

# Fraud and Going Concern Discussion Paper

## 2d. Do you believe more transparency is needed about the auditor's work in relation to fraud in an audit of financial statements?

Q2d.1 - Yes  
If yes, what additional information is needed and how should this information be communicated?  
Q2d.1 - Yes - 01 Auditor's report - Clarity around auditor's responsibilities

### 1. Monitoring Group

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

Setting out clearly what can be expected from auditors in relation to fraud and going concern should help to limit any expectation gap.

### 2. Regulators and Audit Oversight Authorities

#### Botswana Accountancy Oversight Authority (BAOA)

Yes,

In addition to the disclosure requirements in ISA 700 (Forming an opinion and reporting on Financial Statements), the Auditor's responsibilities section should expand and/or elaborate the auditor's responsibilities in relation to fraud, this would help in reducing the knowledge gap.

### 3. National Audit Standard Setters

#### Malaysian Institute of Accountants (MIA)

We believe that a more prominent description of auditor responsibilities for detecting fraud in the auditor's responsibilities section of the auditor's report would be beneficial.

### 4. Accounting Firms

#### CohnReznick (CR)

Fraud

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

We believe more transparency may be appropriate and can be effectively and efficiently achieved by the IAASB adopting reporting requirements related to fraud similar to the AICPA's. See our response to 1(b) above, specifically the "Fraud" section.

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

Auditor's report

We believe the auditor's responsibilities section of the auditor's report would benefit from a more prominent description of auditor responsibilities for detecting fraud. In addition, we suggest that the current description be expanded to include the auditor's required procedures for both addressing fraud risks and when fraud is identified or suspected.

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

### **CFO Forum**

Yes, we do believe that more transparency is needed about the auditor's work in relation to fraud in an audit of financial statements. The nature and extent of procedures performed by the audit team, as well as their role and responsibility relating to fraud should be clearly articulated in the audit report. This can be achieved by including a paragraph similar to the one on "other information" in the audit opinion.

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

ISA 260.- To require the auditor to clearly communicate the responsibilities regarding fraud, of: (a) management, (b) those charged with governance of the entity, and (c) the auditor.

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

Yes. Recently, the revisions made by IAASB in ISAs and other standards significantly increased the communicative qualities of auditors' reports. However, given the expectation gap that still exist, more clarity with regard to how the responsibility of prevention and detection of fraud is shared among various parties (those charged with governance, management, audit committee, auditors etc.) can be more directly stated in the auditors' report.

**Q2d.1 - Yes**If yes, what additional information is needed and how should this information be communicated\Q2d.1 - Yes - 03 Auditor's report - Internal control issues in auditor report

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

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

Some stakeholders called for greater transparency from auditors in relation to identified significant controls' deficiencies and weaknesses. Views were expressed that it may be appropriate for auditors to report significant internal control deficiencies as a KAM in the audit report.

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

At our roundtable event, some participants called for greater transparency from auditors in relation to significant deficiencies in an entity's internal controls identified during the audit. Views were expressed that it may be appropriate for auditors to report significant internal control deficiencies as a key audit matter (KAM) in the auditor's report.

## 4. Accounting Firms

### Ernst and Young (EY)

We believe users may be seeking information that would assist them in understanding the soundness of the entity's processes and controls to address the risk of fraud, as well as the auditor's work or observations related to those processes and controls.

Consistent with our response to Q1(b), we believe entities should have a system of strong internal control over financial reporting that includes fraud risk specifically. Management and director certifications on the content of financial statements as well as internal control over financial reporting should be explored. Such requirements for entities would provide a basis for auditors to evaluate, and potentially separately report on, management's processes and controls to prevent or detect fraud. Whether separate reporting on internal control over financial reporting is appropriate is a decision to be made at a jurisdictional level. Regardless, we believe that enhancements to management's responsibilities for internal control to prevent or detect fraud, as well as increased corporate reporting about those responsibilities, could provide a basis for including in the auditor's report information about significant deficiencies in those controls that were identified in the course of the audit in accordance with ISA 265.

### **Q2d.1 - Yes**If yes, what additional information is needed and how should this information be communicated\Q2d.1 - Yes - 04 Auditors report - Materiality judgments

#### 3. National Audit Standard Setters

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

Others called for additional information to be disclosed by management, e.g. management assessment of risk of fraud. Such additional information, where relevant, could prompt commentary from auditors in their report. Requiring disclosure of materiality judgements in the auditor report was another suggestion. However, there were also opposing views were that auditor reports are already too long and too difficult to understand. Concerns were also raised about the possible increase in auditor liability if including more in their audit report.

There was consensus however that if there is more to be said in the auditors' report it has to be bespoke and tailored to the audited entity and not 'boiler plate' statements with little specificity to the entity.

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

Requiring disclosure of materiality judgements in the audit report was another suggestion.

Opposing views were that audit reports are already too long and too difficult for users to understand. Concerns were also raised about the implications for auditor liability in requiring additional material in the report, although the NZAuASB recognises this is a jurisdictionally specific issue.

There was consensus however that if there is more to be said in the auditor report it has to be bespoke and tailored to the audited entity and not involve the use of boilerplate statements with little specificity to the entity.

**Q2d.1 - Yes**If yes, what additional information is needed and how should this information be communicated?**Q2d.1 - Yes - 05 Auditor's report - Explain to what extent the audit was considered capable of detecting fraud**

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

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

To increase transparency on audit procedures related to fraud, the IAASB should require the auditor to explain the extent to which the audit was considered capable of detecting fraud in the auditor's report, while avoiding "boiler plate" statements. At a minimum this should be required for PIE audits as required by European Union legislation.

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

Whether more information is needed in the auditor's report regarding fraud or going concern, and if so, further details about the transparency needed.

More information and transparency in the auditor's report could help address the expectations gap. As described in our responses to Q2(a) and Q3(a), the requirements in ISA (UK) 240 and ISA (UK) 570 go beyond those in the underlying international standards.

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

In respect of all audited entities, the auditor is also required, by a supplementary requirement in ISA (UK) 700, to explain to what extent the statutory audit was considered capable of detecting irregularities, including fraud. As noted above, one of the enhancements we are proposing to ISA (UK) 240 is to re-emphasise this requirement and clarify that the explanation should not be a 'boiler plate'.

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

Auditor's report

To increase transparency on audit procedures related to fraud, the IAASB should require the auditor to explain the extent to which the audit was considered capable of detecting fraud in the auditor's report, while avoiding "boiler plate" statements. At a minimum this should be required for PIE audits, as required by European Union legislation.

## **4. Accounting Firms**

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

We are generally supportive of greater transparency in audit reporting of what work was performed and the findings of auditor's work. We support the requirement introduced for PIEs in the EU Audit Regulations and ISA (UK) 700 (Revised) for all entities, to disclose the extent to which the audit was considered capable detecting irregularities, including fraud. It will be important that auditors avoid the use of "boilerplate"

responses to this requirement. The IAASB should review the implementation of these requirements and assess whether such a requirement should be more widely adopted.

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

Yes, we believe that more transparency would assist enhancing the understanding of the work performed in relation to fraud in an audit of financial statements. More transparency on the auditor's work in relation to fraud in an audit of financial statements could be a helpful measure as part of the overall response to address the expectation gap. Information could be included in the auditor's report which is similar to the new requirements in the UK. These require that the auditor's report includes an explanation on the extent to which the audit was considered capable of detecting irregularities, including fraud.

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

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

One starting point for the IAASB might be the enhanced transparency in audit reports required by the UK's FRC in relation to the extent to which the audit is considered capable of detecting 'irregularities', including fraud. This is now required for all audits.

'Irregularity' is not defined in UK legislation, but is deemed to correspond to the ISA 250 definition of non-compliance: acts of omission or commission, intentional or unintentional, contrary to the prevailing laws or regulations. The explanation required covers how auditors have assessed the risk of material misstatement in respect of irregularities, including fraud, and their response. Guidance on factors for auditors to consider in making this statement, and the relationship with KAM and COVID-19 has been developed by ICAEW.

### **Wirtschaftsprüferkammer (WPK)**

We believe that more educational work about the auditor's work in relation to fraud in an audit of financial statements is needed in the first place.

Additionally, we support the idea of increasing the transparency in the auditor's report in accordance with the requirements in Article 10 of the EU Audit Regulation in order to reduce the expectation gap. According to this Article auditors of public interest entities are required to explain in the auditor's report to what extent the audit was considered capable of detecting irregularities, including fraud. Nevertheless, extensive, boiler plate explanations in the auditor's report should be avoided. This dilutes the informational value of the report, possibly increasing the expectation gap.

**Q2d.1 - Yes**If yes, what additional information is needed and how should this information be communicated\Q2d.1 - Yes - 06 Auditor's report - Describe the fraud specific procedures performed

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

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

More transparency, particularly in the auditor's report, could help reduce the knowledge gap, as stakeholders would be better informed about the auditor's work in relation to fraud in an audit of financial statements. It could also help reduce the performance gap, as having to make public what work has or has not been performed can help focus an auditor's attention on planning and performing the most appropriate procedures.

ISA (UK) 701 includes a supplementary requirement, based on European law, that the auditor's report for a PIE shall provide, in support of the audit opinion:

- (a) A description of the most significant assessed risks of material misstatement, (whether or not due to fraud);
- (b) A summary of the auditor's response to those risks; and
- (c) Where relevant, key observations arising with respect to those risks.

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

Yes. Section IV proposes more information regarding fraud in the auditor's report and/or more transparency regarding communication with those charged with governance.

From a public perspective, the audit opinion remains the sole evidence of the result of the audit. Therefore, more transparency is required in the audit report. We propose that the audit opinion should reflect the nature and the extent of the work performed around fraud risk assessment, identification and response. For example:

Whether the risk assessment process included a testing of management's controls around fraud risk assessment and identification (and/or other entity level controls); and, if not, why not (e.g. if there are no processes in place or the processes are insufficient for testing purposes, that fact should be stated).

Actual fraud risks identified and how this compares to the risks identified by management (including context as to the basis for concluding what the fraud risks are).

Details of any non-compliance and whether this is investigated by the client or not (and/or if investigations have been performed and concluded, details of the conclusions and whether this gives rise to a fraud risk or not, as well as a basis for the conclusion).

A requirement to distinguish between general fraud responses, e.g. increased senior personnel, journal entry testing and specific audit responses designed to respond to the identified fraud risks.

Specifying limitations, e.g. no investigation being performed by management, details of suspicion and if/how this was escalated without investigation/legal interpretation, etc.

Details of matters resolved since the last audit.

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

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

The AUASB and its stakeholders have mixed views about increasing transparency in relation to fraud with TCWG and/or in the audit report. It was strongly agreed by stakeholders that if the auditor were required to disclose more in the audit report about the audit procedures undertaken in relation to fraud that this would be coupled with more transparency around the responsibilities of management and TCWG in relation to the prevention and detection of fraud. This may be achieved in Australia through the director's declaration or the equivalent Director responsibility statements used in other jurisdictions.

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

Communication of the work of the auditor and conclusion about fraud

We consider that it would be appropriate to strengthen the communication in the auditor's report on the work performed and conclusion about fraud. We recommend adding in the auditor's report boilerplate explanations on the work performed on fraud.

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

section of the auditor's report would be beneficial. In addition, we suggest that the current description be expanded to include the auditor's required procedures for both addressing fraud risks and when fraud is identified or suspected.

### **4. Accounting Firms**

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

As we noted in our initial comments, we believe improved 'communication' is critically important to meeting the informational needs of users of financial statements and thus helping to reduce the expectation gap.

Our discussions with internal stakeholders revealed a range of views about whether there should be greater transparency concerning the auditor's work in relation to fraud in an audit of financial statements. On balance, we are supportive of providing more information, to help reduce the knowledge gap, concerning what auditors do and don't do in relation to fraud in an audit of financial statements. Where we had divergent views, it related to the precise vehicle for providing this transparency and whether the right place for this was in the auditor's report or elsewhere such as in communications with TCWG.

Potential suggestions included:

Auditors' reports – inclusion of a dedicated section (similar to current inclusion of material uncertainty related to going concern paragraphs). This approach would need to provide users with entity-specific content without unduly adding to the length of the auditor's report.

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

(d) Do you believe more transparency is needed about the auditor's work in relation to fraud in an audit of financial statements? If yes, what additional information is needed and how should this information be communicated (e.g. in communications with those charged with governance, in the auditor's report, etc.)?

More transparency ought to be presented about the work auditor's work in relation to fraud in an audit of financial statements. More information ought to be presented in the auditor's report and in communications with those charged with governance.

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

In the case of a key audit that relates to fraud matter, the more specific the description of audit procedures performed in response to the increased fraud risk and/or identification of fraud, the more helpful it would be to users.

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

#### **CFO Forum**

Yes, we do believe that more transparency is needed about the auditor's work in relation to fraud in an audit of financial statements. The nature and extent of procedures performed by the audit team, as well as their

role and responsibility relating to fraud should be clearly articulated in the audit report. This can be achieved by including a paragraph similar to the one on “other information” in the audit opinion.

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

We consider that in companies that offer their shares in public form and in public interest entities, the auditor should communicate the fraud risk assessment as well as the conclusions obtained from the procedures applied, while the Management should also report on your own fraud risk assessment and the policies and procedures implemented to mitigate it.

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

ICPAU believes that more transparency is needed about the auditor’s work in relation to fraud in an audit of financial statements. Auditors need to avoid boilerplate disclosures in relation to fraud consideration in relation to the audit of financial statements and should consider being more transparent by highlighting particular procedures performed around fraud assessment.

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

Yes, as mentioned above, the recent audit failures have left the users of financials with many open questions which result in undue expectations. By increasing the level of transparency, the level of disclosure is enhanced. Disclosure is key. If there is proper disclosure, the user will be able to digest the information, in alignment with their own models and make independent assessments.

This supposes greater disclosure by management in the first instance of greater information around their controls over fraud. Thereafter, the auditor’s report can be enhanced to include specific inclusion of the nature of the procedures performed by the auditor over both fraud and going concern (or the greater resilience of the business). A consideration around the link between fraud and the key audit matters reported should be also included.

As the IAASB considers the overall quality standards for audit firms under ISQM1, the IAASB can also consider audit firm’s transparency reporting in relation to their training and processes required to comply with the enhanced auditing standards over fraud.

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

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.

We do believe that more transparency is needed on the part of the auditor in communicating his work. In the auditor’s report, similar to key matters, he should disclose his procedures and the evidence obtained regarding compliance with fundamental principles of ethics and about his evidence regarding fraud and the operating entities.

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

Yes, we would support requirements to include as part of reporting to those charged with governance and in the audit report, the inclusion of the specific procedures performed by the auditor in relation to fraud.

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

There is currently no requirement within the ISAs to describe specific procedures performed and findings obtained regarding risks of material misstatement due to fraud in the auditor's report, although such information may be included if it is determined by the auditor to be a key audit matter. The IAASB could explore the inclusion of enhanced material in the ISAs in this regard, including factors to consider in determining whether fraud, or fraud risk, may be a KAM.

## **8. Academics**

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

Yes, more transparency is needed about the auditor's work related to fraud, as the above responses have illustrated the extent of the expectation gap between financial statement users and auditors still persists. The IAASB Fraud and Going Concern Roundtables noted that transparency regarding the auditor's fraud-related work could: 1) close the expectation gap and 2) generate robust discussion between the auditor and those charged with governance to better challenge management (IAASB 2020).

#### **Additional Fraud Information Needed**

Auditing standards related to the auditor's responsibility related to fraud have evolved over time to provide guidance on the how the auditor should perform fraud-related tasks such as the identification of fraud risks, the conduct of fraud brainstorming sessions, and the communication of identified fraud (AICPA 2002; PCAOB 2003; IAASB 2004). However, there has not been a specific requirement to include explicit statements on fraud-related tasks in communications to those charged with governance and/or in the audit report. Specifically, succinctly stating the fraud-related tasks performed and their related limitations may serve to significantly narrow the expectation gap. For example, adding a sub-category such as, "Auditor's Responsibility Related to Fraud", will provide a clear description of the auditor's responsibility in this area (see the section below, Audit Report, for additional discussion). This additional modification will explicitly communicate the client-specific, fraud-related procedures to those responsible for management oversight (i.e., board of directors/audit committee) and those relying on the financial statements (i.e., investors and other stakeholders). This rationale is consistent with the transparency and accountability literature presented by regulators in support of the partner identity disclosure rule (PCAOB 2009) and the inclusion of CAMs/KAMs in the auditor's report (PCAOB 2011a).

## **9. Individuals and Others**

### **Alvaro Fonseca Vivas (AFV)**

Well, the transparency of the auditor's work is what he develops and based on his moral and ethical values, but it is important that at least it is clearly established how he uses or applies the procedures in the audited area and what weaknesses he finds in them to improve in subsequent visits or to the same client or other clients, but if it is important to emphasize that this is important for recommendations or suggestions and in supporting the opinion or qualifications of the final report that will be discussed with the client's administration and will help to improve the procedures and internal controls of the same and the ongoing business as established by international standards.

## **Q2d.1 - Yes\If yes, what additional information is needed and how should this information be communicated\Q2d.1 - Yes - 07 Auditor's report - Fraud specific KAM**

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

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

Under the current framework, the work of an auditor in areas where the risk of material misstatements is assessed as high or a significant risk, including a risk of material misstatement due to fraud, can be stated in the auditor's report as a key audit matter. We therefore believe that transparency to the users of financial statements can be ensured under the current framework. As for the transparency to those charged with

### **4. Accounting Firms**

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

Use of a 'Key Audit Matter' approach - to provide at a headline level an overview of potential areas of fraud that the auditor considered and what procedures they performed to deal with these fraud risks. This approach would need to consider the impact for non-listed entities and degree of variation in terms of how information was communicated by auditors.

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

The IAASB could also consider whether to extend the KAM requirements, from ISA 701, to fraud risk and the auditors work effort in relation to addressing fraud risk.

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

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

There is currently no requirement within the ISAs to describe specific procedures performed and findings obtained regarding risks of material misstatement due to fraud in the auditor's report, although such information may be included if it is determined by the auditor to be a key audit matter. The IAASB could explore the inclusion of enhanced material in the ISAs in this regard, including factors to consider in determining whether fraud, or fraud risk, may be a KAM.

### **8. Academics**

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

##### **Audit Report**

Recent audit standard-setting has changed the substance and form of the audit report to include additional disclosures related to critical or key matters that relate to audit areas of significant attention (IAASB 2015b; PCAOB 2017, 2018). Overall, fraud has not been consistently identified as an area of significant attention even with the additional procedures required by the current audit guidance. One concern noted in the deliberations regarding expanded audit disclosure was the increased likelihood of auditor liability (PCAOB 2011a, 2011b). Reffett (2010) provided evidence that supported this view by showing that evaluators held auditors more liable when they performed procedures to investigate fraud and did not identify the fraud. However, Brasel, Doxey, Grenier, and Reffett (2016) found opposite evidence when evaluating critical audit matter disclosures. In this setting, evaluators are less likely to hold auditors liable in the presence of "ex ante risk disclosures" that forewarn of potential misstatements. As such, a specific discussion regarding fraud risk

in the audit report may reduce the expectation gap without increasing auditor liability. The IAASB could consider guidance to prompt auditors to evaluate whether a tailored fraud key audit matter is appropriate in their specific client circumstance. A specific prompt may assist with raising the stature of the specific fraud-related activities performed to the financial statement users.

**Q2d.1 - Yes**  
**Q2d.1 - Yes - 08 Auditor's report - Other**

### 3. National Audit Standard Setters

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

One area where clarity is needed in the auditor's report is in relation to the following statement:

"The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentation, or the override of internal controls."

This statement could be interpreted in two ways:

The risk remains higher, notwithstanding all the work that was done in the audit; or

The risk is higher and therefore the auditor performed additional work.

Clarification should be added to the auditor's report to explain what this statement is trying to communicate.

We believe the expectation gap cannot be addressed in the auditor's report, but rather through continued education. While we recognize that these education activities are outside of the IAASB's mandate, we would encourage the IAASB to work with other parties to increase awareness of these issues and develop educational materials as required.

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

Others called for additional information to be disclosed by management, e.g., management's assessment of risk of fraud. Such additional information, where relevant, could prompt commentary from the auditor in their report.

### 4. Accounting Firms

#### Ernst and Young (EY)

We strongly encourage the IAASB to continue its outreach with those charged with governance, investors and other users to better understand and define the information that is being sought about management responsibilities related to fraud and the auditor's work to detect fraud. This understanding is critical to determining the appropriate party and mechanism for providing the desired information.

With respect to requiring further disclosure by the auditor of the work performed, we agree that reporting key audit matters under ISA 701 is the appropriate mechanism when matters relating to fraud risks rise to the level of matters of most significance in the audit.

When matters related to fraud do not rise to the level of key audit matters, we are not convinced that the information that would narrow the expectation gap would be information about audit procedures performed to address the fraud risks identified under ISA 240 (e.g., tests of journal entries, tests of revenue recognition, or other testing to address risks of fraud in specific accounts).

## 6. Member Bodies and Other Professional Organizations

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

We note in our main points above our belief that investors need to re-engage on what they want to see in auditors' reports. Our discussions in the past suggest that they would like to see audits scoped more widely with respect to fraud, at greater cost, and in particular more nuanced communication in audit reports about where on the spectrum an entity's fraud risks lie. IAASB should reach out to this constituency.

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

Improved disclosure requirements that are similar to the key audit matters in the auditors' report, such as:

a separate section to disclose what control procedures, including the proposed "adequate procedures" pertaining to fraud has been put in place by management; and

to disclose which control procedures have been audited by auditors.

Consistent with our earlier responses, for these changes to be effective, however, requires reform across the corporate reporting ecosystem and all stakeholders playing their part and fulfilling their responsibilities and not just the auditors.

### **Q2d.1 - Yes**If yes, what additional information is needed and how should this information be communicated**Q2d.1 - Yes - 09 TCWG - Enhanced communications with TCWG**

#### 1. Monitoring Group

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

Whether auditors appropriately engage with Those Charged with Governance (TCWG). This includes the application of appropriate rigor in determining whom to speak to, whether meetings should include management, whether the auditor is sufficiently considering management bias, and whether the auditor appropriately communicates to TCWG how fraud risks were addressed and results of the relevant audit procedures.

#### 2. Regulators and Audit Oversight Authorities

##### Botswana Accountancy Oversight Authority (BAOA)

The auditor's responsibilities in relation to fraud and results should also be communicated through an audit committee document to management and those charged with governance of the entity.

##### Canadian Public Accountability Board (CPAB)

Communication with those charged with governance

Effective, two-way communication between auditors and those charged with governance is a cornerstone of high-quality audits. We believe that auditors should be reporting to those charged with governance how they discharged their responsibilities related to fraud in all audits. We propose that auditors be required to report to those charged with governance their evaluation of the design and implementation of management's process for identifying and responding to fraud risks. This requirement would be consistent with the recommendation described earlier to require auditors to evaluate the design and implementation of that process.

In addition, auditors should be required to report any potential indicators of management bias identified during the audit dealing with accounting estimates to allow those charged with governance to monitor the bias and intervene, when necessary.

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

Question 2(d) – More transparency needed about the auditor's work in relation to fraud

We support the view of the IAASB that a non-material misstatement related to fraud may be indicative of a bigger issue. In that context and because the primary responsibility for prevention and detection of fraud rests with both those charged with governance of the entity and management, we are of the view that the communication with those charged with governance, as required by ISA 260 – Communication with those charged with governance, could be enhanced to include all instances of fraud (including for non-material fraud).

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

Communications with TCWG and other parties

Communicating more information to TCWG, including audit committees, and to other authorities allows the entity to take remediation measures in relation to fraud on a timely basis.

For example, for PIEs in the European Union, when an auditor suspects or has reasonable grounds to suspect that irregularities including frauds with regard to the financial statements of the audited entity, may occur or may have occurred, the auditor is required to inform the audited entity and invite it to investigate the matter and take appropriate measures to deal with such irregularities in the future. Where the audited entity does not investigate the matter, the auditor is required to inform the authorities responsible for investigating such irregularities (for example regulatory and/or enforcement authorities). Those provisions should be fully integrated in the ISAs.

In the same vein, in such circumstances, the IAASB should also consider requiring the auditor to assess whether the measures taken by management are appropriate and evaluate the impact on its relationship with the audited entity.

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

Communications to management and those charged with governance - requiring that in communicating matters related to fraud, the auditor shall consider the matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and the auditor's assessment of the risks of material misstatement due to fraud.

While not included in the proposed revisions in the exposure draft, in the consultation we ask whether the auditor should be required to have a specific discussion with those charged with governance about the risks of material fraud in the audited entity, including those with business sector specific relevance. The purpose of this discussion would be to enhance risk assessment procedures related to material misstatement of the financial statements due to fraud

Whether more transparency is needed with regard to communications with those charged with governance.

As described in our responses to Q2(a) and Q3(c), the requirements in ISA (UK) 240 and ISA (UK) 260 go beyond those in the underlying international standards.

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

As it pertains to whether more transparent communication with those charged with governance is required, we note that collaboration between those charged with governance and the auditor is key in narrowing the expectation gap around fraud. We recognise the value in transparent communication between these parties and believe the transparency of communication should go both ways. We propose that communication between the auditors and those charged with governance be required to be formalised, for transparency and documentation purposes.

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

Communications with TCWG and other parties

Communicating more information to TCWG, including audit committees, and to other authorities allows the entity to take remediation measures in relation to fraud on a timely basis.

For example, for PIEs in the European Union, when an auditor suspects or has reasonable grounds to suspect that irregularities, including frauds with regard to the financial statements of the audited entity, may occur or may have occurred, the auditor is required to inform the audited entity and invite it to investigate the matter and take appropriate measures to deal with such irregularities in the future. Where the audited entity does not investigate the matter, the auditor is required to inform the authorities responsible for investigating such irregularities (for example regulatory and/or enforcement authorities). Those provisions should be fully integrated in the ISAs.

In the same vein, in such circumstances, the IAASB should also consider requiring the auditor to assess whether the measures taken by management are appropriate and evaluate the impact on its relationship with the audited entity.

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

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

What our stakeholders told us

As mentioned in Question 1(b), stakeholders emphasized that an entity's anti-fraud procedures and controls and the tone at the top of the organization play an important role in reducing the opportunity for fraud and improving detection. Those charged with governance can demonstrate greater leadership by overseeing the implementation of and actively monitoring anti-fraud controls. Stakeholders were supportive of enhanced communications between the auditor and those charged with governance to promote a better understanding of each party's role and responsibilities related to fraud. Our stakeholders indicated that the auditor's report adequately describes the roles and responsibilities of management and the auditor, as related to fraud.

AASB views and recommendation

We are supportive of enhanced communications between the auditor and those charged with governance to promote a better understanding of each party's role and responsibilities related to fraud. In addition, we recommend that auditors be encouraged to communicate with those charged with governance to emphasize the responsibilities of management and those charged with governance related to fraud. These additional communications could be encouraged through non-authoritative guidance.

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

It is also important for auditors to communicate with appropriate stakeholders (e.g. TCWG) when non-material fraud is identified.

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

As for the transparency to those charged with governance, significant findings from the audit are also subject to communication with those charged with governance in ISA260 "Communication with Those Charged with Governance" paragraph 16. Therefore, we believe that transparency to those charged with governance can also be ensured.

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

Yes, we believe more transparency is needed about the auditor's work in relation to fraud.

We have summarised the areas which require enhancement as follows:

#### Communication with those charged with governance

The current guidance does not promote specific communications with TCWG or robust discussions about fraud risks. The enhanced guidance should emphasise a two-way discussion about the fraud risks identified, the controls that have been implemented by the entity to address those fraud risks, and the audit strategy to respond to the identified fraud risks.

The discussion should include understanding the views of TCWG about fraud risks specific to the entity (including the effects of the entity's corporate culture on fraud risks), and management's controls to address these fraud risks and their knowledge of fraud, alleged fraud, or suspected fraud affecting the entity.

We do not believe that the auditor's communication with TCWG about identified or suspected fraud should be limited to those frauds that meet the materiality threshold. Instead, professional judgment should be applied by the auditor in determining whether other instances of identified or suspected fraud should be communicated.

We also see benefit in including additional guidance to communicate the potential implications of significant deficiencies in internal control in accordance with ISA 265 Communicating Deficiencies in Internal Control to Those Charged with Governance and Management on fraud risks.

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

In order to meet evolving expectations in relation to fraud, it is important that there are appropriate reporting requirements and two-way communication between those charged with governance and the auditor on the effectiveness of internal control relating to the prevention and identification of fraud. This is clearly beyond the IAASB standard setting mandate and would require collaboration between all participants in the financial reporting ecosystem.

In order to meet evolving expectations in relation to fraud, it is important that there are appropriate reporting requirements and two-way communication between those charged with governance and the auditor on the effectiveness of internal control relating to the prevention and identification of fraud. This is clearly beyond the IAASB standard setting mandate and would require collaboration between all participants in the financial reporting ecosystem.

## Royal Netherlands Institute of Chartered Accountants (NBA)

More transparency about the auditor's work in relation to fraud is needed. The public should be informed but not only about the auditor's work but also about the work of the entity itself to prevent and detect fraud. It should be carefully thought out what needs to be communicated and to whom. We recommend a layered approach which takes various audiences into account:

Report from the management and those charged with governance regarding fraud risks and controls as part of the management's discussion and analysis in the annual report;

An elaborated and detailed report of the auditor to management and those charged with governance;

A high level report to stakeholders. This could be a separate report from the auditor's report and take some elements of the report of the auditor to the management and those charged with governance. This would keep the auditor's report clean and concise.

Both reports from the auditor (2 and 3) could include the auditor's risk analysis, responses and findings and/or conclusions similar to key audit matters. These reports can refer to the report from management and those charged with governance (1) and are part of the reports of the auditor on the financial statement as a whole. This can gradually be introduced following a maturity model and evolve to become one report where all information is reported to all stakeholders. The auditor can also discuss and explain this subject matter in the annual shareholders meeting.

## 4. Accounting Firms

### BDO International Limited (BDO)

There was the potential to provide greater transparency about the nature of communications with TCWG in relation to fraud matters – with the possibility that any final written documentation could be more widely shared. For owner managed businesses or entities where Those Charged with Governance and management of the entity are one and the same, written documentation would not be as extensive as in the case of a listed/shareholder-based entity.

It may be helpful, whether in the auditor's report or communications with Those Charged with Governance or via another mechanism, to communicate to stakeholders when something different was performed specific to the entity that was required over and above standard fraud procedures performed on each engagement.

Recurring themes from our internal discussions with stakeholders were that whatever is recommended by the IAASB to improve transparency, it should:

Address the needs of different users of the financial statements (shareholders, investors, regulators, etc.).

Be designed in such a way that it does not create or add to the expectation gap (i.e., inadvertently assert that auditors are performing a forensic examination of the financial statements) or fall foul of local confidentiality or secrecy laws that could expose the auditor if too much was disclosed publicly about what was done in relation to fraud.

### Crowe (CG)

More transparency ought to be presented about the work auditor's work in relation to fraud in an audit of financial statements. More information ought to be presented in the auditor's report and in communications with those charged with governance.

## Deloitte (DTTL).pdf

Communication with TCWG is critical.

To improve fraud identification, detection, and deterrence, open communication between the auditor and TCWG regarding the auditor's evaluation of management's programs and controls over fraud is critical. In addition, enhanced communication about identified or suspected fraud, even when management is not involved, may be helpful to TCWG as they execute their processes to monitor the entity. It is also important that TCWG understand the significance of their role in the financial ecosystem and that they are committed to using the information communicated to fulfill their fiduciary responsibilities.

Listed entities - focus on management's disclosures.

For listed entities, additional disclosures from entity management (possibly outside the financial statement disclosures) regarding their fraud risk assessment and anti-fraud programs and controls may foster an improved understanding of the responsibilities of management to prevent and detect fraud and transparently providing this information publicly will likely increase focus on fraud detection and prevention by management and TCWG.

## Ernst and Young (EY)

Yes. We believe more transparency is needed about the auditor's work in relation to fraud, particularly enhancements to required communications with those charged with governance. As it relates to enhancements to the auditor's report, we believe the ability to significantly enhance the auditor's report has a prerequisite of greater transparency by preparers.

Communication with those charged with governance

In our view, the required communication about significant risks is not specific or robust enough for effective communication about fraud risks. We recommend a specific communication requirement for fraud risks to promote a two-way discussion about the fraud risks identified, the audit strategy to respond to the identified fraud risks and the controls that have been implemented by the entity to address fraud risks.

At least for audits of PIEs, the discussion with those charged with governance should include understanding their views about fraud risks specific to the entity and, to the extent implemented, management's controls to address fraud risks. Views related to the effects of the entity's corporate culture on fraud risks and whether those charged with governance have considered the elements of the fraud triangle in their understanding of fraud risks would be particularly useful for the auditor to obtain.

With regard to expanding communication requirements for audits of PIEs, we recommend that the IAASB consider the requirements for inquiries of those charged with governance within PCAOB AS 2110, including:

Their views on fraud risks in the entity

Whether they are aware of tips or complaints regarding the entity's financial reporting

Whether the entity has entered into any significant unusual transactions

Such inquiries could assist in corroborating the responses by management to the auditor's inquiries about fraud. Further, we do not believe that the auditor's communication with those charged with governance about identified or suspected fraud should be limited to those frauds that meet the materiality threshold in the current requirement. The auditor should use professional judgment in determining whether other

instances of identified or suspected fraud should be communicated, which is consistent with the communication requirements in IESBA Code Section 360.

We also believe that the auditor's required communication to those charged with governance of significant deficiencies in internal control in accordance with ISA 265 would benefit from additional guidance to communicate the potential implications of such deficiencies for fraud risks.

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

We believe that fraud should be a standing agenda item and key area of auditor communication with those charged with governance.

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

#### **CFO Forum**

Details relating to the audit procedures performed and resulting findings should be communicated with management and those charged with governance.

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

We agree to have more transparency about the auditor's work in relation to fraud in an audit of financial statements.

The enhancements that can be considered include:

The current guidance does not promote specific communications with those charged with governance or robust discussions about fraud risks. The enhanced guidance should emphasise a two-way discussion about the fraud risks identified, the controls that have been implemented by the entity to address those fraud risks, and the audit strategy to respond to the identified fraud risks.

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

To obtain from those charged with governance, directors and senior management a specific written representation regarding fraud, including:

Their responsibility on fraud,

The policies and procedures established to identify and address fraud risks,

Conclusion of their assessment of compliance with the policies and procedures established, indicating that as a result of their assessment they did not identify indicative of fraud.

This representation should be in accordance with the agreements established in the engagement letter.

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

Yes, we would support requirements to include as part of reporting to those charged with governance and in the audit report, the inclusion of the specific procedures performed by the auditor in relation to fraud.

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

Transparency is key to maintain trust and we are open to more transparency about the auditor's work. More transparency can help reduce the expectation gap. This can be done by an improved dialogue with those

charged with governance, where for example the risk for fraud could be discussed more in depth between the audit committee and the auditor.

## 8. Academics

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

#### Communication with Those Charged with Governance

Per the discussion above on the links between good governance and reduced fraud risk (see Carcello et al. 2011), including specific discussion regarding the auditor's responsibility for fraud as a required communication with those charged with governance could assist with the entire board's understanding of fraud and the related tasks undertaken at their respective entity. Adding the required communication and increasing the frequency of the communication could contribute to the efficacy of those charged with governance in reducing the likelihood of fraud.

Yes, more transparency is needed about the auditor's work related to fraud, as the above responses have illustrated the extent of the expectation gap between financial statement users and auditors still persists. The IAASB Fraud and Going Concern Roundtables noted that transparency regarding the auditor's fraud-related work could: 1) close the expectation gap and 2) generate robust discussion between the auditor and those charged with governance to better challenge management (IAASB 2020).

#### Additional Fraud Information Needed

Auditing standards related to the auditor's responsibility related to fraud have evolved over time to provide guidance on the how the auditor should perform fraud-related tasks such as the identification of fraud risks, the conduct of fraud brainstorming sessions, and the communication of identified fraud (AICPA 2002; PCAOB 2003; IAASB 2004). However, there has not been a specific requirement to include explicit statements on fraud-related tasks in communications to those charged with governance and/or in the audit report. Specifically, succinctly stating the fraud-related tasks performed and their related limitations may serve to significantly narrow the expectation gap. For example, adding a sub-category such as, "Auditor's Responsibility Related to Fraud", will provide a clear description of the auditor's responsibility in this area (see the section below, Audit Report, for additional discussion). This additional modification will explicitly communicate the client-specific, fraud-related procedures to those responsible for management oversight (i.e., board of directors/audit committee) and those relying on the financial statements (i.e., investors and other stakeholders). This rationale is consistent with the transparency and accountability literature presented by regulators in support of the partner identity disclosure rule (PCAOB 2009) and the inclusion of CAMs/KAMs in the auditor's report (PCAOB 2011a).

### **Q2d.1 - Yes**If yes, what additional information is needed and how should this information be communicated

### **Q2d.1 - Yes 02 Auditor's report - Clear communication of limitations in the audit**

#### 1. Monitoring Group

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

Clear communication: It may be helpful for the auditor to clearly communicate any specific or general limitations in their audit, so that financial statement users understand the likelihood of fraud detection and the auditor's view as to whether an organisation is a going concern. However, such communication should not be viewed as an alternative to carrying out appropriate audit procedures. In addition, communication is

likely to be less useful if it uses 'boilerplate' wording. Setting out clearly what can be expected from auditors in relation to fraud and going concern should help to limit any expectation gap.

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

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

We are of the view that only adding more disclosure in the auditor's report may not be sufficient to reduce the expectation gap, rather the focus should be placed on enhanced procedures and more specific requirements in the current auditing standards. After concluding on any changes to the auditing standards in regards to expanded requirements or procedures relating to the detection of fraud (as discussed in our response to question 2(a)), the IAASB should revise the wording in an auditor's report to more clearly communicate the nature, extent and limitations of the auditor's responsibilities.

### **Q2d.2 - Mixed response**

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

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

In terms of the auditor's communications with those charged with governance (TCWG), the IAASB should consider the Public Company Accounting Oversight Board's Auditing Standard 1301, Communications with Audit Committees, which requires auditors to discuss significant fraud risks with TCWG. The IAASB can consider a requirement that lower-level frauds be discussed with TCWG, or that the TCWG's views about fraud in the organization be obtained.

We are skeptical as to whether more disclosure in audit reports about the auditor's work related to fraud will be an effective way to narrow the expectation gap.

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

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

We would like to point out that the vast majority of users of auditors' reports in our jurisdiction considered the increases in the length of auditors' reports since 2015 to be excessive (even without KAMs). Hence, we are not convinced that increasing the length of auditors' reports beyond what is currently required actually meets users' needs – the additional material will not be read if it is included. If users seek to understand more about what auditors do generally in relation to fraud in a financial statement audit, there is considerable literature, including the auditing standards, that can serve to inform them. For listed entities under the ISAs (in the EU PIEs), if fraud is a key audit matter, the auditor's response to that key audit matter would be described in the auditor's report. For these reasons, we do not believe that further information is needed in auditors' reports in relation to fraud.

However, given the important role that those charged with governance play in overseeing management, including management's responsibility for establishing internal control systems to deal with fraudulent financial reporting and misappropriation of assets, we believe that enhanced communication by auditors to those charged with governance may be worth exploring – particularly if the auditor suspects or detects fraud.

## Korean Institute of Certified Public Accountants (KICPA)

(KICPA response) We believe the current auditing standards and relevant law and regulation set out requirements at a sufficient level, and it would be important to perform audit engagements within the current standards. However, transparency could be improved with the following measures: ① disclosing the limitation of the auditor's responsibilities on frauds, and audit procedures and outcomes at the audit reports to increase the understandability; ② transparent communication throughout the comprehensive fraud-related procedures with the TCWG or audit committees and making it mandatory to document communication in the working papers.

(KICPA Comment) We believe there might be unnecessary to include audit procedures on fraud and going concern, but some of the necessary items among existing audit procedures could be included in the key audit matters (or 'KAM') in relation to the close call in audit reports. In addition, the purpose of providing the above information is not about providing auditor's judgment outcomes on fraud and uncertainties related to going concern, but about providing useful, objective information to information users, as described in the 3.(c) material uncertainties related to going concern, thereby enabling users to make their own judgements.

## 4. Accounting Firms

### Deloitte (DTTL).pdf

A more detailed description in the auditor's report of the general responsibilities of the auditor related to fraud is unlikely to be helpful to users.

The auditor's responsibilities are currently included in the audit report, explicitly stating that one of the objectives is "to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements, whether due to error or fraud." Additional general disclosure in the auditor's report or otherwise accompanying the financial statements are not likely to significantly improve the understanding of audit procedures.

Instead of adding standard language to the auditor's report, it is more important to ensure that the audit report avoid use of highly technical terminology, and instead provide users with easy-to-understand information, as users may not even understand the current description of reasonable assurance. As noted in our response to Question 1a, some readers may mistakenly interpret that "obtaining reasonable assurance" creates an obligation for the auditor to detect and prevent fraud that is indistinguishable from, or even greater than, the obligation of management and TCWG. DTTL suggests that, as part of the post-implementation review of the reporting standards, the IAASB engage with users of the financial statements to validate that the wording in the audit report is fit for purpose.

## GTI

We are of the view that transparency around the auditor's work in relation to fraud is important, however, expanding the description of the auditor's responsibilities and activities in the auditor's report may not be practicable, well understood or read by users. We also note that the auditor's reports in the UK require disclosure around the extent to which the auditor's report was considered capable of detecting irregularities, including fraud. We would recommend that consideration is given to understanding whether those disclosures have been found to be useful to users of the auditor's report. We believe that it would be important to weigh the benefits of such an approach before considering requirements for such disclosures on an international level.

We agree that further transparency could be considered in the auditor's communications with management and with those charged with governance, however, there is the risk that such communications become boilerplate in nature over time and ultimately lose their value. As we noted in our response to question 2, if the requirements are drafted in a manner that requires separate consideration of the risk of material misstatement due to fraud and due to error, communication of the audit procedures performed in response to these separately identified risks and the results of those procedures could be required to those charged with governance, providing information that is not boilerplate in nature.

## **KPMG**

We consider that communication about the auditor's work in relation to fraud is an important area about which to communicate clearly to both those charged with governance, as well as to users of the financial statements and the auditor's report thereon.

We believe that ISA 260 (Revised), Communication With Those Charged With Governance and ISA 265, Communicating Deficiencies in Internal Control to Those Charged with Governance and Management sufficiently address communication in this area with those charged with governance. We believe such communication is a critical part of enabling those charged with governance to discharge their oversight responsibilities.

Although the inclusion of further information in the auditor's report regarding the auditor's responsibilities in this area, including the inherent limitations of an audit, may be helpful, we believe overall that this is likely to be of limited benefit to users of financial statements and may result in 'clutter' that could make the auditor's report unwieldy.

There is currently no requirement within the ISAs to describe specific procedures performed regarding risks of material misstatement due to fraud in the auditor's report, although such information may be included if it is determined by the auditor to be a key audit matter. We highlight, however, that a description of the extent to which an audit is capable of detecting fraud is now required to be communicated in all auditor's reports in the UK by UK ISA 700. We suggest that the IAASB explore the inclusion of enhanced material in the ISAs in this regard, including factors to consider in determining whether fraud, or fraud risk, may be a key audit matter. However, we note that it is important that any changes to the ISAs in this area do not encourage the inclusion of boilerplate material in this regard.

We also recommend that the IAASB monitor UK investor views regarding the provision of more information by the auditor as to the ability of the audit to detect fraud and other irregularities to help inform their considerations in this area.

## **Mazars (MAZ)**

To start, we believe it is not necessarily to change the standards ISA 240 and ISA 570 if we consider the revised standard of ISQM1/2/ISA 220 and ISA 315.

As it relates the auditors work and the auditor's report:

There may be benefit in enhancing the description about what the relevant parties' responsibilities are in relation to fraud, including possibly explanation around the concept of materiality and how it impacts the auditor's work in relation to fraud. Consideration could also be given to including in the audit reporting standards disclosure of the materiality level or ranges in the audit report;

The use of experts can be helpful under certain facts or circumstances but should not be systematic and should be risk-based and does not require disclosure in the report;

The auditor's use of technology can be an effective tool in the fraud procedures but should not be disclosed in the report;

A transparent and challenging discussion between the management and those charged with governance to assist the auditor in understanding how much challenge is done by governance. Reference to this procedure could be made, but the details should not be disclosed in the report;

Regarding engagement quality review, we believe that ISQM2 enables for the engagement quality reviewer to do what is needed, even though the topics of going concern and fraud are not explicitly mentioned.

As it relates to management and governance's procedures:

Enhanced disclosures related to management's approach to identifying and mitigating fraud, including risks coming from collusion of senior management, could be beneficial;

As the discussion paper explains, "third-party fraud is often committed in collusion with employees at the company." Enhanced disclosure of how management and governance manage such risk could be beneficial.

#### **MNP LLP (MNP)**

Auditors are required to determine and communicate key audit matters in the auditor's report for certain types of entities and if fraud is most significant to the audit of the financial statements, this information will be conveyed to the users of the financial statements through these key audit matters. This audit standard has recently become effective for certain entities in Canada, as such the impact on users is not yet clear.

Communications with all parties involved would help auditors to be more transparent about the auditor's work in relation to fraud in the audit of the financial statements. We support the suggestion on page 31 of the DP regarding a required annual assurance meeting led by the audit committee and attended by the auditors who would be available to answer questions. We believe this may achieve a level of transparency and education of the relevant stakeholders that would be beneficial.

#### **Moore (MGN)**

We do however agree that more transparency around the audit of fraud would be a positive development and we invite IAASB to consider how this could be achieved. Possible options might include (but not be limited to):

Additional reporting requirements (with an emphasis on the need for meaningful expression rather than boilerplate, which helps nobody and has the tendency to become 'coded language' and thus create opacity rather than transparency.

Further outreach (we realise that there has been much outreach in the past and that this DP is itself a form of outreach, but issues continue to be opaque for some stakeholders so clearly more could be done).

Explicitly addressing the media representation of the profession.

Working with regulators to gain clarity on the degree of real compliance with requirements as they currently stand.

We note that several jurisdictions have introduced new reporting requirements relating to fraud and it is obviously too early to tell whether the impact of the additional requirements will be positive – we feel that there might be merit in taking some time so that the impact can be properly evaluated.

### **Nexia International (NI)**

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

We believe more transparency may be appropriate and can be effectively and efficiently achieved by the IAASB adopting reporting requirements related to fraud similar to the AICPA's. See our response to 1(b) above.

Also as referred to above, we believe that the focus should be on management and those charge with governance, especially for public companies. Regulators could enhance requirements for companies to improve their internal controls on financial reporting processes, including those controls to prevent or detect fraud, and report on these matters. This would be supported by TCWG communicating to all stakeholders on management's actions as well as the auditor's role.

We do, however, believe that improvements can still be made in the manner the auditor reports and communicates potential issues. Audit reports should be less focused on what the auditor should have done (which is contained in the auditing standards) but more on potential risks and issues. Even if no issues were identified, fraud and going concern issues may exist. We believe further debate is required on how the auditor should comment on these risks and the implications of such comments.

### **PricewaterhouseCoopers (PWC)**

We are strong advocates of the benefits of transparency and believe that the ISA requirements regarding constructive two-way dialogue between auditors and those charged with governance, and the more recently implemented enhanced auditor reporting, have had a positive impact on stakeholders' understanding of the audit. Those requirements provide the basis for informative and insightful communication about the auditor's work in relation to fraud.

We support the focus in the auditor's report on describing key audit matters (KAMs), as that provides informative insight into the areas that were of most significance in the particular audit. Auditors are not required to distinguish between the risk of fraud or error in describing KAMs. What is most important is that the description provides meaningful insight into the assessed risk(s) of material misstatement and how such risks were addressed in the audit. Sharing best practices of descriptions of KAMs could serve as a useful guide to encourage informative and insightful communications. We support the IAASB developing such examples as part of the Post-Implementation Review of the 2014 Auditor Reporting standards (AR PIR) and believe it is important to continue to emphasise the importance of KAMs being tailored and specific to the engagement circumstances and not encouraging boilerplate language.

We believe that a focus on KAMs is most appropriate. There are significant challenges in describing, in a meaningful way that is tailored to the specific circumstances of the audit, a separate description of how the particular audit addressed the risk of fraud. Experience in the EU, which has required the auditor to describe the extent to which the audit is capable of detecting fraud, has been mixed. In most cases this has simply

resulted in boilerplate language that adds little value. Stakeholders have consistently indicated strongly that they find boilerplate disclosures unhelpful.

To the extent that further transparency is desired about the risks facing the business, including fraud risks, and how those risks are being managed, they are best communicated in the first instance as an integral part of entities' accountability to their stakeholders, for the reasons we note in response to question 1. Taking into account the respective costs and benefits, if broader reforms regarding internal control were implemented, the auditor's responsibilities could be correspondingly expanded to provide assurance on management's assertions regarding the effectiveness of the entity's internal controls. In jurisdictions where such responsibilities and accountabilities have been implemented, we believe they have had a positive impact. To be effective, however, requires reform across the corporate reporting ecosystem.

### **RSM International Limited (RSM)**

We consider that a more detailed explanation to those charged with governance regarding the auditor's procedures in relation to fraud would enhance audit quality. It would enable those charged with governance to understand and challenge the auditor regarding the nature and extent of the procedures performed. A robust exchange of views between the two parties, clearly setting out their respective responsibilities with regards to fraud, could then be held.

As set out in our response to question 1(b), we would be in favour of a wider "plain English" description of the audit in the audit report for all entities so that the auditor's responsibilities in this area are clearer.

In terms of reporting by auditors we consider that the existing requirements to report key audit matters under ISA 701, Communicating Key Audit Matters in the Independent Auditor's Report, are sufficient to describe the auditor's response to material fraud when it is suspected or detected. We would not be in favour of extending these requirements to all entities.

## **5. Public Sector Organizations**

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

Yes, currently the audit work performed in response to fraud indicators is not reported on in the audit report. This may perhaps contribute to the public's view that auditors are not doing enough. We suggest utilising available avenues such as KAMs to highlight significant matters related to fraud which the auditor would like to bring to the attention of the users of the financial statements. Communication of fraud related matters to those charged with governance is already considered to be sufficient.

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

We are of the view that the auditor has the option to include additional disclosures (similar to that of a key audit matter) on fraud and the auditor's work on fraud if considered necessary to mitigate any expectation gap within the auditor's report. This could include improved disclosure of the evidence and evaluation of management's processes in complying with the requirements of ISA 240 regarding enquiring/understanding management's processes in relation to fraud risk identification and management's controls.

However, additional emphasis on fraud in the auditor's report, beyond that which is focused on the impact on the financial statements, may increase the expectation gap by setting a higher standard around fraud.

We are of the view that more clarity around materiality and what it means is required, particularly in the context of fraud and how users may see qualitative materiality as being more important than quantitative

materiality when it comes to fraud. This can help to narrow the expectation gap in relation to management's responsibilities to address fraud risks and the effectiveness of their system of internal control to prevent and detect instances of fraud. Additional information can be included in communications to those charged with government on the audit procedures but has to be balanced with not creating fraud risk by disclosure of audit procedures.

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

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

Transparent and timely communication

While ISA 260 and ISA 265 already require timely communication with TCWG, enhancement could be done to encourage auditors to have more purposeful and regular discussions especially with audit committees about fraud risks, and to promptly communicate with them where appropriate. For PIEs, these discussions should include topics such as how whistleblowing mechanism works within the entity and the risk of fraud committed by management. The IAASB could consider introducing requirements for more transparency towards TCWG, regarding to which extent the audit was designed to identify fraud.

The implications of fraud committed by management are generally more severe compared to fraud committed by employees. Additionally, it is more difficult to detect management fraud. Therefore, the risk of fraud involving the management of the entity requires a different audit approach and we believe that this difference should be properly addressed in ISA 240.

Furthermore, the IAASB could consider developing a separate assurance standard for the cases where management is required by laws or regulations to make a statement on fraud risk management and/or controls against an acceptable framework and auditors are required to report publicly their conclusion on this statement.

It is important to balance all of the competing objectives when considering changes in relation to the scope of audit and fraud. It is also important that reliable information is available to stakeholders on a timely basis. A conflict may therefore arise, as if more work is undertaken in order to increase reliability, the feasible timing of the audit will likely be affected.

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

Response: We believe that further discussion about the responsibilities for fraud or going concern in the auditor's report may become boilerplate and would not be meaningful or useful. Further, as noted in our response to IAASB question 2(d), we believe the IAASB should consider the results from the on-going post implementation review relating to the auditor reporting standards before proposing further changes to the auditor's report. Continued education efforts to help users of the financial statements to better understand the role of the auditor as it relates to fraud and going concern would likely be more effective. With regard to fraud, also see our response to IAASB question 2(d). With regard to going concern, also see our response to IAASB question 3(c).

Stakeholder Perspective Question (page 29 of the discussion paper): In addition, the IAASB is interested in perspectives about whether more transparency is needed with regard to communication with those charged with governance.

Response: Further clarification with those charged with governance about their responsibilities, as well as management's and the auditor's responsibilities for fraud may be helpful. We also note that under GAAS,

the auditor has an enhanced requirement to communicate to those charged with governance the auditor's consideration of management's plans to mitigate the conditions or events that raised substantial doubt about the entity's ability to continue as a going concern. See our response to the previous stakeholder perspective question.

Response: Our response addresses transparency in the auditor's report and transparency through communication with those charged with governance, as follows:

Transparency through the auditor's report. We believe that further discussion about fraud in the auditor's report may become fairly boilerplate and would not be meaningful or useful. Rather, we recognize that the IAASB has various options that could be considered to enhance knowledge about the auditor's work in relation to fraud in an audit of financial statements. For example, continued education efforts to help users of the financial statements better understand the role of the auditor as it relates to fraud could be effective. Further, in light of the IAASB's post implementation review of the auditor reporting standards that began in January 2020, we ask the IAASB to consider the results from this post implementation review before further changes to the auditor's report are proposed.

Transparency through communication with those charged with governance. Further communication with those charged with governance about both management's and auditor's responsibilities for fraud and discussing the planned approach and related outcomes of fraud procedures, may be helpful to those charged with governance in executing their financial reporting oversight responsibilities.

Paragraph 28 of ISA 240 requires the auditor to treat those assessed risks of material misstatement due to fraud as significant risks. Therefore, the risks of material misstatement related to fraud are currently required to be communicated with those charged with governance by ISA 260 (Revised). Paragraph 15 of ISA 260 (Revised) states that "the auditor shall communicate with those charged with governance an overview of the planned scope and timing of the audit, which includes communicating about the significant risks identified by the auditor."

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

In addressing the question to what extent there should be more transparency in the audit report, we agree that when the auditor provides more information within the auditor's report, users would better understand what the auditor did or the outcomes of certain procedures. However, this may not lead to a piecemeal opinion. The focus of the audit report should remain the true and fair view of the financial statements as a whole. Any additional information should not distract of this primary objective.

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

There are likely different options that could be considered in enhancing transparency about the auditor's work in relation to fraud in an audit of financial statements. As outlined above, we believe that transparency and robust two-way communication between the auditor and those charged with governance with respect to the auditor's work in relation to fraud remains a critical step in the audit process. Separately, as mentioned in our response to Question 1(b), continued education of the public with respect to the roles and responsibilities of the participants in the financial reporting ecosystem when it comes to deterring and detecting fraud also could provide transparency as it relates to the auditor's work in relation to fraud.

With respect to the auditor's report, key audit matters already provide transparency into the matters that were communicated to those charged with governance and that required significant auditor attention in performing the financial statement audit, which may involve matters related to fraud risks. We believe that if

the Board were to consider expanding the auditor's communications in the auditor's report, it would be important to weigh the benefits and risks of such an approach carefully. We are not supportive of an incremental requirement for the auditor to report the specific audit procedures being performed to respond to fraud risks as it may result in unintended consequences such as disclosing information to the public that did not require disclosure in the financial statements by management. In addition, fraudsters may take the information in the auditor's report and adapt their activities to better avoid detection. Finally, apart from the requirements identified in paragraphs 28-33 of ISA 240, a significant portion of audit procedures performed are intended to respond to the risks of material misstatement, regardless of whether due to fraud or error. The delineation between which audit procedures were performed in response to a fraud risk versus a risk of error may be difficult to identify in many circumstances.

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

It is important that there is communication between the auditor and those charged with governance relating to the auditor's work in relation to fraud. Such communication should include fraud risk identification, internal controls over detection and policies for deterrence and the auditor's evaluation of management's programs and controls over fraud. In addition, enhanced communication about identified or suspected fraud, even when management is not involved, may be helpful to those charged with governance as they execute their processes to monitor the entity.

A more detailed description in the auditor's report of the responsibilities of the auditor related to fraud is unlikely to be helpful to users.

The auditor's responsibilities are currently included in the audit opinion, explicitly stating the financial statements are free of material misstatements whether due to error or fraud. Additional disclosure regarding audit procedures in the auditor's report or otherwise accompanying the financial statements are not likely to significantly improve the understanding of audit procedures. Instead of adding language to the auditor's report, it is more important to ensure that the audit report avoid use of highly technical terminology, and instead provide users with easy-to-understand information.

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

Yes, we are supportive of increased transparency, however, we question whether this will provide the silver bullet or indeed have a greater than minimal impact on the current situation. There is a need for a wider debate as to what more the auditor could do and the related costs and benefits associated with such extra work. Mandating a forensic phase to the audit would add additional cost and may provide benefit but is the related cost one that stakeholders believe is worth paying.

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

Transparency in auditor's report

On transparency about the auditor's work in relation to fraud, we are of the view that the auditor's report could increase its communicative value by including an assessment of the effectiveness of the entity's internal controls to prevent and detect fraud.

The following could be considered:

Embed in key audit matters what the auditor has performed as part of the audit, the auditor's assessment of the control environment, controls which the auditor had relied upon and those that the auditor could not rely on due to weaknesses or other reasons. Such transparency in the auditor's reporting will also provide users

of the financial statements with insights into the companies' tone at the top and company culture in respect of internal controls.

Directors can disclose and auditors can comment on the system of internal control over financial reporting and the control environment over prevention and detection of fraud. However, this would encompass an expansion of the scope of the auditor's work, which has to be carefully considered in relation to costs and benefits. There is currently no internationally recognised framework on reporting on the system of internal controls. For such reporting to be effectively carried out, it must be accompanied by a proper framework which clearly sets out the requirements and measurement criteria, as well as the roles and responsibilities of all stakeholders.

However, we have also heard feedback that certain groups of users of financial statements may not be interested in reading extensive information in the auditor's report (such as key audit matters) and prefer to rely solely on the binary conclusion in the auditor's report.

This may result in such users missing out on "warning signals" that have been embedded in the auditor's report or financial statements, which compounds to the expectation gap. As such, we feel that any efforts for increased transparency (discussed here and later under Question 3 (c)) need to be accompanied with educational efforts to change the users' perspective towards the auditor's report.

## Kriton (KNL)

### More transparency about the auditor's work

We support more comprehensive and concrete reporting by management and those charged with governance on (the process of) fraud risk management. This can be included in the directors' report or an in-control statement (to be further specified). The intention is that management and those charged with governance are accountable for how fraud risks are controlled by the entity. We emphasise that management should be cautious in mentioning specific measures that have been taken to prevent or detect fraud, because potential fraudsters can use this information to break through or circumvent the measures.

Subsequently, the auditor will have to report on his evaluation of the information included in the directors' report or in-control statement. We make some proposals for this in the paragraphs below. We will then post our comments on current developments in the Netherlands on this point.

### No inaccuracies in the directors' report or in-control statement

The auditor examines whether the information contains (material) inaccuracies and reports on this. In addition, the auditor reports specifically on the adequate design and implementation of the relevant parts of the fraud risk management process.

In our view, the auditor is reluctant to report on the effectiveness of (specific) control measures. There is always a possibility that employees or management deliberately circumvent the control measures. In addition, potential fraudsters could use information about weaknesses in internal control.

In accordance with Article 10 of the European Regulation (EU) on specific requirements for statutory audits of financial statements of public interest entities, the auditor must explain in the auditor's opinion to what extent the audit is deemed to be able to detect irregularities, including fraud. We propose that this report be expanded with the aforementioned topics. We also propose that this reporting obligation also applies to statutory audits of non-PIEs. We expect that the benefits of such an obligation will outweigh the costs (such as awareness among management, transparency for and better decision-making by the users of the financial statements). The aspect of proportionality must be taken into account.

## Suspected fraud

In the event of suspected fraud, the auditor refers in his report to the relevant passages in the directors' report and the financial statements. He also explains his activities under the key audit matters (in the case of a PIE) or in a mandatory explanatory paragraph (in the case of a non-PIE, as long as the key audit matters are not yet a mandatory part of the auditor's opinion). He also discusses his evaluation of the management's recovery plan.

## Communication via the auditor's opinion in the Netherlands: an experiment

In the Netherlands, the proposal is being developed that auditors must include the activities and findings with regard to fraud risks in the auditor's opinion from the 2022 financial year. An experimental phase is expected for this. The objective of this is better communication and is in line with what we stated earlier in this response. In this context, we reiterate the possible downside of such communication, if overly detailed information about gaps in the risk management process is included. In addition, there is a risk that such an obligation will lead to the inclusion of boiler plate texts, with very limited value for the user of the financial statements and auditor's opinion. In our opinion, this detailed reporting is only necessary when there is a key audit matter, in specific cases of (suspected) fraud and when the directors' report contains incorrect statements about the fraud risk management process.

## 9. Individuals and Others

### Christian Minarriz (CM)

I think that some additional information in the audit report (as mentioned in question 1.a) may be useful to address the expectation gap. I do not think that further communication with TCWG is necessary.

I strongly believe it would not be convenient to make detailed communications about the audit approach related to fraud risks as it may make it more predictable and therefore less effective.

### Q2d.3 - No

## 4. Accounting Firms

### HLB International (HLB)

We believe auditors already have all they need at their disposal in order to be fully transparent with regard to fraud. For instance, auditors may communicate directly with those charged with governance. In addition, auditors already have the ability to use emphasis of matter, other matter and key audit matter disclosures in the auditor's report.

### Mazars USA (MAZUSA)

Response: While we have concerns with there being a general misunderstanding of the procedures employed in relation to fraud, we do not advocate for greater transparency about the specific procedures performed. Rather, we recommend improvements in ecosystem-wide communication and tools to reduce the expectation gap. Increased transparency related to the auditor's work in relation to fraud may have the unintended consequence of effectively educating preparers on how to conceal fraud.

## SRA

28.1 A further elaboration on fraud or going concern in the auditor's report is in our view not effective. We refer to the arguments, provided in the general remarks, under 3.1.

In the non-public interest segment communication with those charged with governance regarding fraud and going concern may be extensive, through e.g. a long-form auditor's report. The extent and the format of such communication can be agreed on a case by case-basis between both parties. We therefore do not support inclusion of requirements regarding this aspect in the auditing standards.

## **5. Public Sector Organizations**

### **New Zealand Auditor General (NZAG)**

We consider that greater transparency is generally a good thing, including transparency about fraud in an audit of financial statements. In principle improved transparency should narrow the audit expectation gap but, on its own, may not make a significant impact. Adding more into the auditor's report may reduce clarity and make the report less understandable to a lay reader.

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

We do not believe that additional auditor reporting to those charged with governance or in the auditor's report is required in this area. We believe the IAASB and auditors should focus their efforts on auditor performance rather than reporting.

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

In our view, it will be challenging to revise the auditor's report in a meaningful way that would help close the expectation gap related to fraud in auditing financial statements.

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

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

The current audit report illustrations in ISA 700 have clear guidance for responsibilities of both directors and auditors particularly with respect to the area of material misstatement due to fraud or error. ISA 240 further requires the auditor to obtain management representation letter acknowledging their responsibility of preventing and detecting fraud. This responsibility is disclosed in the audit report as well. There is therefore no need for further transparency of the auditor's work than is already disclosed.

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

According to the feedback received, audit practitioners are willing to be more transparent regarding their work in relation to fraud in an audit of financial statements provided that, there is more transparency on how management and those charged with governance have fulfilled their primary responsibility for preventing and detecting fraud. Some recommendations included in the Brydon's report are very relevant, for example, one of them suggests that 'directors should report on the action they have taken to fulfil their obligations to prevent and detect material fraud against the background of their fraud risk assessment. This recommendation could be a starting point with auditors then evaluating the management's assessment on fraud and reporting on it in the auditor's report. Similarly, in Australia, the recent Parliamentary Joint Inquiry into the regulation of audit recommended that there should be a requirement that Australian companies to establish internal control frameworks in relation to financial reporting, that management should evaluate and annually report on the effectiveness of those internal controls and that this assessment be subject to audit. It seems clear that there is a need to evolve the ways in which management and those charged with governance manage and monitor business risks via their internal controls system and that these be

communicated with users. We therefore do not believe that simply increasing the disclosures in the auditor's report would address the expectation gap.

There may also be room for enhancements to discussions held with TCWG, but we did not hear strong views that current practice in this area is lacking. However, alternative forms of assurance where management/TCWG make statements around their system of internal controls, including controls for preventing and detecting fraud, and assurance on those statements may be useful in providing relevant information to the users.

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

We do not see the need for additional wording in the auditor's report regarding the consideration of fraud or going concern where there is no impact to report. In this case the wording would become boilerplate and not provide much information value to users. However, where a MURGC is reported, we suggest that the MURGC paragraph in the auditor's report either reflect the same level of detail as would be contained in a KAM, or a KAM on the MURGC be permitted in addition to the MURGC paragraph to indicate the importance of the uncertainty.

We do not consider that there is any need to communicate further information routinely in the auditor's report on the work conducted in relation to fraud, as we suggest it would become boilerplate and lose information value for stakeholders. This does not preclude reporting of a matter relating to fraud in KAMs where it is a matter of most significance in the audit. Communication with management or those charged with governance within the entity, and escalation to an appropriate authority, are already thoroughly addressed in ISA 240, so we do not see the need for further requirements in this regard.

Not all communications between the auditor and TCWG need to be transparent to users as many matters will be resolved prior to the auditor's report being issued. Unresolved matters may be raised as a qualification in the auditor's report if needed. We are not aware of further need for requirements regarding transparency between the auditor and TCWG, as we believe this is adequately accommodated in the current standards.

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

Additional auditor disclosures would provide limited net benefit

European audit chairs did not see a need or worthy purpose for additional formal disclosures from their auditors. The audit chairs observed that, absent the discovery of a material fraud or other anomaly affecting the accuracy of financial statements, investors rarely take close interest in the work of the audit committee or the external auditor. Additional disclosures, audit chairs said, would likely have minimal impact on investor satisfaction in routine circumstances. One audit chair explained that requiring more disclosures in the normal course could have consequences: "Investors would expect a particular structured approach to how auditors go about their business and identify controls inadequacies. That's not a good outcome."

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

We believe that it is imperative for the public to be able to have an appropriate level of trust in the information provided by companies as being of a standard where they can have confidence it has been prepared with the necessary integrity and due care to enable quality and reliable reports to be produced.

In our opinion (as outlined earlier) the issue of addressing public trust in the profession is also one of educating the users of information about the different types of reports and roles of professional accountants.

This includes an awareness that there is an underlying requirement that certain standards must be adopted by a professional accountant to prepare quality output, as well as that the depth of work performed by practitioners and therefore the individual degree of reliance on information provided by a client differs significantly depending on the type of the engagement.

The focus on material misstatements is not well understood – i.e., the role of “materiality” – in the context of fraud, since instances or suspicions of fraud that the auditor determines as having not led to material misstatement of the financial statements are not reflected in the auditor’s opinion. The only way to communicate these publicly is via Key Audit Matters (KAM) following ISA 701. The auditor’s report is already criticized as being too long. If the auditor’s report included the specific procedures performed to address risks of material misstatement due to fraud it would lengthen it further. In addition, there is a risk these procedures would become “boilerplate”. It is also noted that there are a lot of concerns that auditors would be open to accusations of having made false accusations if reporting publicly on fraud findings where it is found that a fraud has not been perpetrated.

The requirements in ISA 240 (para. 41-43) on communications to management and TCWG are considered appropriate. We consider that this is the place of auditor reporting of instances or suspicions of fraud that the auditor determines as having not led to material misstatement of the financial statements, rather than in the auditor’s report. For example, para. 43 includes “in the auditor’s judgement” for which the relevant application material is helpful. The communication is intended to facilitate a corrective action where needed and so it is proactive.

Before considering any changes to the ISAs there would be a need to investigate ways in which the audit clients can monitor and disclose the existence and operation of the company’s internal controls to prevent fraud in financial statements or non-financial information. The IAASB may therefore need to coordinate with the financial reporting standard setting bodies, such as IASB to require management to report more. An alternative could be where companies voluntarily disclose and explain a related internal control system to prevent material fraud (or material fraud-related compliance management system), which could then be subject to assurance (outside the scope of the current audit model).

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

No. Communication requirements are adequate. Auditors have flexible options and, in most circumstances, can provide increased disclosure to users and others based on ethical requirements, when it is deemed necessary.

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

No.

One of the most relevant points in the communication of the account auditor with management and those charged with corporate governance is the concern and measures adopted by management in relation to fraud, and this is established in Standard 240 as well as in ISA 260 Communication with those responsible for the government of the entity, which establishes as one of the aspects related to planning that may be appropriate to discuss with those responsible for the governance of the entity “The attitude, awareness and actions of those responsible for the government of the entity in relation to: (a) the entity’s internal control and its importance to it, including how those charged with governance oversee the effectiveness of internal control, and (b) the detection or possibility of fraud.”

For its part, the audit report already includes, in Spain, in the section “Auditor's responsibilities in relation to the audit of the annual accounts”, his responsibility and the audit procedures, in general terms, in relation to fraud.

#### **Q2d.4 - No comment**

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

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

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

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

**Canadian Public Accountability Board (CPAB)**

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

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

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

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

**International Air Transport Association (IATA)**

**PIRC**

##### **7. Investors and Analysts**

**Corporate Reporting Users Forum (CRUF)**

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

**Ahmed Al-Qawasmi (AAQ)**

**Constantine Cotsilinis (CC)**

**Dmitrii Timofeev (DT)**

**Michael Bradbury (MB)**

**The Unlimited (TU)**