Question 1(b)-2. – In your view, what could be done, by the IAASB or others (please specify), to narrow the expectation gap related to going concern in an audit of financial statements.

1. In regard to the expectation gap (see Section I):

a) *What do you think is the main cause of the expectation gap relating to fraud and going concern in an audit of financial statements?*

b) **In your view, what could be done, by the IAASB and / or others (please specify), to narrow the expectation gap related to fraud and going concern in an audit of financial statements?**

Q1b-2.1 - IAASB - 1. Perform Root Cause Analysis of Recent Corporate Failures

1. Monitoring Group

International Organization of Securities Commissions (IOSCO)

General

Many of our comments made throughout this letter (e.g., root cause analyses, multi-stakeholder engagement and education, enhanced professional skepticism version 2.0) also apply to going concern, as the IAASB considers if enhanced performance or reporting requirements are necessary in relation to going concern.

The need for root cause analyses

We believe that there are, broadly, two potential issues at play with respect to the auditor's detection of fraudulent financial reporting. First is the potential that some auditors have failed to conduct audits in accordance with the existing requirements of professional standards – though the standards are clear (we refer to this as failures in performance). Second is the potential that there should be incremental requirements (or clarifications) in the professional standards to mitigate the risk that material misstatements, whether due to fraud or error, go undetected when auditors are providing reasonable assurance on the financial statements. We believe it is important to distinguish these two because we are concerned about standard-setting responses to failures in performance rather than in response to the need for enhancements or clarifications of extant standards.

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

Committee of European Auditing Oversight Bodies (CEAOB)

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

Irish Auditing and Accounting Supervisory Authority (IAASA).pdf

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3. National Audit Standard Setters

Australian Auditing and Assurance Standards Board (AUASB)

The AUASB acknowledges that an expectation gap in relation to going concern exists, and the IAASB need to carefully identify the root-causes to ensure that any proposed amendments to auditing standards and / or other requirements address this. Care should be taken to ensure that any additional measures are effective in reducing the expectation gap but that these do not result in an unacceptable increase in audit effort.

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

As we explain in the body of the letter, the IAASB should investigate the underlying causes of supposed audit failures involving fraud or going concern issues.

Using an evidence-based approach

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

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

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4. <u>Accounting Firms</u>

Deloitte (DTTL).pdf

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

KPMG

Exploration of Proposed Solutions

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

MNP LLP (MNP)

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

PricewaterhouseCoopers (PWC)

Auditing standards

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

SRA

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

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

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

5. <u>Professional Accountancy and Other Professional Organizations</u>

Institute of Singapore Chartered Accountants (ISCA)

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

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

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

Malaysian Institute of Certified Public Accountants (MICPA)

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

Q1b-2.2 - IAASB - 2. Educational Efforts or Additional Guidance

1. Monitoring Group

International Organization of Securities Commissions (IOSCO)

General

Many of our comments made throughout this letter (e.g., root cause analyses, multi-stakeholder engagement and education, enhanced professional skepticism version 2.0) also apply to going concern, as the IAASB considers if enhanced performance or reporting requirements are necessary in relation to going concern.

2. Regulators and Audit Oversight Authorities

Botswana Accountancy Oversight Authority (BAOA)

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

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

National Association of State Boards of Accountancy (NASBA)

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

Seeking ways to better train auditors on addressing management's going concern assessment would also be beneficial.

3. National Audit Standard Setters

Canadian Auditing and Assurance Standards Board (AASB)

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

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

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

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

the expectations of stakeholders;

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

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

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

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

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

Hong Kong Institute of Certified Public Accountants (HKICPA)

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

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

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

This educational role of the IAASB – particularly in relation to the reasonableness gap – has not been adequately taken up by the IAASB in the past due to concerns about appearing "defensive". We believe that the IAASB, national standard setters and the profession need to engage in a frank dialogue with other stakeholders about the knowledge and reasonableness gaps to seek to significantly reduce these gaps.

Korean Institute of Certified Public Accountants (KICPA)

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

Malaysian Institute of Accountants (MIA)

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

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

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

Flowchart

The NZAuASB has included a flowchart in the appendix to ISA (NZ) 570 (Revised), the flowchart is included in the appendix to this response. Practitioners have found the flowchart to be a useful visual guide to reporting on going concern issues and we recommend that such a flowchart be added to ISA 570.

Royal Netherlands Institute of Chartered Accountants (NBA)

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

4. <u>Accounting Firms</u>

BDO International Limited (BDO)

Where performance gaps have been identified, it has usually been because individuals performing the procedures may have lacked sufficient business acumen to be able to form judgments (for example, in the area of going concern for an entity in a particular sector) and as a result, there may be an education and skills development need within firms for certain auditors to help improve performance.

The IAASB could assist by working with regulators to identify where these skills gaps may be most evident.

This is especially important when recognizing that there may be opportunities for auditors to move towards more innovative ways of looking at going concern (such as through predictive analytics, use of data pools to benchmark expected performance, etc.).

CohnReznick (CR)

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

Crowe (CG)

In part, the IAASB and others (such as investor groups, oversight bodies, auditors' professional bodies and professional firms) have a collective responsibility to inform stakeholders as to the purpose and objectives of the audit.

Deloitte (DTTL).pdf

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

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

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

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

GTI

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

HLB International (HLB)

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

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

Mazars (MAZ)

On the two topics of fraud and going concern:

More education, pedagogy around the two topics throughout the audit process, in the auditor's report and during Shareholders' meetings. Focus by regulators and standards setters on developing educational material, as has been done by the IAASB, that can be presented to Audit committees and other stakeholders to give more explanations, insights about the role of the auditor and main concepts around audit (risk-based approach, materiality, key audit matters etc.) ;

Mazars USA (MAZUSA)

Response: Given our response to Question 1(a) is focused on a lack of common understanding, education of the preparers and external users of financial statements is the best way to narrow the expectation gap. Such education should address the key roles that lead to the divide, namely, the respective responsibilities of management, TCWG and the auditors. This education can be accomplished in a variety of forms, and would best to come from all interested parties, management, the auditors, regulators, institutional investors, and standards setters in the form of expanded communication and tools related to what is expected from each participant in the financial reporting ecosystem. This interconnected approach would help narrow the expectation gap.

A collaborative method should be developed to educate the members of the financial reporting ecosystem as to the key roles and responsibilities, at a minimum, of the auditor, preparer and TCWG. The expectation gap around going concern would be reduced if users understand better that the auditor's evaluation of the ability of the entity to "continue its operations for the foreseeable future" is highly dependent on the diligence and objectivity of management's own assessment and financial statement disclosures.

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

MNP LLP (MNP)

We also believe exploring avenues for education/transparency to stakeholders regarding the concepts of fraud and going concern, the various responsible parties and the limitations of an audit would be helpful.

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Moore (MGN)

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

The scope and purpose of an audit;

Inherent limitations;

Scepticism;

Materiality.

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

Nexia International (NI)

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

PKF International Limited (PKF)

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

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

PricewaterhouseCoopers (PWC)

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)

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

SRA

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

5. Public Sector Organizations

Auditor General of South Africa (AGSA)

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

Australasian Council of Auditors General (ACAG)

With regards to going concern, there should be greater explanation in the standards regarding going concern in a public sector context

New Zealand Auditor General (NZAG)

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

6. Professional Accountancy and Other Professional Organizations

Accountancy Europe (AE)

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

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

There could however be quick wins to consider without changing the standards, such as the development of guidance, the publication of educational papers with examples, etc.

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

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

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

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

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

American Institute of Certified Public Accountants (AICPA)

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

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),

We agree that the differences between what the public thinks auditors do and what auditors actually do, or the "knowledge gap" as described in the Discussion Paper, likely contributes to the expectation gap and believe it may be best addressed through education of the users of the auditor's report.

Center for Audit Quality (CAQ)

Continued, targeted regulator and/or standard setter education of the public with respect to the responsibilities of management and those charged with governance under International Financial Reporting Standards (IFRS) and the auditor's responsibilities under the standards set by the IAASB may assist with narrowing the "Knowledge Gap" with respect to both fraud and going concern. For example, in response to COVID-19, both the IOSCO and the SEC issued statements that reminded the public that management has a responsibility to assess an entity's ability to continue as a going concern and that such responsibility is not solely the responsibility of the auditor.

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

CFO Forum

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

Confederation of Indian Industry (CII)

In respect to the standard on going concern there should be greater guidance on implementation and examples of behaviours that reflect professional scepticism.

Institute of Certified Public Accountants of Uganda (ICPAU)

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

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

Institute of Chartered Accountants in England and Wales (ICAEW)

Something needs to be done. But we are not convinced that analysing these gaps, or even seeking to address them, is the right starting point. Repeated analyses of expectations gaps over many years have borne little fruit.

Expectation gaps are more a symptom of an underlying problem, which is that more needs to be done by everyone concerned. IAASB's focus should be less on managing expectations, and more on helping all stakeholders, including auditors, enhance their ability to prevent, detect and report fraud, and to challenge management and report more effectively on going concern.

Institute of Chartered Accountants of Scotland (ICAS)

Therefore, we believe that closing the perceptions gap has to be targeted at a particular group, e.g. an informed investor or equivalent in relation to the audits of public interest entities to have any real hope of closing this gap

Inter-American Accounting Association (IAA).pdf

On the other hand, we consider that the IAASB could propose more practical elements and specific recommendations to be taken into consideration in constantly changing environments, especially in extreme situations such as the Pandemic caused by COVID 19 as well as the constant exposure to the derived risk. of money laundering and financing of terrorism in Latin American countries, as well as the scourge of corruption since in these scenarios the risk of fraud and going concern increases.

We believe that the IAASB, professional bodies, global and regional AUDIT FIRM FORUMS, as well as other groupings can do much to reduce the expectation gap related to fraud and the going concern in a financial statement audit, especially the IAASB for the great prestige and respect of the professional and business community, for the high quality of the standards issued. It is important to delve into the knowledge gap since many times, especially in our Latin American countries, there is an erroneous perception of what the public thinks that auditors do and what we really do.

International Federation of Accountants (IFAC).pdf

Understanding the difference between material and immaterial in this context is likely to be a challenging part of the expectations gap. Therefore, the IAASB could explore how it might best foster a better understanding of materiality in the context of the audit.

Guidance could be helpful to practitioners on how to investigate and conclude in different going concern examples and circumstances, since ultimately professional judgement is needed in determining the appropriate response in individual audit circumstances.

In general, we consider the IAASB's focus should be on:

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

We agree that the IAASB cannot solve the issue of the expectation gap alone. Addressing this issue effectively calls for looking across the participants in the corporate reporting ecosystem, including preparers of reports, audit committees, directors, and management. It is important other stakeholders consider whether addressing gaps in the expectations placed on audit might require broader changes, including a more rigorous approach to the accountability of company management for high quality financial reporting processes and internal controls. An organization's policies and procedures for whistleblowing will also be an important component of detecting and dealing with fraud.

Malaysian Institute of Certified Public Accountants (MICPA)

From the users of the financial statements' perspective, we suggest the IAASB to provide clearer guidance and explanation relating to the basis, concept and principle of going concern to the preparers of financial statements so that they have a better understanding and knowledge to perform the management's assessment on going concern. Additionally, creation of awareness via education and training sessions regarding the fraud and going concern in an audit of financial statements will be able to enhance their understanding of the roles, responsibilities, scopes and practices of the different parties in the ecosystem in order to narrow the expectation gap.

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

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

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

Mexican Institute of Public Accountants (IMCP)

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

New Society York State of CPAs (NYSSCPA)

Additional guidance on fraud-related procedures and quality control considerations when a suspicion of material misstatement due to fraud exists may increase audit quality and help narrow the expectation gap and further distinguish between the roles and responsibilities of an auditor and a forensic specialist. Similarly, the assessment of going concern must remain with management, while the auditor's duty is to evaluate management's assessment, remedial plans and related disclosures and report as necessary.

South African Institute of Chartered Accountants (SAICA)

Any changes to the International Standards of Auditing (ISAs) that the IAASB may propose will only address the performance gap in clarifying the requirements and the evolution gap in responding to the changing needs of the general public demands, but other action is required to address the knowledge gap. This is probably the reason why, although the ISAs have been updated and revised over the years, the issue of the expectation gap remains unabated. The importance of educating and having a continuous dialogue with the appropriate stakeholder groups in an effort to close the knowledge gap cannot be emphasised enough. This should not be the responsibility of the IAASB alone but of everyone involved in the wider financial reporting ecosystem.

The Institute for the Accountancy Profession in Sweden (FAR)

Going concern is an accounting term used to describe a company which is assumed to be stable enough to continue to operate for the foreseeable future. Management of a company assesses its ability to continue as a going concern. The auditor in turn evaluates management's assessment of the entity's ability to continue as a going concern and conclude on the appropriateness to use the going concern basis of accounting in the preparation of the financial statements. Management is also required to make disclosures about the existence and the nature of material uncertainties that can lead to significant doubts about the company as a going concern. The auditor shall also conclude whether a material uncertainty exists about the entity's ability to continue as a going concern and if the disclosures in the financial statement about a material uncertainty are adequate. The IAASB can clarify the difference between these two parts. It is important to acknowledge that assessing the continuity of a company has its inherent limitations due to the fact that no one can predict future events with certainty.

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

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

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

Wirtschaftspruferkammer (WPK)

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

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

9. Individuals and Others

Christian Minarriz (CM)

Regarding going concern, I think the following actions can be done to address the expectation gap:

For IAASB: inform the public about the limitations of an audit to predict the future and guarantee the viability of the company (probably in audit report)

For IAASB: provide more guidance about the requirements in ISA 570, especially regarding the required work to evaluate the feasibility of management plans, the work to be done regarding assumptions for cash flow projections (and if ISA 540 also applies) and how to evaluate if there is "material uncertainty" or just a "close call".

Q1b-2.3 - IAASB - 3. Look at Work Done in Other Jurisdictions

1. <u>Monitoring Group</u>

International Association of Insurance Supervisors (IAIS)

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

International Forum of Independent Audit Regulators (IFIAR)

We observe that a number of jurisdictions have amended the local auditing standards to go beyond the requirements currently set out in ISA 570 in response to public interest considerations identified in these jurisdictions.

We suggest that IAASB explore examples where jurisdictions have taken additional steps to enhance the role of the auditor by requiring additional communication to outside parties, including to relevant authorities, with a view to protecting the public interest. Those initiatives could be taken into consideration by IAASB when determining the need to enhance ISA.

2. <u>Regulators and Audit Oversight Authorities</u>

Canadian Public Accountability Board (CPAB)

The auditing standards need to be strengthened. This is irrespective of whether actions are taken by accounting standard setters and regulators to enhance requirements for management and/or those charged with governance. Several jurisdictions have amended the local auditing standards to go beyond the requirements currently set out in ISA 570 to be more responsive to the public interest.

We also encourage the IAASB to explore other possible actions to enhance the role of the auditor. For example, in other jurisdictions auditors are required to make additional communications to outside parties, including to relevant authorities, where issues related to going concern are identified by the auditor, and management and those charged with governance do not take appropriate measures, with a view to protecting the public interest.

Financial Reporting Council (FRC)

We feel the more robust process set out in the revised UK standard will help address performance gaps, such as that described in our response to Q.1(a), as it is clearer what the standard requires from an auditor when considering going concern. Upon the issuing of the revised ISA (UK) 570 in September 2019, the FRC stated that UK auditors would now follow significantly stronger requirements than those required by current international standards and we hoped that the UK experience would lead to further strengthening of requirements at the international level. Our position remains the same and we encourage the IAASB to consider the enhanced UK auditor requirements further explained in response to Q3, and introduce them in the international standard for global benefit.

3. National Audit Standard Setters

Australian Auditing and Assurance Standards Board (AUASB)

In relation to the time period for going concern assessments, in Australia we have already extended this to approximately 12 months from the date of the auditor's current report to the expected date of the next auditor's report, which is greater than the time period in ISA 570.

Malaysian Institute of Accountants (MIA)

The going concern assessment from the existing ISA 570 generally covers a 12-month period from the date of the statement of financial position, with the exception to extend the assessment period should there be known event that may affect the going concern assessment beyond 12 months. The IAASB may consider the basis adopted in the UK, in which the 12-month period of assessment is from the date of the audit report (generally the same date of the approval of the financial statements) instead of the balance sheet date. The change of the "start date" is particularly important during this pandemic as there were several extensions for the submission of audited financial statements, even up to 9 months after the date of the statement of financial position for which based on ISA 570, assessment for going concern would only need to be performed for the remaining period of 3 months. Under such circumstances, the value of an audit in relation to going concern may have been diluted as compared to an audit where a forward-looking assessment of 12 months is done on going concern from the auditor's report date. However, for any change in the period of coverage, there should also be a change on the preparer's side to cover the same period as the auditor.

4. Accounting Firms

CohnReznick (CR)

We encourage the IAASB to consider the following:

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

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

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

auditors

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

users, thus helping to lower the expectation gap.

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

We believe the ISAs should adopt the US GAAS AU-C 570 requirement in paragraph .17 and related application guidance on "Financial Support by Third Parties or the Entity's Owner-Manager" for the following reasons:

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

auditors

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

users, thus helping to lower the expectation gap.

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

ADDENDUM 1, AU-C 700

.35 This section of the auditor's report should do the following: (Ref: par. .A43)

State that the objectives of the auditor are to

obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and (Ref: par. .A44)

issue an auditor's report that includes the auditor's opinion.

State that reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. (Ref: par. .A45)

State that the risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

State that misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.8 (Ref: par. .A46)

8 Paragraph .02 of section 320, Materiality in Planning and Performing an Audit.

Auditor's Responsibilities for the Audit of the Financial Statements (Ref: par. .34–.37)

.A43 The description of the auditor's responsibilities as required by paragraphs .34–.37 of this section may be tailored to reflect the specific nature of the entity, for example, when the auditor's report addresses consolidated financial statements.

.A44 Objectives of the Auditor (Ref: par. .35a–c). The auditor's report explains that the objectives of the auditor are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes the auditor's opinion. These objectives are in contrast to management's responsibilities for the preparation and fair presentation of the financial statements.

.A45 Because the auditor's opinion is based on obtaining reasonable assurance, the auditor's report does not constitute a guarantee. Because of the inherent limitation of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with GAAS. Accordingly, the subsequent discovery of a material misstatement of the financial statements resulting from fraud or error does not by itself indicate a failure to conduct an audit in accordance with GAAS.24

24 Paragraph .A56 of section 200 and paragraph .10d of section 210.

.A46 When the applicable financial reporting framework defines materiality differently from the definition in section 320, Materiality in Planning and Performing an Audit, the auditor's report may need to reflect the definition or description of materiality from the applicable financial reporting framework.

ADDENDUM 2, AU-C 570

Financial Support by Third Parties or the Entity's Owner-Manager

.17 When management's plans include financial support by third parties or the entity's owner-manager (hereinafter referred to as "supporting parties") and such support is necessary in supporting management's assertions about the entity's ability to continue as a going concern for a reasonable period of time, the auditor should obtain sufficient appropriate audit evidence about the following:

The intent of such supporting parties to provide the necessary financial support, including written evidence of such intent, and (Ref: par. .A32–.A37)

The ability of such supporting parties to provide the necessary financial support (Ref: par. .A24, .A38)

The failure to obtain the written evidence required by item (a) constitutes a lack of sufficient appropriate audit evidence regarding the intent of the supporting parties to provide financial support. Therefore, the auditor should conclude that management's plans are insufficient to alleviate the determination that substantial doubt exists about the entity's ability to continue as a going concern for a reasonable period of time. (Ref: par. .A32–.A34)

.A24 Financial support by owner-managers is often important to smaller entities' ability to continue as a going concern. When a smaller entity is largely financed by a loan from the owner-manager, it may be important that these funds are not withdrawn. For example, the continuance of a smaller entity in financial difficulty may be dependent on the owner-manager subordinating a loan to the entity in favor of banks or other creditors, or the owner-manager supporting a loan for the entity by providing a guarantee with the owner-manager's personal assets as collateral. See paragraphs .A32–.A38 for further guidance about financial support from the owner-manager.

Financial Support by Third Parties or the Entity's Owner-Manager

Intent

Support Letters or Written Confirmations

.A32 The auditor's evaluation of the support letter (as further described in paragraph .A33) or written confirmation includes consideration of the terms and conditions of the commitment and may include, as applicable, considerations of the legality and enforceability of the commitments.

.A33 The intent of supporting parties to provide the necessary financial support may be evidenced by either of the following:

Obtaining from management written evidence of a commitment from the supporting party to provide or maintain the necessary financial support (sometimes referred to as a "support letter").

Confirming directly with the supporting parties (as described in paragraph .A35) the existence of commitments to provide or maintain the necessary financial support. Confirmation may be necessary if management only has oral evidence of such financial support.

.A34 When the financial support is provided by an owner-manager, the evidence regarding intent may be in the form of a support letter or a written representation.29

29 See section 580, Written Representations .

Obtaining Written Confirmations

.A35 If the auditor obtains a support letter as described in paragraph .A33a, the auditor may still request a written confirmation in accordance with section 505, External Confirmations , from the supporting parties regarding the contents of the support letter. For example, such written confirmation may be requested when, in the auditor's professional judgment, a written confirmation is necessary to determine the validity of the support letter as well as the accuracy and completeness of the related terms and conditions.

Illustration of the Third-Party Support Letter

.A36 The purpose of the support letter from supporting parties is to provide sufficient appropriate audit evidence about the supporting parties' intent to provide financial support to the entity. The support letter may also include additional material facts and circumstances that may be pertinent to the determination of whether substantial doubt exists about the entity's ability to continue as a going concern for a reasonable period of time. The following is an illustration of a support letter that may be requested from the supporting parties when the applicable financial reporting framework is FASB ASC. The illustrative wording also includes an assertion about the supporting party's ability to provide financial support, but such wording does not, by itself, provide sufficient appropriate audit evidence regarding ability.

(Supporting party name) will, and has the ability to, fully support the operating, investing, and financing activities of (entity name) through at least one year and a day beyond [insert date]30 (the date the financial statements are issued or available for issuance, when applicable).

30 See paragraph .A37.

Depending on the facts and circumstances, this written support letter may be adapted, for example, by adding the following wording:

This also applies to any amounts that may ultimately be due to the Internal Revenue Service as a result of the recent judgment against (entity name) and also applies should (entity name's) debt not be refinanced when the debt becomes due in the next year.

.A37 In accordance with section 700, Forming an Opinion and Reporting on Financial Statements, or section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA , the auditor is required to date the auditor's report no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements.31 Accordingly, in order to cover the assessment period required by the applicable financial reporting framework, the support letter or the written confirmation defines a specific date through which the supporting party intends to provide support. For example, for financial statements prepared in accordance with FASB ASC, the date would be a year and a day beyond the date that the financial statements are issued (or available to be issued, when applicable). Specifying a date in the support letter or written confirmation that is later than the expected date that the financial statements will be issued (or will be available to be issued, when applicable) may obviate the need to obtain updated information from the supporting parties. The period covered by the support letter or written confirmation may be shorter if there is another source of support that management intends to utilize in order to continue as a going concern through the assessment period. Such other support would be subjected to the same auditing procedures discussed in this section. [As amended, effective for audits of financial statements for periods ending on or after December 15, 2021, by SAS No. 136.]

31 Paragraph .43 of section 700, Forming an Opinion and Reporting on Financial Statements, or paragraphs .82 and .126 of section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA. [As amended, effective for audits of financial statements for periods ending on or after December 15, 2021, by SAS No. 136.]

Ability

.A38 With respect to the supporting party's ability to provide support, matters to which the auditor may give consideration include the following:

Audit evidence of past support obtained from the supporting party when such support was needed.

The solvency of the supporting party and the sufficiency of the evidence supporting the solvency assertion. The auditor may obtain financial statements of the supporting party audited by a reputable auditor as evidence of the ability of the supporting party to provide the needed support. If the financial statements have not been audited, the auditor may perform other procedures, such as obtaining bank statements and evidence regarding the valuation of assets held by the supporting party that may be used to provide the needed support. However, these procedures might not provide evidence regarding other claims on the pledged assets that would limit the ability of the supporting party to use the assets to provide the support to the reporting entity.

The ability to provide the needed support in a timely manner for the reporting entity to meet its obligations.

When the entity and supporting party are in different countries, the ability of the supporting party to transfer the necessary funds (or other financial support) to the entity. Factors such as trade embargos, financial transfer restrictions, and war may limit the ability to transfer the necessary financial support.

Given the nature of these matters, the auditor may consult with legal counsel, as appropriate.

Deloitte (DTTL).pdf

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

Mazars (MAZ)

One of the challenges to developing consistent approaches to address fraud and going concern comes from the fact that, no international bodies addressing corporate law or corporate governance. We recognize that such mechanisms are difficult to design given the desire for a level of autonomy by countries when it comes to national law or regulation. However, having some universal and guiding principles would benefit all members in the financial reporting ecosystem. For example, in France, there is an alert procedure that allows the auditors to require the entities to call for a general shareholders meeting whenever it is necessary.

PKF International Limited (PKF)

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

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

RSM International Limited (RSM)

A further possibility would be for financial statements to include an explicit statement by those charged with governance regarding the responsibilities of management with regards to fraud and going concern. This is already in use in certain jurisdictions, sometimes in the form of a solvency statement. Broader adoption of this approach should be evaluated and engagement with key local legislative bodies could be considered. This consideration should also include the needs of users of the financial statements, such as whether such explicit statements are of equal value to all users of financial statements or of heightened value to public interest entity or listed entity financial statement users.

5. <u>Public Sector Organizations</u>

Australasian Council of Auditors General (ACAG)

Of note is the New Zealand Accounting Standards Board (NZASB) who has proposed additional disclosures in the financial statements relating to significant judgements and estimates regarding the appropriateness of the going concern assumptions, and additional disclosures where material uncertainties had been identified.

New Zealand Auditor General (NZAG)

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

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

6. Professional Accountancy and Other Professional Organizations

American Institute of Certified Public Accountants (AICPA)

AU-C section 570 contains a requirement for the auditor to request written representations from management about management's plans to mitigate the adverse effects of conditions or events that indicate there is substantial doubt about the entity's ability to continue as a going concern and the completeness of the financial statement disclosures that management is aware that are relevant to the entity's ability to continue as a going concern. AU-C section 570 also:

includes requirements that address comparative presentations

eliminates an emphasis-of-matter paragraph from a reissued report

includes a requirement for the auditor to document specific matters related to the auditor's evaluation and conclusions about conditions or events that are identified, when considered in the aggregate, raise substantial doubt about the entity's ability to continue as a going concern before consideration of management's plans

Further, we encourage the IAASB to consider if and how any proposed changes to the auditor's responsibilities relating to going concern might affect the auditor's responsibilities when auditing financial statements prepared in accordance with a special purpose framework, when auditing a single financial statement, and when engaged to review interim financial information. For example, U.S. GAAS were recently amended to reflect revised auditor responsibilities for assessing going concern and those revisions also included amendments to AU-C section 800, Special Considerations — Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks, AU-C section 805, Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement, and AU-C section 930, Interim Financial Information. As circumstances related to going concern would likely be relevant to users of the financial statements in at least some of the situations described in this paragraph, we recommend the IAASB include those sections in their research and consideration of potential changes.

We encourage the IAASB to consider the incremental audit requirements contained in U.S. GAAS related to auditor responsibilities for evaluating going concern in AU-C section 570, The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern. We recognize that AU-C section 570 uses different terminology than ISA 570 (Revised) when describing certain concepts and references to accounting terms. The terminology used in GAAS is more commonly used in the United States, for example the use of "substantial doubt." However, the concepts are similar.

The following is a summary of the requirements in GAAS that are not in ISA 570 (Revised):

AU-C section 570 includes a definition of reasonable period of time that includes the period of time required by the applicable financial reporting framework and also includes application material with examples of the periods contained in various financial reporting frameworks. ISA 570 (Revised) does not include this definition or the related application material.

AU-C section 570 contains an objective of the auditor to evaluate the possible financial statement effects, including the adequacy of disclosure regarding the entity's ability to continue as a going concern. The ASB believes that the inclusion of this objective is important to address disclosures, particularly for accounting frameworks that contain explicit disclosure requirements. ISA 570 (Revised) does not include this objective.

CPA Australia (CPAA)

The IAASB could:

Develop assurance standards to address the evolution gap for:

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

Institute of Chartered Accountants of Scotland (ICAS)

Yes, we believe this to be case. In the shorter-term these could follow a similar approach to those of the UK FRC which revised its version of ISA 570 in 2019 with its enhancement requirements becoming applicable for periods commencing on or after 15 December 2019. The revisions require:

A stand back requirement when the auditor draws their conclusions on going concern in consideration of all evidence obtained, whether corroborative or contradictory.

New York State Society of CPAs (NYSSCPA)

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

The Auditing Standards Board of the AICPA provided guidance in AU-C Section 570 clarifying the auditor's role to evaluate management's plans to mitigate a going concern issue(s), and whether the specific plans are probable of mitigating the conditions and events that raised the substantial doubt. While these efforts made progress in enhancing the standards related to going concern, further clarification might further lessen the expectation gap. For example, a definition of "substantial doubt" which incorporates "probable" is included in ASU 2014-15. An improvement that could have a positive impact on the expectation gap would be to define the term "probable" quantitatively within the standards, like an academic citing a threshold of 50-70% chance of occurrence, while Deloitte and others suggest 70%. While we believe elucidation would be effective, it needs to be accompanied by follow up monitoring, including analyzing going concern status and reaching out to stakeholders, carried out by the standard setting bodies. This monitoring would allow regulators to conclude regarding the effectiveness of established standards and identify next steps as necessary.

South African Institute of Chartered Accountants (SAICA)

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

Q1b-2.4 - IAASB - 4. Standard Setting - See Question 3a for More Details

1. <u>Monitoring Group</u>

International Association of Insurance Supervisors (IAIS)

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

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

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

2. <u>Regulators and Audit Oversight Authorities</u>

Canadian Public Accountability Board (CPAB)

The auditing standards need to be strengthened. This is irrespective of whether actions are taken by accounting standard setters and regulators to enhance requirements for management and/or those charged with governance. Several jurisdictions have amended the local auditing standards to go beyond the requirements currently set out in ISA 570 to be more responsive to the public interest.

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.

We feel the more robust process set out in the revised UK standard will help address performance gaps, such as that described in our response to Q.1(a), as it is clearer what the standard requires from an auditor when considering going concern. Upon the issuing of the revised ISA (UK) 570 in September 2019, the FRC stated that UK auditors would now follow significantly stronger requirements than those required by current international standards and we hoped that the UK experience would lead to further strengthening of requirements at the international level. Our position remains the same and we encourage the IAASB to consider the enhanced UK auditor requirements further explained in response to Q3, and introduce them in the international standard for global benefit.

Independent Regulatory Board for Auditors (IRBA)

Therefore, we support proposals to:

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

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

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

National Association of State Boards of Accountancy (NASBA)

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

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

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

3. National Audit Standard Setters

Australian Auditing and Assurance Standards Board (AUASB)

In relation to the time period for going concern assessments, in Australia we have already extended this to approximately 12 months from the date of the auditor's current report to the expected date of the next auditor's report, which is greater than the time period in ISA 570.

The AUASB has received feedback and have observed that there are some inconsistencies in how auditors comply with ISA 570 including the reporting requirements which should be addressed. Refer to question 3a) for further detail. However, in our view these are not contributing greatly to the expectation gap in relation to going concern.

Canadian Auditing and Assurance Standards Board (AASB)

Standard-Setters

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

Standard-Setters

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

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

Furthermore, period for assessing the foreseeable future should be clarified and harmonized.

Malaysian Institute of Accountants (MIA)

The going concern assessment from the existing ISA 570 generally covers a 12-month period from the date of the statement of financial position, with the exception to extend the assessment period should there be known event that may affect the going concern assessment beyond 12 months. The IAASB may consider the basis adopted in the UK, in which the 12-month period of assessment is from the date of the audit report (generally the same date of the approval of the financial statements) instead of the balance sheet date. The change of the "start date" is particularly important during this pandemic as there were several extensions for the submission of audited financial statements, even up to 9 months after the date of the statement of financial position for which based on ISA 570, assessment for going concern would only need to be performed for the remaining period of 3 months. Under such circumstances, the value of an audit in relation to going concern may have been diluted as compared to an audit where a forward-looking assessment of 12 months is done on going concern from the auditor's report date. However, for any change in the period of coverage, there should also be a change on the preparer's side to cover the same period as the auditor.

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

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

The NZAuASB has included a flowchart in the appendix to ISA (NZ) 570 (Revised), the flowchart is included in the appendix to this response. Practitioners have found the flowchart to be a useful visual guide to reporting on going concern issues and we recommend that such a flowchart be added to ISA 570.

4. Accounting Firms

KPMG

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

Nevertheless, we also recognise the extent of the evolution gap in respect of both areas and we set out recommendations to address this in our responses to questions 2 and 3.

Mazars (MAZ)

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

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

MNP LLP (MNP)

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

Nexia International (NI)

There are many failure prediction models which could be used to assess the going concern status; yet ISA 570 does not even mention that these models exist.

PKF International Limited (PKF)

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

the level of skepticism to be exercised by the auditor.

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

how the auditor identifies and assesses indicators of management bias.

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

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

Longer-term the IAASB should consider:

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

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.

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.

5. Professional Accountancy and Other Professional Organizations

CPA Australia (CPAA)

Considering the need for assurance over the reasonableness of the underlying assumptions and data used as a basis for management commentary, beyond merely consideration, as is currently required by the standards for “other information

Enhance current standards to minimise the performance gap by making it absolutely clear as to the extent of work required by the auditor on fraud risks in ISA 240 and going concern in ISA 570.

The IAASB could:

Develop assurance standards to address the evolution gap for:

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

Federacion Argentina de Consejos Profesionales de Ciencias (FACP)

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

International Federation of Accountants (IFAC).pdf

Taking an evidence-based approach to changes to the ISAs and ensuring they remain both principle and risk-based and retain the alignment with requirements under the applicable financial reporting framework.

Kriton (KNL)

Clarifying ISA 570 (see Appendix 2).

IAASB

National professional organizations/regulators

Clarifying the scope of the term 'going-concern assumption', such as with regard to the period ('horizon') and the inherent uncertainty of forward-looking information.

National and international regulators (reporting)

IAASB

New York State Society of CPAs (NYSSCPA)

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

As the Discussion Paper mentions, other national standard setters, namely those in Canada, the UK, Japan and Australia, launched initiatives and made revisions to their own standards and regulations to address fraud and going concern in the last several years. The IAASB and the IASB should look at these projects as part of any contemplated future revisions.

Pan African Federation of Accountants (PAFA)

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

Q1b-2.5 - IAASB - 5. Changes to Auditor Reporting - See Question 3ci for Details

2. <u>Regulators and Audit Oversight Authorities</u>

Botswana Accountancy Oversight Authority (BAOA)

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

Canadian Public Accountability Board (CPAB)

We also encourage the IAASB to explore other possible actions to enhance the role of the auditor. For example, in other jurisdictions auditors are required to make additional communications to outside parties, including to relevant authorities, where issues related to going concern are identified by the auditor, and management and those charged with governance do not take appropriate measures, with a view to protecting the public interest.

Canadian Securities Administrators (CSA)

To close the knowledge gap relating to going concern, we think the IAASB could require communications of the auditor's responsibilities relating to going concern, as listed on page 21 of the Discussion Paper in the auditor's report in all instances. In addition, if there is no empahsis of matter paragraph in the auditor's report, the IAASB could consider adding wording consistent to the wording at the bottom of page 22 of the Discussion Paper: "The absence of any reference to a material uncertainty about the entity's ability to continue as a going concern in an auditor's report cannot be viewed as a guarantee as to the entity's ability to continue as a going concern".

To close the knowledge gap relating to going concern, we think the IAASB could require communications of the auditor's responsibilities relating to going concern, as listed on page 21 of the Discussion Paper in the auditor's report in all instances. In addition, if there is no empahsis of matter paragraph in the auditor's report, the IAASB could consider adding wording consistent to the wording at the bottom of page 22 of the Discussion Paper: "The absence of any reference to a material uncertainty about the entity's ability to continue as a going concern in an auditor's report cannot be viewed as a guarantee as to the entity's ability to continue as a going concern".

Independent Regulatory Board for Auditors (IRBA)

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

3. <u>National Audit Standard Setters</u>

Australian Auditing and Assurance Standards Board (AUASB)

The AUASB has received feedback and have observed that there are some inconsistencies in how auditors comply with ISA 570 including the reporting requirements which should be addressed. Refer to question 3a) for further detail. However, in our view these are not contributing greatly to the expectation gap in relation to going concern.

The current reporting requirements for going concern issues in the auditor's report is complex and users may not understand and interpret the difference between a MURGC and a KAM, or their importance to their decision making. By way of example, the information required to be communicated in the audit report if going concern is a KAM is greater than if a MURGC. We have feedback from academic studies that the greater the volume of words in the audit report can be interpreted as the issue having greater importance, however in the case of MURGCs versus KAM this is not proportionate to the relative severity of the issue. The auditing standards note a MURGC is by its nature a KAM. With the background above, in our view this connection confuses the purpose of each, clouds the distinction needed for readers of severity and importance to their decision making, and the resultant volume of communication in the auditor's report should reasonably expected therefore to be consistent, which it is not. The AUASB remains supportive of retaining the separate distinction of MURGC paragraphs as this gives this appropriate prominence in the auditor's report. However, the IAASB should consider if the required reporting of a MURGC should be disconnected from KAMs as a concept and contemplate more balanced qualitative information to be communicated regarding the key factors and the procedures in the audit report. The IAASB can use this feedback to also reflect on the volume of words and communicative expectations for modification to the audit report, in comparison to KAMs as well.

Korean Institute of Certified Public Accountants (KICPA)

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

Malaysian Institute of Accountants (MIA)

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

the location of the going concern paragraph.

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

the requirements for auditors to discuss or provide their commentary about the going concern assessment carried out by the directors in the auditor's report, and not limiting to only include disclosure on MUGC when it is applicable. This is similar to the requirements in the UK mandating directors to discuss their basis of preparation on going concern.

engagement with key stakeholders on the meaning of material uncertainty on going concern and the scope of work by auditors on going concern.

Royal Netherlands Institute of Chartered Accountants (NBA)

We believe that the main reason for the expectation gap is that auditors are insufficiently transparent in their communication and that auditors should report more clearly and specifically about the audit procedures performed and the outcomes thereof.

4. <u>Accounting Firms</u>

CohnReznick (CR)

Going concern

We believe it is appropriate to remove requirement for the auditor's responsibility section of the auditor's report to include the statement in ISA 700.38(b)(iv):

To conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If the auditor concludes that a material uncertainty exists, the auditor is required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the opinion. The auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause an entity to cease to continue as a going concern.

While the above statement is accurate, we believe the statement contributes to an expectation gap by implying negative assurance about the entity's ability to continue as a going concern for a reasonable period of time. That is, by indicating had the audit drawn attention to disclosures in the financial statements, that a material uncertainty exists, but if the auditor does not discuss a material uncertainty in the report, then a material uncertainty does not exist. We note that there is a corresponding responsibility of management indicated in ISA 700.33(b):

Assessing the entity's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate as well as disclosing, if applicable, matters relating to going concern. The explanation of management's responsibility for this assessment shall include a description of when the use of the going concern basis of accounting is appropriate.

However, we believe the wording in ISA 700.38(b)(iv) still contributes to an expectation gap and believe the auditor's responsibility in ISA 700.38(b)(iv) should be removed from the auditor's report and have no objection to management's responsibility, ISA 700.38(b)(iv), being removed as well.

Mazars (MAZ)

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

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.

We believe that the requirement for the auditor's responsibility section of the auditor's report to include the statement in respect of going concern contributes to the expectation gap by implying negative assurance about the entity's ability to continue as a going concern for a reasonable period of time. That is, by indicating that if the auditor had drawn attention to disclosures in the financial statements, that a material uncertainty exists, but if the auditor does not discuss a material uncertainty in the report, then a material uncertainty does not exist.

RSM International Limited (RSM)

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

5. Public Sector Organizations

New Zealand Auditor General (NZAG)

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

6. Professional Accountancy and Other Professional Organizations

CFO Forum

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

CPA Australia (CPAA)

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

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

Institute of Certified Public Accountants of Uganda (ICPAU)

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

International Federation of Accountants (IFAC).pdf

The exploration of additional reporting to management and those charged with governance (TCWG) may have the benefit of fostering better two-way communication, potentially improving audit quality. However, more detailed external reporting by the auditor is more contentious as the auditor may either be seen in hindsight as justifying a bad decision if things go wrong, or potentially falsely blowing the whistle on going concern or fraud that might have turned out to not be as severe after all.

Mexican Institute of Public Accountants (IMCP)

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

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

The results obtained from their going concern risk assessment and, where appropriate, the procedures applied, as well as a clarification that the auditor cannot predict whether future events or conditions have effect on the entity's ability to continue as a going concern.

7. <u>Academics</u>

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

In addition, they report that non-professional investors indicated that they use secondary sources for financial data and do not search for the auditor's report, suggesting that attempts to address the knowledge gap via enhanced communications in the auditor's report may not be effective. However, a more recent study by Kachelmeier, Rimkus, Schmidt, and Valentine (2020) examines critical audit matter disclosures and finds that such disclosures prompted participants (MBA students, financial analysts, and lawyers) to recognize measurement uncertainty and lower their assessments of auditor responsibility for subsequent misstatements related to the critical audit matter. These findings suggest that key audit matters in the updated auditor's report might be able to reduce the expectation gap by lowering users' perceptions of audit assurance and auditors' responsibilities.

Q1b-2.6 - IAASB - 6. Consider Impact of Technology

1. <u>Regulators and Audit Oversight Authorities</u>

Independent Regulatory Board for Auditors (IRBA)

Modernise the audit standards to adapt to evolution in the corporate environment; for example, modernised business models and financial reporting systems.

National Association of State Boards of Accountancy (NASBA)

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

2. National Audit Standard Setters

Malaysian Institute of Accountants (MIA)

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

3. Accounting Firms

BDO International Limited (BDO)

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

Where performance gaps have been identified, it has usually been because individuals performing the procedures may have lacked sufficient business acumen to be able to form judgments (for example, in the area of going concern for an entity in a particular sector) and as a result, there may be an education and skills development need within firms for certain auditors to help improve performance.

The IAASB could assist by working with regulators to identify where these skills gaps may be most evident.

This is especially important when recognizing that there may be opportunities for auditors to move towards more innovative ways of looking at going concern (such as through predictive analytics, use of data pools to benchmark expected performance, etc.).

GTI

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

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

Mazars (MAZ)

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

PKF International Limited (PKF)

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

4. Professional Accountancy and Other Professional Organizations

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

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

International Federation of Accountants (IFAC).pdf

We also recognize that data or information technology experts may be used to help perform procedures using advanced technologies to test full populations or identify populations subject to greater risk. It is important for audit firms to ensure they have training specifically on fraud and the use of technologies as appropriate to their audit client's circumstances. We note that with respect to large public accountancy practices, the multidisciplinary firm model best supports bringing this type of additional expertise to more audits.

Q1b-2.7 - IAASB - 7. Continued Outreach with Stakeholders

1. Monitoring Group

Basel Committee on Banking Supervision (BCBS)

The Committee agrees that there are parties other than the IAASB that play an important role in contributing to high-quality financial reporting. The Committee encourages the IAASB to continue its dialogue with accounting standard setters and others that may be able to enhance requirements for preparers of financial statements and those charged with governance, including the disclosures they need to make, on both fraud and going concern.

International Association of Insurance Supervisors (IAIS)

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

International Forum of Independent Audit Regulators (IFIAR)

IFIAR supports the IAASB's efforts of seeking inputs from stakeholders on expectations with respect of the auditor's performance and responsibilities in relation to fraud and going concern in financial statement audits.

International Organization of Securities Commissions (IOSCO)

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

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

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

2. <u>Regulators and Audit Oversight Authorities</u>

Committee of European Auditing Oversight Bodies (CEAOB)

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

Irish Auditing and Accounting Supervisory Authority (IAASA).pdf

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

3. <u>National Audit Standard Setters</u>

Australian Auditing and Assurance Standards Board (AUASB)

All parties in the financial reporting ecosystem have a responsibility and role to play in high quality financial reporting of which going concern assessments and disclosures are critically important. The IAASB is encouraged to engage with parties in the financial reporting ecosystem to identify the root cause of and address any concerns holistically.

The IAASB is encouraged to further engage with users to understand if further reporting on responsibilities would be beneficial.

We encourage further engagement with user groups to ensure their views are understood and addressed where practicable and realistic. This should include understanding whether reporting on other concepts of resilience and longer-term viability would decrease the knowledge gap. The IAASB is also encouraged to engage with TCWG about the type of reporting on longer term business strategy, going concern and viability that they believe they can meaningfully provide given the inherent difficulties in predicting the future.

The IAASB also need to engage with regulators as to their observations on what has gone wrong and how auditor's procedures may need to be enhanced.

Canadian Auditing and Assurance Standards Board (AASB)

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

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

Malaysian Institute of Accountants (MIA)

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

Royal Netherlands Institute of Chartered Accountants (NBA)

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

4. Accounting Firms

BDO International Limited (BDO)

Both fraud and going concern:

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

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

Crowe (CG)

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

Deloitte (DTTL).pdf

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

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

Ernst and Young (EY)

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

KPMG

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

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

Mazars (MAZ)

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

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

Mazars USA (MAZUSA)

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

Moore (MGN)

In terms of what could be done, by the IAASB or others, we believe considering the following could be a good starting point:

Promoting and facilitating a mutual understanding and knowledge of the expectations and roles of stakeholders and all participants in the financial reporting ecosystem (this could not be done by IAASB alone, in all likelihood, but IAASB could play a key coordinating role).

Nexia International (NI)

The IAASB should work with regulators to encourage better communication to manage stakeholder expectations, rather than increasing the scope of audit.

This entails more consistent and more transparent communication of the work performed by auditors to address significant matters (e.g., fraud and going concern). While ISA 260 Communication with Those Charged with Governance may have set down the framework on how significant matters are communicated by the auditors to TCWG, there may not be similar requirements to ensure that there is a similar information flow from the TCWG to other stakeholders.

Closing this gap requires the joint efforts of various parties including:

Standards setters who should ensure that standards are clear and understandable and should provide adequate and appropriate guidance on their implementation. In particular, more examples could be provided on how complex fraud risks, such as external collusion, can be addressed.

More stringent requirements for training auditors through education and examination and on the job training.

Robust supervision/monitoring by the firms, national professional bodies and regulators.

PricewaterhouseCoopers (PWC)

Need for coordinated reform across the ecosystem

More could be done to help stakeholders better understand the risks of fraud facing an entity, the controls in place to mitigate those risks and the relative responsibilities of management/directors and auditors. To achieve these sorts of reforms, the responsibilities of the auditor need to be aligned with the responsibilities and disclosures required of management, supplemented by robust dialogue with those charged with governance about their observations and oversight. The accountability and governance of preparers creates a necessary foundation for complete, accurate and insightful corporate reporting. Audit cannot effectively compensate for weaknesses in the corporate reporting regime. We encourage the Board to focus on broad ecosystem-based solutions. Solutions based on limited scope changes to the auditing standards alone are unlikely to meaningfully address stakeholders' calls or reduce the expectation gap. Change that "moves the dial" on fraud and going concern will require broader coordinated reform.

In addition to possible changes to auditing standards, we encourage the Board to take the lead in exploring what additional actions could be taken across the ecosystem to provide the insight stakeholders are seeking in relation to fraud and going concern. That involves looking at the responsibilities of management and those charged with governance in relation to risk assessment, controls, disclosure and transparency, as well as the legal and regulatory infrastructure needed to underpin them, in addition to the role of the auditor.

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

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

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

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

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

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

Exploring such changes would require concerted action across stakeholders.

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

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

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

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

RSM International Limited (RSM)

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

5. Professional Accountancy and Other Professional Organizations

American Institute of Certified Public Accountants (AICPA)

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

We note that in some instances auditors may not properly implement the requirements in the auditing standards, however we believe further outreach and research are warranted to assess the extent to which that is a function of the standards being overly complex or unclear, or of auditors not exercising due professional care in interpreting or adhering to the requirements. Such outreach and research would inform decisions regarding allocation of resources to enhance auditor education and instruction and standard setting.

Federacion Argentina de Consejos Profesionales de Ciencias (FACP)

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

Institute of Chartered Accountants in England and Wales (ICAEW)

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

Institute of Chartered Accountants of Scotland (ICAS)

In terms of future steps, we believe there is a need for discussions to take place with regulatory bodies around the globe to try and arrive at a more holistic approach to addressing fraud in the corporate environment. Matters such as internal controls, responsibilities of directors and requirements of financial reporting standards should be considered. A holistic approach would then depend on additional requirements being placed on directors. This could follow the approach as envisioned in Sir Donald Brydon's report, however, this will be difficult to achieve at the global level and to some extent will require to be jurisdiction specific.

Malaysian Institute of Certified Public Accountants (MICPA)

In this respect, we propose the IAASB to engage the authorities and regulators at the global level to narrow or close the expectation gap relating to fraud and going concern in an audit of financial statements in order that the understanding and messaging cascading down from the respective jurisdictional authorities and regulators are aligned. These institutions can institute jurisdictional changes which can encourage holistic action across relevant stakeholders and bring about positive and sustained reforms.

New York State Society of CPAs (NYSSCPA)

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

South African Institute of Chartered Accountants (SAICA)

SAICA is of the view that there is room for improvement when it comes to communication of the reasons for the corporate failures when these occur and after the appropriate investigations have been made by the regulatory authorities. This would give clarity in terms of whether auditors are failing in carrying out their responsibilities in accordance with the current ISAs or not. Significant changes to the ISAs should only be made after a thorough analysis of the investigations into the corporate failures indicates that the root cause was an audit failure due to the ISAs being insufficient or inappropriate. Transparency is required from regulatory authorities in this regard. The IAASB should interact with them in order to ascertain whether the underlying problems are with the requirements included in the ISAs, the application thereof or something else entirely.

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

The Institute for the Accountancy Profession in Sweden (FAR)

The IAASB should work to influence standard setters to improve financial reporting requirements (e.g., require interim reviews, broaden disclosures of information on material changes in financial conditions or operations). The IAASB should also work with authorities to help them design reasonable consequences for non-compliance.

Q1b-2.8 - IAASB - 8. Other suggestions

1. <u>Monitoring Group</u>

Basel Committee on Banking Supervision (BCBS)

The Committee also encourages the IAASB to approach the subject with an open mind: for example, building solutions based on the audit being "not forensic in nature" and noting that many audit firms do not have access to forensic specialists (page 18) may limit the IAASB's chances of achieving the right outcomes. The IAASB will, of course, need to be proportionate in any final proposals, and forensic expertise is unlikely to be necessary on all audits.

International Association of Insurance Supervisors (IAIS)

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

2. Regulators and Audit Oversight Authorities

Financial Reporting Council (FRC)

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

3. National Audit Standard Setters

Canadian Auditing and Assurance Standards Board (AASB)

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

Korean Institute of Certified Public Accountants (KICPA)

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

IAASB should provide auditing standards on fraud and going concern and relevant specified practice guidance fit for each case

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

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

Malaysian Institute of Accountants (MIA)

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

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

The NZAuASB encourages the IAASB to continue to explore a collaborative approach with accounting standard setters and regulators to develop a more holistic solution for addressing the expectation gap by management, those charged with governance, the regulator and the auditor related to going concern. The going concern basis of accounting is likely to be too narrow a construct to meet users' needs, and it is possible that the expectation gap will widen in the short term. The XRB, as an organisation, considers that broader reporting, in a more holistic way, is the first step to narrowing the expectation gap, but it will take time to get there.

Royal Netherlands Institute of Chartered Accountants (NBA)

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

4. <u>Accounting Firms</u>

BDO International Limited (BDO)

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

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

Mazars (MAZ)

Also impacting the knowledge gap is the frequent lack of clear disclosure of management's key assumption around the going concern analysis. While we recognize that it is outside of the purview of the IAASB, having stronger disclosures regarding the key assumptions and data used in assessing going concern assumption, as well as the time period considered, would benefit users.

Auditors must better anticipate potential business failures, by carrying out additional due diligence-type assignments (issuing a certificate of resilience of the company?)

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

Moore (MGN)

We believe that any meaningful attempt to address disconnects including expectation gaps must start from the position of developing and promoting understanding from all parties as to what their expectations and roles actually are. In particular, the roles of audit committees and management cannot be ignored.

PricewaterhouseCoopers (PWC)

Further, neither entities nor auditors can predict the future, and some entities will fail. It may also be that some expectations of stakeholders may not be achievable.

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

In addition to possible changes to auditing standards, we encourage the Board to take the lead in exploring what additional actions could be taken across the ecosystem to provide the insight stakeholders are seeking in relation to fraud and going concern. That involves looking at the responsibilities of management and those charged with governance in relation to risk assessment, controls, disclosure and transparency, as well as the legal and regulatory infrastructure needed to underpin them, in addition to the role of the auditor.

The legal and regulatory environment in a jurisdiction also has direct implications for the audit, perceptions of the audit, and the effectiveness of the corporate reporting ecosystem as a whole. The strength of the legal and regulatory environment is an important contributor to the perceived usefulness of information provided to stakeholders, in terms of promoting an environment of accountability, transparency and communication. However, the legal and regulatory regimes that underpin individual jurisdictional reporting ecosystems vary. It may be difficult for the IAASB to develop broader solutions that work globally across entities of all sizes and complexities (listed and unlisted entities). Changes to auditing standards may also not be operable in isolation of other important considerations, such as auditor legal liability frameworks.

Recognising this, we believe there would be significant benefit in the IAASB working with others to coordinate a country-by-country analysis to better understand the conditions (regulatory and legal structures) in which the ISAs are expected to be applied, to provide insight and help inform further consideration of appropriate responses (for example, leveraging any work done by IFAC, the IASB, the OECD, Transparency International, the World Bank and the IMF, to highlight opacity-related accounting/financial reporting and business issues). This has been done for income tax compliance and corruption indices and can serve as a catalyst for change. More transparency for users about the landscape in which ISA audits are conducted, and the strengths (or weaknesses) of other elements of the financial reporting ecosystem, could be helpful to reduce the expectation gap and to potentially further the dialogue about what actions could be taken by others that would complement actions by the IAASB. For example, we believe it would be useful to understand:

the types of information stakeholders are seeking and the consistency of provision of such information across jurisdictions; and

where viability problems were identified for entities in a jurisdiction, what went wrong with the sufficiency or credibility of information reported by those entities such that stakeholders were unaware of the issues.

RSM International Limited (RSM)

In terms of the evolution gap, as the expectations of users of the financial statements change, the audit profession should change to be responsive to user needs. It will be imperative that changes to the audit profession are done in concert with changes to the entire financial reporting ecosystem. Activities and responsibilities of management and those charged with governance are foundational to all changes made by auditors and will also need to evolve to align with user needs.

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

5. Public Sector Organizations

Office of the Auditor General of Canada (OAGC)

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

6. Professional Accountancy and Other Professional Organizations

Federacion Argentina de Consejos Profesionales de Ciencias (FACP)

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

Institute of Chartered Accountants in England and Wales (ICAEW)

We believe that IAASB should also engage with those responsible for the regulation of companies and encourage a much more robust approach to going concern on the part of management.

We also make the following observations.

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

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

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

Specifically, with regards to going concern, users of financial reports are looking for greater information around the resilience of the business – and this is a specific area that the IAASB could focus upon – with increased requirements for management reporting in this area, and increased requirements for the auditor's evaluation of this broader resilience information. Users of the financial statements are less interested in historic data but rather the future outlook of a company. Furthermore, the information currently embedded in the financial statements that might give clues as to the impact of the future on management's expectations are also not always entirely understood by the users. Additional disclosures should be encouraged where resilience is of concern.

Institute of Singapore Chartered Accountants (ISCA)

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.

International Federation of Accountants (IFAC).pdf

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

IFAC supports the IAASB taking an evidence-based approach to distinguish what aspects could possibly be addressed by standard setting and those aspects that may require action from others (e.g., professional accountancy organizations, regulators, investors, audit firms, academia etc.) in relation to the standards and their adoption and implementation. We agree that the IAASB alone will not be able to address such a perennial issue, but it does have a key role in exploring how it can narrow the expectation gap and in demonstrating leadership (such as through the DP and Roundtables), while encouraging others in the financial reporting ecosystem to also act. For example, one need identified is for more case studies which cover what went wrong in different fraud examples and what the various stakeholders can learn.

Value of Audit

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

TCWG. A related area is for audit firms to ensure that staff also have appropriate training in communication (e.g., "soft skills").

New York State Society of CPAs (NYSSCPA)

The key for the auditor is to be able to audit management's going concern assertion/evaluation and disclosures and determine their impact on the auditor's report, if any, ranging from no mention of it or including an emphasis-of-matter paragraph, to including it as a key audit matter.

South African Institute of Chartered Accountants (SAICA)

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

The Institute for the Accountancy Profession in Sweden (FAR)

In order to narrow the expectation gap each participants role and responsibilities, and how they relate to each other, in what in the Discussion Paper is called the "financial reporting ecosystem", needs to be clarified. The focus should be on the roles and responsibilities of management, those charged with governance and the auditor. The requirements imposed on the auditor must be proportionate to the requirements imposed on the companies. We think that there is room to clarify the auditor's role, but this needs to go hand in hand with enhanced responsibilities of those charged with governance, management and others in the financial reporting ecosystem. In order to achieve the desired results and respond to stakeholders' expectations, changes must be timely and coordinated for all parties.

Q1b-2.9 - Others - Suggestions for Other Stakeholders

1. <u>Monitoring Group</u>

International Organization of Securities Commissions (IOSCO)

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

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

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

General

Many of our comments made throughout this letter (e.g., root cause analyses, multi-stakeholder engagement and education, enhanced professional skepticism version 2.0) also apply to going concern, as the IAASB considers if enhanced performance or reporting requirements are necessary in relation to going concern.

2. Regulators and Audit Oversight Authorities

Botswana Accountancy Oversight Authority (BAOA)

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

Committee of European Auditing Oversight Bodies (CEAOB)

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

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

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

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

Financial Reporting Council (FRC)

In the UK, under the applicable accounting frameworks, directors are required to make an assessment of going concern. However, these frameworks provide little guidance on how this assessment should be made or the level of detailed analysis that may be required to make the assessment. We have heard stakeholder concerns that accounting standards need to give more guidance to the preparers of financial reporting. In 2014, the FRC was in favour of IASB proposals to amend IAS 1 to provide guidance concerning disclosures around material uncertainties about going concern, and convergence of accounting and auditing standards to provide a common understanding of material uncertainties relating to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern. The FRC was disappointed that these proposals were abandoned but are encouraged, given recent stakeholder concerns and the extension of accounting and disclosure requirements in Australia and New Zealand, that the IASB may revisit this. We strongly encourage the IAASB to seek to liaise with the IASB to achieve consistency in the international auditing and accounting standards.

Whether changes are needed with regard to going concern and other concepts of resilience (within the purview of the IAASB's remit).

We would encourage other jurisdictions to take a similar approach to the UK, which is summarised in the Discussion Paper. This is a matter that currently varies across jurisdictions and in light of that we believe more appropriately addressed by national regulators and standard setters rather than the IAASB.

Independent Regulatory Board for Auditors (IRBA)

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

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

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

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

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

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

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

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

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

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

Auditors are responsible for narrowing the performance gap through:

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

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

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

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

Irish Auditing and Accounting Supervisory Authority (IAASA).pdf

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

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

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

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

3. <u>National Audit Standard Setters</u>

Australian Auditing and Assurance Standards Board (AUASB)

All parties in the financial reporting ecosystem have a responsibility and role to play in high quality financial reporting of which going concern assessments and disclosures are critically important. The IAASB is encouraged to engage with parties in the financial reporting ecosystem to identify the root cause of and address any concerns holistically.

Enhanced reporting by entities on going concern matters will also assist with addressing the knowledge gap as users will be more informed on issues arising, risk factors relevant to going concern, and key judgements made by management / TCWG on which their conclusions were made. By way of compare and contrast, the accounting standards have very few paragraphs relating to the fundamental concept of going concern, and hundreds of paragraphs/pages related to other individualised accounting issues. Given the focus of users on going concern, the importance of the concept to the operation of the capital markets and economic investment, this misalignment needs to be addressed. Refer to question 1b) for more detail.

Management and TCWG are responsible for managing the entity in their day-to-day decisions to ensure the entity remains a going concern, annual going concern assessments supporting the preparation basis of their annual financial statements, and the related disclosures to inform users of their circumstances. We have received feedback that the responsibilities for going concern assessments and disclosure requirements in the financial statements are not consistently understood and / or applied by management and TCWG. There is variability and inconsistency in the robustness of these assessments and the quality of relevant financial statement disclosures.

As detailed in our response to question 1(a) the IAASB is encouraged to engage with the IASB in relation to more granular requirements in the Accounting Standards for management and TCWG given the fundamental criticality of this subject matter. This should include:

Reconsider the definition of going concern and whether it remains fit for purpose.

Provide guidance on qualitative and quantitative factors to consider when interpreting the going concern definition. The existing 3 limb definition “intention to liquidate, intention to cease trading, or no realistic alternative but to do so” remains open to significant interpretational differences and in the absence of guidance or tests to meet these limbs, inconsistency prevails. Modern markets have a range of entity status, from the advent of ‘start-ups’, to exploration, to operational, to run-off, to closure, to dormant. The existing definition of going concern provides little to no context to this range and the variability of criteria applicable when assessing an appropriate basis of preparation, such that users understand the risks.

Minimum requirements on how to perform robust going concern assessments and quality of sources of information underlying these. We consider liquidity to be a key feature of assessments and the expansion of these concepts to be useful for preparers. The critical importance of quantifiable measurement criteria has the opportunity to move going concern disclosures to beyond the preparer’s desired story or attestations about their business, to true insights on the business model and its risks. Similar to other Accounting Standards, this allows a clear pathway for preparers to aim for, ie compliance with the standard, by meeting those measurement/minimum requirements, and auditors to assess against. If the Accounting Standards have not then been followed, the auditor has a basis for communicating the non-compliance, in a similar manner to, for instance non-compliance with other financial statement account items.

Explicit financial statement disclosure requirements for all scenarios on the spectrum of risk i.e.:

where there is a very limited risk in relation to going concern;

there are indicators of a going concern risk however a MURGC does not exist;

a MURGC exists and the key events which resulted in this conclusion; and

the going concern basis of preparation is not appropriate.

The nature of financial statement disclosures to be considered should extend to recent experience of indicators of stress, calculated from the last financial year results, to risks impacting the going concern forecast period. Readers could benefit from more granular indicators to draw a picture of the business model, risks and dependencies, such as days outstanding creditor payments, loss of key customers etc, as they impact recent results and forecast amounts. Key indicators such as these are used by our stock exchange to assess the spectrum of risks.

The standards to include adequate and consistent definitions for a MURGC and the inability to continue as a going concern, and guidance to support more consistent application of these concepts.

We also consider that it is important that the IASB provide guidance on an alternate basis of preparation when the going concern basis of accounting is not appropriate.

The AUASB considers that reporting by entities on other concepts of resilience and longer-term viability should be explored further. Now is an appropriate time to consider if reporting by entities on longer term viability would be of more value than the current going concern assessments alone. Then there should be a careful consideration as to the auditor's responsibility to provide a level of assurance or read and consider (other information) on this type of reporting.

The AUASB considers that there is a performance gap, not only for auditors, but also for preparers of financial statements which needs to be addressed through greater education and enhanced Accounting Standard requirements. Whilst acknowledging that auditors could do more to improve how going concern related audit issues are addressed, the AUASB received feedback that the main issue driving the performance gap is the inconsistency in how management / TCWG fulfil their responsibilities when making going concern assessments, and ensuring fulsome disclosure of significant judgements and assumptions to keep users informed on matters relevant to going concern. The Accounting Standards need to be enhanced using a multi-layered approach, covering definitional issues, measurement expectations for a going concern assessment, and more explicit disclosure requirements of key matters relevant to the going concern assessment and whether a MURGC exists.

The Accounting and Auditing Standards should be better aligned. Management / TCWG also need more detailed requirements and / or guidance on how to make going concern assessments including how to identify whether there is a material uncertainty, how to determine if an entity is not a going concern, and a framework for reporting when the going concern basis is not appropriate.

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assessment, and more explicit disclosure requirements of key matters relevant to the going concern assessment and whether a MURGC exists.

The Accounting and Auditing Standards should be better aligned. Management / TCWG also need more detailed requirements and / or guidance on how to make going concern assessments including how to identify whether there is a material uncertainty, how to determine if an entity is not a going concern, and a framework for reporting when the going concern basis is not appropriate.

Canadian Auditing and Assurance Standards Board (AASB)

We believe that all parties within the financial reporting ecosystem must contribute to narrowing the gap through undertaking actions such as those outlined in our response to Q1(b). In our view, a collective effort by all parties is the only way to make a meaningful impact to narrow the expectation gap.

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

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

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

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

The Entity and its Management

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

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

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

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

Boards and Audit Committees

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

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

External Auditors

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

Regulators

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

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

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

Entity and its Management

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

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

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

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

Boards and Audit Committees

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

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

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

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

Regulators

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

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

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

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

For the reasons noted in our response to (a), improving transparency in auditors' reports may require financial reporting frameworks to require additional disclosures related to going concern and fraud by management in the financial statements, which we understand is unlikely to occur in the short or medium-term – if at all.

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

Japanese Institute of Certified Public Accountants (JICPA)

In addition, as described in the Discussion Paper, many of the going concern issues should primarily be addressed by the financial reporting framework.

Malaysian Institute of Accountants (MIA)

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

We recommend that the IAASB engage with the International Accounting Standards Board (IASB) to commence a project to clarify going concern requirements in International Financial Reporting Standards. At the moment, there are only two paragraphs on going concern disclosure in IAS 1 as compared to a separate auditing standard dealing with going concern in the form of ISA 570. An issue of such importance should be further guided by accounting standards as going concern is a fundamental concept in financial reporting.

Preparers may not have given sufficient focus and attention on going concern in their financial reporting function other than when required by auditors, as auditors have a particular auditing standard in guiding going concern assessment. The unintended consequence is the wrong perception that auditors have the primary responsibility to report on going concern issues, as evidenced by the negative publicity on auditors whenever there are corporate failures.

The preparers and other stakeholders should be better guided by an accounting standard on going concern. For example, there should be:

consistent guidance with regards to the meaning of MUGC and the difference between the material uncertainty threshold and liquidation basis of accounting threshold, to enable more consistent interpretation of the concept.

clarity for what has to be disclosed when material uncertainty exists, or even making it mandatory for disclosure about the conclusion, regardless of whether there is material uncertainty on the events or condition that affect the going concern basis of preparation by a reporting entity.

further guidance on the period covered by the management in the going concern assessment.

Those Charged with Governance

In relation to TCWC, the following may be considered:

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

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

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

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

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

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

Unlike the auditing standard (ISA 570) which is quite comprehensive, there are minimal requirements in the accounting standard (IAS 1 Presentation of Financial Statements) to govern the management's assessment and disclosures relating to going concern.

The management's assessment of an entity's ability to continue as a going concern involves making judgment, at a particular point in time, about uncertain future outcomes of events or conditions. Subsequent events may also result in outcomes that are inconsistent with judgments that were reasonable at the time they were made. Sometimes, the public may fail to understand this matter and do not take into consideration the period of assessment covered by the management and auditor in the going concern assessment.

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

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

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

The regulators may also consider imposing requirements on the entities with significant public interests to discuss about the entity's assessment on going concern in the financial statements and provide more insightful information about the future prospect of the business or to include the directors' solvency statement that the reporting entity can pay all debts as and when they become due and payable in the directors' declaration on the financial report, as currently practised in Australia.

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

As part of the XRB's response to the COVID-19 pandemic, we developed guidance to educate the entire financial reporting ecosystem on the respective responsibilities of management, those charged with governance and auditors related to going concern. An unexpected benefit of the COVID pandemic, is the close focus on going concern matters, requiring in depth discussions between auditor, management and those charged with governance and an increasing awareness of the respective responsibilities while reiterating the need for auditor independence. Preparers are disclosing more than they have in the past, in the COVID environment. It will be important to capture the benefits of this response in the longer term so that these disclosures are made more routinely. Ongoing education across the reporting ecosystem of these respective responsibilities through various economic cycles will be useful.

The NZASB has also developed additional reporting requirements relating to going concern for preparers and New Zealand stakeholders commented that even more is needed. We recognise that this is mostly outside of the scope of the IAASB's standard setting work.

More requirements or guidance for the preparer (and users) as to what "going concern" means, what is a material uncertainty, what is a close call, how to make this assessment and what to disclose is seen as the matter requiring the most urgent attention. More specifically, the NZAuASB considers that it is in the public interest to clarify what is, and what is not, meant by "going concern" and how matters related to liquidity, solvency and information about an entity's resilience fit with the concept of the going concern basis of accounting for all stakeholders. The IAASB has an important role to play in ensuring that changes for preparers align with the auditor's responsibilities or amending or clarifying the auditor's responsibilities in conjunction with changes for preparers, while remaining independent from the accounting standards board.

While there may be enhancements that could be made to the auditing standards, the NZAuASB does not consider that changes to the auditing standards are the priority. Rather we encourage the IAASB to work with the accounting standard setters and others to enhance the reporting requirements to clarify the concept of going concern across all of the standards in the public interest.

Auditors are not responsible for poor management decisions, however, do have a role to play in challenging management on overly optimistic assumptions, in circumstances where management is unwilling to acknowledge, or be transparent, when an entity may be in difficulty. Additional disclosure requirements for preparers are necessary, which may lead to enhanced auditor responsibilities, to address this expectation gap. A co-ordinated reporting ecosystem response is needed.

Limits on what the reporting entity is disclosing places significant restrictions on how an audit can evolve to better meet user needs. The entity has the primary responsibility for assessing its ability to continue as a going concern and for assessing the appropriateness of the use of the going concern basis of accounting. In the first instance, the financial reporting requirements should require more explicit information about going concern.

Those charged with governance and management need a better understanding of their obligations, more requirements and guidance about how to undertake a robust assessment of their entities ability to continue in the foreseeable future, and about what disclosures are appropriate and when, so as to keep users well informed.

Practitioners comment that in many instances, the preparer is not aware of their obligations and responsibilities to assess the appropriateness of the ongoing use of the going concern basis of preparation, especially in smaller entities. The auditor is therefore in a position where they are educating the preparer on their responsibilities in the first instance. In this sense, we understand that practitioners consider that there is a performance gap by directors and management that needs to be addressed as a priority.

The NZAuASB encourages the IAASB to continue to explore a collaborative approach with accounting standard setters and regulators to develop a more holistic solution for addressing the expectation gap by management, those charged with governance, the regulator and the auditor related to going concern. The going concern basis of accounting is likely to be too narrow a construct to meet users' needs, and it is possible that the expectation gap will widen in the short term. The XRB, as an organisation, considers that broader reporting, in a more holistic way, is the first step to narrowing the expectation gap, but it will take time to get there.

4. <u>Accounting Firms</u>

BDO International Limited (BDO)

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

The economic shock associated with COVID-19 has led to greater focus associated with going concern by stakeholders and heightened awareness or activities by others, including auditors, within the financial reporting ecosystem.

There may be lessons that can be learned by management, TCWG, investors, regulators and auditors when considering the extra steps that all these stakeholders undertook in respect of going concern and to see whether that rigor should continue to be applied in a post-COVID-19 period.

Management, TCWG and auditors have had to focus on resilience of the entity's business model (i.e., supply chain, liquidity, customer access issues) resulting in greater use of stress testing and reverse stress testing approaches.

A key theme emerging from our discussions was the need to align or make clear the differences in applicable financial reporting frameworks (i.e. the starting and end points for going concern, the impact of accounting standards, identified responsibilities on management/TCWG with respect to going concern).

Crowe (CG)

In part, the IAASB and others (such as investor groups, oversight bodies, auditors' professional bodies and professional firms) have a collective responsibility to inform stakeholders as to the purpose and objectives of the audit.

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

In addition, alongside a discussion about audit requirements, corporate governance requirements also have to be addressed. Those Charged With Governance also have responsibilities with regard to fraud and going concern. In some jurisdictions corporate governance requirements are likely to be enhanced, but broader international agreement is needed.

Deloitte (DTTL).pdf

Others

Greater capital market regulator emphasis on the importance of and responsibility for internal control over financial reporting by management and TCWG, including fraud prevention and detection programs.

As noted in the discussion paper and elsewhere, the responsibility for detecting fraud rests first and foremost with management and TCWG of an entity. Discharging that responsibility occurs through the proper design and operation of internal controls over financial reporting. Policy makers, regulators, and listing exchanges play a key role in the financial reporting ecosystem and have the ability to swiftly impose requirements to increase awareness and accountability of management and TCWG for developing and adhering to robust fraud prevention and detection programs. Such requirements could include those similar to Sarbanes-Oxley (SOX) requirements in the US or analogous regulations in other countries. In particular, it is worth considering the merits, balanced against other factors such as cost, of establishing requirements for management to assess and provide personal certifications regarding the operating effectiveness of internal controls, including controls to prevent and detect fraud. Disclosure by management and TCWG of its fraud risk assessment processes and anti-fraud programs and controls would provide users with valuable information and insight into the entity's corporate culture. Such internal control programs could then be subject to audit procedures consistent with increasing the auditor's focus on internal controls.

Metrics or studies related to the impact of SOX or analogous regulations on the quality of financial reporting warrant consideration by the IAASB and regulators, as stronger regulation could result in providing more reliable financial information to the investing public.

Stronger laws and regulations to impose serious consequences for individuals and entities for fraudulent financial reporting or misleading the auditors and protecting employees who provide evidence of fraud.

The regulatory and legal frameworks in many countries do not provide for adequate or equal oversight across the various constituents in the financial ecosystem. While auditors are closely regulated, in some jurisdictions only the entity itself is authorized to hold executives accountable for inappropriate actions.

Providing a strong legal deterrent (power to investigate and sanction) to willfully issuing inaccurate financial statements, providing false personal certifications to the public, or misleading or lying to auditors would result in the reduction of such acts. Additionally, research has shown that internal tipoffs are by far the most common method of initial fraud detection (see 2018 Global Study on Occupational Fraud and Abuse by the Association of Certified Fraud Examiners, which states that "tips account for 40% of initial fraud detection"). Preventing retaliation against whistleblowers by imposing strict penalties (fines and/or other appropriate punitive measures) would increase the willingness of employees with inside information, suspicion, or evidence of possible fraud to speak up.

Improved financial reporting requirements by the IASB (and where needed, other accounting standard setters) related to going concern.

We believe that many of the current challenges related to going concern are due to a lack of clarity in the requirements within certain accounting standards (IFRS Standards and possibly other jurisdictional accounting standards). Management is responsible for the assessment of the entity's ability to continue as a going concern and the preparation of the financial statements in accordance with that assessment. Because of the lack of clarity in IAS 1, Presentation of Financial Statements, related to how management performs that assessment, auditors may look to requirements in the auditing standards to challenge management on the adequacy of their assessment and disclosure. Instead of creating accounting requirements via auditing standards, IFRS Standards should provide a clear framework which:

Requires the performance by management of an assessment of the entity's ability to continue as a going concern;

Expands the time period of management's assessment to cover twelve months from the date of approval of the financial statements, not the reporting date (for example, as already required by the UK Corporate Governance Code) and US GAAP);

Specifies that developments after the reporting date but before the financial statements are approved should, as necessary, be factored into the assessment of going concern even if they are not themselves adjusting events under the general requirements of IAS 10, Events After the Reporting Period; and

Clearly defines what is meant by “material uncertainty” and “significant doubt.”

In addition, DTTL notes that the requirement to disclose the judgments made by management in “close call” scenarios (where it is unclear whether a material uncertainty over going concern exists) is currently encapsulated only in an IFRS Interpretation Committee Agenda Decision (July 2014) referring to the general requirements of paragraph 122 of IAS 1 on significant judgments made in the process of applying the entity’s accounting policies. This Agenda Decision is used in the IFRS Foundation’s recently published educational material “Going Concern – A Focus on Disclosure” to illustrate different disclosures that might become appropriate as an entity’s circumstances deteriorate. While we believe this illustration is useful (and consistent with existing guidance, for example, from the UK Financial Reporting Council), its recommended that a clear and concise framework for disclosure relating to going concern be added to the IFRS Standards themselves.

The IASB may also consider including, in its Practice Statement on Management Commentary, a requirement (similar to those already in existence in some jurisdictions) for management to provide a longer-term viability statement to the public

which includes specific information (not simply boilerplate language) that articulates their business model, short/medium/long term strategies, and risks to the business model.

Application by management of a clear framework laid out in IFRS Standards related to going concern would enable auditors, under existing auditing standards, to more consistently evaluate management’s assessment, plans, and disclosures. In addition, more robust disclosures would provide financial statement users with more insights into an entity’s future performance.

Increasing focus of internal audit on detecting fraud.

For those entities which have established an internal audit function, this group of individuals plays an important role which management and TCWG could leverage to increase the ability to detect fraud. For example, an entity’s internal audit function could be given enhanced responsibilities to review and assess management’s anti-fraud procedures and controls. Policy makers, regulators, and listing exchanges could encourage entities to establish internal audit functions and suggest potential areas of focus to enhance monitoring of internal control over financial reporting.

Education for the public regarding inherent limitations of predicting prospective performance as it relates to evaluating an entity’s ability to continue as a going concern.

Regardless of the thoroughness of assessments performed by management, evaluations performed by the auditors, disclosures included in the financial statements, and explanatory material provided in the auditor’s report, predicting prospective performance is difficult. Potential effects of the inherent limitations on the auditor’s ability to detect material misstatements are greater for future events or conditions, including those that may cause an entity to cease to continue as a going concern. Professional accountancy organizations, policy makers, regulators, and listing exchanges should collaborate on how to educate users of the financial statements about how to identify potential red flags of poor future performance themselves—by more thoroughly understanding the entity, industry, competitors and business environment, as well as considering additional information available outside of the financial statements.

Education or educational requirements for entity management and TCWG.

It is critical for TCWG to play an active and informed part in overseeing the entity. Additional education to management and TCWG in matters such as the development and execution of effective anti-fraud programs and controls could be championed by professional accountancy organizations, board associations, shareholder groups, or required by listing exchanges, and would help enhance their knowledge of matters key to responsible governance.

The IASB (and other accounting standard setters) is key to defining the requirements of management related to the basis of accounting to be applied, definitions and time periods to be used when making assessments, and disclosures that are appropriate to provide stakeholders with more insight into an entity's viability. See suggestions for improvements to the international accounting standards which are included in our response to Question 1b.

With that in mind, DTTL urges the IAASB to keep in mind the points of principle outlined below when considering the scope of revisions necessary to requirements in the auditing standards in order to achieve the overall objective of improved financial reporting and reliability of audited financial statements.

As pointed out in the discussion paper, the responsibility for identifying and providing users with information on fraud and going concern is shared across multiple participants in the financial reporting ecosystem (e.g., the board of directors, audit committees, senior management, internal auditors, and external auditors) beginning with management and those charged with governance ("TCWG") through the proper design and operation of internal controls over financial reporting.

DTTL believes that, in jurisdictions where there is currently limited or no requirements or guidance for entities with respect to such areas, more assistance should be provided to enable management and TCWG to more effectively discharge their responsibilities for the prevention, detection, and communication of matters related to fraud and going concern.

High quality financial reporting requirements, including requirements for transparent disclosures and accountability for strong entity internal controls, are foundational.

DTTL encourages policy makers, regulators and listing exchanges to create requirements to increase awareness and accountability of management and TCWG for developing and adhering to robust fraud prevention and detection programs and impose serious consequences for individuals and entities for fraudulent financial reporting or misleading the auditors.

Ernst and Young (EY)

Additional actions that could be taken by others include enhancements to corporate reporting, with a focus on expanding transparency related to management's responsibilities for prevention of fraud and assessing the entity's ability to continue as a going concern. We also see an opportunity for improvements in corporate governance for Public Interest Entities (PIEs), such as setting expectations for a system of strong internal control that includes fraud risk specifically and management and director certifications on the content of financial statements as well as internal control over financial reporting. Such enhancements would also enable more substantial enhancements to auditor responsibilities.

International Accounting Standard (IAS) 1, Presentation of Financial Statements, requires management to make an assessment of the entity's ability to continue as a going concern when preparing the financial statements and requires management to disclose material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, when management is aware of such uncertainties. This requirement does not drive transparency about the viability of the entity as it sets the threshold for requiring disclosures specific to going concern very high.

To address the gaps affected by the accounting standards, we recommend that the IAASB engage with the IASB on the importance of commencing a project to clarify going concern requirements in IFRS. In 2012 – 2014, the IFRS Interpretations Committee and the IASB considered whether to develop additional guidance with respect to going concern-related disclosures, either in the form of amendments to IAS 1 Presentation of Financial Statements or in the form of an agenda decision, but decided not to do so. One of the main reasons for this conclusion was that they believed the issue could be better addressed through local regulatory or audit guidance. In January 2021, the IASB also issued educational material on going concern, highlighting the current requirement under IFRS and identified Going Concern as a potential agenda item in the upcoming agenda consultation of the IASB.

Considering recent economic developments as highlighted above, we believe it is justified for the IASB to revisit the IAS requirements that address going concern. In that case, the following may be considered:

The difference between the material uncertainty threshold and liquidation basis of accounting threshold. Currently perceptions may exist that the disclosure of a material uncertainty may become a self-fulfilling prophecy of an entity's failure

The threshold(s) for when disclosures about the entity's ability to continue as a going concern, and management's assessment thereof, are required

The location of the going concern disclosures, in particular whether there is a need to present in one place all information relevant to the going concern assessment

The entity-specific information to disclose about going concern (e.g., events and conditions identified, significant assumptions)

The period covered by the going concern assessment

GTI

In our view, all stakeholders in the financial reporting ecosystem need to be responsible and accountable for narrowing the expectations gap. Only through this shared responsibility can the expectations gap ever be decreased. More specifically, we believe that the knowledge gap can be decreased through the following actions:

All stakeholders – Better education of, and understanding by, the public on the following:

The difference between the different types of engagements, for example, an audit, a review engagement, including interim reviews of historical financial information, or a compilation engagement and the differing levels of assurance, if any, provided by those engagements;

Management's responsibilities under the applicable financial reporting framework, including specific responsibilities in relation to fraud and going concern;

The auditor's responsibilities in relation to fraud and going concern in each of those engagements, as well as the true nature and inherent limitations of "reasonable assurance;" and

The differences between the going concern basis of accounting, the identification of a material uncertainty relating to going concern and the future viability of an entity.

Regulators and others responsible for developing financial reporting frameworks – Clarifying the responsibility of management and those charged with governance, as the first line of defence, to:

Consider the potential for fraud in assessing risks to the organisation's objectives;

Develop a robust system of internal control to address the assessed risks to the organisation;

Identify suspected or actual non-compliance with laws and regulations;

Identify suspected or actual fraud;

Identify and remediate weak control environments;

Perform robust analyses of an entity's ability to continue as a going concern;

Include robust disclosures in the financial statements in respect of these matters.

In our view, the main cause of the expectations gap relating to fraud and going concern in an audit of financial statements is the knowledge gap – described in the Discussion Paper as the difference between what the public thinks auditors do and what auditors actually do. This can also be somewhat exacerbated by the media focus on the auditor when frauds or going concern issues are uncovered subsequent to the completion of the audit and the issuance of the auditor's report, especially when this results in the failure of the business. Media focus, in general, is naturally biased towards coverage of such issues and the perceived failures of the auditor, rather than providing more balanced reporting that also reports instances where the auditor has been instrumental in identifying issues or have even prevented a fraud from being perpetrated just through the performance of an effective audit.

This misperception, in part, could be addressed by regulators through the provision of 'thematic reviews' that anonymously analyse the work of auditors in the areas of fraud and going concern, including situations where the auditor has been effective in identifying and responding to risks of material misstatement arising from fraud or going concern. The development of 'fraud indices' may also be an effective means of highlighting the value of audits as this would provide the ability to contrast the prevalence and magnitude of frauds in jurisdictions where audits are more pervasive with jurisdictions where audit is less pervasive. This could be something similar to the 'Corruption Perceptions Index' that has been developed by Transparency International that ranks countries on a scale from 'very clean' to 'highly corrupt'.

Regulators – Performing research to form a better understanding of the specific causes of corporate failures or scandals concerning accounting improprieties. By fully understanding the root causes, actions can be taken by the appropriate parties to prevent future occurrence. As noted in our response to question 1(a), thematic reviews could be used to add to the general understanding through the anonymous analysis of the work of auditors in the areas of fraud and going concern, including situations where the auditor has been effective in identifying and responding to risks of material misstatement arising from fraud and going concern.

HLB International (HLB)

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

KPMG

We also highlight that any changes to requirements in auditing standards regarding the role of the auditor and information to be included in the auditor's report may need to be predicated on corresponding and equivalent changes to financial reporting standards, e.g. IFRS Standards (in particular IAS 1), as well as legal/ regulatory/ corporate governance framework requirements, including in relation to disclosure requirements. Similarly, we highlight that new information about going concern and fraud matters should not be introduced via the auditor's report, which is focused instead on clarifying what the auditor has done to evaluate management's assessment and may provide commentary about procedures, when relevant. Instead, such information should be provided by the entity itself, e.g. in Other Information such as the front section of the annual report, as management is primarily responsible for these areas and is best placed to perform (initial) assessments and provide detailed information about these areas.

Audit is One Piece of the Puzzle

An audit is only one piece of the puzzle in the wider financial reporting ecosystem. Notwithstanding the fact that the auditor has a very important role to play in facilitating public trust in the capital markets, we consider that any changes made to the role and responsibilities of auditors in the ISAs, or the pursuit of separate engagements in the form of an integrated audit or assurance engagement in accordance with the ISAE 3000 (Revised) suite of standards, would need other stakeholders to make corresponding changes in respect of the roles and responsibilities of others in this ecosystem. Changes to roles and responsibilities would need to be substantially aligned and implementation would need to be appropriately sequenced to enable the ecosystem to operate effectively as a whole. We recognise that this would necessitate the introduction of legal/ regulatory/ corporate governance code requirements, which would take place on a jurisdiction by jurisdiction basis, with this evolution occurring at a different pace across different jurisdictions.

Mazars (MAZ)

Also impacting the knowledge gap is the frequent lack of clear disclosure of management's key assumption around the going concern analysis. While we recognize that it is outside of the purview of the IAASB, having stronger disclosures regarding the key assumptions and data used in assessing going concern assumption, as well as the time period considered, would benefit users.

Although the IAASB has no authority to call for local laws, defining internationally established best practices for good corporate governance, such as compulsory audit committees with independent members for entities with certain characteristics (PIE; size etc.) . This is especially important to have a robust governance when there is a very dominant senior management. Also, the senior member of the supervisory board and audit committee need to have appropriate qualifications and knowledge in the area of financial statements, and the relevant industry to be able to challenge management independently and properly. Defined expectations on the financial qualifications ("financial expert") should be considered.

As a pre-requisite for the effective implementation of any new proposals or measures on both topics of fraud and going concern, we strongly believe that, at least as a short term for most-exposed entities and PIE as a priority, the following could be done:

In terms of Corporate Governance

The evolution of Corporate Governance, to manage and mitigate risks associated with dominance of certain individuals in the management, or as executive directors, is a must;

Non-financial reporting should be high on the agenda of Corporate Governance, to drive CEOs to be accountable for long term value creation, instead of short-term financial results and shares plans for management.

In terms of internal control

Introduction of increased internal and external reporting on key controls, increasing the personal responsibility and accountability of management, and board members (via Audit Committee oversight re shareholder protection / resilience / sustainability / fraud / cash forecasts);

Improving and / or expanding corporate fraud prevention efforts (including robust internal control) and developing going concern red flags (including basic but reliable cash forecasts in all entities) to identify issues arising timely;

More timely and transparent communication and reporting, not only from the auditors, but also, and first, from the Management and Those Charged With Governance. This includes especially the public disclosure of the basis for the going concern assumption, even if there is "no problem", in the notes of the financial statements;

Management must report on the effectiveness of internal control

The audit committee must exercise greater responsibility for the company's internal control, by setting up a risk and internal control quality dashboard

More active involvement and challenging of the Management by Those Charged With Governance, especially when there are dominant individuals; and

For PIE, reporting from the audit committee (AC) / Board to be public on select areas, including the key elements of challenge by the AC or the Board vis à vis Management. Such reporting which is already encouraged in some jurisdictions, could be helpful to enhance robust governance and transparency.

Consideration should be given to disclosures of managements' financial ratios / KPIs / non -financial indicators used to manage the business and / or comparisons with KPIs from sector industry benchmark could be helpful.

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.

On the going concern topic:

Prevention of going concern is a priority and to address this better, enhanced disclosures requirements of the going concern assumption in the accounting standards, including in close call situations or when the entity has made significant judgments to maintain a going concern as a basis of preparation, should be considered.

The independent auditor (but also the governance and the management) must be systematically informed of alerts on the company thanks to a system for consolidating alert signals

While the role of the auditor is key, the role of the Management and Those Charged With Governance (TCWG) is crucial together with different stakeholders (such as banks when focusing on going concern issues). As mentioned in the paper by the IAASB chair “we [the auditors] cannot narrow the expectation gap alone”.

However, a reminder of the primary responsibilities of the role-players, including the differences between management, governance (TCWG. Boards, Audit committees), and the auditor, through public / stakeholder engagement, is necessary but not sufficient.

We believe it is high time to join efforts and forces for an integrated approach among legislators, corporate governance actors, accounting and auditing standard setters. Benefits of an integrated approach include:

Enabling all stakeholders to approach the going concern and fraud risks with a more consistent view of business risk and financial information;

Increase usefulness of information for all stakeholders compared to a solely auditing approach or silo approach;

Aid in the development of best practices for governance and audit committees (using for example the ones issued by the International Organization of Securities Commission (IOSCO) ;

Improving consistence in thought leadership papers focused on addressing and mitigating fraud and going concern issues produced by institutions, organisations, and other stakeholders, with a common view of the how all parties can support the public interest and design a kind of coordinated action plan with an effective, but limited number of integrated measures ; and

Reinforcing the need for an improvement in the training and education of all stakeholders in a common set of expectations and understanding.

The status quo is not an option, neither for the auditors nor for the other stakeholders. Actions must be taken if we are to reduce the expectation gap.

Mazars USA (MAZUSA)

Response: Given our response to Question 1(a) is focused on a lack of common understanding, education of the preparers and external users of financial statements is the best way to narrow the expectation gap. Such education should address the key roles that lead to the divide, namely, the respective responsibilities of management, TCWG and the auditors. This education can be accomplished in a variety of forms, and would best to come from all interested parties, management, the auditors, regulators, institutional investors, and standards setters in the form of expanded communication and tools related to what is expected from each participant in the financial reporting ecosystem. This interconnected approach would help narrow the expectation gap.

While we recognize that financial reporting standards and certain other disclosures required by regulators are not the purview of the IAASB, we believe that improving disclosures around fraud prevention and the consideration of the going concern assumption would assist with closing the expectation gap. Disclosure regarding fraud prevention might focus on detailing the client's key processes, structure and controls that support the accurate reporting of financial information. Enhanced disclosures around going concern might address both the key assumptions that support the conclusion as to the appropriateness of reporting on a going concern basis and greater transparency around management's assessment of potential risks. When there is a close call, or the going concern basis is not warranted, additional disclosures of key assumptions around financial modeling may be appropriate. Given management assessments of going concern vary widely in terms of approach and diligence, we believe that financial reporting standards globally should establish a more detailed, diligent financial reporting framework for management to follow in building their going concern analysis. We believe that convergence among regulators and financial reporting standard setters on these topics would benefit the users of the financial statements and assist in closing the expectation gap.

MNP LLP (MNP)

ISA 570 (Revised), Going Concern offers guidance which requires the auditor to evaluate management's assessment of the entity's ability to continue as a going concern. Generally, this includes, but is not limited to, a cash flow projection over 12 months from the audit report date. That projection likely cannot reasonably capture the full spectrum of possible uncertainties to which that an entity is exposed. A separate challenge is that amongst emerging growth public companies, the presence of a going concern statement may be commonplace but still does not fully address an investor's information needs. In reflecting on this expectation gap, it is worth noting that securities regulators in many jurisdictions require reporting issuers to provide additional information in its Management Discussion and Analysis (MD&A) accompanying their financial statements. Under the umbrella of IOSCO, there may be a more effective path to meet investor needs via resilient disclosure in the MD&A. Auditors are required to refer to and describe their responsibility with regard to MD&A in their opinion.

Current going concern guidance is largely within the audit standards whereas the accounting standards offer minimal guidance on this topic. Therefore, we suggest that the International Accounting Standards Board (IASB) explore guidance in the accounting standards, with an emphasis on practical illustrative examples to guide accountants, management and those charged with governance of organizations and auditors alike.

Additional insight can also be provided by the governing bodies of Corporate Directors, who can provide additional education and guidance to its members surrounding the going concern topic. Some organizations have internal audit functions that can further explore resilience or provide additional transparency to Corporate Directors on the going concern topic.

Securities regulators may contribute to investor needs with more refined guidance regarding expectations for Directors and management of organizations about their responsibilities regarding fraud and going concern.

Moore (MGN)

In terms of what could be done, by the IAASB or others, we believe considering the following could be a good starting point:

Promoting and facilitating a mutual understanding and knowledge of the expectations and roles of stakeholders and all participants in the financial reporting ecosystem (this could not be done by IAASB alone, in all likelihood, but IAASB could play a key coordinating role).

Nexia International (NI)

However, although this gap has narrowed in recent years as accounting standards rather than only audit standards, address this topic, we do believe that IAS 1 could be much more detailed on when and how management report issues around going concern. The auditing standards provide more guidance, but this does not apply to management.

There should be enhanced regulatory requirements for TCWG to connect with other stakeholders to make sure that the public perception is being managed, rather than leave this responsibility to the auditors. Regulators and accounting standard setters need emphasise that this is primarily a management and corporate governance issue. There should also be requirements for TCWG to communicate significant matters from the audit to the wider stakeholder group.

This entails more consistent and more transparent communication of the work performed by auditors to address significant matters (e.g., fraud and going concern). While ISA 260 Communication with Those Charged with Governance may have set down the framework on how significant matters are communicated by the auditors to TCWG, there may not be similar requirements to ensure that there is a similar information flow from the TCWG to other stakeholders.

Closing this gap requires the joint efforts of various parties including:

Standards setters who should ensure that standards are clear and understandable and should provide adequate and appropriate guidance on their implementation. In particular, more examples could be provided on how complex fraud risks, such as external collusion, can be addressed.

More stringent requirements for training auditors through education and examination and on the job training.

Robust supervision/monitoring by the firms, national professional bodies and regulators.

We also believe that the IAASB should encourage the IASB to enhance the requirements in accounting standards to disclose management's approach regarding the risk of fraud and the evaluation of going concern.

RSM International Limited (RSM)

A further possibility would be for financial statements to include an explicit statement by those charged with governance regarding the responsibilities of management with regards to fraud and going concern. This is already in use in certain jurisdictions, sometimes in the form of a solvency statement. Broader adoption of this approach should be evaluated and engagement with key local legislative bodies could be considered. This consideration should also include the needs of users of the financial statements, such as whether such explicit statements are of equal value to all users of financial statements or of heightened value to public interest entity or listed entity financial statement users.

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

5. Public Sector Organizations

Auditor General of South Africa (AGSA)

Increased reporting related to the primary responsibility of management and those charged with governance for the assessment of going concern and the prevention and detection of fraud may be considered as part of the annual report. This could include specifying who is responsible for these functions as well as cases of fraud identified and which actions or consequences have been taken in response. This may provide some relevant information to the public and also serve as a deterrent to those considering to commit fraud. This may be a matter for IPSASB/IASB to consider.

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

New Zealand Auditor General (NZAG)

In our view, the requirements placed on preparers to justify their use of the "going concern basis of accounting" as the basis for preparing their financial statements needs to be very clear. For example, the "resiliency statement" prepared by certain entities in the United Kingdom places greater demands on entity management and governors when asserting an entity is a going concern in the context of preparing the financial statements of the entity.

If a clear understanding is reached on what going concern means, in the context of an entity's financial statements, the entity will need to provide evidence (supported by suitable disclosures in the financial statements) that it is justified in asserting it is a going concern. This in turn provides the auditor with an appropriate platform from which to assess management's use of the going concern assumption.

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Ensuring preparers and auditors have continuing education on their roles, responsibilities and knowledge. This may help address the knowledge, performance and evolution gaps of the auditors.

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Office of the Auditor General of Canada (OAGC)

Going concern, which underlies many accounting frameworks, is not always presented with explicit requirements for preparers of financial statements in accordance with the applicable financial reporting framework. We would encourage each accounting framework premised on this assumption to include explicit accounting and disclosure requirements to assist users in understanding the principle, its application, limitations and risks. Further, accounting frameworks do not consistently instruct the preparation of management statements of responsibility or their content which could further explain management's responsibilities with respect to going concern.

In addition, the introduction of mandatory auditor rotation, either via ethical requirements or assurance requirements could serve to heighten or renew auditor skepticism and objectivity, while simultaneously introducing greater variation in audit approaches which may serve to improve auditor performance in the detection of fraud and going concern issues, which may then serve to narrow the gap via improvements in performance.

6. <u>Professional Accountancy and Other Professional Organizations</u>

Botswana Institute of Chartered Accountants (BICA)

At the moment there are a few audit regulators across the world. In Africa, there are less than 10 Audit specific regulators, out of 54 countries. This means the work of auditors goes unchecked and therefore performance gap will continue to widen. Jurisdictions should take reasonable steps to come up with measures to ensure that the audit profession is regulated and their work reviewed against the adopted auditing standards.

National Audit Regulators should take the responsibility of educating the public about the nature of an audit of financial statements. The main focus should be those charged with governance and Institutional investors. This will reduce the knowledge gap and help better decision making by those charged with governance and investors.

Center for Audit Quality (CAQ)

Further, we believe that all other participants in the financial reporting ecosystem, including internal and external auditors, audit committees, and management, should continue to educate the public and users of the financial statements as to their particular role and responsibilities when it comes to deterring and detecting fraud. Education also could come in the form of additional guidance related to what is expected from each participant in the financial reporting ecosystem, which may help further narrow the "Knowledge Gap". For example, in the United States, the COSO 2013 Internal Control-Integrated Framework outlines 17 principles to consider for effective internal control over financial reporting, one of which specifically relates to management's fraud risk assessment. Such clarity as to what is expected of management could help users of the financial statements understand how the responsibilities of management, auditors and others interrelate.

CFO Forum

The many accounting scandals over recent years have certainly not helped this matter and have inevitably widened the gap. A further solution for narrowing the gap is for there to be more transparency on recent failings as this normally does not get shared or takes far too long to share with the general public. The envisaged transparency should include the publication of a report detailing the reasons why the auditors did not identify the material matters as well as whether sufficient and appropriate audit work was performed in accordance with all the relevant standards. In addition to general outreach and socialization, impacted regulators may also consider publishing educational material on the topic.

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

Enhance the responsibilities of management and those charged with governance to manage, and provide transparent reporting over how they have managed, business risks related to financial reporting (including fraud) and other areas which maybe be of interest to stakeholders. This could be achieved by some form of internal controls reporting, subject, where appropriate by assurance. Calls for such regimes have been made in both as per the Independent Review Report of Sir Donald Brydon (the Brydon report) and the recent Australian Parliamentary Joint Committee Inquiry in the regulation of auditing in Australia. We also recognise the cost of such reporting involved for smaller entities, so they need to be developed with appropriate consultation and consideration of which entities should be subject to such regimes.

We agree with the IAASB's view that these issues are a wider financial reporting ecosystem issue and that addressing the role of auditors and their responsibilities is only part of the answer. Stakeholders believe that without change in other areas, namely, addressing the responsibilities of management and those charged with governance in the areas of financial reporting and corporate risk management, any change to auditors' responsibilities will have little, if any, impact in addressing the expectation gap in relation to fraud and going concern.

The key areas where an impact can be made that were identified during our outreach are:

The need to refine and improve auditor's skills in relation to fraud detection. This was viewed as preferable to simply including fraud specialists on all engagements, though there may be a role for such specialists in some engagements. Fraud detection skills should be addressed at the university, qualification and continuing professional education levels. This includes finding mechanisms for practitioners to learn from actual fraud cases which often is prevented by long litigation time-frames, non-disclosure agreements and other legal impediments. Sharing of such cases would assist auditors to refine knowledge to adjust risk assessment and audit procedures.

Confederation of Indian Industry (CII)

There is also a need from professional bodies overseeing the audit profession and accounting qualification to enhance the skills of auditors in areas of professional scepticism, risk identification, technology and analytics to lead to greater detection of fraud. Regulators may set up early warning systems and provide better access to auditors of such data that may be examined during audit.

CPA Australia (CPAA)

Other stakeholders typically have scope to address fraud and monitor going concern more effectively and in a more timely manner than the external auditors. Prevention and detection of fraud and ensuring the entity remains a going concern is primarily the entity's responsibility and all parts of the reporting eco-system need to be working together to maximise the opportunity to effectively address fraud and the risk of unexpected corporate collapse, thereby reducing the expectation gap. Whistleblowers and effective internal controls systems have historically been the most effective means of fraud prevention and detection. External auditors' work is based on materiality and risk assessment, as a result only selected amounts and usually a sample of transactions and balances, are examined in detail. In contrast, an entity's system of internal controls should monitor and control every transaction and balance. Likewise, an entity's internal monitoring of cash flows and cash flow forecasts, and the viability of its business, is likely to be more effective and timely in identifying going concern issues than the auditor's periodic work after the fact, albeit management may be more optimistic about the likely business outcomes.

Going concern could be addressed by:

Standard-setters and regulators mandating, or entities being encouraged to voluntarily make, enhancements to management commentary, such as an assessment and statement of future viability or resilience of the entity or the risk profile reported.

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

Institute of Certified Public Accountants of Uganda (ICPAU)

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

Institute of Chartered Accountants in England and Wales (ICAEW)

We believe that IAASB should also engage with those responsible for the regulation of companies and encourage a much more robust approach to going concern on the part of management.

Institute of Chartered Accountants of Scotland (ICAS)

Effective system of internal controls

We also believe that a strong focus by management and those charged with governance on having an effective system of internal controls over financial reporting can also play a key part in seeking to mitigate the risk of fraud occurring within an organisation. We do therefore believe that there is merit in jurisdictions considering whether they should impose requirements on directors to attest as to whether the entity concerned does have an effective system of internal control over financial reporting. Consideration would also need to be given to the potential involvement of the auditor, if any, in such attestations.

In terms of future steps, we believe there is a need for discussions to take place with regulatory bodies around the globe to try and arrive at a more holistic approach to addressing fraud in the corporate environment. Matters such as internal controls, responsibilities of directors and requirements of financial reporting standards should be considered. A holistic approach would then depend on additional requirements being placed on directors. This could follow the approach as envisioned in Sir Donald Brydon's report, however, this will be difficult to achieve at the global level and to some extent will require to be jurisdiction specific.

Institute of Singapore Chartered Accountants (ISCA)

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.

Inter-American Accounting Association (IAA).pdf

We believe that the IAASB, professional bodies, global and regional AUDIT FIRM FORUMS, as well as other groupings can do much to reduce the expectation gap related to fraud and the going concern in a financial statement audit, especially the IAASB for the great prestige and respect of the professional and business community, for the high quality of the standards issued. It is important to delve into the knowledge gap since many times, especially in our Latin American countries, there is an erroneous perception of what the public thinks that auditors do and what we really do.

International Federation of Accountants (IFAC).pdf

We strongly agree that each participant in the financial reporting ecosystem has an essential role that contributes to high-quality financial reporting.

We agree that the IAASB cannot solve the issue of the expectation gap alone. Addressing this issue effectively calls for looking across the participants in the corporate reporting ecosystem, including preparers of reports, audit committees, directors, and management. It is important other stakeholders consider whether addressing gaps in the expectations placed on audit might require broader changes, including a more rigorous approach to the accountability of company management for high quality financial reporting processes and internal controls. An organization's policies and procedures for whistleblowing will also be an important component of detecting and dealing with fraud.

Value of Audit

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

In general, we consider the IAASB's focus should be on:

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

In general, IFAC also considers that other professional organizations responsible for training and certification of members who rely on financial information (e.g., investors) also play an important education and training role. For example, in relation to communicating the benefits and limitations of audit and assurance engagements.

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

One of the challenges for the accountancy profession is attracting talent, especially in the field of audit. A more positive portrayal in the media about the value and role of an audit of financial statements for all stakeholders may also help address this important issue. This matter was highlighted well by Sir Donald Brydon in 2019: "It is not auditors that cause companies to fail, that's the result of the actions of directors. I'm a little troubled by the current mood that reaches for a shotgun aimed at auditors every time there's a corporate problem. Audit needs to be an attractive profession that attracts the brightest and the best who can have confidence that a good piece of professional work will not be misdescribed in times of stress" .

Kriton (KNL)

Communicating more clearly about the principles used for applying the going-concern assumption (in the explanatory notes to the financial statements).

Audited entity

National and international regulators (reporting)

Providing guidance and good practices regarding activities that might be appropriate in the given circumstances, taking into account the local and cultural context. Examples include subjects such as:

Brainstorming and discussing going concern during the team meeting

Investigation and analysis methods and (technical) resources to be deployed.

National professional organizations

Removing shortcomings in laws and regulations. By way of illustration: currently, the 'horizon' to be used in the regulations for applying the going-concern assumption is usually set at one year from the balance sheet date, while the common interpretation in practice is one year from the date of the preparation of the financial statements (or the date of the auditor's opinion).

National regulators

Clarifying the scope of the term 'going-concern assumption', such as with regard to the period ('horizon') and the inherent uncertainty of forward-looking information.

National and international regulators (reporting)

IAASB

Increasing the theoretical knowledge and expertise of auditors with regard to the subject of 'going concern'. Areas of attention include:

Going concern reporting concepts, including estimates, uncertainty and the importance of disclosures

Investigation methods and skills (such as interview techniques and financial analyses)

The distinction between uncertainty about future events and the inability to obtain sufficient appropriate audit evidence about the assumptions used

Sociology and psychology (aspects of human behaviour).

National institutions that determine the exit qualifications for theoretical study, including postgraduate programmes

Providers of theoretical study (universities (of applied sciences))

National professional organizations/regulators

Malaysian Institute of Certified Public Accountants (MICPA)

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

In order to narrow the expectation gap relating to fraud and going concern in an audit of financial statements, there is a need to adopt a more holistic approach involving different stakeholders (preparers, management, those charged with governance, investors, regulators as well as auditors) in the financial reporting ecosystem.

In this respect, we propose the IAASB to engage the authorities and regulators at the global level to narrow or close the expectation gap relating to fraud and going concern in an audit of financial statements in order that the understanding and messaging cascading down from the respective jurisdictional authorities and regulators are aligned. These institutions can institute jurisdictional changes which can encourage holistic action across relevant stakeholders and bring about positive and sustained reforms.

With regard to going concern, unlike the auditing standard ISA 570 (Revised) Going Concern, which is quite comprehensive, there are minimal requirements in the accounting standard IAS 1 Presentation of Financial Statements to govern the management's assessment and disclosures related to going concern. Based on our observation, there is a lack of robustness in the management processes and controls for identifying and responding to the risks relating to fraud and going concern exacerbated by the lack of clarity on the responsibilities of those charged with governance in this process.

While it is therefore appropriate to consider whether there are ways in which the current auditing standards can be improved, it should be acknowledged that the root causes of the expectation gap and solutions to it are unlikely to be a function of the financial statement audit alone.

Our response to part (b) below and to the other questions explores further the interaction of the roles of others in the ecosystem and the IAASB and the types of broader responses that may be needed to “move the dial” to address the expectation gap relating to fraud and going concern in an audit of financial statements in an impactful and sustained manner.

Mexican Institute of Public Accountants (IMCP)

To ask IFAC affiliated organizations the delivery of specific learning courses and material on fraud and going concern.

Going Concern

In relation to the evolution gap:

Disclosure requirements of financial reporting frameworks should be extended for specific cases in which there are elements that may affect the entity's ability to continue as a going concern, such is the case of entities with long-term debt for significant amounts, or companies whose income depends on the price of commodities and which can be affected by negative fluctuations in market prices. Although predictability is a characteristic of financial information, it is not possible to attribute to it the ability to predict everything that may occur.

For decision-making purposes, users of financial statements should also refer to financial and non-financial information contained in information sources other than audited financial statements, including information on the entity's exposure and management of financial risks.

New York State Society of CPAs (NYSSCPA)

Another example of a significant improvement occurred in the US when the FASB issued ASU 2014-15, Presentation of Financial Statements – Going Concern (Subtopic 2015-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern. The main provisions of the ASU clarify that responsibility for the going concern evaluation remains squarely into the hands of management who must make a focused, structured evaluation of the events or conditions that in the aggregate raise substantial doubt about the entity’s ability to continue as a going concern (over a stipulated period). Management must also evaluate any mitigating factors, its remediation plans, and disclosure of such information. Equally significant is that the FASB set the standard for related disclosures thus providing auditors with a benchmark against which they may assess the adequacy of such disclosures. This approach is more focused and utilitarian.

Pan African Federation of Accountants (PAFA)

While it is our view that a knowledge gap is the main contributor to the expectation gap, it is our view that the Profession need to own the process of addressing this gap and one of the ways this can be done is by telling more of the good stories as a way of raising awareness of the successes of external audits (without compromising confidentiality).

REA Auditores - Consejo General de Economistas (REA)

In our opinion, the problem that gives rise to the expectations gap is due, as we indicated in the answer to question a) above, to the lack of knowledge on the part of the users of what an audit of accounts consists of and the technical auditing standards (ISAs). For this reason, we think that a good measure would be to increase the actions aimed at its disclosure and better understanding of the object of an audit. To begin with, we consider that economic and auditing training should be established from the earliest levels of university education (perhaps even earlier). This is a very topical debate in Spain that is being promoted in different economic and academic forums.

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

South African Institute of Chartered Accountants (SAICA)

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

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

There is a need to also place more accountability on the other role players such as the preparers of financial statements (Chief Executive Officers and Chief Financial Officers) and those charged with governance (e.g. Audit Committees). Corporate culture and the quality of the reporting and internal controls at the organisation have a significant impact on whether fraud will be detected even without involving the auditor and on whether the going concern basis of accounting is appropriate. Therefore, explicit reporting could be required from both the preparers and those charged with governance on actions that they have undertaken to ensure that they fulfil their responsibilities in these two areas. This management responsibility needs to be given increased public acknowledgement.

Any changes to the International Standards of Auditing (ISAs) that the IAASB may propose will only address the performance gap in clarifying the requirements and the evolution gap in responding to the changing needs of the general public demands, but other action is required to address the knowledge gap. This is probably the reason why, although the ISAs have been updated and revised over the years, the issue of the expectation gap remains unabated. The importance of educating and having a continuous dialogue with the appropriate stakeholder groups in an effort to close the knowledge gap cannot be emphasised enough. This should not be the responsibility of the IAASB alone but of everyone involved in the wider financial reporting ecosystem.

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

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

Wirtschaftspruferkammer (WPK)

As the primary responsibility for assessing the going concern status lies in the hands of management (and those charged with governance), rather management should be obliged by respective requirements in the financial reporting standards to make a clear statement regarding Going Concern and substantiate its assessment.

7. Individuals and Others

Christian Minarriz (CM)

Regulators- accounting standard setters (including IASB): provide more explicit requirements and guidance about the disclosures for "material uncertainty" and "close call", including the definition of "Material uncertainty"

Q1b-2.91 - No Comment

1. Monitoring Group

Basel Committee on Banking Supervision (BCBS)

2. Regulators and Audit Oversight Authorities

Financial Reporting Council (FRC)

But there are clearly some identified aspects that the IAASB could seek to address that would help reduce expectation gaps generally, particularly where the cause(s) relate to a knowledge or performance gap. For example, during our consultation for the revision of ISA (UK) 570, some respondents expressed concern that the proposals would require auditors to go further than management are required to in making their going concern assessment, despite this already being the case. As paragraph 6 of ISA 570 sets out, the auditor's responsibilities include to obtain sufficient appropriate audit evidence and conclude whether a material uncertainty related to going concern exists even if the financial reporting framework used in the preparation of the financial statements does not include an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern. Problems in this area were not a failure in the standard, but instead a failure caused by a performance gap in the application of the standard, namely auditor failure to implement the existing requirements appropriately. We have emphasised the message in paragraph 6 in our revised standard.

3. Accounting Firms

MHA Macintyre Hudson (MHA)

4. Professional Accountancy and Other Professional Organizations

Belgian Institute of Registered Auditors (IBR-IRE)

Belgian National Chapter of Transparency International (BNCTI)

European Audit Committee Leadership Network (EACLN)

International Air Transport Association (IATA)

PIRC

5. Investors and Analysts

Corporate Reporting Users Forum (CRUF)

6. Individuals and Others

Ahmed Al-Qawasmi (AAQ)

Alvaro Fonseca Vivas (AFV)

Constantine Cotsilinis (CC)

Dmitrii Timofeev (DT)

Michael Bradbury (MB)

The Unlimited (TU)