

# Fraud and Going Concern Discussion Paper

## References to other IESBA or Other IAASB Workstreams

### 1.0 IAASB-IESBA Coordination

#### 1. Monitoring Group

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

An example of where others are contributing to the financial reporting system in this public interest area is the IESBA's Role and Mindset of a Professional Accountant project. From a public interest perspective, it is an auditor's responsibility to promote confidence and integrity of capital markets through the performance of high quality audits. Therefore, auditors having a mindset with an enhanced level of vigilance for both the risk of fraud and potential signs of fraud is imperative to audit quality and ultimately investor protection. This can also be true in connection with evaluating audit evidence received from management, where professional skepticism and a thoughtful risk-based evaluation (e.g., nature and significance of the account and related evidence obtained) is necessary. We believe that this can be achieved through, for example, application material that includes "triggering events" where an auditor's skepticism should be elevated and therefore the nature, timing, and extent of audit procedures are tailored in response to the risk identified.

#### 2. Regulators and Audit Oversight Authorities

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

Coordination with IESBA

As with other standard-setting projects, we would like to highlight the importance of appropriate coordination between the IAASB and the IESBA. Changes to the ISAs, if any, should be mirrored to ensure consistency with the provisions of the IESBA Code and coordinated with IESBA.

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

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

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

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

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

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

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## 4. Accounting Firms

### Deloitte (DTTL).pdf

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

### Ernst and Young (EY)

As discussed under the Responsibility for Compliance with Laws and Regulations section of the Discussion Paper, fraud is a matter that is often inter-related with non-compliance with laws and regulations. Fraud often constitutes an illegal act. As such, Section 360 of the IESBA Code addresses the auditor's response to identified or suspected instances of non-compliance of laws and regulations.

We believe that the nature of the required responses to identified or suspected instances of non-compliance with laws and regulations as set out in the IESBA Code also appropriately address instances of identified or suspected instances of fraud, including non-material fraud, unless they are clearly inconsequential in line with the provisions of Section 360 of the IESBA Code.

We encourage the IAASB to clarify within ISA 240 the relationship between responding to non-compliance with laws and regulations and responding to instances of fraud. The recently issued Staff publication, Navigating the Heightened Risks of Fraud and Other Illicit Activities During the COVID-19 Pandemic, includes a useful list of examples of types of frauds that would fall within the scope of the accountant's responsibilities under Section 360 of the IESBA Code.

We however recognize that the provisions in the IESBA Code are not implemented in all jurisdictions and the IAASB may therefore determine that ISA 240 requires enhancement to address auditor responsibilities for non-material fraud. Any procedures added should be consistent with the requirements of Section 360 of the IESBA Code such that there are not implementation issues for those auditors that need to comply with both the ISAs and IESBA Code.

#### Auditor responsibilities for non-material fraud

Financial statement audits are designed to identify material misstatements whether due to fraud or error. We do not believe that the materiality threshold should be altered for the purposes of identifying, assessing and responding to risks of fraud. Doing so would have significant consequences to the scope and costs of the audit, which would require careful consideration with significant levels of stakeholder involvement. We do however agree that the auditor should have a responsibility to respond to identified or suspected instances of fraud, including non-material fraud unless clearly inconsequential. In many cases, the materiality of a matter identified may not be truly understood without further investigation.

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### **KPMG**

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

### **Moore (MGN)**

We believe that the existing requirements relating to fraud are reasonable and appropriate in and of themselves, however enhanced application material or other guidance could usefully be developed by IAASB, in particular, addressing:

Circumstances where fraud risk indicators are present – providing auditors with more useful guidance on how to respond. Existing guidance could be rewritten/expanded to address modern methods of auditing including data analytics as possibilities where triggered;

Guidance on interactions with the IESBA Code around client acceptance where fraud risk indicators may be present;

Fraudulent manipulation of the financial statements;

Suspected fraud in entities with low complexity;

Corporate culture;

Qualitative materiality in relation to fraud;

The relationship between fraud and error.

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

Embarking on a joint project with IESBA to consider correlations between significant failures in the audit of fraud and going concern with breaches of the International Code of Ethics on such engagements.

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### **PricewaterhouseCoopers (PWC)**

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

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

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

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

As the primary responsibility for fraud deterrence and detection rests with management and those charged with governance, we believe that any potential solution should align with, and consider the efforts by, the International Accounting Standards Board (IASB) and International Ethics Standards Board for Accountants (IESBA), among others.

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

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

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

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

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

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

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

#### **Importance of Corporate Culture**

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

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

We think so. Especially in the area of integrity, although the IESBA Code of Ethics is clear and forceful on this matter, due to the lack of disclosure on the part of the auditor, it is highly probable that many of the auditors are not properly complying with the prescriptions about this fundamental principle of the Code

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

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

## **8. Academics**

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

In addition, we encourage the IAASB's ongoing collaboration with the IESBA and jurisdictional regulators regarding auditor independence. Although research reports mixed evidence on whether threats to independence (e.g., the provision of non-audit services, fee dependence, tenure) are associated with the propensity to report on going concern uncertainties (e.g., Blay and Geiger 2013; Hossain, Monroe, Wilson, and Jubb 2016; Wu, Hsu, and Haslam 2016; Hallman, Imdieke, Kim, and Pereira 2020), the consequences of reporting on going concern uncertainty for the client, shareholders, and the auditors themselves (see Geiger et al. 2019) make auditor independence critical to audit quality in this area.

## **1.001 Coordination with other Current IAASB Project Workstreams\1.1 ISA 500 - Audit Evidence**

### **1. Monitoring Group**

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

How the reliability of audit evidence is required to be assessed and whether paragraph 11 of ISA 500 requiring additional procedures only when there are doubts about the reliability of information to be used, may, in practice undermine the auditor's assessment of the reliability of evidence

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

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

Stakeholders noted that requirements around application of professional scepticism, in particular when determining the nature and extent of audit evidence required appear to be increasing. The AUASB notes this point but considers the existing requirements in ISA 240 relating to professional scepticism are appropriate. We would however acknowledge and support the measures the IAASB are intending to undertake on this topic in connection with the revision of ISA 500 Audit Evidence.

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

Audit evidence

With advances in technology, alterations to documents are difficult to detect in many circumstances. Hence, a specific focus on enhancing the guidance in ISA 500 Audit Evidence related to authenticity of documents would be useful (e.g. the required work effort related to evidence obtained from external sources and how technology could be used to obtain audit evidence directly from third parties for better assurance).

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### **4. Accounting Firms**

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

ISA 500 Audit Evidence

We support the IAASB's recently commenced standard-setting project on audit evidence and that the scope of the project includes whether fraud considerations are appropriately addressed in ISA 500. We believe a specific focus on enhancing the guidance related to authenticity of documents would be useful. With advances in technology, alterations to documents are difficult to detect in many circumstances. We note that the Exposure Draft of ISA (UK) 240 includes useful examples of conditions that indicate a document is not authentic or has been tampered with.

In addition to the above, we would also be supportive of clarifying the expected work effort related to evidence obtained from external sources. The requirement for the auditor to "consider" the relevance and reliability of information obtained from external information sources implies a relatively low work effort, which may not have a desired level of effectiveness as it relates to addressing the authenticity of audit evidence obtained from external sources.

We also encourage the IAASB to consider expanding on the role of external confirmations in addressing fraud risks. ISA 240 provides only brief acknowledgement through an example that external confirmations may be a response to fraud risk. Guidance in ISA 240 could be enhanced, or alternatively, ISA 505 could be enhanced to set stronger expectations for obtaining external confirmations in certain circumstances (e.g., existence of cash or other assets with higher assessed risks of material misstatement).

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

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## GTI

### Professional skepticism

With respect to the application of professional skepticism, both in its application in general and more specifically to fraud and going concern matters, using terms such as "enhanced professional skepticism" are not very meaningful. "Enhanced" is subject to interpretation and will not necessarily result in consistent application or even an improvement in overall quality. Moreover, it suggests that the application of just 'regular' professional skepticism is somehow deficient. The application of professional skepticism and professional judgment is pervasive across all aspects of the audit and will be an important aspect of the IAASB's Audit Evidence Project. In this respect, we believe the IAASB should consider developing

meaningful guidance using various scenarios of what professional skepticism is and how it is to be applied. Just adding it into more standards is not helpful or meaningful.

### **Mazars USA (MAZUSA)**

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

### **PricewaterhouseCoopers (PWC)**

#### **Role of technology**

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

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

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

We would like to see the ISAs remain principles based, so the standards remain functional over the long-term to adapt and accommodate for new techniques and procedures as they are developed. However, we also agree that more explicit recognition in the application guidance of the ISAs of different techniques that are now used by auditors to detect fraud and more flexibility for building them into firms' risk models. One area where this increased flexibility might be appropriate is the effect of the increasing use of data analytics and other automated techniques in audits. Auditors still struggle to fit these technological solutions to auditing into the current evidence gathering model of substantive analytics, tests of controls and tests of details. We believe the project the IAASB has begun to evaluate the extant standard ISA 500, Audit Evidence, can play an important role in these considerations.

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

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

We encourage the IAASB to continue its efforts in regard to the audit evidence project, including consideration of SAS No. 142, Audit Evidence, that was issued by the AICPA Auditing Standards Board in July 2020. SAS No. 142 (codified in AU-C section 500) expands the objective of the extant standard to be

more broadly focused on considering the attributes of information to be used as audit evidence in assessing whether sufficient appropriate audit evidence has been obtained. Previously, the objective focused on the design and performance of audit procedures to obtain sufficient appropriate audit evidence, rather than evaluating the sufficiency and appropriateness of the audit evidence itself. Attributes of reliable information include its accuracy, completeness, authenticity, and susceptibility to bias. SAS No. 142 requires the auditor to evaluate information to be used as audit evidence by taking into account the relevance and reliability of the information, including its source, and whether such information corroborates or contradicts assertions in the financial statements. We believe that such enhanced focus on the attributes of reliable information may help auditors to design a more appropriate response to fraud risk.

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

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

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

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

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

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

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

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

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

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

#### Contradictory audit evidence

Paragraph A1 of ISA 500 Audit Evidence highlights that audit evidence comprises both information that supports and corroborates management's assertions, and any information that contradicts such assertions. We believe that there could be further guidance on how auditors should deal with contradictory audit evidence and whether they may be expected to actively seek such contradictory audit evidence.

Given the plethora of information available in the public domain (which might be reliable or unreliable), it is becoming increasingly challenging for the auditor to decide whether to only deal with contradictory audit evidence which the auditor happens to obtain while performing other required procedures, or if the auditor needs to perform certain specific procedures to seek such contradictory audit evidence.

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

#### Use of technology

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

## 9. Individuals and Others

### The Unlimited (TU)

#### 2. Nature of audit evidence

In terms of ISA 500, audit evidence should be obtained by third parties wherever possible.

An example of where this is not applied is in the audit of Revenue. A financial statement caption that has an inherent significant risk of fraud, is audited primarily by agreeing line items in the general ledger to invoices. A source of evidence that is generated by the auditee and due technology it is the invoice that generates when the general ledger item is captured and therefore provides no evidence of the existence of that revenue.

Herein lies another gap between the audit and the auditor's responsibilities.

## **1.001 Coordination with other Current IAASB Project Workstreams\1.2 ISA 540 - Auditing Accounting Estimates and Related Disclosures**

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

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

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

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

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

We therefore encourage the IAASB when strengthening ISAs 240 and 570 to take account of the enhancements we have made in the standards. This will help address the identified expectation gaps in relation to fraud and going concern and enhance the quality and rigour of audits.

Yes. We have made a number of enhancements in our proposed revision of ISA (UK) 240, which are summarised in the FRC's Consultation Paper and that we encourage the IAASB to take account of. These include enhancements in relation to:

Professional scepticism – reflecting changes made in the recent revisions of ISA 540 and ISA 315 to enhance the application of professional scepticism, including emphasising that risk assessment and further audit procedures are designed and performed in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory. We have also clarified that the auditor shall remain alert for conditions that indicate a record or document may not be authentic; and require the auditor to investigate responses to inquiries of management, those charged with governance or others in the entity that appear implausible.

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

Yes, NASBA believes the IAASB should consider enhancements to standards to promote better understanding of the current standards and greater consistency in their execution. NASBA believes that evaluations related to fraud should be risk-based. The recent update to ISA 540 was structured to provide guidance on risk assessment (ISA 315) and response (ISA 330) for issues specific to accounting estimates. Likewise, ISA 240, The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements, could address issues specific to fraud risk in the context of ISA 315 and 330. For example:

Not necessarily presuming that revenue is an area of fraud risk but examining why and how in order to inform responsive procedures; and

Determining how and in what instances journal entries present fraud risks so that testing can be responsive to those factors.

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

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

Overall the AUASB and its stakeholders believe that the current version of ISA 240 remains adequate and fit for purpose and does not require a fundamental overhaul. The IAASB as part of its root cause analysis (through targeted research) of the drivers of the expectation gap can further evidence this position. It is the AUASB's view that the current requirements of ISA 240 are sufficient, and that the instances of material fraud which draw attention to the audit profession are a very small proportion of the total number of financial statement audits conducted internationally each year.

The issues our stakeholders identified are more about perceptions others have about the performance and evolution gap, and whether auditors are adequately trained in identifying material fraud.

Some areas highlighted for possible consideration by the IAASB for enhancement in ISA 240 include:

closer links to ISA 540 Auditing Accounting Estimates and Related Disclosures and management bias for complex accounting estimates;

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

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

Provide enhanced guidance for auditor's evaluation of the management's assessment with consideration to the enhancements made to ISA 540 (Revised) Auditing Accounting Estimates and Related Disclosures for auditing accounting estimates involving how the auditor considers the significant assumptions and data used in management's assessment, including with respect to evaluating management's plans for future actions and the ability to execute these actions, as well as whether consistency of the assumptions underpinning the going concern assessment with assumptions used in other areas (e.g. impairment analysis).

### **4. Accounting Firms**

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

Enhancing the guidance for the auditor's evaluation of management's assessment with consideration to the enhancements made to ISA 540 (Revised) for auditing accounting estimates. When events or conditions are identified that may cast significant doubt on the entity's ability to continue as a going concern, management applies significant judgment and estimation in its assessment of going concern. Guidance could be enhanced related to how the auditor considers the significant assumptions and data used in management's assessment, including with respect to evaluating management's plans for future actions and the ability to execute these actions, as well as whether the assumptions used are consistent with related assumptions used in other areas of the financial statements (e.g. asset impairment analyses).

## **KPMG**

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

## **Mazars (MAZ)**

No. We believe the standards are adequate to reach the objective of assessing the risk of material misstatements due to fraud. We believe that keeping a risk-based audit approach is necessary for the auditor to adapt under the different facts and circumstances and to avoid check-the-box behaviour and remain skeptical throughout the audit. There are things that could be done, however, that would aid the auditor in performing their responsibilities relate to fraud, including:

Making clarifications on the existing standard could be helpful:

Further guidance regarding the risk of management override and how to address it though the implementation of unpredictability and journal entries testing and other tests would be beneficial;

The articulation between ISA 240/ISA550 and the recently revised standards ISA 315 and ISA 540 could be improved.

## **MNP LLP (MNP)**

The revised ISA's continue to emphasize professional skepticism within the standards such as ISA 540 (Revised), Auditing Accounting Estimates and Related Disclosures and ISA 315 (Revised 2019), Identifying and Assessing the Risks of Material Misstatement. We believe that IAASB should continue to emphasize professional skepticism and revise auditing standards to ensure that the standards foster a professionally skeptical mindset, such as the requirement to "stand-back" and evaluate all audit evidence obtained in forming conclusions.

## **PricewaterhouseCoopers (PWC)**

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

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

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

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

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

However, the structure of the current ISAs tends to lead to the compartmentalising of the consideration of fraud. Apart from the consideration of fraud for significant risks, the identification of fraud risks can still very much be seen as a stand-alone exercise, separate from the rest of the audit. Extant ISAs do refer to fraud risks, for example paragraph 32 of ISA 540 (Revised), Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures, states that “where there is intention to mislead, management bias is fraudulent in nature”, but we would like to see an even more integrated and pervasive approach. This would encourage a new mindset in auditors and further embed the consideration of fraud risks into the audit such that a thread of addressing these risks flows through all of the ISAs.

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

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

We note that in recently issued ISAs there has been a heightened focus on professional skepticism in the application material. For example, the application material in ISA 540 (Revised) describes ways in which the auditor can exercise professional skepticism and ways in which professional skepticism can be documented. We support the IAASB's approach to provide further guidance relating to exercising professional skepticism in the application material for the standards related to fraud and going concern. We recommend that the IAASB consider performing a post implementation review to gather information about how effective the application material in ISA 540 (Revised) relating to professional skepticism has been. We also encourage the IAASB to include application material about professional skepticism specific to fraud and going concern to help improve consistency in the application of the requirements relating to these topics. We believe it would be helpful for the IAASB to provide examples, through nonauthoritative educational materials, that describe ways in which the auditor can exercise and demonstrate heightened professional skepticism in specific circumstances.

Response: We recommend the IAASB consider various options available to address factors contributing to the expectation gap that the IAASB identifies. Users of the financial statements are looking for more insight about the entity, and providing such information, for example, disclosures relating to going concern, begins first with management and those charged with governance. Therefore, further education to users around management's responsibilities might be helpful. Also, post-implementation reviews, including those related to ISA 315 (Revised 2019), Identifying and Assessing the Risks of Material Misstatement, and ISA 540 (Revised), Auditing Accounting Estimates and Related Disclosures, are likely to be helpful to aid in identifying areas in the auditing standards that may not be implemented as intended and may need further clarification for the auditor. This type of action may be helpful in decreasing elements of the expectation gap.

Also, post-implementation reviews, including those related to ISA 315 (Revised 2019), Identifying and Assessing the Risks of Material Misstatement, and ISA 540 (Revised), Auditing Accounting Estimates and Related Disclosures, are likely to be helpful to aid in identifying areas in the auditing standards that may not

be implemented as intended and may need further clarification for the auditor. This type of action may be helpful in decreasing elements of the expectation gap.

### **Kriton (KNL)**

Implementing the principle of 'spectrum of inherent fraud risks', analogous to ISA 315 and ISA 540.

#### **Suspicious mindset**

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

## **1.001 Coordination with other Current IAASB Project Workstreams1.3 ISA 600 - Group Audits**

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

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

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

### **4. Accounting Firms**

#### **KPMG**

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

jurisdiction that is considered to be “higher risk”, because, for example, it involves a rapidly changing regulatory and business landscape, and is subject to heightened fraud risks.

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

### **PricewaterhouseCoopers (PWC)**

Additional thought should also be given to addressing special considerations that apply in the context of a group audit in relation to the identification, assessment of, and response to, risks of material misstatement due to fraud in the group financial statements. Such considerations should also be a focus in finalising proposed ISA 600 (Revised).

## **1.001 Coordination with other Current IAASB Project Workstreams\1.4 Extended External Reporting (EER)**

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

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

Assurance over extended external reporting might play an important role in future, as reporting over EER and then EER assurance engagements continue to evolve.

Developments in extended external reporting (EER), especially EER with a focus on strategy and risk reporting have a longer timeframe perspective and may provide more contextual information about the ongoing viability of a business. Users are increasingly interested in this type of reporting. The evolution in reporting may enable assurance to evolve to better meet users’ needs. Reporting requirements of this nature continue to evolve, and in many instances are not mandatory, or do not fall within the scope of the audit. As the EER reporting requirements continue to evolve and entities mature in the controls and reporting process, assurance may be voluntarily sought or required. A cost/benefit analysis will also be necessary to ensure that the benefits of such assurance outweigh the costs.

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

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

The feedback received suggests that this is an area worth exploring further as it relates more to the expectations and needs of users i.e. whether a business is viable. For example, in the UK certain companies are required to issue a viability statement with auditors performing certain audit procedures on the statement to identify if there are inconsistencies based on their knowledge acquired during the audit as mentioned in the DP. The Brydon’s report includes recommendations building on going concern and the existing viability statements in the UK, which could be a starting point for the IAASB to explore. Furthermore, the guidance on EER reporting may assist in helping entities further enhance their reporting on these matters and assurance can be added where appropriate.

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

To some extent the calls in this area might be confused with discussions in the area of non-financial information and around sustainability of business models and companies' resilience to withstand risks. Over time, expanded external reporting (EER) and related assurance may help mitigate large, high-profile, unexpected corporate failures.

We believe the assertions of company boards and management represent the main source of information shareholders obtain other than from auditor's reports in respect to the financial statements. Investors and other stakeholders are increasingly demanding more, higher-quality information and insights about company performance, risks, opportunities, and long-term prospects than are available from the conventional financial reporting process. The emergence of Integrated Reports, Strategic Reports, Corporate Sustainability Reports, and other equivalents reflects shareholder and broader societal interest in expanded corporate reporting that examines current and prospective business environmental factors as well as an organization's accountability for all the resources (capitals) it utilizes. Over time, EER and related assurance may help mitigate large, high-profile, unexpected corporate failures given such reporting, particularly in the form of integrated reporting, provides investors and stakeholders greater transparency on their opportunities and threats to their strategy and business model.

IFAC's Enhancing Corporate Reporting Point of View supports a more holistic, extended corporate reporting framework that yields more useful information, including forward-looking information. To the extent that companies provide EER, this information (in the Annual Report, Corporate Sustainability Report, Strategic or Integrated Report, etc.) could also be subject to assurance outside the scope of the financial statement audit. This could assist in reducing the expectation gap that the audit can satisfy all stakeholder needs, and further highlight the importance of assurance on EER.

## **1.001 Coordination with other Current IAASB Project Workstreams\1.5 Auditor Reporting Post-Implementation Review**

### **1. Monitoring Group**

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

We observed that at one stage of the Auditor Reporting project there was a proposed requirement that auditors be required to provide in their audit reports explicit statements addressing whether a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern had been identified, and the appropriateness of management's use of the going concern basis of accounting. As part of the ongoing implementation review and in light of current market conditions, the IAASB should consider whether requiring those explicit statements by the auditors would be in the public interest and meet the need of investors for further transparency as to whether there are material uncertainties regarding an entity's ability to continue as a going concern, and the appropriateness of the entity's financial reporting framework.

Concurrent with the IAASB's Auditor Reporting project that concluded in 2015, we note that ISA 570 was revised. We question whether these revisions were sufficient to address the interactions between standards on auditing and the relevant financial reporting framework requirements (e.g. IFRS).

The connection between ISA 570.20 and IFRS resides in a July 2014 IFRS Interpretations Committee Agenda Decision (the AD) which concludes that the requirement to disclose significant judgments made by management (IAS 1.122) applies to going concern situations where there are mitigating factors which led to management's conclusion that there is no material uncertainty relating to the entity's ability to continue as a

going concern. The interaction between these assurance requirements and IFRS reporting requirements has been documented in publications of the IAASB (Auditor Reporting on Going Concern, January 2015).

Based on our experience, we observe instances where the disclosures about these judgments are not provided. We further note that disclosures about the auditor evaluation of management's disclosures (as required by Paragraph 20, A24 and A25 of ISA 570) are also not commonly found in auditor reports. It is our view that the authority of the expectation contained in the AD, as well as the lack of a clear and strong connection to paragraph 20 of ISA 570, are the primary reasons for the lack of high-quality financial reporting in "close calls" situations. Given the substantial economic challenges in the current environment, we are concerned that preparers and auditors may not focus to an appropriate degree on these important disclosures and audit reporting requirements.

We request the IAASB to consider additional requirements in this area, and work with the IASB to a greater extent, to achieve a stronger connection between ISA 570 and IFRS that might be similar to what exists between ISA 570 and U.S. GAAP (Presentation of Financial Statements—Going Concern (Subtopic 205-40)).

We support the continued efforts of the IAASB's Auditor Reporting Implementation project which can also be a mechanism to, not only inform and educate users but, solicit feedback as to the effectiveness of the current reporting model. Auditor reporting requirements as it relates to going concern is an important public interest matter, and the challenging economic environment resulting from the COVID-19 pandemic only serves to further emphasize the importance of revisiting the topic of the auditor's responsibility with respect to an entity's ability to continue as a going concern.

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

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

#### **Consideration of the Accounting Framework**

We think that any changes to the auditing standards should be considered in tandem with the relevant responsibilities of issuers in the applicable accounting framework. In this regard, we note that the auditor's requirements for "close call" going concern situations in ISA 570 – Going Concern do not adequately align with the accounting and disclosure requirements in IFRS.

As part of the auditor reporting project that was concluded in 2015, the IAASB revised ISA 570 – Going Concern regarding the auditor's work effort in relation to the IFRS framework (i.e., auditors are required to evaluate the adequacy of disclosures in the "close call" situations in view of the requirements of the applicable financial reporting framework). However, because the requirement for issuers to disclose the close calls is only explicitly expressed in an IFRIC agenda decision (which has less prominence compared to the authoritative standards), we have found that some auditors do not adequately assess these disclosures and are concerned that entities may not be aware they need to provide them. Indeed, in the course of our regulatory reviews, we have observed limited instances of "close call" judgements disclosure in the financial statements. As a next step, we think that the IASB should revise the main body of IAS 1 – Presentation of financial statements to explicitly require close call significant judgements disclosure. We note that U.S. GAAP contains explicit requirements in this regard, and that the New Zealand Accounting Standards Board has proposed clarifications along these lines.

#### **Auditor Requirements**

We note that throughout most of the duration of the IAASB's auditor reporting project that was concluded in 2015, the suite of standards contained a proposed requirement for auditors to provide an explicit, direct statement about whether a material uncertainty had been identified, and the appropriateness of management's use of the going concern assumption. However, that proposed requirement was ultimately excluded from the final suite of standards. Given the current market conditions combined with the heightened public attention that the topic of going concern in financial statement audits continues to receive, we think that the IAASB should re-consider whether such disclosure should now be required. We think such disclosure would improve the quality of financial reporting and provide decision useful information to investors. Greater transparency in the auditor's report could also lead to different behaviors by management. For example, greater transparency may result in higher accountability as issuers may expect their judgements to be scrutinized more comprehensively.

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

Since the beginning of the IAASB's auditor reporting project, the FRC has strongly encouraged the IAASB to make significant revisions to ISA 570. We supported proposals for auditors to make positive statements on going concern and were disappointed when the IAASB did not pursue those proposals. More recently, we requested that the IAASB seek to revise ISA 570 further when responding to the IAASB's Proposed Strategy and Work Plan. We are pleased that IAASB is now undertaking initiatives in relation to going concern but, given the timing, the FRC believed that it was in the public interest to move forward and revise the UK standard as a matter of importance. Accordingly we have introduced extensive enhancements and new requirements supplementing the standard as issued by the IAASB.

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

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

The AUASB staff have conducted research on auditor reporting during the COVID-19 pandemic including how going concern matters have been reported. Refer to the AUASB Research Report 5 COVID-19 Snapshot of Auditor Reporting in Australia. When conducting this research, we observed some instances where going concern reporting has not been in accordance with the Auditing Standards, possibly driven from the unnecessary complexity in the Auditing Standards. This is consistent with feedback we have received that the auditor reporting requirements are complex and should be evaluated to consider if they could be simplified. The 2016 new layers of reporting, including modifications, MURGCs, EOMs, Other Matter Paragraph (OMP) and Other Information (OI) etc have caused confusion in users and auditors. The post-implementation review of these standards by the IAASB is timely to connect these issues.

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

We recently completed outreach activities on the IAASB's post-implementation review (PIR) of the enhanced auditor reporting standards. Results from our PIR outreach did not identify a demand for additional communications regarding going concern in the auditor's report. Based on existing accounting and audit requirements relating to going concern, we believe the transparency provided in the going concern and KAM sections in the auditor's report to be adequate in informing financial statements users of the respective responsibilities of management and the auditor with respect to going concern assessments.

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

As part of the NZAuASB's outreach related to the auditor reporting post implementation review project, the Board heard from users of the auditor's reports that auditors communicate well on matters related to going concern. As a result of the COVID-19 pandemic, in New Zealand we have seen an increase in the number of KAMs related to going concern, in "close call" situations. As part of this broader outreach, we have also heard from users that lengthy audit reports that include standardised wording are not useful, i.e., few users read the parts of the audit report that focus on management's and/or the auditor's responsibilities that include generic standardised text. In fact, some investors we spoke to, do not read the auditor's report at all, other than to glance at who the auditor was. They take some confidence in the fact that an audit was conducted but do not overly rely on the contents of the audit report.

The expectation gap with respect to going concern has thus existed for many years. The IAASB tried to address this as part of the auditor reporting project but even then, identified the need for stronger collaboration with the accounting standard setters.

## **4. Accounting Firms**

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

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.

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

We included in our response to the IAASB's Auditor Reporting Post-Implementation Review Stakeholder Survey two observations about the current requirements related to reporting about a material uncertainty related to going concern as follows:

#### **GTI**

We recognise that the IAASB has previously devoted significant resources on this issue and recommend that consideration is given to performing targeted post implementation research, aimed at stakeholders, such as the National Standard Setters, to understand how this has been adopted in practice and whether it serves the public interest to require auditors to determine whether the going concern basis of accounting is a 'fundamental principle' when the financial reporting framework has no explicit requirement regarding going concern.

### **Mazars (MAZ)**

On the concept of resilience, the statement of solvency indicating the company can pay all debts as and when they become due and payable (existing in Australia as mentioned in the paper) can be a useful practice and subject to reporting from the auditor. In the UK, the reporting on the entity's longer-term viability is subject to procedures performed by the auditor which result in a "requirement to report in the auditor's

report whether there is anything material to add or draw attention to in respect of management's assessment." We believe it would be helpful to have a post-implementation review in those two countries to see if those two measures enable the auditor to target the objective of preventing corporate failures.

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

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

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

### **PricewaterhouseCoopers (PWC)**

Related to our contextual observations in response to question 3(a), a common area of feedback we hear (and an area to be explored in the AR PIR) is that the concept of a "material uncertainty" is not well understood. That view arises primarily from:

We believe the following matters could be addressed as part of the IAASB's AR PIR:

It would be helpful for the IAASB to resolve the implicit discrepancy between the extent of disclosure of the auditor's response when a material uncertainty relating to going concern section has been included (no requirement to describe how the matter was addressed) and a KAM on a going concern "close-call" i.e., where no material uncertainty exists (requiring more fulsome disclosure of the auditor's response).

For entities other than listed entities, when KAMs are not required to be included in the auditor's report, providing additional guidance to highlight the availability of using an emphasis of matter paragraph in the auditor's report to draw attention to disclosures in the financial statements that are considered fundamental to users' understanding (in circumstances when events or conditions were identified but ultimately no material uncertainty was deemed to exist). In some respects, communication by the auditor in this manner would draw users' attention to these important disclosures.

We do not believe that ISA 570 (Revised) is fundamentally broken in the context of the current financial reporting requirements and audit of the financial statements. This standard was updated by the Board in conjunction with the introduction of the enhanced auditor's report and the feedback from the AR PIR will provide important insight into how the changes with respect to reporting on going concern, specifically the new section on material uncertainties relating to going concern, have been received.

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.

## 6. Member Bodies and Other Professional Organizations

### 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).

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.

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

Certain jurisdictions such as the Netherlands and the UK have had extended reporting requirements on going concern. SAICA recommends that the IAASB should interact with the appropriate bodies in these jurisdictions to understand what impact such reporting has had on addressing the expectation gap and whether similar changes to ISAs would be useful. The IAASB should also gather responses from the recent Auditor reporting post-implementation review stakeholder survey to assess whether additional disclosures in the auditor's report are required by the stakeholders and respond accordingly.

## 1.001 Coordination with other Current IAASB Project Workstreams\1.6 Project - Less complex entities

### 3. National Audit Standard Setters

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

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

#### Malaysian Institute of Accountants (MIA)

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

Forensic specialists can provide increased insight into the fraud risks of an entity and can also assist with the development of procedures to respond to fraud risks.

We suggest including guidance in ISA 240 that forensic specialists may be involved in the auditor's identification, assessment and/or response to fraud risks. The forensic specialists should only be called

upon if there are clear fraud risk indicators as opposed to a blanket mandate of their involvement in the audit of financial statements.

The effectiveness of using forensic specialists should be considered in the context of the objectives of an audit of financial statements. The expectation gap may widen if stakeholders perceive the involvement of forensic specialists as implying an extended or different scope of the auditor's work. There should be a clear distinction between the use of specialists in an audit of financial statements than that of a specialist performing a forensic investigation.

The scalability of such a requirement for less complex audits would also need to be determined.

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

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

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

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

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

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

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

The LCE working party should address clear guidance and requirements for Less Complex Entities.

We are hopeful that the LCE Auditing Standard may address some of the concerns relating to SMEs relating to fraud and going concern.

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

If a suspicious mindset was also applicable to SMEs (if a separate set of audit standards were to be developed), SMEs may be discouraged from seeking an audit or adopt greater use of local audit standards which may better suit their users' need.

As noted on page 18 of the DP, you are interested in perspectives regarding requiring the use of forensic specialists or other relevant specialists in a financial statement audit, and, if considered appropriate, in what circumstances the use of specialists should be required.

In our opinion, forensic specialists should be brought in only when specific circumstances arise (e.g. alleged or suspected fraud). However, this may create a scalability issue based on accessibility to a forensic specialist and the increased cost of an audit, particularly in audits of SMEs, whereby in many cases management and those charged with governance are one and the same.

We believe a requirement for the involvement of a forensic expert in all audits, would increase the expectation gap with users to the role of the auditor in identifying fraud if forensic specialists were brought in more broadly in audits. The public should be aware that, in providing an audit opinion, auditors are using professional judgment to identify any high-risk transactions or suspicious transactions. Auditors cannot practically review all transactions and therefore utilize the concept of “materiality” which is a term not well understood by some relevant stakeholders. IAASB should consider ways to make this terminology more commonplace to reduce the expectation gap.

Moreover, the vast majority of audited financial statements are likely not be subject to undetected material fraud. Any significant changes to standards contemplated should reflect on the costs and benefits to all audits, especially the potentially disproportionate cost to smaller entities.

### **PricewaterhouseCoopers (PWC)**

Internal control relevant to financial reporting

As described in our response to question 1(b), the importance of management having appropriate responsibilities for the identification and management of risks of fraud cannot be underestimated. Creating a stronger framework of responsibility and reporting in respect of an entity’s system of internal control could help improve the prevention and detection of fraud. There is an opportunity to evolve the audit scope beyond today’s model.

For example, we would support the introduction of a framework of responsibility and reporting in respect of an entity’s internal control relevant to financial reporting, including fraud-related controls. At the heart of such a framework would be a clear public statement by management/those charged with governance as to the design and operating effectiveness of the entity’s internal controls, which would be underpinned by:

A clearly communicated expectation of the level of rigour and diligence to be applied in making that statement; and

An accountability mechanism with consequences for management/those charged with governance in the event of non-compliance.

Consideration can then be given to a requirement for the auditor to make a corresponding attestation on internal control.

In designing and implementing any such regime, there would be a number of key decision points, including the proportionality of the cost/benefit of introducing such a regime, the entities to which the requirements would apply, and the internal controls brought into scope. As noted, this is an area where the IAASB could usefully engage with IOSCO, national standard setters and others with responsibility for establishing or strengthening such requirements in their respective jurisdictions.

The proportionality and scalability of any changes proposed in this area are important factors that the Board will need to consider, recognising that an entity’s system of internal control may be less formal and less mature in smaller and less complex entities.

The proportionality and scalability of any changes proposed in this area are important factors that the Board will need to consider, recognising that an entity's system of internal control may be less formal and less mature in smaller and less complex entities.

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

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

#### **Less Complex Entities (LCEs)**

The current project on LCE should allow the IAASB to consider the specificities of such entities. It is important to remain principles-based and fully scalable given that LCE's control environment is often easy to comprehend, but not easy to test due to the limited segregation of duties and established procedures.

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

With respect to going concern, the financial reporting frameworks should also evolve to enhance the informational value of any disclosure provided. In the context of non-public interest entities and particularly of less complex entities (LCE), this will ask a certain level of (financial) knowledge of the members of the board of directors and of management.

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

#### **Presumed risk of fraud in revenue**

In our view, the IAASB should consider exploring other areas in addition to revenue, such as for example, expenditure which particularly in light of Covid-19 may be more susceptible to fraud. This may be more relevant in the case of LCEs where for example, targeting reduced tax liability is more common, particularly in owner managed businesses. Similar views were raised by stakeholders during the IAASB's roundtable discussion on fraud and going concern for LCEs.

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

Management override: neither the IAASB nor the FRC have asked specific questions in this area but we believe it worthy of consideration in relation to LCE audits. With regard to management override, paragraph 31 of ISA 240 states that:

...Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk.

In many smaller audits this is simply not the case. Where controls are operated on an informal basis through the day-to-day involvement of management in all aspects of the business, the idea that management overrides controls makes little sense. Management is the control. Where that is the case, erratic application represents a weak control environment and/or control ineffectiveness in terms of design and implementation - not management override. Auditors of SMEs are thus required to shoehorn the presumptive significant risk of fraud due to management override applicable in larger entities into the audit of entities in which the concept makes little sense. Application material should acknowledge more clearly than it does now that the risks related to management override are likely to be relevant in larger and more complex entities where controls are formalised.

There should be more focus in the ISA on simple frauds in revenue recognition facilitated by collusion with third parties.

Concerns were however expressed about the value of some extant requirements, such as the approach to management override of controls in the audit of smaller entities. This is relevant to IAASB's project to develop a standard for LCE audits.

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

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

### **Kriton (KNL)**

Fraud committed with or by third parties

The discovery of a material misstatement as a result of fraud committed in collusion with one or more third parties is, in principle, within the scope of an audit and the responsibility of the auditor. The collusion may cause the auditor to assume that the audit evidence obtained is convincing, when in fact it is incorrect. Therefore, the auditor may not detect such a misstatement even though the audit has been properly planned and performed. This is an inherent limitation of an audit. However, the auditor cannot use this starting point as a rationalisation for performing no or only a limited analysis - based on relevant fraud risk factors - of the risk of such a misstatement.

One example of a fraud committed by third parties is that the entity is a victim of business e-mail compromised fraud (also known as 'CEO fraud') or ransomware. The auditor is responsible for identifying and assessing risks from such fraud and for appropriately responding to them. These risks relate to the (possible) impact of such fraud, such as paying a ransom, a claim or a fine, but also, for example, reputation damage. A material misstatement may exist if such risks are incorrectly not taken into account in preparing the financial statements. So again, in his risk analysis, the auditor will have to pay due attention to (the possible consequences of) such risks and, where applicable, formulate an appropriate response.

In addition, the auditor's natural advisory role may entail that he may be expected to alert management to such risks. This certainly applies, but not only, to auditors from small and medium-sized companies. The question to what extent auditors may be held accountable for their duty of care if they do not point out such risks to management and/or those charged with governance is beyond the scope of this response.

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

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

Deficiencies in the overall control environment and in the design of the internal controls or failure to implement such internal controls are contributing factors to fraudulent activities. At some point significant internal control deficiencies are usually identified by the auditor, even if it is not during the financial period when fraud occurred. However, such deficiencies are not reported to the users of financial statements in the auditor's report when they are initially identified. There is room for the IAASB to enhance the reporting requirements in the auditor's report when it comes to deficiencies in the overall control environment and the internal controls. Reporting on internal control deficiencies would alert the users of financial statements of areas where the opportunities to perpetrate fraud may exist due to weaknesses in the overall control

environment and the internal controls. This is a reporting requirement that can be made applicable to all types of engagements where internal control deficiencies are identified by the auditor, including both public interest entities as well as LCEs. Such disclosure, should, however, not be done in isolation but off the back of enhanced management disclosures. . The IAASB would further need to assess the impact of such requirement on other ISAs such as ISA 265, Communicating Deficiencies in Internal Control to Those Charged with Governance and Management, as this would require that enhanced guidance may need to be provided on what constitutes 'significant deficiencies.

## **1.001 Coordination with other Current IAASB Project Workstreams1.7 Project - Technology**

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

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

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

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

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

### **4. Accounting Firms**

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

The extent of information and data available both within and outside the entity is ever-increasing and auditors can use this to their advantage in increasing the effectiveness of audit procedures. The IAASB can provide examples of information that may be gathered and analytics that may be applied to such information to assist in identifying areas where the risk of material misstatement related to fraud may be elevated. Exemplifying data such as (1) statements and communications on the entity website and (2) analytics using external information such as trend analyses, comparison to peers or industry benchmarks, or media

sentiment analysis, may aid in identification of fraud risk factors. This is an area the IAASB's Technology Working Group may be able to help with generating ideas and examples.

## **1.001 Coordination with other Current IAASB Project Workstreams\1.8 Project - Professional Skepticism**

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

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

Developing a framework on professional skepticism

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

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

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

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

## **1.002 References to other ISAs (which are not current IAASB projects)\1.01 ISA 220 (Revised) - Quality Management at the Engagement Level**

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

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

Ultimately, it is the engagement partner's responsibility to ensure fraud risks are appropriately identified and responded to by the engagement team. We note that there is no explicit requirement to this extent in either ISA 220 or ISA 240. We believe the role of the engagement partner in this regard should therefore be enhanced, as opposed to requiring the engagement quality reviewer to do more, given the engagement quality reviewer's responsibility to remain objective.

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

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

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

## 4. Accounting Firms

### HLB International (HLB)

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

### Mazars (MAZ)

Presently, there is a number of revised standards, including ISQM1, ISQM2, ISA 220 and ISA 315, that will help to enhance the quality of audits in all areas, including fraud and going concern.

### PricewaterhouseCoopers (PWC)

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

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

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

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

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

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

Whether additional quality management review procedures focused on the engagement team's responsibilities relating to fraud should be considered for engagements for which an engagement quality review is required

We agree with the assertion in the DP that judgements relating to consideration of fraud risk factors and related assessments of the risks of material misstatement would already fall within the scope of significant judgements addressed by the engagement quality reviewer.

ISQM 2 has recently been approved and was drafted on a principles-basis. With respect to significant matters and significant judgements, the Board concluded that including lists of matters to be considered by the engagement quality reviewer was not appropriate, as it would always be subject to perceptions of being incomplete. The ISQM therefore cross-refers to ISA 220 (Revised) where examples of significant judgements are given (paragraph A93). Those examples make no reference to fraud risk indicators or assessed fraud risks. To the extent that emphasis is warranted on the importance of the engagement quality reviewer giving attention to these judgements, consideration could be given to adding further application material to ISA 220 (Revised).

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

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

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

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

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

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

Engagement quality review

We agree with the measures proposed in the DP and believe that the new set of standards on quality management should facilitate their application. We refer in particular to the general requirement as included in paragraph 25 (b) and related application material (paragraphs A34 and A35) of the ISQM 2 and to ISA 220 (Revised) and its application material (paragraphs A 36, A 54 and A 92) which include explicit references to fraud and going concern.

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

We note that the new IAASB Quality Management standards are a positive development in this regard, as well as the recent IESBA revisions to the International Code of Ethics for Professional Accountants (including International Independence Standards) (the Code) to better promote the role and mindset expected of all professional accountants. The revisions aim to reinforce the importance of the profession's

public interest responsibility by stimulating professional accountants to better demonstrate the role, mindset and behavioural characteristics expected of them.

## **1.002 References to other ISAs (which are not current IAASB projects)\1.02 ISA 230 - Audit Documentation**

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

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

Documentation - emphasising that, as required by ISA (UK) 230, if the auditor identified information that is inconsistent with the auditor's final conclusion regarding a significant matter, the auditor shall document how the auditor addressed the inconsistency.

Documentation - emphasising that, as required by ISA (UK) 230, if the auditor identified information that is inconsistent with the auditor's final conclusion regarding a significant matter, the auditor shall document how the auditor addressed the inconsistency.

## **1.002 References to other ISAs (which are not current IAASB projects)\1.03 ISA 250 - Consideration of laws and regulations**

### **1. Monitoring Group**

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

The Committee agrees with the IAASB that several related standards may be affected and should be considered (eg laws and regulations).

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

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

Non-compliance with laws and regulations - . A matter that is often closely related to fraud is non-compliance with laws and regulations, particularly where that non-compliance is intentional as it is often also fraudulent in nature. We have therefore asked respondents for their views on whether more could be done to clarify the links between ISA 240 and ISA 250.

Non-compliance with laws and regulations - . A matter that is often closely related to fraud is non-compliance with laws and regulations, particularly where that non-compliance is intentional as it is often also fraudulent in nature. We have therefore asked respondents for their views on whether more could be done to clarify the links between ISA 240 and ISA 250.

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

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

Also, the AUASB and stakeholders agreed that if enhancements were made relating reporting to TCWG in ISA 240, these need to be appropriately linked to requirements in ISA 250 and ISA 260 so that efficiency, effectiveness and consistency is maintained across the requirements in the suite of ISAs.

what is required of the auditor when fraud is detected and the impact on the planned audit approach which includes links to ISA 250 Consideration of Laws and Regulations in an Audit of a Financial Report and ISA 260 Communication With Those Charged With Governance.

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

### Auditor responsibilities for non-material fraud

The existing ISA provides guidance where the auditors are required to assess the potential impact (quantitatively or qualitatively) of fraud risk identified or suspected (including non-material fraud). In many cases, the materiality of a matter identified may not be truly understood without further investigation. Therefore, we believe that ISA 240 requires enhancement to address auditor's responsibilities for non-material fraud.

Fraud is a matter that is often inter-related with non-compliance with laws and regulations and often constitutes an illegal act. Therefore, we encourage the IAASB to clarify within ISA 240 the relationship between responding to non-compliance with laws and regulations and responding to instances of fraud.

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

It would be useful to have a clear definition of fraud although this might be difficult to achieve. Fraud seems to be a collective term which includes non-compliance with laws and regulations (e.g. corruption, money laundering) and green washing as well. The overlap and differences between ISA 240 and ISA 250 might also not be well understood. Furthermore, the focus should remain on material fraud as it is impossible to detect all immaterial frauds that do not directly relate to the financial statements such as petty theft. We recommend have an overall definition which includes material fraud and non-compliance and considering integration of ISA 240 and 250. It should be clear which actions need to be taken in the various circumstances and scenario's (e.g. a decision tree might be useful).

## **4. Accounting Firms**

### **KPMG**

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

### **PricewaterhouseCoopers (PWC)**

While an indicator of "fraud" may not give rise to a material misstatement of the financial statements, there may nevertheless be considerations as to whether the matter gives rise to non-compliance with applicable laws or regulations. We believe the IAASB could explore whether the relationship and linkage between ISA 240 and ISA 250, in particular the inter-relationship between identified fraud risk indicators and identified or suspected non-compliance with laws and regulations, is sufficiently clear.

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

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

IAASB should address the non-binary nature of fraud and error and the overlap with NOCLAR: large and complex frauds are only ever determined definitively by the courts, often long after the event, and the real issue for auditors is often timing, because seemingly legitimate changes can degenerate into error and fraud. At what point should auditors be expected to 'spot' a fraud or raise the alarm? Existing references to these issues in paragraphs 3 and 5 of ISA 240 are clear, including the fact that a properly performed audit may not detect a material fraud. Nevertheless, ISA 240 can too easily be misread as presenting fraud and error as if they are (or should be) clearly distinguishable at first sight. In practice, many frauds, small and

large, involve some degree of collusion and almost always a great deal of deception. IAASB should consider how auditors can address the fact that the boundaries between fraud, error and NOCLAR are rarely clear.

It became clear during our discussions that a significant issue IAASB might consider further is the erroneous belief that the distinctions between fraud, error and non-compliance with law and regulations (NOCLAR) are or should always be clear. Large and complex frauds are only ever determined definitively by the courts, often long after the event, and the real issue is often timing: at what point should auditors have 'spotted' a fraud? At what point should they raise the alarm? ISA 240 and ISA 250 acknowledge this issue but do not address it.

## 9. Individuals and Others

### Christian Minarriz (CM)

I think that the interaction between ISA 240 (fraud) and ISA 250 (non compliance with laws and regulations) should be considered (as all fraud is typically illegal, everything that falls within ISA 240 typically also falls under ISA 250, but some frauds that are not included in ISA 240, like bribery and corruption, fall within ISA 250). Some issues that are typically considered to be fraud or fraud-related (like corruption or money laundering) currently fall within the scope of ISA 250, which has a very different approach to ISA 240. In practice, most of the red flags of corruption and money laundering may be hard to distinguish from fraud red flags. For example, it would be hard to determine if a significant unusual transaction which is not appropriately explained and supported by management, it is indication of fraud, corruption or money laundering. Probably corruption and money laundering may be scoped into ISA 240.

Third party fraud: current definition of "fraud" in the ISAs includes fraud perpetrated by third parties. Placing particular emphasis on third party fraud may create an unnecessary focus on fraud perpetrated by third parties, while diverting attention from internal fraud (which is more common, especially for fraudulent financial statements schemes). Requiring auditors to design procedures to detect third party fraud which is not material to financial statements may inappropriately expand the scope of an audit. Some third party fraud that may severely impact the entity (like cyber-attacks) may generally be included in the scope of ISA 250 as fraud is generally a illegal act, so the ISA 250 requirements may be applicable.

## **1.002 References to other ISAs (which are not current IAASB projects)\1.04 ISA 260 - Communication with those charged with governance**

### 2. Regulators and Audit Oversight Authorities

#### 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).

### 3. National Audit Standard Setters

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

Also, the AUASB and stakeholders agreed that if enhancements were made relating reporting to TCWG in ISA 240, these need to be appropriately linked to requirements in ISA 250 and ISA 260 so that efficiency, effectiveness and consistency is maintained across the requirements in the suite of ISAs.

what is required of the auditor when fraud is detected and the impact on the planned audit approach which includes links to ISA 250 Consideration of Laws and Regulations in an Audit of a Financial Report and ISA 260 Communication With Those Charged With Governance.

### 6. Member Bodies and Other Professional Organizations

#### 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.

### 1.002 References to other ISAs (which are not current IAASB projects)\1.05 ISA 265 - Communicating deficiencies in internal control to TCWG and management

### 4. Accounting Firms

#### PricewaterhouseCoopers (PWC)

Consideration could also be given to expanding the communication requirements to those charged with governance to explicitly refer to reporting of any identified significant deficiencies in that regard, in accordance with ISA 265.

### 6. Member Bodies and Other Professional Organizations

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

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

## **1.002 References to other ISAs (which are not current IAASB projects)1.06 ISA 315 - Risk Assessment**

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

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

It is our view that the IAASB should strengthen the requirements in the fraud and going concern auditing standards related to how auditors exercise professional skepticism. In addition to the specific observations outlined below, this could be accomplished by adding requirements similar those recently added in ISA 315 (revised), specifically, requirements to:

Evidence how contradictory evidence was considered and concluded on.

Stand-back and consider all audit evidence obtained in forming conclusions.

#### **Risk assessment**

There needs to be a clearer link between the requirements in ISA 315 (revised) and the auditor's evaluation of management's going concern assessment, such as understanding of the entity's business model, objectives and strategies, how the entity is structured and financed, and how the entity measures and reviews its financial performance, including its budgeting and forecasting processes. The auditor should also be required to obtain an understanding of any changes in the method or information used by management in reaching their conclusions, alternative scenarios considered, and the nature and extent of oversight and governance over management's assessment of the entity's ability to continue as a going concern.

Enhanced requirements for risk assessment procedures could result in identification of events or conditions that have not been identified by management that may cast significant doubt about an entity's ability to continue as a going concern. More robust procedures performed during the risk assessment may result in earlier identification of situations where management has not taken the appropriate steps to understand or appropriately address the basis for their assertion that the going concern assumption is appropriate. ISA 570 should require the auditor to go through a similar process as is currently required under ISA 540 (revised). Additional procedures may include requesting management to prepare a formal assessment if they have not prepared one already or requesting management to expand their cash flow forecasts to include other realistic scenarios and to perform sensitivity analyses to further support their conclusion.

To improve consistency, the requirements in ISA 570 should be applicable regardless of the financial reporting framework used in the preparation of the financial statements. Under the current standard, the auditor's evaluation of management's assessment is limited to relevant information that the auditor is aware of as a result of the audit. Increased focus on the robustness of the procedures performed as part of the risk assessment would improve auditor performance in this area.

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

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

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

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

## Risk assessment procedures and related activities

The IAASB should draw clearer links between the auditor's responsibilities in respect of fraud and the auditor's understanding of the entity's system of internal control that the auditor is required to develop in accordance with ISA 315. A robust understanding of the management's process for identifying and responding to the risk of fraud in the entity enhances the auditor's assessment of the risks of material misstatement due to fraud. It also helps the auditor to better assess the risk of management override of controls. The importance of the assessment of internal control by the auditor should be reemphasized by the IAASB.

## Financial Reporting Council (FRC)

Risk assessment procedures and related activities - requiring that the auditor shall determine whether the engagement team requires specialized skills or knowledge to perform particular procedures. Application material has been added giving examples of matters that may affect the auditor's determination of whether the engagement team requires specialized skills or knowledge, including a possible need for forensic skills as part of the risk assessment process, and to follow up on identified or suspected fraud. We have added a specific requirement that, if the auditor identifies a misstatement due to fraud or suspected fraud, the auditor shall determine whether a forensic expert is needed to investigate further.

We therefore encourage the IAASB when strengthening ISAs 240 and 570 to take account of the enhancements we have made in the standards. This will help address the identified expectation gaps in relation to fraud and going concern and enhance the quality and rigour of audits.

Yes. We have made a number of enhancements in our proposed revision of ISA (UK) 240, which are summarised in the FRC's Consultation Paper and that we encourage the IAASB to take account of. These include enhancements in relation to:

Professional scepticism – reflecting changes made in the recent revisions of ISA 540 and ISA 315 to enhance the application of professional scepticism, including emphasising that risk assessment and further audit procedures are designed and performed in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory. We have also clarified that the auditor shall remain alert for conditions that indicate a record or document may not be authentic; and require the auditor to investigate responses to inquiries of management, those charged with governance or others in the entity that appear implausible.

## Independent Regulatory Board for Auditors (IRBA)

In the Objective, "it expands on how ISA 315 (Revised) and ISA 330 are to be applied in relation to risks of material misstatement due to fraud";

Public Interest Entities have millions or even hundreds of millions of journal entry data and most postings are now automated. So, we would challenge whether it is feasible to get sufficient appropriate audit evidence over the risk of management override of controls in the absence of being required to obtain and analyse the entire journal entry data set (through data analysis) in these circumstances. This is in line with ISA 315.A94, which reads: "When automated procedures are used to maintain the general ledger and prepare financial statements, such entries may exist only in electronic form and may therefore be more easily identified through the use of computer-assisted audit techniques."

Requirements to perform specific observations and inspections (in addition to inquiry), in line with the requirements of ISA 315 (Revised), paragraph 14, that will aid the identification of fraud risks.

Specifically:

ISA 315 requires the auditor to obtain an understanding of the information system, including journal entries (standard versus non-standard). The standard does not expand on the details required to be understood to enable the auditor to identify instances of management override of controls, such as the integration between sub-ledgers and general ledgers, the sources of the types of different journal entries, as well as the access and authorisation rights of different individuals that post journal entries. Therefore, there is scope to link the requirements of ISA 315.18 with ISA 240.33 and to expand on the minimum requirements.

Under the Requirements, it cross-refers, in general, to the requirements under ISA 315. However, it lacks specificity. For example:

There is no requirement to evaluate the design and implementation of management's process for identifying and responding to risks of fraud, including related internal controls. Such a requirement should be considered because it will enhance the auditor's understanding of the internal control environment and, therefore, drive better fraud risk assessment and response.

The standard does detail what the possible implications are for the audit or the auditor when governance surrounding the management of fraud risks is weak and/or the control environment does not support the prevention and detection of fraud, and what the impact of this is on the Requirements in ISA 240.

The standard is not explicit around how the information obtained in ISA 315 informs the nature, timing and extent of further Requirements in paragraphs 13-25.

Furthermore, if we critically analyse the extant risk assessment procedures, there is emphasis on "inquiry" of management and those charged with governance. We challenge whether inquiry alone supports the appropriate identification of fraud risks, especially considering:

The inherent limitations on the auditor's ability to identify misstatements resulting from fraud and, in particular, management fraud.

Technological advances over time (e.g. data analysis or that a combined approach may be more informative than inquiry alone).

The nature, timing and extent of risk assessment procedures may not be equally sufficient in all engagement circumstances. For example, more robust risk assessment may be required where the control environment does not support the prevention and detection of material misstatement due to fraud, as opposed to where the control environment supports the prevention and detection of material misstatement due to fraud.

Therefore, we propose that risk assessment procedures be enhanced to include:

An explicit assessment of a set of minimum fraud risk factors, if present. For example:

An inspection of whistle-blower policies and processes and the impact on the audit in general, when these are not effectively operating; OR

In a complex group structure, where funds or fees are being moved inter-company without a clear business rationale, requiring the auditor to obtain an understanding of those transactions from management or those charged with governance and corroborating and critically assessing management's explanations.

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

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

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

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

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

Yes, NASBA believes the IAASB should consider enhancements to standards to promote better understanding of the current standards and greater consistency in their execution. NASBA believes that evaluations related to fraud should be risk-based. The recent update to ISA 540 was structured to provide guidance on risk assessment (ISA 315) and response (ISA 330) for issues specific to accounting estimates. Likewise, ISA 240, The Auditor’s Responsibility to Consider Fraud in an Audit of Financial Statements, could address issues specific to fraud risk in the context of ISA 315 and 330. For example:

Not necessarily presuming that revenue is an area of fraud risk but examining why and how in order to inform responsive procedures; and

Determining how and in what instances journal entries present fraud risks so that testing can be responsive to those factors.

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

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

The IAASB is interested in perspectives on whether enough emphasis is placed on the auditor’s responsibilities around fraud related to third parties. We are also interested in feedback about the auditor’s role in relation to third party fraud that does not result in a material misstatement of the financial statements but may have a severely negative impact on the entity (e.g., cybercrime attacks).

The AUASB consider fraud related to third parties an emerging issue that requires further attention. Even though third-party fraud (e.g. cybercrime) engagements are generally undertaken as a separate engagement from the financial statement audit, the point of convergence and impact on the financial statement audit and fraud risk assessment cannot be underestimated. The potential impact to an entity from cybercrime and the risk of fines/penalties, impact on business operations and cash flows and therefore asset values mean this should be assessed as part of the audit as part of the entity’s risk assessment and internal controls evaluation under ISA 315.

Stakeholders generally agreed that this is a significant and growing area that many auditors would not be appropriately equipped to understand the risks. An auditor may be aware of cybersecurity fraud risks at a high level however may not necessarily know when to engage an expert or even adequately identify and rate the risks. We would support activities which consider further how the assessment of fraud controls at an entity is impacted by third party fraud related issues like cyber controls by both the entity and the financial statement auditor.

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

Provide clearer linkage between ISA570 to ISA 315 particularly the importance of the auditors' robust understanding of the entity and its environment and to exercise professional scepticism in evaluating the management's going concern assessment.

Include clarification that understanding the entity's financial reporting process under ISA 315 should include the management's assessment process for going concern.

#### **Corporate culture**

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

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

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

Furthermore, the connection between revised ISA 315 and ISA 240 might be reconsidered. Although the inherent risk factors in revised ISA 315 do include fraud, the importance thereof could be stressed.

## **4. Accounting Firms**

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

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

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

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

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

ISA 315 (Revised 2019)

The understanding of the entity and its environment and the entity's system of internal control forms the auditor's primary source of information for identification of risks of material misstatement, whether due to fraud or error. ISA 315 (Revised 2019) includes several enhancements that are directly relevant and beneficial to the auditor's identification of fraud risks. Although some conforming and consequential amendments were made to ISA 240 as a result of the revisions to ISA 315, we believe more can be done to further enhance ISA 240 to draw out how the fraud risk identification and assessment process is integrated with the enhanced risk assessment process for the financial statements as a whole. We have the following specific suggestions:

Emphasizing that information from the auditor's procedures regarding acceptance or continuance of the client relationship or the audit engagement may include information directly relevant to the identification of fraud risks

Explaining the importance of a robust understanding of the entity and its environment to the identification of risks of material misstatement due to fraud and expanding on how the understanding of the elements of the business model (as outlined in Appendix 1 of ISA 315 (Revised 2019)) can give rise to fraud risk factors

Providing guidance on the application of the fraud triangle (i.e., incentives/pressures, opportunities and rationalization) as a "lens" on the evidence obtained from risk assessment procedures to provide a framework for the auditor to objectively consider fraud risk factors, which would also support the auditor appropriately exercising professional skepticism

Clarifying that the auditor's understanding of the entity's risk assessment process and monitoring process includes how these processes address fraud risks, as well as any consequences of the evaluations of these components in the context of ISA 240

Clarifying that the auditor's required understanding of controls that address fraud risks includes any fraud risk management programs and controls that operate above the transactional level (e.g., whistle-blower hotlines, internal audit departments)

Clarifying that the new standback requirement to evaluate whether the audit evidence obtained from risk assessment procedures provides an appropriate basis for identification and assessment of the risks of material misstatement also applies with respect to fraud risks

We also have suggestions above that have a relationship to ISA 315 (Revised 2019) for the specific topics of corporate culture and third-party fraud on which the IAASB is specifically seeking feedback.

#### ISA 315 (Revised 2019)

The understanding of the entity and its environment and the entity's system of internal control forms the auditor's primary source of information for identification of risks of material misstatement, whether due to fraud or error. ISA 315 (Revised 2019) includes several enhancements that are directly relevant and beneficial to the auditor's identification of fraud risks. Although some conforming and consequential amendments were made to ISA 240 as a result of the revisions to ISA 315, we believe more can be done to further enhance ISA 240 to draw out how the fraud risk identification and assessment process is integrated with the enhanced risk assessment process for the financial statements as a whole. We have the following specific suggestions:

Emphasizing that information from the auditor's procedures regarding acceptance or continuance of the client relationship or the audit engagement may include information directly relevant to the identification of fraud risks

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Clarifying that the auditor’s understanding of the entity’s risk assessment process and monitoring process includes how these processes address fraud risks, as well as any consequences of the evaluations of these components in the context of ISA 240

Clarifying that the auditor’s required understanding of controls that address fraud risks includes any fraud risk management programs and controls that operate above the transactional level (e.g., whistle-blower hotlines, internal audit departments)

Clarifying that the new standback requirement to evaluate whether the audit evidence obtained from risk assessment procedures provides an appropriate basis for identification and assessment of the risks of material misstatement also applies with respect to fraud risks

We also have suggestions above that have a relationship to ISA 315 (Revised 2019) for the specific topics of corporate culture and third-party fraud on which the IAASB is specifically seeking feedback.

Providing enhanced clarity of the linkage between ISA 570 (Revised) and ISA 315 (Revised 2019), particularly with respect to the importance of a robust understanding of the entity and its environment to the auditor’s identification of events or conditions related to going concern. We believe this understanding is also essential to the auditor’s ability to exercise appropriate professional skepticism when evaluating management’s assessment of going concern. In addition, it could be clarified that understanding the entity’s financial reporting process under ISA 315 (Revised) includes management’s assessment process for going concern.

## **GTI**

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

Continuous auditing

Enhanced audit data analytics

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

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

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

Integration of ISA 240

We are of the view that some of the operational issues related to ISA 240 primarily stem from the fact that it is not integrated with ISA 315 (Revised). Incorporating fraud requirements into the relevant standard(s) to which the requirement relates may provide greater clarity on how it is to be incorporated into a risk assessment process and in the performance of an audit. From the perspective of developing a cohesive and practical audit methodology it is extremely difficult to operationalise ISA 240 in a meaningful way into the risk assessment process.

### **KPMG**

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

### **Mazars (MAZ)**

No. We believe the standards are adequate to reach the objective of assessing the risk of material misstatements due to fraud. We believe that keeping a risk-based audit approach is necessary for the auditor to adapt under the different facts and circumstances and to avoid check-the-box behaviour and remain skeptical throughout the audit. There are things that could be done, however, that would aid the auditor in performing their responsibilities relate to fraud, including:

Making clarifications on the existing standard could be helpful:

Further guidance regarding the risk of management override and how to address it though the implementation of unpredictability and journal entries testing and other tests would be beneficial;

The articulation between ISA 240/ISA550 and the recently revised standards ISA 315 and ISA 540 could be improved.

Presently, there is a number of revised standards, including ISQM1, ISQM2, ISA 220 and ISA 315, that will help to enhance the quality of audits in all areas, including fraud and going concern.

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

Any revisions to ISA 240 should be aligned further with ISA 315 (Revised) with emphasis on risk assessment procedures to identify fraud, how technology may be used in identifying and responding to risks of fraud, as well as setting out clearer responses when potential fraud has been identified.

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

The revised ISA's continue to emphasize professional skepticism within the standards such as ISA 540 (Revised), Auditing Accounting Estimates and Related Disclosures and ISA 315 (Revised 2019), Identifying and Assessing the Risks of Material Misstatement. We believe that IAASB should continue to emphasize professional skepticism and revise auditing standards to ensure that the standards foster a professionally skeptical mindset, such as the requirement to "stand-back" and evaluate all audit evidence obtained in forming conclusions.

We do not believe that any further enhancements are needed within the standards. For example, ISA 315 (Revised 2019), Identifying and Assessing the Risks of Material Misstatement has adequately addressed audit procedures to be performed by the auditor for identifying risks of material misstatement which specifically references risks arising from fraud. These requirements have not yet been implemented.

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

In addition to the responses above, the IAASB should also consider the post implementation results of ISA 315 (Revised). The clarifications made to the requirements could assist in narrowing the expectation gap. In combination with the various other standards that have been revised, we encourage the IAASB to also allow time for the revisions and enhancements to yield its intended objectives.

### **PricewaterhouseCoopers (PWC)**

#### Role of technology

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

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

Impact of corporate culture on fraudulent financial reporting and what, if any, additional procedures should be considered

We agree that corporate culture within an entity is important and support the changes recently made to ISA 315 (Revised 2019) with respect to evaluating the control environment. It is appropriate to allow those new requirements to settle before deciding if further action is needed.

Irrespective of whether any expanded scope of audit were to require an opinion on internal control, we believe it is important that the auditor obtain a robust understanding of how management has identified and evaluated risks of fraud and of the related controls that have been designed and implemented by management to address such fraud risks. The recent changes to ISA 315 (Revised 2019) may assist in that regard, but further consideration could be given as to whether linkages to those new requirements would be appropriate in ISA 240.

In the context of the auditor's understanding and evaluation of internal control, in accordance with ISA 315 (Revised 2019), ISA 240 could, for example, address whether the entity has designed and implemented certain expected controls (for example those set out in the COSO Fraud Risk Management guide).

#### Fraud risk factors and engagement team discussion

Consistent with the goals of ISA 315 (Revised 2019), drawing attention to the auditor's consideration of management's tone at the top and risk assessment process, together with the auditor's well-reasoned risk assessment, may be helpful to reinforce consistent auditor behaviour. In addition to what we describe in our response to question 1 with respect to fraud schemes, ISA 240 (Revised) could be updated to better reflect fraud risk factors/considerations relevant to the modern business environment, including how technology may be used to perpetrate fraud. The IAASB may find that leveraging experience of fraud specialists to inform updates to the ISAs or other implementation guidance could be useful. In order to develop changes that will remain appropriate over a longer period of time, there will likely be a need to balance any changes contemplated to the body of the standard with supplementary guidance. Supplementary guidance can be updated more frequently to reflect emerging fraud schemes and considerations related to evolving technology.

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

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

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

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

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

Extant ISA 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements, does not in our view, require extensive revisions and we also consider that the introduction of inherent risk factors in ISA 315 (Revised), Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment, should improve the consideration of fraud in the risk assessment process.

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

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

Also, post-implementation reviews, including those related to ISA 315 (Revised 2019), Identifying and Assessing the Risks of Material Misstatement, and ISA 540 (Revised), Auditing Accounting Estimates and Related Disclosures, are likely to be helpful to aid in identifying areas in the auditing standards that may not be implemented as intended and may need further clarification for the auditor.

Also, post-implementation reviews, including those related to ISA 315 (Revised 2019), Identifying and Assessing the Risks of Material Misstatement, and ISA 540 (Revised), Auditing Accounting Estimates and Related Disclosures, are likely to be helpful to aid in identifying areas in the auditing standards that may not be implemented as intended and may need further clarification for the auditor. This type of action may be helpful in decreasing elements of the expectation gap.

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

We believe the recent improvements to ISA 315 (Revised), Identifying and Assessing the Risks of Material Misstatement, could assist auditors in performing a more robust consideration of management's tone at the top, risk assessment process, and inherent risk factors, such as susceptibility to misstatement due to management bias and other fraud risk factors. The revised standard provides additional application guidance that more clearly describes the objective of the requirements (i.e., 'what' needs to be done) and considers the auditor's use of technology (automated tools and techniques) which may be used to enhance risk assessment. Similarly, structured application guidance related to potential fraud risk identification, both internal to the entity and from external sources (including but not limited to cybersecurity-related risks at third party service organizations) may achieve the objectives of narrowing both the Performance and Evolution Gaps. For example, an increased focus on understanding the processes and internal controls management and those charged with governance have established to address allegations of fraud raised by employees or other parties (e.g., whistleblower or ethics hotlines) can inform the auditor's risk assessment. This also may help the auditor to form a view as to whether non-material fraud (i.e., fraud that does not result in a material misstatement of the financial statements) may be indicative of a bigger issue, without necessarily expanding the auditor's responsibilities to design and perform specific procedures with regard to misstatements that are not material. In our view, expanding the scope of the audit to require procedures designed to detect non-material fraud could be costly without commensurate benefit and could serve to widen the expectation gap.

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

Further acknowledgement of the risks posed by complexity in IT systems is warranted. The recently revised ISA 315 refers to complexity as a risk factor in many areas but only scratches the surface of the issue. Complexity in IT is a major risk factor in many larger audits and regulatory audit monitoring reports refer to this issue in the context of over-reliance on untested systems.

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

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

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

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

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

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

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

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

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

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

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

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

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

## **Kriton (KNL)**

Suspicious mindset

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

Implementing the principle of 'spectrum of inherent fraud risks', analogous to ISA 315 and ISA 540.

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

We think the upgrades to be made in ISA 315 will likely provide better focus and evaluation of risk. Many firms' methodologies ask their auditors to designate inherent and control risks with fraud risk characteristics, based on characteristics of the entity being audited. Other firms isolate their fraud risk evaluations at the account/assertion level as a separate exercise. Properly applied, both approaches can be effective.

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

If the IAASB were to introduce the concept of a "suspicious mindset", clarity would be required as to what stage of the audit engagement this should be applied in relation to ISA 240. Specifically, clarity is needed around whether this should be at the stage where the auditor is in the process of identifying the fraud risk factors or at the stage where the auditor is designing and implementing the appropriate response to the risk factors. Audit engagements are by their nature risk-based engagements and auditors would be required to apply professional scepticism in a manner commensurate with their understanding of the entity and the risk assessment procedures performed. Furthermore, the auditor is required to apply professional scepticism throughout the engagement, and the risk assessment and responses re-designed if the auditor becomes aware of matters later in the audit that would have changed the assessments performed earlier. Therefore, in light of this, SAICA supports the concept of professional scepticism rather than the introduction of the concept of a 'suspicious mindset'. The IAASB may explore other enhancements to the ISAs that emphasise the need to exercise professional scepticism in respect of fraud in an audit engagement. An example, could include introducing a 'stand back' requirement to consider all evidence obtained, similar to that included in ISA 315 (Revised), as well as guidance regarding auditor biases and how to address disconfirming audit evidence.

### **1.002 References to other ISAs (which are not current IAASB projects)1.07 ISA 320 - Materiality**

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

##### **KPMG**

We also suggest that the IAASB consider including enhanced guidance in respect of the term 'material' fraud, to highlight that consideration of materiality should involve qualitative as well as quantitative factors, with examples, linked to ISA 320.10, that this is factored in when determining materiality for the financial statements as a whole, and for particular classes of transactions, account balances or disclosures, i.e. there is no 'separate' materiality threshold in respect of fraud.

## **1.002 References to other ISAs (which are not current IAASB projects)\1.08 ISA 330 - Responses to assessed risks**

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

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

In the Objective, “it expands on how ISA 315 (Revised) and ISA 330 are to be applied in relation to risks of material misstatement due to fraud”;

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

Yes, NASBA believes the IAASB should consider enhancements to standards to promote better understanding of the current standards and greater consistency in their execution. NASBA believes that evaluations related to fraud should be risk-based. The recent update to ISA 540 was structured to provide guidance on risk assessment (ISA 315) and response (ISA 330) for issues specific to accounting estimates. Likewise, ISA 240, The Auditor’s Responsibility to Consider Fraud in an Audit of Financial Statements, could address issues specific to fraud risk in the context of ISA 315 and 330. For example:

Not necessarily presuming that revenue is an area of fraud risk but examining why and how in order to inform responsive procedures; and

Determining how and in what instances journal entries present fraud risks so that testing can be responsive to those factors.

### **4. Accounting Firms**

#### **GTI**

Focus of the standards

We note that the ISAs are written in terms of risk of material misstatement arising from fraud and from error. The way in which these risks might arise, and manifest are very different, with fraud usually requiring a higher degree of sophistication, and as such, may need to be considered and assessed differently. We recommend that consideration be given as to whether it would be appropriate for the requirements in the standards to be drafted in a manner that requires separate consideration of the risk of material misstatement due to fraud and the risk of material misstatement due to error. In this respect, we would recommend that consideration is given to reassessing ISA 330 and how the responses to the assessed risks of material misstatement could be impacted based on the underlying cause of the risk of material misstatement.

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

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

Stakeholder Perspective Question (page 19 of the discussion paper): The IAASB is interested in perspectives about the perceived responsibilities of the auditor regarding non-material fraud in a financial statement audit (i.e., a broader focus on fraud) and what additional procedures, if any, may be appropriate. The IAASB is also interested in perspectives about whether additional audit procedures should be required when a non-material fraud is identified, and if so, what types of procedures.

Response: If the auditor identifies a misstatement, ISA 240 requires the auditor to evaluate whether such a misstatement is indicative of fraud. If there is such an indication, the auditor is required to evaluate the implications of the misstatement in relation to other aspects of the audit, particularly the reliability of

management's representations, recognizing that an instance of fraud is unlikely to be an isolated occurrence. Therefore, ISA 240 and ISA 260 (Revised), Communication With Those Charged With Governance, already consider non-material fraud. We recommend the IAASB consider the interplay between ISA 240 and ISA 330 as it relates to misstatements of the financial statements relating to fraud. We also note that ISA 240 appears to focus mostly on fraudulent financial reporting, and we encourage the IAASB to consider whether there is a need for further guidance about misappropriation of assets. Such misappropriations may become material when aggregated over several periods.

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

### **Choice of audit strategy**

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

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

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

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

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

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

## **1.002 References to other ISAs (which are not current IAASB projects)1.09 ISA 450 - Evaluation of misstatements identified during the audit**

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

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

##### **Evaluation of Audit Evidence**

ISA 240.36 states: "If the auditor identifies a misstatement, the auditor shall evaluate whether such a misstatement is indicative of fraud."

As it pertains to distinguishing between whether an identified misstatement has occurred because of fraud or error, there is no application guidance in ISA 240.

ISA 450.A1 states that examples of misstatements arising from fraud are provided in ISA 240 and cross-refers practitioners to ISA 240.A1-A7. However, these example “characteristics of fraud” rely heavily on the auditor’s ability to identify “intent”, for example, “intentional omission”, “intentional misapplication” and “overriding controls intentionally”. In practice, it is very hard to establish a person’s true “intentions”.

As such, we believe that the enhancement of application guidance is required to better enable the auditor to identify misstatements that result from fraud and, in turn, design an appropriate response.

## **1.002 References to other ISAs (which are not current IAASB projects)\1.10 ISA 505 - External confirmations**

### **1. Monitoring Group**

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

In addition to our earlier comments about the need for root cause analyses, we refer the IAASB to our comment letter dated July 4, 2019, Proposed Future Strategy for 2020-2023 and Work Plan for 2020-2021 for suggested priorities on ISA 240, The Auditor’s Responsibilities relating to Fraud in an Audit of Financial Statements and ISA 505, External Confirmations for key areas to be addressed as it pertains to the auditor’s responsibility for the detection of fraud. These suggested priorities are included below for reference:

ISA 240, The Auditor’s Responsibilities relating to Fraud in an Audit of Financial Statements

There should be clear requirements and guidance in ISA 240 and throughout the ISAs regarding the exercise of professional skepticism by auditors.

ISA 505, External confirmations

There should be guidance for auditors on how to assess the reliability of external confirmations received having regard to the possibility of fraud. There also should be more complete requirements on how auditors should respond where there is no reply to a confirmation request.

To supplement our suggestions above taken from our previous comment letter, we encourage the IAASB to consider whether ISA 505, External confirmations, needs to be strengthened (either through standard-setting or application guidance) to adapt to the complexities and technological advances that exist in today’s global business environment (e.g. paper vs. electronic confirmation) and whether further guidance for auditors in evaluating evidence received from external sources is needed.

## **1.002 References to other ISAs (which are not current IAASB projects)\1.11 ISA 550 - Related parties**

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

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

The ISAs are designed to provide requirements and guidance for the audit of financial statements. The auditor’s role in relation to third party fraud that does not result in a material misstatement of the financial statements but may have a severely negative impact on the entity (e.g., cybercrime attacks) falls outside the scope of ISAs. It is a matter more appropriately left to national standard setters and regulators to address having regard to the wishes of stakeholders in their jurisdictions.

Whether enough emphasis is placed on the auditor’s responsibilities around fraud related to third parties. We are also interested in feedback about the auditor’s role in relation to third party fraud that does not result in a material misstatement of the financial statements but may have a severely negative impact on the entity (e.g., cybercrime attacks).

While ISA 240 highlights the difficulties in detecting fraud involving collusion, it gives relatively little specific attention to third parties, the only reference in the requirements being in paragraph 36 which, if the auditor has identified a misstatement, requires the auditor to also consider whether circumstances or conditions indicate possible collusion involving employees, management or third parties when reconsidering the reliability of evidence previously obtained. ISA 550 identifies that an understanding of the entity's related party relationships and transactions is relevant to the auditor's evaluation of whether one or more fraud risk factors are present as required by ISA 240 because fraud may be more easily committed through related parties. It would be helpful to include a cross reference to ISA 550 in ISA 240 to emphasise that in obtaining audit evidence regarding the risks of material misstatement due to fraud the auditor complies also with the relevant requirements in ISA 550.

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

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

###### **ISA 550 Related parties**

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

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

###### **ISA 550 Related parties**

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

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

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

No. We believe the standards are adequate to reach the objective of assessing the risk of material misstatements due to fraud. We believe that keeping a risk-based audit approach is necessary for the auditor to adapt under the different facts and circumstances and to avoid check-the-box behaviour and remain skeptical throughout the audit. There are things that could be done, however, that would aid the auditor in performing their responsibilities relate to fraud, including:

Making clarifications on the existing standard could be helpful:

Further guidance regarding the risk of management override and how to address it though the implementation of unpredictability and journal entries testing and other tests would be beneficial;

The articulation between ISA 240/ISA550 and the recently revised standards ISA 315 and ISA 540 could be improved.

## **1.002 References to other ISAs (which are not current IAASB projects)\1.12 ISA 580 - Written representations**

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

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

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

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

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

## **1.002 References to other ISAs (which are not current IAASB projects)\1.13 ISA 805 - Special considerations - Audits of Single Financial statements and specific elements, accounts or items of a financial statement**

### **4. Accounting Firms**

#### **GTI**

We are also of the view that consideration should be given to the application of the requirements of ISA 570 (Revised) when reporting on historical financial information other than a complete set of financial statements in accordance with ISA 805 (Revised). Such information is often prepared in accordance with a special purpose framework that has no explicit requirement related to going concern. The evaluation of the appropriateness of the going concern basis of accounting as a 'fundamental principle' in accordance with ISA 570 (Revised) paragraph 4 is then not clear; and ISA 570 (Revised) provides no guidance on this matter. For example, it is common for auditors to report on schedules of project expenses prepared in accordance with the cash basis of accounting (a special purpose framework in many jurisdictions). In such circumstances, many auditors conclude that the going concern basis of accounting is not a 'fundamental principle' because there is no impact on the recognition and measurement of expenses, i.e., the money has been spent, and because the reporting entity is a project, it is unrealistic to assess the going concern of a project. However, Appendix C of ISA 805 (Revised) has an illustrative example (Illustration 2) referring to going concern, which is confusing.

We recognise that the IAASB has previously devoted significant resources on this issue and recommend that consideration is given to performing targeted post implementation research, aimed at stakeholders, such as the National Standard Setters, to understand how this has been adopted in practice and whether it serves the public interest to require auditors to determine whether the going concern basis of accounting is a 'fundamental principle' when the financial reporting framework has no explicit requirement regarding going concern.

## **1.002 References to other ISAs (which are not current IAASB projects)\1.14 ISQM 1**

### **1. Monitoring Group**

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

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

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

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

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

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

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

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

### **4. Accounting Firms**

#### **HLB International (HLB)**

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

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

Presently, there is a number of revised standards, including ISQM1, ISQM2, ISA 220 and ISA 315, that will help to enhance the quality of audits in all areas, including fraud and going concern.

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

Expanding the requirements of ISQM 1 by including firm-level quality objectives relating to the audit of fraud and going concern. For example, objectives might be set which require that responses be developed by

firms which include targeted learning and development programs and specific requirements on the review of the audit of fraud and going concern by the Engagement Quality Reviewer on applicable engagements.

Expanding the requirements of ISQM 1 by including firm-level quality objectives relating to the audit of fraud and going concern. For example, objectives might be set which require that responses be developed by firms which include targeted learning and development programs and specific requirements on the review of the audit of fraud and going concern by the Engagement Quality Reviewer on applicable engagements.

### **PricewaterhouseCoopers (PWC)**

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

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

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

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

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

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

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

With respect to the performance gap, the increased focus on quality management at firm level that will be introduced through the International Standards on Quality Management should, in our view, improve the performance of audits in these areas. Individual firms and networks will be enhancing existing processes and controls to mitigate the risks associated with the poor performance of procedures on fraud and going concern.

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

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

The IAASB should also consider whether the auditor's mandatory training curriculum contains sufficient material on fraud, with regular updates around how these are perpetrated, to ensure that auditors are aware and vigilant. Any increased requirements in this regard could be considered for incorporation into the work being done with the IAASB on the quality management standards of ISQM1.

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

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

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

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

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

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

We note that the new IAASB Quality Management standards are a positive development in this regard, as well as the recent IESBA revisions to the International Code of Ethics for Professional Accountants (including International Independence Standards) (the Code) to better promote the role and mindset expected of all professional accountants. The revisions aim to reinforce the importance of the profession's public interest responsibility by stimulating professional accountants to better demonstrate the role, mindset and behavioural characteristics expected of them.

### **Kriton (KNL)**

We believe that audit firms - as part of the quality control system - should themselves determine what level of expertise is required for a particular set of circumstances (for example, simple, difficult, complex). Sometimes, the use of a forensic expert is desirable, but it is often sufficient for the audit firm to have persons with sufficient knowledge and experience to pay increased attention to fraud risk factors, fraud risks and indications of fraud during the audit. These persons are also able to initially take the lead if specific, forensic expertise is necessary. They are referred to as 'fraud experts' and we propose that the training, availability and deployment of fraud experts should be explicitly included in the quality control system.

## **1.002 References to other ISAs (which are not current IAASB projects)\1.15 ISQM 2**

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

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

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

### **4. Accounting Firms**

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

Presently, there is a number of revised standards, including ISQM1, ISQM2, ISA 220 and ISA 315, that will help to enhance the quality of audits in all areas, including fraud and going concern.

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

Expanding the requirements of ISQM 1 by including firm-level quality objectives relating to the audit of fraud and going concern. For example, objectives might be set which require that responses be developed by firms which include targeted learning and development programs and specific requirements on the review of the audit of fraud and going concern by the Engagement Quality Reviewer on applicable engagements.

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

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

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

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

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

Whether additional quality management review procedures focused on the engagement team's responsibilities relating to fraud should be considered for engagements for which an engagement quality review is required

We agree with the assertion in the DP that judgements relating to consideration of fraud risk factors and related assessments of the risks of material misstatement would already fall within the scope of significant judgements addressed by the engagement quality reviewer.

ISQM 2 has recently been approved and was drafted on a principles-basis. With respect to significant matters and significant judgements, the Board concluded that including lists of matters to be considered by the engagement quality reviewer was not appropriate, as it would always be subject to perceptions of being incomplete. The ISQM therefore cross-refers to ISA 220 (Revised) where examples of significant judgements are given (paragraph A93). Those examples make no reference to fraud risk indicators or assessed fraud risks. To the extent that emphasis is warranted on the importance of the engagement quality reviewer giving attention to these judgements, consideration could be given to adding further application material to ISA 220 (Revised).

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

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

#### Engagement quality review

We agree with the measures proposed in the DP and believe that the new set of standards on quality management should facilitate their application. We refer in particular to the general requirement as included in paragraph 25 (b) and related application material (paragraphs A34 and A35) of the ISQM 2 and to ISA 220 (Revised) and its application material (paragraphs A 36, A 54 and A 92) which include explicit references to fraud and going concern.

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

Response: International Standard on Quality Management (ISQM) 2, Engagement Quality Reviews, requires the engagement quality control reviewer to discuss with the engagement partner and, if applicable, other members of the engagement team, significant matters and significant judgments made in planning, performing and reporting on the engagement. The engagement quality control reviewer is also required to review selected engagement documentation relating to the significant judgments made by the engagement team and evaluate: (i) The basis for making those significant judgments, including, when applicable to the type of engagement, the exercise of professional skepticism by the engagement team; (ii) Whether the engagement documentation supports the conclusions reached; and (iii) Whether the conclusions reached are appropriate.

Paragraph 28 of ISA 240 requires the auditor to treat assessed risks of material misstatement due to fraud as significant risks. Accordingly, we recommend the IAASB consider enhancing the application material in ISQM 2 to provide examples of how the engagement quality control reviewer may consider the engagement team's response to risks of material misstatement due to fraud.

In November 2020, the ASB requested feedback, through a public survey, to the questions in the IAASB Discussion Paper from a U.S. GAAS perspective. Based on the feedback from our outreach initiative, we received examples of factors the engagement quality control reviewer may want to consider, including considering the engagement team's:

identification of fraud risk factors and related response,

brainstorming,

other procedures performed,

exercise of professional skepticism, and documentation.

### **[International Federation of Accountants \(IFAC\).pdf](#)**

We note that the new IAASB Quality Management standards are a positive development in this regard, as well as the recent IESBA revisions to the International Code of Ethics for Professional Accountants (including International Independence Standards) (the Code) to better promote the role and mindset expected of all professional accountants. The revisions aim to reinforce the importance of the profession's public interest responsibility by stimulating professional accountants to better demonstrate the role, mindset and behavioural characteristics expected of them.

## **1.003 No references to other ISAs or projects**

### **1. Monitoring Group**

**[International Association of Insurance Supervisors \(IAIS\)](#)**

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

**[Botswana Accountancy Oversight Authority \(BAOA\)](#)**

**[Independent Regulatory Board for Auditors \(IRBA\)](#)**

**[National Association of State Boards of Accountancy \(NASBA\)](#)**

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

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

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

**[Japanese Institute of Certified Public Accountants \(JICPA\)](#)**

**[Korean Institute of Certified Public Accountants \(KICPA\)](#)**

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

**[Royal Netherlands Institute of Chartered Accountants \(NBA\)](#)**

### **4. Accounting Firms**

**[BDO International Limited \(BDO\)](#)**

**[CohnReznick \(CR\)](#)**

**[Crowe \(CG\)](#)**

**[HLB International \(HLB\)](#)**

**[KPMG](#)**

**Mazars (MAZ)**

**Mazars USA (MAZUSA)**

**MNP LLP (MNP)**

**Moore (MGN)**

**Nexia International (NI)**

**RSM International Limited (RSM)**

**SRA**

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

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

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

**New Zealand Auditor General (NZAG)**

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

**US Government Accountability Office (GAO)**

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

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

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

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

**CFO Forum**

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

**Confederation of Indian Industry (CII)**

**CPA Australia (CPAA)**

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

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

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

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

**International Air Transport Association (IATA)**

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

**Kriton (KNL)**

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

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

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

**PIRC**

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

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

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

**Wirtschaftsprüferkammer (WPK)**

## **7. Investors and Analysts**

**Corporate Reporting Users Forum (CRUF)**

## **9. Individuals and Others**

**Ahmed Al-Qawasmi (AAQ)**

**Alvaro Fonseca Vivas (AFV)**

**Constantine Cotsilinis (CC)**

**Dmitrii Timofeev (DT)**

**Michael Bradbury (MB)**

**The Unlimited (TU)**