks may be adapted could be helpful.

Separately, the Discussion Paper highlights illustrative examples of potential changes that could be made to the ISAs with respect to forensic specialists. Any changes that the Board considers should remain sufficiently principles-based to allow the financial statement auditor flexibility given that the facts and circumstances can vary significantly from audit to audit. For example, we believe that the judgment as to whether a forensic specialist should be involved in certain aspects of the financial statement audit (e.g., fraud inquiries or risk assessment) should be left to the financial statement audit team, as they are best positioned to understand the unique risks associated with each financial statement audit. We acknowledge that in certain circumstances, when the financial statement auditor determines it is appropriate, involving a forensic specialist in aspects of a financial statement audit can increase audit quality; however, a broad requirement to include forensic specialists in all financial statement audits would be costly, time consuming, and in most cases, we do not believe that it would contribute to increased audit quality. Further, we are concerned that a broad requirement for forensic specialist involvement in a financial statement audit may increase the expectation gap. A forensic specialist's involvement in a financial statement audit would not be the same as a separate forensic engagement given that the scope of forensic engagements often is narrowly focused on specific allegations.

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

(i) For what types of entities or in what circumstances?

As noted in our response to 2(a) according to outreach views on the use of forensic specialists were mixed, with most stakeholders stating that mandating their use is likely to increase costs with very little, if any, value added. Furthermore, mandating the use of forensic specialists is likely to be a bigger challenge for SMPs given that in many cases they would need to seek outsourced support. However, our stakeholders did express support for increased involvement of forensic specialists where the auditor's professional judgement is that their involvement is appropriate for the circumstances of an audit engagement, similar to the use of other experts. Furthermore, some stakeholders also suggested that the use of forensic specialists could be considered to be mandated in the planning stage of listed and/or regulated audit engagements and then based on the auditor's judgement decide if they should be involved throughout the engagement. However, before requiring the involvement of forensic specialists, further research into what additional services/procedures would be useful is required as the nature of the work such experts usually do i.e. investigating fraud that has already occurred utilising time intensive, is different to the nature of an audit.

(ii) What enhancements are needed?

(iii) Should these changes be made within the ISAs or outside the scope of an audit (e.g., a different engagement)? Please explain your answer

There may be some circumstances where forensic specialists could add value as part of the audit team, however any requirement for this would need to be conditional to allow for auditor judgment and jurisdictional impacts. There were mixed views on whether this should be addressed by increasing the auditor's responsibilities in the audit engagement or whether there should be a separate fraud related engagement where the auditor's risk assessment would indicate that the fraud risk is such that specialists are required.

As noted in our response to 2(a) according to outreach views on the use of forensic specialists were mixed, with most stakeholders stating that mandating their use is likely to increase costs with very little, if any, value added. Furthermore, mandating the use of forensic specialists is likely to be a bigger challenge for SMPs given that in many cases they would need to seek outsourced support. However, our stakeholders did express support for increased involvement of forensic specialists where the auditor’s professional judgement is that their involvement is appropriate for the circumstances of an audit engagement, similar to the use of other experts. Furthermore, some stakeholders also suggested that the use of forensic specialists could be considered to be mandated in the planning stage of listed and/or regulated audit engagements and then based on the auditor’s judgement decide if they should be involved throughout the engagement. However, before requiring the involvement of forensic specialists, further research into what additional services/procedures would be useful is required as the nature of the work such experts usually do i.e. investigating fraud that has already occurred utilising time intensive, is different to the nature of an audit.

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

(i) For what types of entities or in what circumstances? N/A

(ii) What enhancements are needed? N/A

(iii) Should these changes be made within the ISAs or outside the scope of an audit (e.g., a different engagement)? Please explain your answer. N/A the procedures are already contemplated in general terms in the current ISA 240.

Not necessarily.

However, in some specific cases the intervention of specialists may be required.

We must bear in mind that, as the complexity of the business environment continues to increase, so has the variety of specialists hired by statutory auditors to participate in their audits. These specialists are key members of the audit team that needs to be expanded due to the expertise they bring in highly specialized areas of auditing. The perspectives of specialists during the planning phase of the audit are relevant to the audit team due to the involvement of each specialist in complex areas of the audit, including critical accounting estimates with high degrees of subjectivity that are particularly susceptible to fraud. .

Furthermore, it must be borne in mind that with the digitization and automation of financial information systems, fraud is becoming more and more sophisticated. This suggests that the specialized skills of fraud and forensic specialists (fraud specialists) can be beneficial in helping account auditors identify areas in which sophisticated fraud could be committed against a company. Account auditors should consider when it is appropriate to hire fraud specialists prior to a triggering event. Considerations may include the complexity of the company's business model and operations, whether the company has operations in emerging markets, the complexity of the company's regulatory environment, and idiosyncratic fraud risks associated with the company or industry. But ultimately, this would be one more procedure depending on the particular circumstances of each entity.

## 8. Academics

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

Based on the discussion above, we believe that auditors’ fraud focus and level of skepticism should increase in the presence of:

Highly capable CEOs and CFOs (i.e., intelligence, position, ego, lying skills, coercion skills, and ability to handle stress).

Revenue accounts that provide opportunity for manipulation.

Computer hardware and software companies.

Weak corporate governance.

Weak internal controls.

Statistical models indicating a higher risk of fraud.

In addition, we believe that there are two additional areas of concern:

Large companies – While the median (i.e., middle) fraud company is relatively small, large companies present unique fraud risks because of the magnitude of the potential negative effects to the market. Beasley et al. (2010) note the tremendous increase in the size of fraudulent financial reporting cases from 1987-1997 (average misstatement of $25 million) to 1998-2007 (average misstatement of $400 million). Large fraud cases cause major investor losses, expose auditors to significant legal liability, generate bad publicity for the profession, and often lead to financial regulation reform (Clikeman 2019).

Whistleblower complaints or external criticism of financial reporting – Many of the prominent fraudulent financial reporting cases in history have been preceded by or discovered due to whistleblower complaints or external criticism of the company's financial reporting (media accounts, negative analyst reports, etc.) (Clikeman 2019).

Overall, we believe that ISAs should address the auditor's need to increase the focus on fraud and the level of skepticism in the presence of any of the conditions stated above, even more so in the presence of several of these conditions. For example, large companies, especially those facing whistleblower complaints or external criticism of their financial reporting, warrant enhanced auditor focus on fraud and greater skepticism.

More broadly, noted above are certain factors that research highlights as being relevant to the auditor's consideration of fraud. Their relevance is applicable to all entities, but they will manifest to varying degrees across different entities. While we believe that the auditor's procedures should be tailored to the unique circumstances of each entity, consideration of the factors that suggest an elevated fraud risk should be required for all entities.

Finally, we call the Board's attention to research by Dyck, Morse, and Zingales (2010) revealing that auditors detect relatively few corporate fraud cases (10 percent from 1996-2004), suggesting potential for improved auditor performance in the fraud domain. The authors also find that auditor detection of corporate fraud increased in the wake of the large accounting scandals, the Sarbanes-Oxley Act, and SAS No. 99 (AICPA 2002). This suggests that changes in fraud-related regulations and standards can help to shape auditor performance.

**Q2b.1 - Yes\2b.1(i) If yes, for what types of entities or in what circumstances\Q2b.1(i) - Yes - 02 Certain regulated entities (eg. banks, insurance companies, etc)**

### 3. National Audit Standard Setters

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

Engaging forensic specialists for certain regulated entities (e.g. banks, insurance companies with high risks financial instruments) may be reasonable since fraud activities arising in these entities are usually sophisticated and concealed, and may be difficult to be discovered by standard audit procedures.

We agree that there may be certain entities or circumstances when it is appropriate to enhance procedures but do not agree that engaging forensic specialists should be mandatory for every audit. As audit is not a forensic investigation process, mandatory use of forensic specialist in all audits would involve significant costs and may cause inefficiencies.

Engaging forensic specialists for certain regulated entities (e.g. banks, insurance companies with high risks financial instruments) may be reasonable since fraud activities arising in these entities are usually sophisticated and concealed, and may be difficult to be discovered by standard audit procedures. For other entities, including listed entities, unless red-flags or risk factors are identified during the audit, we are of the view that the audit team should not be mandated to engage forensic specialists. We consider it would be helpful for IAASB to develop guidance for circumstances in which audit teams should engage or consult with forensic specialists (For example, a short-seller report that challenges the result of the company or there is fraud allegation).

### 6. Member Bodies and Other Professional Organizations

### CFO Forum

Enhanced procedures should apply to listed entities, regulated entities and high-risk entities (this would involve a level of judgement but includes entities or groups where high-risk factors are present based on industry for example, state-owned entities, scrap metal companies etc.) or with consideration to other high-risk factors (such as negative media attention, shareholder activity etc.).

Is there a need for enhanced procedures only for certain entities or in specific circumstances?

Yes, there are members that believe that there is a need for enhanced procedures for certain entities or in specific circumstances.

If yes:

For what type of entities or in what circumstances?

Enhanced procedures should apply to listed entities, regulated entities and high-risk entities (this would involve a level of judgement but includes entities or groups where high-risk factors are present based on industry for example, state-owned entities, scrap metal companies etc.) or with consideration to other high-risk factors (such as negative media attention, shareholder activity etc.).

What enhancements are needed?

The use of forensic skills within the audit process.

Should these changes be made within the ISAs or outside the scope of an audit (e.g., a different engagement)? Please explain your answer.

As previously mentioned, corporate culture plays an important role in preventing and deterring fraud. If enhanced fraud procedures are voluntary, entities that have robust policies and processes, or entities that do not place a lot of emphasis on fraud prevention and deterrence, may not be willing to incur an additional cost that is not mandatory. Due to the impact of increased corporate failures relating to fraud these changes should be included within the scope of an audit.

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

(i) For what types of entities or in what circumstances?

As noted in our response to 2(a) according to outreach views on the use of forensic specialists were mixed, with most stakeholders stating that mandating their use is likely to increase costs with very little, if any, value added. Furthermore, mandating the use of forensic specialists is likely to be a bigger challenge for SMPs given that in many cases they would need to seek outsourced support. However, our stakeholders did express support for increased involvement of forensic specialists where the auditor's professional judgement is that their involvement is appropriate for the circumstances of an audit engagement, similar to the use of other experts. Furthermore, some stakeholders also suggested that the use of forensic specialists could be considered to be mandated in the planning stage of listed and/or regulated audit engagements and then based on the auditor's judgement decide if they should be involved throughout the engagement. However, before requiring the involvement of forensic specialists, further research into what additional services/procedures would be useful is required as the nature of the work such experts usually do i.e. investigating fraud that has already occurred utilising time intensive, is different to the nature of an audit.

(ii) What enhancements are needed?

(iii) Should these changes be made within the ISAs or outside the scope of an audit (e.g., a different engagement)? Please explain your answer

There may be some circumstances where forensic specialists could add value as part of the audit team, however any requirement for this would need to be conditional to allow for auditor judgment and jurisdictional impacts. There were mixed views on whether this should be addressed by increasing the auditor's responsibilities in the audit engagement or whether there should be a separate fraud related engagement where the auditor's risk assessment would indicate that the fraud risk is such that specialists are required.

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

ICPAU believes that the enhanced procedures should apply only in specific circumstances such as when there is suspected fraud as indicated in media reports, board minutes, staff revelations or police investigations. The enhanced procedures should also apply to some high risk entities such as financial institutions (banks, insurance companies, pension schemes etc) and other public interest entities. The enhancements should include requirements for analytical procedures as a measure of identifying risks of material misstatement caused by fraud and enhanced procedures in the evaluation of control environment of the audit clients.

ICPAU also believes that these enhancements should be made within the ISAs. Enhanced publicity campaigns may then be used to help support and encourage auditors to fulfill those requirements as stated in the ISAs.

As the above is being done, there may be a need for a refined approach to fraud and going concern among the small entities as these are usually with limited internal controls and hence the auditor may require applying procedures not as they would under audit of bigger entities.

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

Yes, the need for enhanced procedures for certain entities or in specific circumstances is evident.

If yes:

For what type of entities or in what circumstances?

The risk of the entity needs to be addressed, both the audit and business risks. higher-risk entities together with listed and regulated entities (public interest entities) should include a level of enhanced minimum procedures.

What enhancements are needed?

As described in the sections above.

Should these changes be made within the ISAs or outside the scope of an audit (e.g., a different engagement)? Please explain your answer.

We believe those elements relevant to the work and scope of an audit should be included within the scope of the auditing standards to ensure consistency of application of the standard among audit firms and companies in different industries. However, the IAASB should work with other bodies and regulators, to consider the requirements for enhanced reporting required by management on fraud (Reporting standards setters) and the enhanced fraud prevention and detection controls that should be in place for public interest entities (regulators).

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

For what types of entities or in what circumstances?

There may be need for enhanced procedures for public interest entities or entities operating in regulated sectors

What enhancements are needed?

For the above mentioned type of entities, sectoral or oversight regulators may require additional assurance with regard to fraud based on the specific circumstances nationally

Should these changes be made within the ISAs or outside the scope of an audit (e.g., a different engagement)? Please explain your answer.

Given the national, sectoral and regulatory differences, changes should not be made within the ISAs rather, any additional assurance requirements for fraud and forensic purposes (beyond financial statements) should be under the scope of ISRSs, ISREs and ISAEs.

There may be need for enhanced procedures for public interest entities or entities operating in regulated sectors

## Q2b.1 - Yes\2b.1(i) If yes, for what types of entities or in what circumstances\Q2b.1(i) - Yes - 03 Entities deemed to be high risk

### 5. Public Sector Organizations

### Australasian Council of Auditors General (ACAG)

Audit procedures to detect material fraud will always require tailoring for certain entities and specific circumstances. This is fundamental to risk-based auditing and we believe the principle is sufficient. Differential levels of fraud response are likely to cause confusion and widen the expectation gap. If such procedures are considered necessary to address the risk of material misstatement then logically, they should apply to all audits or, where necessary, those where fraud poses an increased risk of material misstatement.

Any enhancements should be focused on detecting fraud giving rise to material misstatements and be linked to the revisions to ISA 315 and auditor understanding of the entity and its environment. Where an entity has been assessed as high risk, there should be consideration for applying data analytics procedures to identify higher risk samples for audits.

In the public sector context audit offices are not fraud investigatory bodies and, outside of the specific scope of our audit functions, they may be empowered or required by their respective legislation to refer frauds to other more relevant authorities to investigate fraud as appropriate.

We separately discuss opportunities with regards to third party fraud in item eight below.

If the IAASB were to mandate enhanced requirements for specific entities, e.g. listed entities or public interest entities, including the requirement to engage forensic accountants where there is a heightened risk of fraud, the enhancements should be included within the current ISAs.

### 6. Member Bodies and Other Professional Organizations

### CFO Forum

Enhanced procedures should apply to listed entities, regulated entities and high-risk entities (this would involve a level of judgement but includes entities or groups where high-risk factors are present based on industry for example, state-owned entities, scrap metal companies etc.) or with consideration to other high-risk factors (such as negative media attention, shareholder activity etc.).

Is there a need for enhanced procedures only for certain entities or in specific circumstances?

Yes, there are members that believe that there is a need for enhanced procedures for certain entities or in specific circumstances.

If yes:

For what type of entities or in what circumstances?

Enhanced procedures should apply to listed entities, regulated entities and high-risk entities (this would involve a level of judgement but includes entities or groups where high-risk factors are present based on industry for example, state-owned entities, scrap metal companies etc.) or with consideration to other high-risk factors (such as negative media attention, shareholder activity etc.).

What enhancements are needed?

The use of forensic skills within the audit process.

Should these changes be made within the ISAs or outside the scope of an audit (e.g., a different engagement)? Please explain your answer.

As previously mentioned, corporate culture plays an important role in preventing and deterring fraud. If enhanced fraud procedures are voluntary, entities that have robust policies and processes, or entities that do not place a lot of emphasis on fraud prevention and deterrence, may not be willing to incur an additional cost that is not mandatory. Due to the impact of increased corporate failures relating to fraud these changes should be included within the scope of an audit.

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

ICPAU believes that the enhanced procedures should apply only in specific circumstances such as when there is suspected fraud as indicated in media reports, board minutes, staff revelations or police investigations. The enhanced procedures should also apply to some high risk entities such as financial institutions (banks, insurance companies, pension schemes etc) and other public interest entities. The enhancements should include requirements for analytical procedures as a measure of identifying risks of material misstatement caused by fraud and enhanced procedures in the evaluation of control environment of the audit clients.

ICPAU also believes that these enhancements should be made within the ISAs. Enhanced publicity campaigns may then be used to help support and encourage auditors to fulfill those requirements as stated in the ISAs.

As the above is being done, there may be a need for a refined approach to fraud and going concern among the small entities as these are usually with limited internal controls and hence the auditor may require applying procedures not as they would under audit of bigger entities.

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

Yes, the need for enhanced procedures for certain entities or in specific circumstances is evident.

If yes:

For what type of entities or in what circumstances?

The risk of the entity needs to be addressed, both the audit and business risks. higher-risk entities together with listed and regulated entities (public interest entities) should include a level of enhanced minimum procedures.

What enhancements are needed?

As described in the sections above.

Should these changes be made within the ISAs or outside the scope of an audit (e.g., a different engagement)? Please explain your answer.

We believe those elements relevant to the work and scope of an audit should be included within the scope of the auditing standards to ensure consistency of application of the standard among audit firms and companies in different industries. However, the IAASB should work with other bodies and regulators, to consider the requirements for enhanced reporting required by management on fraud (Reporting standards setters) and the enhanced fraud prevention and detection controls that should be in place for public interest entities (regulators).

### Q2b.1 - Yes\2b.1(i) If yes, for what types of entities or in what circumstances\Q2b.1(i) - Yes - 04 Listed or other public entities

#### 2. Regulators and Audit Oversight Authorities

#### Botswana Accountancy Oversight Authority (BAOA)

Design audit procedures over and above what is currently in the ISAs to address non-material frauds at substantive level. Any non-material frauds identified should be reported to Management and Those charged with Governance.

Design audit procedures that specifically address any fraud that might be perpetrated by use of the systems that feed into the ledger of an entity.

Enhanced procedures should be mandatory for Public Interest Entities as defined by local laws and regulation, including listed entities and also for any other audit engagement when the Auditor determines it is appropriate based on the understanding of the facts and circumstances of the entity.

For an Engagement Quality Reviewer to review audit work performed on fraud at risk assessment level and conclusions reached thereon for audits of public interest entities, including listed entities, and any other entity which the firm has determined an Engagement Quality Reviewer is required.

The changes should be made within the ISAs, so that these become requirements that are enforceable and considered before issuing any Auditor's Report.

What enhancements are needed?

Enhance the auditor's responsibility by iintroducing additional requirements over and above what is currently in the International Standards on Auditing. Requirement to:

Involve forensic expects as part of the engagement team who would focus specifically on fraud related matters at risk assessment level and throughout the audit.

### 3. National Audit Standard Setters

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

Enhanced requirements regarding fraud should be applied only to an audit of financial statements of a particular type of entity, such as public interest entities (PIEs). Enhanced requirements regarding fraud would entail social costs, but from a public interest perspective, we believe that the benefits outweigh the social costs when those enhanced requirements are applied to an audit of the financial statements of entities whose financial statements and auditor's report are used by a large number and wide range of stakeholders. In addition, as mentioned above, we believe that effective and efficient audits can be achieved by applying the enhanced requirements according to phases.

In response to the implementation of the Standard to Address Risks of Fraud in 2013, the JICPA conducted a questionnaire survey on the impact of the standard in the second year of its application (fiscal year ending March 2015) and published a report on the results in May 2016. The report analyzed the responses from 713 persons involved in audit engagements of listed entities as engagement partners. The largest number of respondents answered 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. . IOverall, 55% of the respondents gave a positive rating on the Standard to Address Risks of Fraud. Please refer to the appendix of this letter for the results of the questionnaire survey.

Enhancing and adding requirements depending on circumstance in relation to fraud

It should be clarified that auditors must differentiate responses depending on the differences in circumstances in relation to fraud, when designing and performing audit procedures to respond to the risks of material misstatement due to fraud. For example, the standard may differentiate the circumstances in relation to fraud as follows:

Circumstances that indicate the possibility of a material misstatement due to fraud are not identified (normal circumstances);

Circumstances that indicate the possibility of a material misstatement due to fraud are identified (Standard to Address Risks of Fraud section II paragraph 10); and

After evaluating the identified circumstances that indicate the possibility of a material misstatement due to fraud, the auditor determines that a suspicion of a material misstatement due to fraud exists (Standard to Address Risks of Fraud section II paragraph 12)

Since the responses to risks of material misstatement due to fraud and the level of professional skepticism vary significantly depending on the circumstances in relation to fraud, we believe that such differentiation of circumstances are useful. When an auditor determines that a suspicion of a material misstatement due to fraud exists, we believe that it would be effective to require the auditor to exercise increased professional skepticism and perform more in-depth audit procedures.

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.

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

The NZAuASB is of the view that the auditing standards related to fraud may not require an overhaul, as underlying principles are appropriate, but that ISA 240 could be updated, clarified and enhanced. This may include clarification of the use of forensic experts, recognition of the increasing use of and advances in technology, and reconsideration of certain requirements in light of practical experience (e.g., journal testing as highlighted in response to question 2a above).

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

## 4. Accounting Firms

### BDO International Limited (BDO)

Another option could be for the IAASB to consider the communicative value associated with Key Audit Matters and whether this type of vehicle, at least for listed entities, could be something that could be used to communicate fraud issues and responses within auditors' reports.

### Crowe (CG)

Enhanced procedures are most needed for the audits of listed entities and other public interest entities because of the greater number of stakeholders and higher public profile.

Enhancements procedures could include:

Reinforcing the meaning of professional scepticism with regard to fraud risk and updating how it is applied in ISA 240 and other standards;

Encouraging greater involvement in the audit by forensic and other specialists;

Specifically addressing the role of the Engagement Quality Reviewer in the area of fraud;

Addressing how auditors respond in their risk assessment and design of procedures to information about the entity's experience of all forms of fraud; and

Revisiting the understanding by auditors of internal controls and the testing of these controls.

These changes ought to be made within ISAs, as the discussion ought to focus on enhancing the delivery of financial statement audit. Other forms of engagement are a different conversation.

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.

We consider that the need for enhanced procedures ought to be directed to certain entities.

### Ernst and Young (EY)

Our comments and suggestions included in our response to Q2(a) are generally applicable to audits of all entities. However, as we note in our comments above, the use of forensic specialists should not be required for all audits. Rather, consideration could be given to establishing a requirement for the auditor to determine whether specialized skills and knowledge may be needed to identify and respond to fraud risks. However, a different approach may be appropriate for audits of less complex entities.

For at least the audits of PIEs, we view our suggestion to clarify that the auditor's required understanding of controls that address fraud risks include any fraud risk management programs and controls that operate above the transactional level (e.g., whistle-blower hotlines, internal audit departments) as particularly important to the auditor's assessment of fraud risk. We also believe the standards should require a discussion between the auditor and those charged with governance about those programs and controls. Where internal audit departments exist, the discussion could include observations about the nature and sophistication of the audits conducted with respect to addressing fraud risks. As part of considering such enhancements, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Fraud Risk Management Guide may be a useful reference source.

### MHA Macintyre Hudson (MHA)

In general, we are concerned at the increasing complexity of auditing standards. We would urge that the IAASB uses a building block approach to any changes to ISA 240, setting out the minimum requirements for all entities. These can then be supplemented by additional requirements for Public Interest Entities, and other complex entities or circumstances where data volume is exceptionally high, leading to increased risk of fraud. Furthermore, the standards could highlight additional requirements for circumstances where the audit is determined as high risk due to fraud.

What enhancements are needed?

Response

See our comments above.

Should these changes be made within the ISAs or outside the scope of an audit (e.g., a different engagement)? Please explain your answer.

Response

Any such changes should be made within the ISAs. It may also be more difficult for the IAASB to ensure consistent adoption of other engagement standards.

### PricewaterhouseCoopers (PWC)

Is there a need for enhanced procedures only for certain entities or in specific circumstances? If yes:

(i) For what types of entities or in what circumstances?

See response to part (a). To the extent that there is stakeholder and Board support for additional reporting by auditors on internal control (preceded by appropriate responsibilities placed on management and those charged with governance), we believe this would likely be most appropriately targeted at listed entities (with future consideration of applicability to public interest entities more broadly, based on the outcomes of the IESBA and IAASB considerations of adopting revised definitions for such entities).

(ii) What enhancements are needed?

See response to part (a).

(iii) Should these changes be made within the ISAs or outside the scope of an audit (e.g., a different engagement)? Please explain your answer.

As explained in our covering letter and responses above, some targeted changes could be made to application material in the ISA to support consistent interpretation and application. Further changes that would more meaningfully address what we believe stakeholders are seeking would result in the scope of the auditor's responsibilities going beyond opining on the financial statements. As described in our response to question 2(a), the scope of the auditor's responsibilities could evolve, as it has, for example, in those jurisdictions where the auditor is also required to opine on the entity's internal control over financial reporting. However, for the reasons we discuss in that response, this would necessarily involve complementary changes to the roles and responsibilities of management, those charged with governance and others in the corporate reporting ecosystem. It is important to consider such changes holistically.

The decisions on these matters may differ in different jurisdictions depending on their own circumstances and markets, making it difficult to introduce a common global regime. In the absence of a common global regime, however, management or those charged with governance may also decide it is appropriate to request or require additional assurance beyond the scope of the audit, for example relating to the effectiveness of their controls addressing cybersecurity risks, in fulfilling their responsibilities and accountability to their relevant stakeholders.

See response to part (a). To the extent that there is stakeholder and Board support for additional reporting by auditors on internal control (preceded by appropriate responsibilities placed on management and those charged with governance), we believe this would likely be most appropriately targeted at listed entities (with future consideration of applicability to public interest entities more broadly, based on the outcomes of the IESBA and IAASB considerations of adopting revised definitions for such entities).

### 6. Member Bodies and Other Professional Organizations

### CFO Forum

Enhanced procedures should apply to listed entities, regulated entities and high-risk entities (this would involve a level of judgement but includes entities or groups where high-risk factors are present based on industry for example, state-owned entities, scrap metal companies etc.) or with consideration to other high-risk factors (such as negative media attention, shareholder activity etc.).

Is there a need for enhanced procedures only for certain entities or in specific circumstances?

Yes, there are members that believe that there is a need for enhanced procedures for certain entities or in specific circumstances.

If yes:

For what type of entities or in what circumstances?

Enhanced procedures should apply to listed entities, regulated entities and high-risk entities (this would involve a level of judgement but includes entities or groups where high-risk factors are present based on industry for example, state-owned entities, scrap metal companies etc.) or with consideration to other high-risk factors (such as negative media attention, shareholder activity etc.).

What enhancements are needed?

The use of forensic skills within the audit process.

Should these changes be made within the ISAs or outside the scope of an audit (e.g., a different engagement)? Please explain your answer.

As previously mentioned, corporate culture plays an important role in preventing and deterring fraud. If enhanced fraud procedures are voluntary, entities that have robust policies and processes, or entities that do not place a lot of emphasis on fraud prevention and deterrence, may not be willing to incur an additional cost that is not mandatory. Due to the impact of increased corporate failures relating to fraud these changes should be included within the scope of an audit.

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

(i) For what types of entities or in what circumstances?

As noted in our response to 2(a) according to outreach views on the use of forensic specialists were mixed, with most stakeholders stating that mandating their use is likely to increase costs with very little, if any, value added. Furthermore, mandating the use of forensic specialists is likely to be a bigger challenge for SMPs given that in many cases they would need to seek outsourced support. However, our stakeholders did express support for increased involvement of forensic specialists where the auditor's professional judgement is that their involvement is appropriate for the circumstances of an audit engagement, similar to the use of other experts. Furthermore, some stakeholders also suggested that the use of forensic specialists could be considered to be mandated in the planning stage of listed and/or regulated audit engagements and then based on the auditor's judgement decide if they should be involved throughout the engagement. However, before requiring the involvement of forensic specialists, further research into what additional services/procedures would be useful is required as the nature of the work such experts usually do i.e. investigating fraud that has already occurred utilising time intensive, is different to the nature of an audit.

(ii) What enhancements are needed?

(iii) Should these changes be made within the ISAs or outside the scope of an audit (e.g., a different engagement)? Please explain your answer

There may be some circumstances where forensic specialists could add value as part of the audit team, however any requirement for this would need to be conditional to allow for auditor judgment and jurisdictional impacts. There were mixed views on whether this should be addressed by increasing the auditor's responsibilities in the audit engagement or whether there should be a separate fraud related engagement where the auditor's risk assessment would indicate that the fraud risk is such that specialists are required.

As noted in our response to 2(a) according to outreach views on the use of forensic specialists were mixed, with most stakeholders stating that mandating their use is likely to increase costs with very little, if any, value added. Furthermore, mandating the use of forensic specialists is likely to be a bigger challenge for SMPs given that in many cases they would need to seek outsourced support. However, our stakeholders did express support for increased involvement of forensic specialists where the auditor's professional judgement is that their involvement is appropriate for the circumstances of an audit engagement, similar to the use of other experts. Furthermore, some stakeholders also suggested that the use of forensic specialists could be considered to be mandated in the planning stage of listed and/or regulated audit engagements and then based on the auditor's judgement decide if they should be involved throughout the engagement. However, before requiring the involvement of forensic specialists, further research into what additional services/procedures would be useful is required as the nature of the work such experts usually do i.e. investigating fraud that has already occurred utilising time intensive, is different to the nature of an audit.

### Confederation of Indian Industry (CII)

It is expected that uniform audit procedures are performed for all entities; however, IAASB may consider identifying more rigorous procedures in respect of public interest entities ('pubic interest entities' as defined under IESBA Code of Ethics for Professional Accountants). Also, this is where the expectation gap is most severely felt. As described earlier the enhancements are needed to the nature of evidence that is sought to provide 'reasonable assurance'. The changes should be made within ISAs. The objective of the changes is to enhance the relevance and effectiveness of the audit and accordingly, the ISAs is the best place to make the changes.

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

Yes

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

(b) Is there a need for enhanced procedures only for certain entities or in specific circumstances?1

The use of improved procedures in certain entities and in specific circumstances is considered a positive step, that is, both situations must occur simultaneously.

If yes:

(i) (b) Is there a need for enhanced procedures only for certain entities or in specific circumstances?1 If yes:

(i) For what types of entities or in what circumstances?

Yes

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

(ii) What enhancements are needed?

If the auditor determines that the risk of fraud is high, he or she should call upon a fraud investigation auditor following communication to management and those charged with governance. Although professional standards cannot impose obligations on the client, the audited entity should take charge of this incorporation, thus demonstrating the interest in preventing acts linked to fraud.

We consider this action only for companies listed and / or included in definitions of public interest entity, where these definitions exist.

(iii) Should these changes be made within the ISAs or outside the scope of an audit (e.g., a different engagement)? Please explain your answer.

It should be found within the ISAs in a specific section intended to provide auditors with greater technical support so that they can frame their actions and limit their liability in the event that this greater risk has not been transformed into specific fraud actions.

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

ICPAU believes that the enhanced procedures should apply only in specific circumstances such as when there is suspected fraud as indicated in media reports, board minutes, staff revelations or police investigations. The enhanced procedures should also apply to some high risk entities such as financial institutions (banks, insurance companies, pension schemes etc) and other public interest entities. The enhancements should include requirements for analytical procedures as a measure of identifying risks of material misstatement caused by fraud and enhanced procedures in the evaluation of control environment of the audit clients.

ICPAU also believes that these enhancements should be made within the ISAs. Enhanced publicity campaigns may then be used to help support and encourage auditors to fulfill those requirements as stated in the ISAs.

As the above is being done, there may be a need for a refined approach to fraud and going concern among the small entities as these are usually with limited internal controls and hence the auditor may require applying procedures not as they would under audit of bigger entities.

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

There is in our view a need to focus primarily on the audits of public interest entities, although some enhancements may well be scalable to other entities.

We believe that in the first instance consideration should be focussed on what enhancements could be made to the existing ISAs.

In terms of another engagement, entities are free to engage a firm to perform a more specific forensic assurance type engagement if that is what they require. Directors should engage with their shareholders to determine if there is a demand for any such assurance to be provided.

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

Yes, the need for enhanced procedures for certain entities or in specific circumstances is evident.

If yes:

For what type of entities or in what circumstances?

The risk of the entity needs to be addressed, both the audit and business risks. higher-risk entities together with listed and regulated entities (public interest entities) should include a level of enhanced minimum procedures.

What enhancements are needed?

As described in the sections above.

Should these changes be made within the ISAs or outside the scope of an audit (e.g., a different engagement)? Please explain your answer.

We believe those elements relevant to the work and scope of an audit should be included within the scope of the auditing standards to ensure consistency of application of the standard among audit firms and companies in different industries. However, the IAASB should work with other bodies and regulators, to consider the requirements for enhanced reporting required by management on fraud (Reporting standards setters) and the enhanced fraud prevention and detection controls that should be in place for public interest entities (regulators).

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

Mainly for entities listed on the stock exchange and other public interest entities, in a first stage, if the expectation gap in this sector decreases, require in all audits

Yes, improved procedures are needed, for certain entities.

For what types of entities or in what circumstances?

Mainly for entities listed on the stock exchange and other public interest entities, in a first stage, if the expectation gap in this sector decreases, require in all audits

What enhancements are needed?

Require improvements in the auditor's communication, revealing its procedures and significant findings regarding its integrity and the effective application of ISA 240 and 570.

Should these changes be made within the ISAs or outside the scope of an audit (e.g., a different engagement)? Please explain your answer.

We believe that it would be more effective if it were addressed in a new auditing standard that strongly addresses the need to disclose the auditor's procedures on two matters: 1. Its compliance and how it does it with the Code of Ethics, especially with respect to the fundamental principles, and 2. Procedures applied and the evidence reached in the requirements of ISA 240 and ISA 570, already mentioned in the previous section. Additionally, we consider that given the current and constantly evolving situations of the accounting profession, it is necessary to deepen and maintain a constant update on improved requirements for certain entities and environments in which risk is maximized or present a higher degree of exposure, as well as weak control environments.

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

With regard to our proposed new requirement in our response to Question 2(a), we suggest to make mandatory for PIEs only. Non-PIEs can adopt such new requirement on a voluntary basis.

Please see our response to Question 2(a).

With regard to our proposed new disclosure and attestation requirements in our response to Question 2(a), we suggest to make it outside the scope of an audit as a separate engagement.

### Pan African Federation of Accountants (PAFA)

For what types of entities or in what circumstances?

While we believe that enhancements to all audits would be beneficial, it is our view that at the very least, enhancements be mandatory for listed and public interest entities.

What enhancements are needed?

The Japanese examples in regards to enhanced quality control review procedures related to fraud, i.e. that an engagement quality control review be conducted at appropriate stages during the audit, such as when significant judgments are made and conclusions reached to address the risks of fraud, in compliance with the policies and procedures of the audit firm as well as an explicit requirement that when the auditor determines that a suspicion of material misstatement due to fraud exists, the auditor not express an opinion until the engagement quality control review procedures in regard to the auditor's response to that suspicion have been completed, are commendable and should be strongly considered by the IAASB. PAFA further supports, the requirement that firms establish policies and procedures that explicitly address the risks of fraud in the elements of the quality control system (i.e., leadership responsibilities for quality within the firm, acceptance and continuance of client relationships and audit engagements, human resources, engagement performance, and monitoring).

Should these changes be made within the ISAs or outside the scope of an audit (e.g., a different engagement)? Please explain your answer.

The above proposed changes do and should fall within the ambit of the ISAs. For the avoidance of doubt, any other enhancements deemed necessary should also fall within the scope of the ISAs as a way of enhancing their credibility and removing any misconception that these may be "optional" as might be the case if provided elsewhere.

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

If a problem can be identified referring to the answer in question 2 a we believe that there can be a need, but only for certain entities.

If yes:

For what types of entities or in what circumstances?

In our opinion the possible need for enhanced procedures, which should be based on a cost benefit analysis, concerns public interest entities.

What enhancements are needed?

Any enhancements made should take a starting point in increased requirements on companies concerning processes and reporting concerning fraud. Enhancements on audit could be foreseen as well in audit procedures as in auditors reporting, to the company and in the public reporting. As a first step ISA 240 could be clarified with guidance on how to make a risk assessment that builds the basis for procedures concerning fraud, this can be done by giving case-based examples.

Should these changes be made within the ISAs or outside the scope of an audit (e.g., a different engagement)? Please explain your answer.

To the extent the changes made concerns the audit of financial statements, they should be made within the ISAs but as stated in 2 b i these procedures should, if introduced, only concern public interest companies. Besides revising ISA 240 the IAASB can provide staff implementation guidance (e.g., auditing key areas of the entity's fraud risk assessment, consideration of key performance indicators, use of data analytics, using fraud inquiries in combination with other procedures, case studies on management override of controls over journal entries).

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

For what types of entities or in what circumstances?

There may be need for enhanced procedures for public interest entities or entities operating in regulated sectors

What enhancements are needed?

For the above mentioned type of entities, sectoral or oversight regulators may require additional assurance with regard to fraud based on the specific circumstances nationally

Should these changes be made within the ISAs or outside the scope of an audit (e.g., a different engagement)? Please explain your answer.

Given the national, sectoral and regulatory differences, changes should not be made within the ISAs rather, any additional assurance requirements for fraud and forensic purposes (beyond financial statements) should be under the scope of ISRSs, ISREs and ISAEs.

There may be need for enhanced procedures for public interest entities or entities operating in regulated sectors

### Q2b.1 - Yes\2b.1(i) If yes, for what types of entities or in what circumstances\Q2b.1(i) - Yes - 05 More complex entities

#### 3. National Audit Standard Setters

#### Malaysian Institute of Accountants (MIA)

For what types of entities or in what circumstances?

In the context of ISAs, we believe the suggestions in Question 2(a) should be applied to audits of all entities. However, a different approach may be needed for audits of more complex entities such as the use of a forensic specialist. We believe that this will be addressed in another project under the IAASB.

What enhancements are needed?

Please refer to responses to Question 2(a).

Should these changes be made within the ISAs or outside the scope of an audit (e.g., a different engagement)? Please explain your answer.

Consistent with our earlier suggestions, we are of the view that the change should be made within the ISAs. For the use of forensic auditors, it should be consistent with the requirements of the use of auditors' experts such as IT audit specialist, unless there is another assurance engagement requirement to be introduced.

In the context of ISAs, we believe the suggestions in Question 2(a) should be applied to audits of all entities. However, a different approach may be needed for audits of more complex entities such as the use of a forensic specialist. We believe that this will be addressed in another project under the IAASB.

#### 4. Accounting Firms

#### BDO International Limited (BDO)

With respect to specific circumstances, one area of potential consideration was whether there may be an opportunity to provide further guidance for those engagements of entities that routinely handle complex financial instruments, or assets that require determination of fair value or special treatments (for example, natural resources). In these circumstances, there should be some standard procedures for reducing risks of financial reporting fraud which may require involvement of accounting specialists/experts.

#### MHA Macintyre Hudson (MHA)

What enhancements are needed?

Response

See our comments above.

Should these changes be made within the ISAs or outside the scope of an audit (e.g., a different engagement)? Please explain your answer.

Response

Any such changes should be made within the ISAs. It may also be more difficult for the IAASB to ensure consistent adoption of other engagement standards.

In general, we are concerned at the increasing complexity of auditing standards. We would urge that the IAASB uses a building block approach to any changes to ISA 240, setting out the minimum requirements for all entities. These can then be supplemented by additional requirements for Public Interest Entities, and other complex entities or circumstances where data volume is exceptionally high, leading to increased risk of fraud. Furthermore, the standards could highlight additional requirements for circumstances where the audit is determined as high risk due to fraud.

### Q2b.1 - Yes\2b.1(i) If yes, for what types of entities or in what circumstances\Q2b.1(i) - Yes - 06 When fraud or suspected fraud is identified, or high risk of fraud exists (applicable to all entities)

#### 2. Regulators and Audit Oversight Authorities

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

The CEAOB is of the view that the auditor should adopt a more robust approach when there are signals that indicate the possibility of a material misstatement due to fraud. Such signals could include for example lack of appropriate “tone at the top” at the audited entity’s management level in certain circumstances, relevant information received through whistle-blowing systems or public information.

The IAASB should determine what further audit procedures the auditor should perform in such circumstances.

Use of forensic specialists or other relevant specialists

The general provisions of ISAs apply to the use of forensic specialists or other relevant specialists (for example in cybersecurity and data analytics) in an audit of financial statements. The IAASB should explore whether the auditor should be required to consider the need for forensic specialists or other relevant specialists in certain circumstances. For example, this use might be needed during the risk assessment, notably when considering the possibilities and likelihood of fraud occurring, when there are signals of fraud, or when a fraud involving management has been identified or is suspected.

The use of a forensic specialist does not affect the extent of the auditor’s responsibility on the audit. The auditor remains responsible for forming and expressing the audit opinion. In addition, it is important for the auditors to be clear on the expertise that they expect from that specialist and the link with the audit engagement. Forensic specialists are generally engaged after a trigger event has occurred to analyse specific issues and their engagement does not exempt the auditor from performing the procedures required to achieve the audit objectives. Discussing the need for forensic specialist’s involvement with TCWG may prove beneficial.

Auditor’s responses in case of signals that indicate the possibility of a material misstatement due to fraud

### Financial Reporting Council (FRC)

As commented above, should the auditor identify actual or suspected non-material fraud in the course of the audit they should be required to investigate further, with aid of a forensic expert if needed, and determine the implications for the audit. The specific procedures will depend on the circumstances and nature of the fraud, but should be directed at identifying how the fraud occurred and the amount.

It is important that ISAs should be proportionate and scalable. It would be appropriate to have enhanced procedures in the circumstances where fraud has been identified or is suspected – for example to determine whether a forensic expert is needed to help investigate further. However, fraud is a concern relevant to all entities and it would not be appropriate to introduce enhanced procedures only for certain entities. There are already many ways fraud can be perpetrated and new ways will continually be thought of. Over-specificity in the standard as to entities and circumstances risks auditors missing unspecified issues. As commented above, we recommend that more emphasis be given to identifying and assessing fraud risk factors specific to the entity and its circumstances.

## 3. National Audit Standard Setters

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

Use of forensic experts by auditors

We consider that, based on their judgement and individual engagement circumstances specific to each engagement, the auditors may decide to use additional individuals with specialised skill and knowledge, such as forensic and IT experts. In other cases, the audit engagement team may itself use forensic-type audit procedures. As, the integration of this approach into the risk identification process of an audit may not be proportionate (particularly in the absence of an identified risk), we do not recommend the systematic use of a forensic expert in the audit. These experts could be used when there is some trigger, e.g. an indication or fraud.

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

For other entities, including listed entities, unless red-flags or risk factors are identified during the audit, we are of the view that the audit team should not be mandated to engage forensic specialists.

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

In specific circumstances based upon risk assessment and scalability considerations, enhanced procedures will help auditors to better understand what actions are to be taken if there is an indication of fraud as fraud cases are becoming more complex and sophisticated. It should not lead to additional requirements, but more guidance. Although this may be partly country specific, guidance as mentioned above for different scenario's might be useful e.g. whether a formal letter should be sent to the entity to point out the responsibilities of all parties involved if there is an indication of fraud. We do not consider a distinction between various entities useful as fraud can be an issue in all entities. It is a sensitive matter which needs to be handled carefully. Often auditors find it difficult to discuss fraud issues with management and those charged with governance. Guidance on how to deal with whistleblowers will also be useful as they are an important source of detecting fraud.

## 4. Accounting Firms

### BDO International Limited (BDO)

We discussed potential involvement of forensics experts within the work of engagement teams. We do not support mandatory use of forensics experts in relation to all audits; however, we did note that there could be benefits to including these experts to help support the work of the engagement team when fraudulent concerns had been identified or to enable engagement teams to make more informed judgments. There was an acknowledgment that it is currently possible to bring in experts under extant ISAs, with the opportunity to use this expertise when the:

Facts and circumstances of the engagement required it (e.g., information or concerns had surfaced during the audit about unusual transactions, an individual had suddenly left the entity due to post-year end allegations of fraud or other performance issues)

Engagement team resources necessitated it (i.e., where the engagement partner recognized that the engagement team required additional or different expertise in a particular area).

### MHA Macintyre Hudson (MHA)

What enhancements are needed?

Response

See our comments above.

Should these changes be made within the ISAs or outside the scope of an audit (e.g., a different engagement)? Please explain your answer.

Response

Any such changes should be made within the ISAs. It may also be more difficult for the IAASB to ensure consistent adoption of other engagement standards.

In general, we are concerned at the increasing complexity of auditing standards. We would urge that the IAASB uses a building block approach to any changes to ISA 240, setting out the minimum requirements for all entities. These can then be supplemented by additional requirements for Public Interest Entities, and other complex entities or circumstances where data volume is exceptionally high, leading to increased risk of fraud. Furthermore, the standards could highlight additional requirements for circumstances where the audit is determined as high risk due to fraud.

### PKF International Limited (PKF)

Yes, there is a need for enhanced requirements and procedures for certain entity specific circumstances.

Audit procedures could be added specifically to address the circumstance where the audit team has identified a suspected fraud. Where the audit team has identified a suspected fraud, additional requirements and expanded guidance within the ISAs could encourage a more consistent response to such circumstances.  Such enhancements could help to:

reduce the risk of the audit team incorrectly dismissing an actual instance of fraud without having properly investigated and resolved it, and

provide a framework for the audit team to support the process of adequately addressing the fraud matter.

Enhanced procedures could be added to ISA 402 Audit Considerations Relating to An Entity Using a Service Organization. Paragraph 19 in ISA 402 could include further requirements for the user auditor over the risks of fraud that might arise a result of the relationship between the client and its service organisation, including:

enhanced risk assessment procedures, and

a more robust approach to the inquiries and procedures that the auditor performs as part of the process to identify instances of fraud.

Changes should be made within the ISAs for the points that we have outlined in our response to (a) above. However, we believe there is also merit in further evaluation of the possible solutions for changes outside the scope of an audit such as those presented as “Alternative C” in Appendix B to the Discussion Paper “Fraud and Going Concern in an Audit of Financial Statements – Expectation Gap”.

### PricewaterhouseCoopers (PWC)

Requiring the use of forensic or other relevant specialists and in what circumstances

The IAASB has recently finalised ISQM 1 and ISA 220 (Revised), which give emphasis to the importance of determining that the engagement team has the right resources to conduct the engagement. If proposing revisions to ISA 240, the IAASB could consider incorporating linkages back to these principles, including with respect to the firm’s policies and procedures. We note that there is a range of specialist support that engagement teams can draw upon (commonly the starting point is the firm’s risk management and methodology specialists). Engaging forensic specialists is often reserved for circumstances when addressing identified or suspected fraud.

We do not support mandating involvement of forensic specialists, as such a requirement risks making specialist involvement perfunctory and less effective over time. It may not have a discernible impact on audit quality on engagements where there are no identified significant fraud risk indicators, bringing the cost/benefit into doubt.

Whether, and the extent to which, it is considered appropriate to involve specialists in identifying, assessing, and helping design an appropriate audit response to, fraud risks is a matter of professional judgement made in the context of the engagement circumstances. If involvement is deemed appropriate, this can range from limited advice in response to specific questions, to more significant and direct involvement in risk assessment and development of the response to assessed risks. When deciding to involve forensic specialists, they can be engaged in different ways and their role will vary depending on whether they are consulting, coaching, or actively assisting in an execution role.

Application material to ISA 240 could describe this spectrum of involvement and provide illustrative examples of relevant factors that an engagement team could consider in determining whether involvement of specialists may be appropriate in the circumstances. For example, if one or more heightened fraud risk factors or indicators of fraud are identified, the use of a specialist can enhance the engagement team's understanding of how the risk factors or other indicators are likely to manifest (i.e., fraud schemes) and/or help in developing an effective audit response to these circumstances.

Time, cost and scalability are also important considerations, under the overall context of judging whether involvement of specialists will enhance quality on the audit engagement.

It is important that the involvement of forensic specialists is clearly understood in the context of the scope of an audit. The expectation gap may 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 use of specialists in an audit support capacity and the nature, timing and extent of work that a specialist performs in a forensic investigation. In the latter capacity, forensic specialists carry out an investigation of allegations or suspected fraud to determine the facts and, as appropriate, to support the entity in remedial and recovery actions. Whatever the precise objectives, these go beyond assisting the audit team within the terms of the financial statement audit, and beyond the scope of work expected in an audit.

### RSM International Limited (RSM)

Non-material fraud does not cause business failures and therefore, in our view, it is the responsibility of management, assisted by Internal Audit where relevant, to design procedures and controls to prevent and detect non-material fraud. However, whilst a fraud may be considered as non-material in a given period, left unchecked it has the potential to grow in future periods to such an extent that it eventually becomes material. Auditors still need to consider the integrity of management and risk assessment procedures in subsequent periods could include consideration of the risk that identified non-material frauds could result in a cumulative material fraud.

In respect of whether additional engagement quality control review procedures relating to fraud risks should be introduced, we recognise that, where material fraud is suspected or identified, this should be as a significant risk and therefore the engagement quality control review would cover the issue. We do not believe the engagement quality control review should have unique procedures related to fraud that are separate from those performed by the engagement team.

The suggestions in our response to question 2(a) would apply to all entities.

In terms of the areas in the Discussion Paper on which specific comments are requested:

The use of forensic techniques could be useful in certain situations, but we do not consider that they should be mandatory for every audit or every type of entity. These techniques are wide and varied and it may be difficult to articulate a specific set of procedures that should be carried out on, say, all listed clients. In addition, only the larger firms are likely to have sufficient in-house experts in this area and therefore other firms would need to buy-in the expertise. This may lead to further concentration of the audit market – an area that governments and regulators in several jurisdictions have already expressed concerns about. In addition, an audit is not a in-depth forensic exercise and therefore mandating the use of forensics might widen the expectation gap, rather than narrow it.

Therefore we would not be in favour of an overarching requirement that forensic techniques should always be used, even for listed entities, since it would lead to inconsistent interpretations and applications. It could also lead to the application of ineffective and costly audit procedures if the performance of such procedures was mandated rather than applied in line with a risk based approach.

However, guidance on the use of forensic experts in certain situations, for example when a material fraud is suspected in a listed client, would be welcome.

We are also in favour of fraud procedures being enhanced as set out in the bullet points on p27 of the Discussion Paper in order to promote professional scepticism.

Other suggestions for improving fraud detection could include:

Training auditors in fraud investigation techniques and interrogation methods and could be a useful activity for the International Forum for Accountancy Education Directors from Professional Accountancy Organizations and Firms;

Setting "specific" materiality thresholds for fraud investigation procedures in consultation with a fraud/forensics team if material fraud were suspected;

Agreeing specific fraud procedures in certain areas with those charged with governance.

### 6. Member Bodies and Other Professional Organizations

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

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

In general, the existing requirements that already require additional procedures when fraud is suspected or identified (i.e., are scalable) and the recently completed revised standard on risk identification and assessment ISA 315 (Revised 2019) are considered appropriate and therefore the ISAs do not require far-reaching changes.

We are concerned that Alternative A - enhanced procedures to all entities as part of the audit (no matter if there is a specific fraud risk or not) would not be practical or cost effective for the majority of audits. While different stakeholders' interests differ, a suspected fraud leading to a material misstatement has to be addressed whatever the type of entity. If the client will not cooperate (i.e., investigate properly itself or pay for the audit to cover this with forensics if necessary) the auditor faces a scope limitation and likely disclaimer of opinion.

We also note that a fraud in an SME and fraud in a large entity are potentially very different, which may need to be considered by the IAASB as it considers any work it undertakes going forward.

The enhancement of procedures only for entities where certain specific triggers have been met (e.g., only in circumstances where there is reasonable suspicion of fraud), which is included as one of the descriptions in Alternative B (enhanced procedures apply conditionally as part of the audit the audit depending on facts and circumstances), would be in line with the ISAs being principles-based and taking a risk-based approach. Guidance for when to apply forensics (what tests, how much, where and by whom) might be needed e.g., providing clarity when indications are sufficiently strong as to warrant further measures. However, this needs to be balanced with the fact the auditor is required to obtain reasonable but not absolute assurance that the financial statements are free from material misstatement and an unreasonable trigger should not result in disproportionate audit work being undertaken.

We note the cost is likely to be proportionately higher for SMPs who may need recourse to external forensic services, compared to those able to access inhouse forensic specialists. In addition, as noted in the DP, ISA 240 (A35) already includes that auditors may respond to identified risks of material misstatement due to fraud by assigning additional individuals with specialized skills and knowledge, such as forensic and IT experts, to the engagement. The IAASB could also explore a better clarification on the way the auditor would connect fraud risk factors to the assessment of risk of material misstatement at both assertion levels and financial statements as a whole.

Overall, we are not convinced that changes to the ISAs will address the "performance gap" or make a meaningful difference under the current audit model (i.e., reasonable assurance and the opinion required of the auditor). It may therefore be worthwhile exploring enhanced procedures required conditionally outside the scope of the audit depending on facts and circumstances (Alternative C, e.g., introducing a new subject-matter specific standard related to fraud for these circumstances). In IFAC's response to the Brydon Review it was noted that unless an engagement is fraud specific, the annual audit is unlikely to be the appropriate vehicle for detecting fraud. The IAASB could explore the need (and potential development) of assurance standards for complimentary (voluntary or required in some jurisdictions) assurance engagements. For example, management and TCWG may seek enhanced support (specific assurance engagements) from the auditor if they have concerns on specific matters or where national legislation might require auditors to perform supporting assurance services supplementary to the audit for certain entities.

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.

### Kriton (KNL)

Specific procedures for certain entities or in specific circumstances

At entities where management is also a shareholder, we regularly see that management wants more certainty with regard to improper appropriation of assets by employees (hereinafter referred to as employee fraud). They often apply low materiality limits for employee fraud and in many cases, they do not distinguish between theft and employee fraud. We believe that auditors can provide no to very limited assurance in this area. At most, management may ask the auditor to perform specific procedures. To this end, management must agree on a separate engagement with the auditor. We also note that the auditor must discover material misstatements resulting from such employee fraud (such as stock differences).

In our opinion, specific requirements should apply to the following situations:

Organizations that receive public money (for example, support measures in the light of the Corona crisis).

In the event of indications of fraud.

In the event of a suspicion of fraud (both PIEs and non-PIEs).

For the first situation, new, specific Standards (for audits and other engagements) have recently been drawn up in the Netherlands. With regard to the second situation, it is necessary for the auditor to obtain more and/or different audit evidence to rebut the suspicion of fraud. In the third situation, it is desirable for management to report more extensively to users on the nature and extent of the suspected fraud and how it dealt with the fraud. The auditor examines the information provided by management and includes the outcome thereof in his opinion on the financial statements. Current laws and regulations, including the Standards, now offer too few specific tools for the second and third situation. Additional requirements, procedures or guidelines are therefore desirable.

#### 9. Individuals and Others

#### Christian Minarriz (CM)

Use of forensic specialists: I think that a general requirement to use forensic specialist is not appropriate as availability of specialists is limited. Therefore, using them in all engagements (and even all PIE audits) would reduce the availability for riskier engagements where they may be really needed. I think the most appropriate approach would be to incorporate a specific requirement of considering if a forensic specialist is needed considering our knowledge of the entity, its internal control and its environment, and explaining why it is considered to be not necessary if some specific factors are met (for example, identification of specific fraud risk factors or red flags). It should be noted that the requirement should not be related to a “forensic specialist” but to a “fraud specialist” (as forensic is broader than fraud) and the concept of “fraud specialist” should be defined. Also the fraud specialist should have relevant knowledge to the fraud risks (for example, if there is a fraud risk related to IT, it would be appropriate that the fraud specialist have knowledge of IT fraud risks). Simply requiring “fraud specialist” without considering specific expertise would be as using an expert in the valuation of financial instruments for the audit of the valuation of property. The involvement of the fraud specialists should be determined by the engagement team (for example, if some specific red flags are found, the involvement may be limited to evaluate which fraud schemes may be present and designing specific audit procedures to address them).

Refer to answers above.

### Q2b.1 - Yes\2b.1(i) If yes, for what types of entities or in what circumstances\Q2b.1(i) - Yes - 07 Public sector entities

#### 4. Accounting Firms

#### RSM International Limited (RSM)

We would welcome further consideration by the IAASB of the more robust approach that may be used by public sector auditors and any lessons that could be learned for other auditors.

#### 5. Public Sector Organizations

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

There are two concepts for third party fraud relevant here. As noted, the potential for third parties to impair the ability of the entity through activities like cyber-attacks is an increasing risk in the current environment.

There is a possibility of undetected attacks happening during the audited year that undermines control effectiveness, there is also the possibility that inabilities to prevent such attacks presents a threat to the ability of the entity to operate as a going concern. Assessing comprehensively the entity's susceptibility to third party fraud may require specialist industry knowledge and skills. As such, this assessment is dependent on management/those charged with governance having inhouse or engaging external expertise. The auditor is dependent on mgt's expert's assessment . More guidance on this would be beneficial.

In the public sector, third party fraud may be significant where government activities, such as the payment of benefits or the application of taxation, is dependent upon information provided by third parties. While it is generally accepted that transactions made by governments in good faith where fraud or error by a third party has not yet been detected should be recorded and recognised in financial statements, auditing the appropriateness and fair presentation of related disclosures remains a challenge to public sector auditors. Additional guidance in this area would be beneficial.

### 6. Member Bodies and Other Professional Organizations

### CFO Forum

Is there a need for enhanced procedures only for certain entities or in specific circumstances?

Yes, there are members that believe that there is a need for enhanced procedures for certain entities or in specific circumstances.

If yes:

For what type of entities or in what circumstances?

Enhanced procedures should apply to listed entities, regulated entities and high-risk entities (this would involve a level of judgement but includes entities or groups where high-risk factors are present based on industry for example, state-owned entities, scrap metal companies etc.) or with consideration to other high-risk factors (such as negative media attention, shareholder activity etc.).

What enhancements are needed?

The use of forensic skills within the audit process.

Should these changes be made within the ISAs or outside the scope of an audit (e.g., a different engagement)? Please explain your answer.

As previously mentioned, corporate culture plays an important role in preventing and deterring fraud. If enhanced fraud procedures are voluntary, entities that have robust policies and processes, or entities that do not place a lot of emphasis on fraud prevention and deterrence, may not be willing to incur an additional cost that is not mandatory. Due to the impact of increased corporate failures relating to fraud these changes should be included within the scope of an audit.

### Kriton (KNL)

Specific procedures for certain entities or in specific circumstances

At entities where management is also a shareholder, we regularly see that management wants more certainty with regard to improper appropriation of assets by employees (hereinafter referred to as employee fraud). They often apply low materiality limits for employee fraud and in many cases, they do not distinguish between theft and employee fraud. We believe that auditors can provide no to very limited assurance in this area. At most, management may ask the auditor to perform specific procedures. To this end, management must agree on a separate engagement with the auditor. We also note that the auditor must discover material misstatements resulting from such employee fraud (such as stock differences).

In our opinion, specific requirements should apply to the following situations:

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For the first situation, new, specific Standards (for audits and other engagements) have recently been drawn up in the Netherlands. With regard to the second situation, it is necessary for the auditor to obtain more and/or different audit evidence to rebut the suspicion of fraud. In the third situation, it is desirable for management to report more extensively to users on the nature and extent of the suspected fraud and how it dealt with the fraud. The auditor examines the information provided by management and includes the outcome thereof in his opinion on the financial statements. Current laws and regulations, including the Standards, now offer too few specific tools for the second and third situation. Additional requirements, procedures or guidelines are therefore desirable.

## Q2b.2 - Mixed response or more evidence needed

### 3. National Audit Standard Setters

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

What our stakeholders told us

Stakeholders indicated that they need more information on enhanced procedures before they are able to form a view as to their applicability to certain entities/specific circumstances and whether they would be within or outside the scope of an audit.

AASB views and recommendation

We agree with our stakeholders that more information is needed on the enhanced procedures before we can form a view on how they should be applied. However, to the extent that the enhanced procedures fall within the scope of the audit, we are of the view that such procedures would need to align with the risk-based audit approach and the requirements of ISA 315.

### 4. Accounting Firms

#### KPMG

For what types of entities or in what circumstances?

As we note above, it is unlikely to be appropriate or effective to try to establish generic criteria for these potential solutions e.g. by size or whether or not an entity is listed, because risks are entity-specific, e.g. we note that non-listed entities do not necessarily have a lower fraud risk profile than listed entities. Instead, we support the proposals primarily directed to enhancements to ISA 240 and other ISAs, where relevant, in relation to all audit engagements, e.g. to better emphasise the relevant considerations for determining the need for forensic specialist involvement, or involvement of data and analytics experts, and how we exercise professional scepticism and considerations in this regard, which are aligned to the risk-based nature of an audit engagement.

Similarly, we believe that training solutions would be most effective if developed and made available to all auditors, as part of their qualification process and on an ongoing basis.

If solutions such as requirements for auditors to evaluate and report on an entity's system of internal control, or longer-term business resilience/ viability are explored further, we recommend that investors are involved in decision-making in this area and, given the significant cost involved, we believe such a solution would likely be more appropriate if restricted to listed entities/ PIEs. We also highlight that decisions in this area would generally fall within the remit of market regulators – please see our response to Question 4, noting that other bodies, including such regulators, would need to be involved in this dialogue.

What enhancements are needed?

Please refer to our responses above, which discuss in more detail our views on the various solutions proposed in the DP and our recommendations regarding the most appropriate avenues for the IAASB to pursue.

Should these changes be made within the ISAs or outside the scope of an audit (e.g. a different engagement)? Please explain your answer.

Please refer to our responses above. We recommend that enhancements to the ISAs be considered, in particular, to ISA 240, to clarify existing concepts, including to better emphasise the relevant considerations for determining the need for forensic specialist involvement, or involvement of data and analytics experts, and how we exercise professional scepticism and considerations in this regard, which are aligned to the risk-based nature of an audit engagement. We also set out recommendations in our response to Question 1a) regarding ISA 240 placing increased emphasis on evaluating the culture and tone at the top of the entity, as well as expanding guidance in responding to financial statement level fraud risks.

We also recommend exploring training solutions, working with other relevant bodies, including IAESB, National Standard Setters (NSS), and regulators to determine the appropriate scope of such training, noting that this should be responsive to the root causes of recent corporate failures.

If the IAASB, and other bodies, decide to pursue the solution of requirements for auditors to evaluate and report on the entity's processes and controls to prevent and detect fraud (or, as we recommend, on an entity's system of internal control more broadly, which may also include processes and controls in respect of provision of information regarding longer-term resilience/ viability of an entity), we note that a suitable framework establishing criteria for measurement/ assessment would need to be developed, similar to the COSO Framework that is used in an audit of Internal Control Over Financial Reporting (ICOFR), that would be capable of reasonably consistent application on a global basis. Additionally, equivalent requirements for entities would likely need to be developed via financial reporting standards, laws and regulations, or corporate governance codes, rather than attempting to effect requirements indirectly through auditors.

Please refer to our response to Question 4, in which we note that for several of these solutions to be effected, bodies, including financial reporting standard setters, as well as regulators, will need to work together.

We consider that such an engagement should be performed as a separate engagement e.g. as an integrated audit with separate reporting by the auditor regarding internal control over financial reporting (including in respect of fraud) or as an assurance engagement in accordance with the ISAE 3000 (Revised) suite of standards, rather than as part of the audit of the financial statements..

We also believe that the core principle applicable in other areas of corporate reporting that 'management goes first' should also be applied in this situation, i.e. management/ those charged with governance of an entity should be required by regulators to describe their approach to fraud identification and their response e.g. in the front section of the annual report, with auditors providing assurance over this information.

### Mazars (MAZ)

No. Fraud is a concern for all types of entities and the standards are sufficiently risk-based to account for differences across industries, jurisdictions, etc. However, if additional procedures are to be required for some entities, we would suggest that these are clearly explained in the audit reports for those entities, rather than requiring the public to have to understand the specific industry standards applied.

See also our answers to question 1.

## 6. Member Bodies and Other Professional Organizations

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

There was some support for enhancements relating to Engagement Quality Control Reviews (EQCRs) where fraud risks are higher or where evidence of potential fraud comes to light. There was also support for consideration of the need for specialist involvement generally. There was little support for the mandatory involvement of forensic specialists not least because of their limited availability, but we acknowledge that their use might helpfully be more strongly encouraged where appropriate. There was no support for differential requirements based on the size or nature of an entity.

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

We cannot answer this question definitively since changes in the accounting and auditing standards can have a wide range impact on risks of fraud and going concern depending on how rapid these changes are, and the industries affected (or the specific entities ability to respond). There are of course industries that are inherently risky by their very nature without the ability to foresee changes. As a result of rapid changes in technology, there may be many more incidences of entities with going concern issues and related fraud risks. For example, ten years ago, technology unexpectedly changed the risk profile of the oil and gas industries significantly as fracking became a material factor in production. Another example is how technology rapidly changed the for-hire car industry in the US.

A third example is commercial banking. In the US, this industry's risk profile has changed significantly. Prior to the repeal of the Glass Steagall Act, the investment portfolios of commercial banks generally constituted about one-third of their balance sheets. The portfolios were comprised of securities with little or no credit risk (e.g., government securities). After the law changed, more risk was introduced into portfolios as the accounting requirements moved to address fair value reporting. Fraud risk increased incrementally. To address these risks, firms increased the use of valuation specialists (both within their firms, and others such as third-party pricing specialists). They also provided special training and higher levels of review and supervision during the major engagement phases. The financial crises provided special challenges. During this period the accounting and auditing standard setters helped audit professionals to manage their fraud risk, but those efforts were not completely successful, and they keep evolving within the industry even today.

We think the most appropriate response to this type of fraud risk should be in the form of encouragement that better guidance be provided at the firm level. Therefore, additional prescribed procedures (or enhancements thereof) in the standards would not be necessary, even in higher risk situations and within higher risk industries, as auditors would be expected to expand their audit procedures as deemed necessary in the circumstances. Additionally, audit firms' acceptance and retention policies are an added element of protection against fraud risk.

Any changes or enhancements to procedures should be done in the ISA's and outside the scope of the audit in the guidance related to different types of engagements, i.e., audits versus non-audits such as forensic investigations. Any clarifications to the responsibilities of the auditor versus another specialist would work toward narrowing the expectation gap.

### 7. Investors and Analysts

### Corporate Reporting Users Forum (CRUF)

Question 2 (b)

Is there a need for enhanced procedures only for certain entities or in specific circumstances?

Some CRUF participants answered no, as all entities and all circumstances should be considered in deciding whether to use enhanced procedures. Other CRUF participants answered yes, but they think that not only are large-scale companies, and companies with complicated businesses, considered to be at high risk, but that start-up or young and fast-growing companies with strong owner-manager authority are too. This is because the latter companies are less likely to be controlled by shareholders other than the owner and its affiliates.

## Q2b.3 - No (i.e., Enhancements should apply to all entities or no enhancements needed)

### 2. Regulators and Audit Oversight Authorities

### Independent Regulatory Board for Auditors (IRBA)

In our view, enhanced or more requirements regarding fraud in an audit of financial statements are required for ALL entities and in all circumstances; however, the extent of additional requirements should ultimately be driven by risk.

In other words, the current standard requirements that apply to all audits should be enhanced or elaborated and, in addition, the auditor will need to assess the specific circumstances of the engagement to determine the nature, timing and extent of additional procedures to apply, to be responsive to the risk in accordance with the principles of ISA 330.6.

We do not believe that enhanced or more requirements should be restricted to specific entities, as fraud is not necessarily restricted to certain entities. Often, fraud and the means for laundering money are a complex network of transactions across entities within a group of related parties. Only by investigating the transactions from different sides and looking at the broader picture of the flow of transactions can/will the fraud be identified.

It is also not possible to identify all circumstances that indicate fraud or a higher risk of fraud. This is dependent on understanding, inter alia, the client's business, the client's governance framework as well as the control environment; using professional experience and judgement to make an informed risk assessment; and designing an appropriate response to mitigate identified fraud risks.

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

NASBA believes that increased risk should determine the need for enhanced procedures. Fraud happens in organizations of all sizes and harms stakeholders in organizations both large and small. We believe auditors should perform a robust risk assessment when performing financial statement audits of organizations of every size.  When risk surpasses a certain threshold, the auditor should apply enhanced procedures, such as we described in our response to Question 2(a).

### 3. National Audit Standard Setters

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

The AUASB is of the view that if the IAASB decide to enhance fraud procedures under ISA 240, these would need to apply to all entities in all circumstances and not just listed or public interest entities.  It would not assist in closing the expectation gap if different levels of audit requirements were applied to different entities based on different characteristics, In fact this approach is likely to have the opposite effect and increase the knowledge gap around understanding the level of assurance a financial statement audit provides to the users.

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

We do not believe there are grounds for introducing enhanced procedures within the scope of the audit of financial statements for only certain kinds of entities, because it would lead to the need to perform those procedures for those entities even when auditors assess particular risks of material misstatement due to fraud at assertion level as being acceptably low. However, based on our response immediately above and to (a), consideration may be given to exploring enhanced procedures generally and in certain circumstances within the scope of the audit of the financial statements. Since the IAASB cannot prescribe when engagements must be performed, we do believe that legislators may wish to consider whether assurance engagements on internal control or the compliance management system over material misstatements due to fraud are appropriate for listed entities or PIEs.

For what types of entities or in what circumstances?

As noted in our response to (b) above, we do not believe that a distinction ought to be made by type of entity or for certain circumstances except as described below in our response to ii.

What enhancements are needed?

As noted in our response to (a), consideration could be given to exploring: 1. Whether the connection between fraud risk factors and the assessment of misstatement risk at the financial and assertion levels is adequate, 2. Whether more clarity could be given as to when indications for material misstatements due to fraud in the financial statements are strong enough for auditors to need to take further measures, and 3. When auditors may need to be required to under-take forensic measures due to the risk of material misstatement in the financial statement due to fraud, including, when needed, using specialists, such as forensic experts.

Should these changes be made within the ISAs or outside the scope of an audit (e.g., a different engagement)? Please explain your answer.

We believe that enhancements within the scope of the audit financial statements should be made within the ISAs. Other potential matters, such as assurance on internal control or the compliance management system over material misstatements due to fraud, should be done outside of the ISAs, but only legislators and appropriately legally empowered regulators – not the IAASB – can prescribe additional engagements.

### 4. Accounting Firms

#### CohnReznick (CR)

We do not believe there is a need for enhanced procedures only for certain entities in specific circumstances. Instead, we believe the ISAs should continue to be drafted in a scalable manner.

### Deloitte (DTTL).pdf

There should be no difference in the requirements for certain entities unless there are additional requirements or responsibilities placed on management and TCWG (e.g., for listed entities) which would in turn require or necessitate additional procedures to be performed by the auditor. The existing principles-based standards enable auditors to apply professional judgment based on facts and circumstances (including extraordinary situations) in designing proper responses to assessed risks, which requires performing additional procedures to address increased risk or specific challenging circumstances.

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

It is important to note that current auditing standards highlight that special circumstances already lead auditors to perform additional procedures when fraud is suspected or identified (e.g., communication, reassessment of risks of material misstatements, consideration of scope/sufficiency of audit procedures, evaluation of reliability of evidence obtained).

### GTI

We are of the view that all procedures in relation to fraud should be relevant to all entities irrespective of the type of entity or its specific circumstances.

We are also of the view that instead of considering enhanced procedures, focus be on differences in the ways that frauds may be perpetrated at different types of entities and in different circumstances. The motivations and opportunities to perpetrate a fraud at a listed entity are very different from those at an owner-managed business. This would promote more critical thinking and the development of audit procedures that are responsive to the fraud risks specific to the entity, rather than engagement teams 'going through the motions' and checking off a list of procedures that are required to be performed, irrespective of whether that procedure is relevant to the entity being audited.

We also highlight the responsibilities of management and those charged with governance of entities subject to audit, in this respect. As we noted in our response to part (a) of this question, management and those charged with governance have the responsibility for developing internal control and the ability to expand the scope of their internal audit procedures to address any concerns about fraud.

### HLB International (HLB)

We do not believe there is a need to prescribe enhanced procedures only for certain entities or in specific circumstances. We believe there are other engagements and methods to address fraud, such as forensic audits or use of forensic specialists, that are already available in instances where additional effort is necessary in the professional judgement of the auditor or in the evaluation of management or those charged with governance.

### Mazars USA (MAZUSA)

Response: No, we do not believe there is a need for enhanced procedures only for certain entities or in specific circumstances. The standard, ISA 240, allows for flexibility so that judgment can be used to determine if there is a specific circumstance that warrants additional procedures. ISA 240, as a principles-based standard, can be applied to all industries, complexities and sizes of entities, and as the auditing environment changes, auditors can still utilize the standards through evolving their approaches and procedures. We do not support amending ISA 240 to provide for use of forensic specialists in special circumstances.

We acknowledge that there could be value in additional implementation guidance or tools related to the auditor's challenge of risks that may be specific to certain industries.

### MNP LLP (MNP)

Certain entities are subject to separate regulation and reporting requirements that may also involve their auditors. The need for any enhancements to existing procedures is fact-specific and best addressed outside of the scope of the ISAs. Attempting to incorporate such guidance into the ISAs introduces a new key judgement around nature of the entity, or part thereof, to determine whether such requirements apply. Accordingly, we do not believe that there is a need for enhanced procedures for certain entities within the ISAs.

### Nexia International (NI)

We do not believe there is a need for enhanced procedures only for certain entities in specific circumstances. Instead, we believe the ISAs should continue to be drafted in a scalable manner.

## 5. Public Sector Organizations

### Auditor General of South Africa (AGSA)

b) No, enhanced procedures are not recommended, however training of auditors on forensics and how to identify risks of fraud as well as additional examples of fraud indicators may be considered.

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

We do not believe that procedures in respect of fraud in the audit of financial statements should be different depending on the nature of the entity but would offer that procedures with respect to risk assessment could be strengthened.

### US Government Accountability Office (GAO)

In our view, the current requirements for financial statement audits in relation to fraud are sufficient if auditors effectively implement them. We note that the International Standards for Auditing (ISA) already require further audit procedures to obtain more persuasive audit evidence when auditors determine that an increased risk of material misstatement exists.2 As noted in our response to the previous question, tools to assist auditors in more sufficiently identifying risks could help auditors appropriately assess and respond to such risks with further audit procedures and in their related assessment of evidence.

## 6. Member Bodies and Other Professional Organizations

### Botswana Institute of Chartered Accountants (BICA)

ISA 240, requires an auditor to identify and assess an entity's risks of material misstatements due to fraud or error at the financial statements level and at the assertion level. This requirement is enough guidance for auditors to consider different circumstances when identifying risk of materials misstatement due to fraud. Fraud cannot be blankly associated with certain entities and therefore it would not be necessary to enhances procedures only for certain entities.

Generally, certain entities are prone to fraud due to nature of operations. And this is covered under the risk assessment process that auditors perform during audits. Since the ISAs are detailed regarding review of risk when performing an audit, sufficient guidance is already provided.

#### CPA Australia (CPAA)

No, not with respect to work effort in relation to fraud in the audit of financial statements. For such audits, we do not consider that fraud should be addressed differently for different entities, although clearly the fraud risks identified can vary widely between industries, locations and the size of an entity.

However, as raised in answer to question 1(b), we do see benefits in developing standards for other types of assurance engagements, such as assurance on controls over financial reporting, controls over fraud prevention and detection, management commentary and fraud and going concern risk assessments.

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

Response: No. Audit chairs did not express a view that listed companies or companies of a certain size or in a certain sector should require a higher standard of auditing for fraud. It is Tapestry's view that there should not be variations in standards based on these differentiators. However, as indicated above, the audit chairs we interviewed sit on the boards of large listed companies, which typically retain Big Four audit firms and have robust internal audit departments. Their responses may be less applicable to the question of enhanced procedures for smaller entities.

#### Wirtschaftspruferkammer (WPK)

No, please see answer to question 2. (a).

Nevertheless, we would like to mention at this point the reporting requirements for auditors of public interest entities in Article 7 (irregularities including fraud) and Article 12 (going concern) of the EU Audit Regulation.

### 9. Individuals and Others

#### Alvaro Fonseca Vivas (AFV)

For all types of organization, because fraud is handled in all of them, or operations are omitted.

## Q2b.4 - No comment

### 1. Monitoring Group

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

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

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

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

**2. Regulators and Audit Oversight Authorities**

**Canadian Public Accountability Board (CPAB)**

**Canadian Securities Administrators (CSA)**

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

**3. National Audit Standard Setters**

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

**4. Accounting Firms**

**Moore (MGN)**

**SRA**

**5. Public Sector Organizations**

**New Zealand Auditor General (NZAG)**

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

**Accountancy Europe (AE)**

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

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

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

**International Ait Transport Association (IATA)**

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

**PIRC**

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

**9. Individuals and Others**

**Ahmed Al-Qawasmi (AAQ)**

**Constantine Cotsilinis (CC)**

**Dmitrii Timofeev (DT)**

**Michael Bradbury (MB)**

**The Unlimited (TU)**