

International Audit Standards Board: Fraud and Going Concern in an Audit of Financial Statements: Exploring the Differences Between Public Perceptions About the Role of the Auditor and the Auditor's Responsibilities in a Financial Statement Audit

We welcome the opportunity to comment on this Discussion Paper (DP).

Moore Global is a leading mid-tier network with over 240 independent member firms in 110 countries. Our firms are multi-disciplinary practices, providing a wide-range of professional services, including audit and assurance services.

Global corporate collapses and high-profile fraud cases have reignited debate about the audit of fraud and going concern. We believe that IAASB has acted in the public interest in broadening the debate with this Discussion Paper. We do however have some concerns, firstly that the timing of the exercise, coinciding with the global pandemic, may result in a disproportionate result, and secondly that there is a danger that issues with compliance with existing requirements could be misidentified as issues with the existing requirements themselves and, while this may well be the case in some instances, it may not be in others.

Responses**Question 1- In regard to the expectation gap:**

- (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?**
1. The phrase 'Expectation Gap' was coined many years ago in an attempt to succinctly summarise disconnects between members of the financial reporting ecosystem. Over time the phrase has become many things to many people and there are likely many competing visions of what the phrase actually means. We do not believe there is a single (expectation) disconnect between auditors and other individuals/groups – other disconnects that appear evident include knowledge/understanding gaps, and performance gaps. Neither do we believe that disconnects only exist between auditors/non auditors. We do not believe that there is one 'main cause' for any of the disconnects which exist, including for any universally agreed 'expectation gap'. In particular, we do not necessarily believe that the gaps in expectation (and other factors) arising in relation to fraud and going concern are the same or have identical causes (although there may be similarities both between the various disconnects and the reasons for those disconnects).
 2. In our view a key to resolving disconnects is to recognise not just that they are nuanced but that there can be no meaningfully effective solution that does not address and include all the members of the ecosystem. Nevertheless, we appreciate that IAASB has the role of determining audit standards and therefore will primarily be addressing issues relevant to the auditor piece – but this should be considered in the context of the nature and circumstances of the issues as a whole.
 3. 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.
 4. Notwithstanding all this, we do strongly agree that the audit profession has a role to play in helping to resolve disconnects through, among other things, considering:
 - What could be done better than is being done now (improving or extending current performance in compliance with existing standards);

- What isn't being done now that should be (addressing non-compliance with existing standards);
 - What additional steps could and/or should be taken (improving standards, potentially extending the scope of an audit or considering whether there are additional complementary engagements that could be triggered by the audit (as a result of audit findings, perhaps)).
5. As suggested above, while we recognise there are, in some cases, significant disconnects between expectations relating to the audit of fraud and the audit of going concern, we do not think the disconnects are necessarily identical, nor do we think they necessarily stem from the same root causes.
6. With regard to Fraud, it is clear that many stakeholders expect auditors to detect all major fraud, some expect auditors to detect all fraud no matter the financial impact, and some expect auditors to prevent fraud from having occurred in the first place. Some stakeholders believe the key purpose of audit is to detect or prevent fraud.
7. With regard to going concern, some stakeholders appear to expect auditors to be able to predict with certainty an entity's financial and economic viability and resilience. Some of these expectations are reasonable, to an extent, many are not.
8. 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).
 - 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.
9. 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.

Question 2 - This paper sets out the auditor's current requirements in relation to fraud in an audit of financial statements, and some of the issues and challenges that have been raised with respect to this (see Sections II and IV). In your view:

- (a) **Should the auditor have enhanced or more requirements with regard to fraud in an audit of financial statements? If yes, in what areas?**
- (b) **Is there a need for enhanced procedures only certain entities or in specific circumstances? If yes:**
- (i) **For what types of entities or in what circumstances?**
 - (ii) **What enhancements are needed?**
 - (iii) **Should these changes be made within the ISAs or outside the scope of an audit (e.g., a different engagement)? Please explain your answer.**
- (c) **Would requiring a "suspicious mindset" contribute to enhanced fraud identification when planning and performing the audit? Why or why not?**
- (i) **Should the IAASB enhance the auditor's considerations around fraud to include a "suspicious mindset"? If yes, for all audits or only in some circumstances?**

- (d) Do you believe more transparency is needed about the auditor's work in relation to fraud in an audit of financial statements? If yes, what additional information is needed and how should this information be communicated (e.g. in communications with those charged with governance, in the auditor's report, etc.)?**
10. We believe that the existing requirements relating to fraud are reasonable and appropriate in and of themselves, however enhanced application material or other guidance could usefully be developed by IAASB, in particular, addressing:
- Circumstances where fraud risk indicators are present – providing auditors with more useful guidance on how to respond. Existing guidance could be rewritten/expanded to address modern methods of auditing including data analytics as possibilities where triggered;
 - Guidance on interactions with the IESBA Code around client acceptance where fraud risk indicators may be present;
 - Fraudulent manipulation of the financial statements;
 - Suspected fraud in entities with low complexity;
 - Corporate culture;
 - Qualitative materiality in relation to fraud;
 - The relationship between fraud and error.
11. In particular, we believe that additional guidance on the fraud triangle as it relates to smaller entities would be particularly useful since incentives and justification may have qualitative differences in those entities when compared to larger entities.
12. Additional/revised requirements might usefully be developed relating to engagement with audit committees in particular, and general promptness of response.
13. We are uncomfortable with the phrase 'suspicious mindset' although we accept that it is becoming a popular concept. We feel that the word 'suspicious' carries unfortunate nuances and runs counter to professional scepticism which should not be rooted in distrust but rather in absolute neutrality. If a new word is considered necessary, then we prefer 'questioning'. We do, however, agree as indicated above that scepticism as a concept could and should be better understood (by all parties) deployed and documented (by auditors). However, we believe that the best way to achieve this is through enhanced guidance and examples rather than enhanced/expanded requirements.
14. One area which we feel could be further explored is the provision of case-study examples targeted at honing scepticism, in particular training that leverages real life examples of frauds that actually took place. Leveraging real world experiences to provide auditors with genuine insight seems to us to be potentially a very useful path to improving audit quality around fraud.
15. While we agree that specific skillsets and where possible, experience, are very important when planning and performing audit procedures to assess and respond to fraud risk, we are unconvinced that the use of forensic experts would be a magic bullet. There is no universally accepted definition of what constitutes a forensic expert, and there are a variety of competing professions and qualifications in this field. Should IAASB wish to pursue this line of thought further we suggest that the board considers the questions who, why, when and how. Meaningful and effective requirements might address:
- Who - the person/skills that are being envisaged as potential audit team additions;
 - Why – the triggers for consideration of whether following this route was appropriate (and what might require following this route);
 - When – at what stage of the process such experts should become involved;
 - How the additional work performed would be integrated into the main audit effort (and the scope of the additional work).

16. We note that as things stand, any auditor could use a forensic expert at any time during the course of an audit engagement. We suggest that IAASB might consider how best to articulate the idea that even if forensic (fraud) experts are considered and discounted at the planning stage of an audit, auditors should be aware that as the picture becomes clearer and evidence is obtained the conditions where the use of such experts could actually be indicated may arise. There would be benefit in IAASB re-enforcing the message that the approach to fraud is set out during planning following the initial risk assessment, but it is not set in stone. If revisions, small or large, are needed then revisions should happen.
17. Notwithstanding our comments on forensic experts above, there are additional considerations around cost and scalability. Forensic experts may be widely available in some jurisdictions but not necessarily all. We already noted above that the title forensic expert might have an extremely wide definition but even ignoring that, the fact is that for small firms in some jurisdictions such experts would be either unobtainable or unaffordable. If the use of forensic experts was mandated only for particular types of audit and the trigger was in any way size related (or classification eg mandated only for PIEs) then there would be dangers around their use being a blunt non risk-based tool. We are aware that in some jurisdictions it is the audit committee that engages forensic experts if fraud is suspected (therefore they may be uninvolved in the identification or evaluation of fraud risk indicators) however even in these circumstances cost can be an issue. It is also worth noting that not all frauds are sophisticated, even in the largest entities.
18. We do however agree that more transparency around the audit of fraud would be a positive development and we invite IAASB to consider how this could be achieved. Possible options might include (but not be limited to):
- Additional reporting requirements (with an emphasis on the need for meaningful expression rather than boilerplate, which helps nobody and has the tendency to become 'coded language' and thus create opacity rather than transparency.
 - Further outreach (we realise that there has been much outreach in the past and that this DP is itself a form of outreach, but issues continue to be opaque for some stakeholders so clearly more could be done).
 - Explicitly addressing the media representation of the profession.
 - Working with regulators to gain clarity on the degree of real compliance with requirements as they currently stand.
19. We note that several jurisdictions have introduced new reporting requirements relating to fraud and it is obviously too early to tell whether the impact of the additional requirements will be positive – we feel that there might be merit in taking some time so that the impact can be properly evaluated.

Question 3 - This paper sets out the auditor's current requirements in relation to going concern in an audit of financial statements, and some of the issues and challenges that have been raised with respect to this (see Sections III and IV). In your view:

- (a) **Should the auditor have enhanced or more requirements with regard to going concern in an audit of financial statements? If yes, in what areas?**
- (b) **Is there a need for enhanced procedures only for certain entities or in specific circumstances? If yes:**
- For what types of entities or in what circumstances?**
 - What enhancements are needed?**
 - Should these changes be made within the ISAs or outside the scope of an audit (e.g., a different engagement)? Please explain your answer.**
- (c) **Do you believe more transparency is needed:**
- About the auditor's work in relation to going concern in an audit of financial statements? If yes, what additional information is needed and how should this**

information be communicated (e.g., in communications with those charged with governance, in the auditor's report, etc.)?

- (ii) About going concern, outside of the auditor's work relating to going concern? If yes, what further information should be provided, where should this information be provided, and what action is required to put this into effect?**

20. The going concern assertion is made by the preparers of the financial statements – the responsibility for this and all the work (projections etc) that supports it lies with the audited entity (and more specifically, with management).
21. As noted above, there are a range of different expectations relating to going concern and the role of the auditor. The multiple expectations arise in part from the fact that auditors are doing two things when considering going concern – firstly, concluding on the appropriateness of going concern as the basis for the preparation of the financial statements and secondly, the provision of information about the viability of the audited entity going forward.
22. We note that, anecdotally, many auditors are currently 'doing more' with regard to going concern as a result of the current pandemic. We believe that IAASB may usefully consider the additional audit effort that may be currently being made, in order to help identify either procedural enhancements or additions that could perhaps be the norm rather than the exception. In particular, the timing of the implementation of the new UK requirements at a time of significant going concern risk to many entities could provide an opportunity to see how well those requirements stand up in practice.
23. In more general terms, we believe that a key difficulty for auditors with regard to going concern is the duration period for which management makes its evaluation of going concern. In many cases this is not the duration period which auditors are required to consider when performing their audit procedures - this disconnect is inevitably a source of difficulty. While we recognise that IAASB has no responsibility for accounting standards we would suggest that some coordination might be beneficial to all.
24. We believe that if understanding is part of the underlying cause of differing expectations, greater transparency could reduce expectation disconnects, so we would support the provision of additional and more meaningful disclosures from management – again, we accept that this is not an IAASB issue (although should accounting requirements change then the audit of additional disclosures would be).
25. We believe that the IAASB could usefully consider the provision of additional practical guidance with clear linkage to practical application of existing requirements. Flow charts/decision trees might be a useful method to explore in this respect.

Question 4 - Are there any other matters the IAASB should consider as it progresses its work on fraud and going concern in an audit of financial statements?

26. We strongly recommend that IAASB should be wary of creating a 'pandemic standard'. Any new requirements that are introduced as a result of these projects should be appropriate for years to come and IAASB should endeavour to avoid regarding issues through the prism of the current situation.