



January 29, 2021

Mr. Willie Botha
Technical Director
International Auditing and Assurance Standards Board
529 Fifth Avenue
New York, NY 10017

Re: Discussion Paper — *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*

Dear Mr. Botha:

The American Institute of Certified Public Accountants (AICPA) Auditing Standards Board (ASB) is pleased to respond to the International Auditing and Assurance Standards Board's (IAASB) above referenced Discussion Paper.

The AICPA is the world's largest member association representing the accounting profession, with more than 431,000 members in 143 countries and a history of serving the public interest since 1887. AICPA members represent many areas of practice, including business and industry, public practice, government, education, and consulting. Among other things, the AICPA sets ethical standards for the profession and U.S. auditing standards (generally accepted auditing standards or GAAS); attestation standards (Statements on Standards for Attestation Engagements or SSAEs); and standards for financial statement preparation, compilation, and review engagements (Statements on Standards for Accounting and Review Services or SSARs) for private companies, nonprofit organizations, and federal, state and local governments (nonissuers).

We support the IAASB's efforts, as set forth in the IAASB's Discussion Paper — *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* (Discussion Paper), to gather perspectives from stakeholders about the role of the auditor in relation to fraud and going concern in an audit of financial statements, and to obtain input on matters about whether the auditing standards relating to fraud and going concern remain fit-for-purpose in the current environment.

In view of the ASB's commitment to converge its standards with those of the IAASB, the ASB is very interested in the direction the IAASB is moving related to these topics. In November 2020, the ASB requested feedback, through a public survey, to the questions in the IAASB's Discussion Paper from a U.S. GAAS perspective. The results of this survey were used to help inform the ASB's response.

We appreciate the opportunity to help inform the IAASB's direction, and in some cases we provide possible direction to the IAASB based on GAAS requirements. In particular, we note that there are incremental requirements in GAAS relating to fraud and going concern that are not included

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in the International Statements on Auditing Standards (ISAs). We provide additional detail on these incremental requirements in the appendix to this letter. We are glad to provide feedback beyond this letter, as needed.

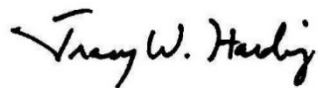
We agree that each participant in the financial reporting ecosystem plays a role that contributes towards high-quality financial reporting, including audit quality, particularly as it relates to fraud and going concern. As an example, we note the importance of an entity's internal control framework as it relates to anti-fraud measures. While we recognize the existence of many internal control frameworks we observe that in the U.S., the 2013 Committee of Sponsoring Organizations of the Treadway Commission (COSO) *Internal Control - Integrated Framework* provides such guidance to many entities.

We encourage the IAASB to continue to develop principles-based standards, without being overly prescriptive considering that these standards may serve as the basis for audits of all entities, whether public or private. We also encourage the IAASB to continue to focus on the "IAASB toolkit." This focus includes the IAASB considering all possible actions that may be taken by the IAASB, beyond making changes to the auditing standards themselves. Further, we encourage the IAASB to continue to share its findings from this project to help inform all stakeholders.

The appendix to this letter provides our more detailed responses to the specific questions presented in the Discussion Paper. Our responses are provided from the perspective of an audit of financial statements of a nonissuer in the United States of America because that is within the purview of the ASB.

Thank you for the opportunity to present our views on the Discussion Paper. If you have any questions regarding the comments in this letter, please contact me at Tharding@berrydunn.com or Linda Delahanty at Linda.Delahanty@aicpa-cima.com.

Respectfully submitted,



/s/ Tracy Harding
Chair, Auditing Standards Board

Appendix

Responses to Questions in the Discussion Paper — *Fraud and Going Concern in and 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*

Overall Considerations

As noted in our cover letter, we support the IAASB’s efforts to gather perspectives from stakeholders about the role of the auditor in relation to fraud and going concern in an audit of financial statements. Determining whether additional actions may be necessary to enhance the reliability of financial reporting, including audit quality, involves all members of the financial reporting ecosystem, including the financial reporting standard setters, management, those charged with governance and the auditor. 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 also note that the users of the auditors’ reports for nonissuers in the U.S. typically have ready access to management and owners. Therefore, such users may have a broader range of information available to them beyond the financial statements, that may not be available to the users of the financial statements of issuers (listed entities). Accordingly, for nonissuers (non-listed entities) there may be less need for information to be communicated through the financial statements and the auditor’s report, and more need for education regarding the nature of an audit and financial information not in the purview of the auditor.

IAASB Question 1(a): In regard to the expectation gap, what do you think is the main cause of the expectation gap relating to fraud and going concern in an audit of financial statements?

Response: We support the IAASB’s effort to assess what is meant by the expectation gap relating to fraud and the expectation gap relating to going concern and applaud their efforts to obtain feedback from stakeholders. We encourage the IAASB to continue to explore the causes of such expectation gaps to inform possible improvements to audit quality. 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. 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. A better understanding of the causes of an expectation gap will be helpful to determining what actions will be most effective in reducing the gap.

IAASB Question 1(b): In regard to the expectation gap, 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?

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

Stakeholder Perspective Question (page 15 of the Discussion Paper): The IAASB is interested in perspectives about the impact of corporate culture on fraudulent financial reporting and what, if any, additional audit procedures for the auditor should be considered by the IAASB in this regard.

Response: As noted in the Discussion Paper, there are a variety of sources that recognize that corporate culture is important as it relates to fraudulent financial reporting. We note that corporate culture is considered by the auditor as he or she gains an understanding of the entity, including the entity’s control environment. For example, paragraph 4 of ISA 315 (Revised 2019) states that “the control environment sets the tone of an organization, influencing the control consciousness of its people, and provides the overall foundation for the operation of the other components of the entity’s system of internal control.” Internal control frameworks, such as COSO, also recognize the importance of corporate culture as part of an effective control environment that can help to deter fraud. The consideration of corporate culture as part of risk assessment affects the auditor’s professional skepticism and professional judgment and influences the audit work needed.

We recognize that corporate culture may be preliminarily considered, to some degree, as part of the client acceptance and continuance process. Accordingly, we recommend the IAASB reflect on whether additional guidance (for example, application material, staff guidance or case studies) should be developed about inquiries being performed as part of client acceptance and continuance decisions (in addition to during risk assessment procedures) relating to the tone at the top, including corporate culture and how the results of those inquiries later inform the auditor’s risk assessment.

IAASB Question 2(a): In your view, should the auditor have enhanced or more requirements with regard to fraud in an audit of financial statements? If yes, in what areas?

Response: National Standard Setters have developed guidance incremental to what is in the ISAs that the IAASB might find helpful. For example, in GAAS, various sections from ISA 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements* have been expanded or elevated from application material into requirements. We recommend the IAASB consider whether these differences (those related to GAAS are highlighted in appendix B

“Substantive Differences Between the International Standards on Auditing and Generally Accepted Auditing Standards” in the AICPA *Professional Standards* (appendix B)), should be included in the ISAs. We also recommend the IAASB consider enhancing education efforts with users of the financial statements and the auditor’s report to better explain the role of the auditor relating to fraud.

The following is taken from appendix B and contains a listing of requirements that are in GAAS in AU-C section 240, *Consideration of Fraud in a Financial Statement Audit*¹ but are not included as requirements in ISA 240.

- The requirement in paragraph 15 of ISA 240 for the auditor to investigate inconsistent responses to auditor inquiries of management or those charged with governance has been expanded in paragraph .14 of AU-C section 240 to also include responses that are otherwise unsatisfactory (for example, vague or implausible responses).
- The requirement in paragraph 16 of ISA 240 for members of the engagement team to discuss the susceptibility of the entity’s financial statements to material misstatements has been expanded in paragraph .15 of AU-C section 240 to include, as requirements, additional discussion items from application and other explanatory material in ISA 240. These items include a required brainstorming session focused very specifically on, among other things, internal and external fraud factors and the possibility of management override of controls. In addition, AU-C section 240 further clarifies the requirement for participation of key engagement team members and the engagement partner in the discussion and brainstorming sessions. Lastly, AU-C section 240 requires appropriate communication throughout the audit among the engagement team members. Several of these discussion items have been elevated from paragraphs A11–A12 of ISA 240.
- The requirement in paragraph 45 of ISA 240 to document the significant decisions reached during the discussion among the engagement team regarding fraud-related matters has been expanded in paragraph .43 of AU-C section 240 to also require documenting how and when the discussion occurred and the audit team members who participated.
- Procedures have been elevated from paragraph A19 of ISA 240 to requirements in paragraph .19 of AU-C section 240; these procedures relate to making inquiries of internal audit as part of performing risk assessment procedures, and include determining (a) whether internal audit has performed any procedures to identify or detect fraud during the year, and (b) whether management has satisfactorily responded to any findings resulting from these inquiries.
- The requirement in paragraph 35 of ISA 240 to evaluate whether the results of analytical procedures at or near the end of the reporting period indicate a previously unrecognized risk of material misstatement due to fraud has been expanded in paragraph .34 of AU-C section 240 to include the accumulated results of auditing procedures, including analytical procedures performed as substantive tests or when forming an overall

conclusion. AU-C section 240 also specifically requires performance of analytical procedures relating to revenue accounts through the end of the reporting period, in light of the generally presumed higher risk of financial statement fraud involving revenue.

- The requirements in paragraph 33(a) of ISA 240 address designing and performing auditing procedures to test the appropriateness of journal entries. In addition to essential guidance about addressing the risk of possible management override of controls, included in paragraph .32a of AU-C section 240, are requirements to
 - obtain an understanding of the entity's financial reporting process and controls over journal entries and other adjustments, and determine whether such controls are suitably designed and have been implemented.
 - consider fraud risk factors, the nature and complexity of accounts, and entries processed outside the normal course of business, elevated from the application and other explanatory material contained in paragraph A44 of ISA 240 in order to emphasize the importance of these considerations.
 - include identification and testing of specific journal entries regardless of controls.
- The requirement for the auditor to design and perform auditing procedures to review accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud, in paragraph 33(b) of ISA 240, has been expanded in paragraph .32b of AU-C section 240 to specifically include those estimates that are based on highly sensitive assumptions.

In addition, the following requirements in AU-C section 240 were expanded from the requirements of ISA 240 to be consistent with requirements in PCAOB AS 2410, *Related Parties*,² as the ASB believes these requirements will enhance audit quality for audits of financial statements of nonissuers.

- The requirement in paragraphs 17–19 of ISA 240 relating to required inquiries has been expanded. Paragraph .17 of AU-C section 240 has been expanded to require inquiries of management about the existence, and if so, the nature, terms, and business purpose of, and involvement of related parties in, any significant unusual transactions. Similarly, the requirements in paragraphs .19 and .21 of AU-C section 240 have been expanded to include inquiry about whether the entity entered into any significant unusual transactions.
- The requirement in paragraph 33(c) of ISA 240 for the evaluation of significant transactions that are outside the normal course of business (that is, significant unusual transactions) has been expanded in paragraph .32 of AU-C section 240 to include the following procedures:

² All AS sections can be found in AICPA *PCAOB Standards and Related Rules*.

- Reading the underlying documentation and evaluating whether the terms and other information about the transaction are consistent with explanations from inquiries and other audit evidence about the business purpose (or the lack thereof) of the transaction
- Determining whether the transaction has been authorized and approved in accordance with the entity's established policies and procedures
- Evaluating whether significant unusual transactions that the auditor has identified have been properly accounted for and disclosed in the financial statements

Stakeholder Perspective Question (page 18 of the Discussion Paper): The IAASB is interested in perspectives about requiring the use of forensic specialists or other relevant specialists in a financial statement audit, and, if considered appropriate, in what circumstances the use of specialists should be required.

Response: The ISAs currently contain the following related to the competence and capabilities of the engagement team:

- ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*³ states that “the engagement partner shall determine that members of the engagement team, and any auditor’s external experts and internal auditors who provide direct assistance who are not part of the engagement team, collectively have the appropriate competence and capabilities, including sufficient time to perform the audit engagement.”
- ISA 240⁴ requires the auditor to assign and supervise personnel taking into account the knowledge, skill, and ability of the individuals to be given significant engagement responsibilities and the auditor’s assessment of the risks of material misstatement due to fraud for the engagement.
- Paragraph A35 of ISA 240 provides an example for assigning additional individuals with specialized skill and knowledge, such as forensic and IT experts.

We recommend the IAASB consider expanding the application material in the ISAs or provide nonauthoritative guidance to help auditors identify situations, based on their professional judgment and risk assessment, in which the use of relevant specialists may be needed. For example, this guidance could provide examples of fraud risk factors that may cause the auditor to consider the use of a relevant specialist or could provide examples of circumstances that may cause the auditor to consider using a relevant specialist.

We also encourage the IAASB to explore ways in which engagement teams may be encouraged to better train engagement team members about how frauds occur and what frauds look like, as part of the engagement partner’s fulfilling the responsibilities described above. We also recommend

³ Paragraph 26 of ISA 220, *Quality Management for an Audit of Financial Statements*.

⁴ Paragraph 30 of ISA 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*.

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the IAASB consider providing more guidance for auditors relating to how to best conduct fraud inquiries and fraud brainstorming, and how auditors may use data analytics or other technologies to enhance their audit procedures around fraud.

IAASB Question 2(b): In your view, is there a need for enhanced procedures [in relation to fraud in an audit of financial statements] only for 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.**

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

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

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

Response: If the auditor identifies a misstatement, ISA 240 requires the auditor to evaluate whether such a misstatement is indicative of fraud. If there is such an indication, the auditor is required to evaluate the implications of the misstatement in relation to other aspects of the audit, particularly the reliability of management's representations, recognizing that an instance of fraud is unlikely to be an isolated occurrence. Therefore, ISA 240 and ISA 260 (Revised), *Communication With Those Charged With Governance*, already consider non-material fraud. We recommend the IAASB consider the interplay between ISA 240 and ISA 330 as it relates to misstatements of the financial statements relating to fraud. We also note that ISA 240 appears to focus mostly on fraudulent financial reporting, and we encourage the IAASB to consider whether there is a need for further guidance about misappropriation of assets. Such misappropriations may become material when aggregated over several periods.

Stakeholder Perspective Question (page 19 of the Discussion Paper) — The IAASB is interested in perspectives on whether enough emphasis is placed on the auditor's responsibilities around fraud related to third parties. We are also interested in feedback

about the auditor’s role in relation to third party fraud that does not result in a material misstatement of the financial statements but may have a severely negative impact on the entity (e.g., cybercrime attacks).

As noted in the Discussion Paper, the definition of fraud in the auditing standards includes fraud by third parties. We believe that the concept of third-party fraud is not well understood. We recommend the IAASB consider ways to better educate auditors about what is meant by a “third-party” fraud, how such fraud differs from a fraud committed by employees or by those charged with governance, and how such fraud may affect the financial statements.

Stakeholder Perspective Question (page 20 of the discussion paper): The IAASB is interested in perspectives on whether additional engagement quality control review procedures specifically focused on the engagement team’s responsibilities relating to fraud should be considered for audits of financial statements of listed entities, and those other engagements, if any, for which the firm has determined an engagement quality control review is required.

Response: International Standard on Quality Management (ISQM) 2, *Engagement Quality Reviews*, requires the engagement quality control reviewer to discuss with the engagement partner and, if applicable, other members of the engagement team, significant matters and significant judgments made in planning, performing and reporting on the engagement.⁵ The engagement quality control reviewer is also required to review selected engagement documentation relating to the significant judgments made by the engagement team and evaluate: (i) The basis for making those significant judgments, including, when applicable to the type of engagement, the exercise of professional skepticism by the engagement team; (ii) Whether the engagement documentation supports the conclusions reached; and (iii) Whether the conclusions reached are appropriate.⁶

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

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

- identification of fraud risk factors and related response,
- brainstorming,
- other procedures performed,
- exercise of professional skepticism, and

⁵ Paragraph 25(b) of ISQM 2, *Engagement Quality Reviews*.

⁶ Paragraph 25(c) of ISQM 2.

- documentation.

IAASB Question 2(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?

Response: No. We do not believe requiring a “suspicious mindset” would necessarily contribute to enhanced fraud identification when planning and performing an audit and would potentially have unintended negative consequences on the effective and efficient performance of an audit. For example, a “suspicious mindset” could jeopardize the auditor’s ability to have effective two-way dialogue with management and those charged with governance and ultimately inhibit the auditor’s ability to complete a high-quality financial statement audit. Further, the IAASB standards are defined in the IAASB’s strategy for 2020-2023, as being “globally relevant, forward-looking, applicable to entities of all sizes and complexities, adaptable in an evolving environment, and operable; developed and supported through activities that are independent and free of undue influence, timely, and responsive to the needs of stakeholders.” This approach to setting standards would be free from bias which is counterintuitive to the auditor using a “suspicious mindset.” Accordingly, we believe that professional skepticism is the appropriate mindset for the auditor because the auditor may apply a heightened level of professional skepticism relating to fraud risk, when needed. Further, the concept of professional skepticism is broader than just for fraud and is pervasive throughout the ISAs. We are concerned that requiring a different mindset in certain situations could create confusion in practice as to when it is appropriate for the auditor to use one mindset versus another. We also question whether requiring a suspicious mindset could result in an increased expectation gap.

The ability for the auditor to scale the level of professional skepticism enables the auditor to use his or her professional judgment as to when heightened professional skepticism is necessary. This approach preserves the relationships the auditor needs to effectively audit an entity, including identifying fraud risk factors and developing the appropriate audit response. Accordingly, we are supportive of the existing framework that is used throughout the ISAs of maintaining professional skepticism throughout the audit, having auditors revise their risk assessments when necessary, and having auditors obtain more persuasive audit evidence the higher the assessed risk of material misstatement.

We encourage the IAASB to continue its efforts in regard to the audit evidence project, including consideration of SAS No. 142, *Audit Evidence*, that was issued by the AICPA Auditing Standards Board in July 2020. SAS No. 142 (codified in AU-C section 500) expands the objective of the extant standard to be more broadly focused on considering the attributes of information to be used as audit evidence in assessing whether sufficient appropriate audit evidence has been obtained. Previously, the objective focused on the design and performance of audit procedures to obtain sufficient appropriate audit evidence, rather than evaluating the sufficiency and appropriateness of the audit evidence itself. Attributes of reliable information include its accuracy, completeness, authenticity, and susceptibility to bias. SAS No. 142 requires the auditor to evaluate information

to be used as audit evidence by taking into account the relevance and reliability of the information, including its source, and whether such information corroborates or contradicts assertions in the financial statements. We believe that such enhanced focus on the attributes of reliable information may help auditors to design a more appropriate response to fraud risk.

Stakeholder Perspective Question (page 27 of the discussion paper): The IAASB is interested in perspectives about whether more is needed related to professional skepticism when undertaking procedures with regard to fraud and going concern and what additional procedures, if any, may be appropriate.

Response: As we discussed in our response to IAASB question 2(c), the ability for the auditor to scale the level of professional skepticism enables the auditor to use his or her professional judgment for circumstances when heightened professional skepticism is necessary. This approach enables the auditor to interact with management as needed to effectively audit an entity while planning and performing procedures to identify and assess fraud risks and develop the appropriate audit response.

We note that in recently issued ISAs there has been a heightened focus on professional skepticism in the application material. For example, the application material in ISA 540 (Revised)⁷ describes ways in which the auditor can exercise professional skepticism and ways in which professional skepticism can be documented. We support the IAASB's approach to provide further guidance relating to exercising professional skepticism in the application material for the standards related to fraud and going concern. We recommend that the IAASB consider performing a post implementation review to gather information about how effective the application material in ISA 540 (Revised) relating to professional skepticism has been. We also encourage the IAASB to include application material about professional skepticism specific to fraud and going concern to help improve consistency in the application of the requirements relating to these topics. We believe it would be helpful for the IAASB to provide examples, through nonauthoritative educational materials, that describe ways in which the auditor can exercise and demonstrate heightened professional skepticism in specific circumstances.

IAASB Question 2(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.)?

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

- ***Transparency through the auditor's report.*** We believe that further discussion about fraud in the auditor's report may become fairly boilerplate and would not be meaningful or useful. Rather, we recognize that the IAASB has various options that could be considered to enhance knowledge about the auditor's work in relation to fraud in an audit of financial statements. For example, continued education efforts to help users of the financial statements better understand the role of the auditor as it relates to fraud could

⁷ Paragraph A11 of ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*.

be effective. Further, in light of the IAASB's post implementation review of the auditor reporting standards that began in January 2020, we ask the IAASB to consider the results from this post implementation review before further changes to the auditor's report are proposed.

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

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

Stakeholder Perspective Question (page 29 of the discussion paper): The IAASB is interested in perspectives about whether more information is needed in the auditor's report regarding fraud or going concern, and if so, further details about the transparency needed.

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

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

Response: Further clarification with those charged with governance about their responsibilities, as well as management's and the auditor's responsibilities for fraud may be helpful. We also note that under GAAS, the auditor has an enhanced requirement to communicate to those charged with governance the auditor's consideration of management's plans to mitigate the conditions or events that raised substantial doubt about the entity's ability to continue as a going concern. See our response to the previous stakeholder perspective question.

IAASB Question 3(a): In your view should the auditor have enhanced or more requirements with regard to going concern in an audit of financial statements? If yes, in what areas?

Response: It is the responsibility of management and those charged with governance to first assess the appropriate basis of accounting and whether material uncertainties may cause doubt about the ability of the entity to continue as a going concern. Such responsibilities include determining the appropriate accounting and disclosure in accordance with the applicable financial reporting framework. It is our position that ISA 570 (Revised), *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*, adequately addresses the need for management to go "first" and for the auditor to audit management's assessment.

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.
- AU-C section 570 contains a requirement for the auditor to obtain sufficient appropriate evidence, including written evidence, when management's plans include financial support by third parties or the entity's owner-manager and such support is necessary in supporting management's assertions about the entity's ability to continue as a going concern. This requirement is important to address these situations.
- 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.

Stakeholder Perspective Question (page 23 of the Discussion Paper) — The IAASB is interested in perspectives on whether entities should be required to assess their ability to continue as a going concern for longer than twelve months, and therefore whether auditors should be required to consider this longer time period in their assessment, beyond the current required period. If stakeholders believe a longer timeframe should be required, alignment will need to be retained between the requirements under the applicable financial reporting framework and the auditing standards in order for auditors to be able to adequately perform their procedures.

Response: We believe that it is important for the financial reporting framework to have an appropriate benchmark for management to consider in determining the appropriate basis of accounting and relevant considerations for addressing uncertainty or doubt regarding the ability of that entity to continue as a going concern, when that basis is applied. From a U.S. perspective, enhancements by the Financial Accounting Standards Board (FASB) to establish a disclosure framework have served to provide helpful transparency about an entity's ability to continue as a going concern and related risks (for example, liquidity, financing and other risks that could adversely affect a company).

We support the concept that the auditor's evaluation of management's assessment of the entity's ability to continue as a going concern should cover the same period as that used by management to make its assessment as required by the applicable financial reporting framework.⁸ However, we also recognize that there may be some financial reporting frameworks that have no explicit requirement. As further explained in our response to IAASB Question 3(a), we encourage the IAASB to consider the incremental audit requirements contained in U.S. GAAS (AU-C section 570) related to auditor responsibilities for evaluating going concern. In particular, AU-C section 570 provides a definition of "reasonable period of time" that includes the period of time required

⁸ Paragraph 13 of ISA 570 (Revised), *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*.

by the applicable financial reporting framework, or if no such requirement exists, within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued, when applicable). This definition aids the auditor when determining the period of time to be considered.

Stakeholder Perspective Question (page 24 of the discussion paper): The IAASB is interested in perspectives about whether changes are needed with regard to going concern and other concepts of resilience (within the purview of the IAASB’s remit).

Response: We continue to recognize that it is management’s responsibility to assess the entity’s ability to continue as a going concern, as established by the applicable financial reporting framework. Furthermore, we have concerns with introducing new terminology, for example “resilience” because new terminology may cause more confusion and potentially increase the expectation gap. A specific concern is understanding what is meant by “resilience” and how it differs from the concept of “going concern.”

IAASB Question 3(b): In your view, is there a need for enhanced procedures [related to going concern] only for 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.**

Response: We support the concept that audits of all entities should be subject to the same requirements relating to going concern. As we noted in our cover letter, we encourage the IAASB to continue to develop principles-based standards, without being overly prescriptive considering that these standards may serve as the basis for audits of all entities, whether public or private. Also see our response to IAASB question 3(a), as circumstances related to going concern would likely be relevant in at least some circumstances to users of the financial statements prepared in accordance with a special purpose framework, for audits of single financial statements, and when the auditor is engaged to perform an interim review.

IAASB Question 3(c): In your view, do you believe more transparency is needed:

- (i) 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.)?**

Response: We are concerned that further discussion in the auditor’s report may become boilerplate and would not be meaningful or useful. However, we highlight the following requirements that exist in the applicable financial reporting framework in the United States and correspondingly in the auditing standards for nonissuers in the United States that the IAASB may want to consider as it moves forward with this project:

- Disclosure requirements from the Financial Accounting Standards Board (FASB) include requirements for management to include disclosure in the notes to the financial statements, information when substantial doubt is raised but is alleviated by management's plans. This means, that when substantial doubt about an entity's ability to continue as a going concern is alleviated as a result of consideration of management's plans, the entity is required to disclose information that enables the users of the financial statements to understand (a) the principal conditions or events that raised substantial doubt about the entity's ability to continue as a going concern (before consideration of management's plans), (b) management's evaluation of the significance of those conditions or events in relation to the entity's ability to meet its obligations, and (c) management's plans that alleviated substantial doubt about the entity's ability to continue as a going concern.⁹
- AU-C section 570 includes application material indicating that if the entity has included such a disclosure in the financial statements, and the auditor concludes that substantial doubt has been alleviated by management's plans and adequate disclosure has been made in the financial statements then the auditor may include an emphasis-of-matter paragraph in the auditor's report making reference to management's disclosure.¹⁰

We highlight these U.S. auditing requirements and the corresponding U.S. accounting framework because we believe these requirements in the U.S. jurisdiction provide additional transparency to the users of the financial statements in both the financial statements as well as the auditor's report about events that have raised substantial doubt.

- (ii) **In your view, do you believe more transparency is needed: 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?**

Response: One area where more transparency could be helpful to users of the financial statements would be disclosures by management with respect to its evaluation of its ability to continue as a going concern. However, we recognize that this type of transparency is not within the purview of the IAASB.

Additional transparency in the auditor's report with respect to the evaluation of going concern performed by management or other work outside of the auditor's purview may be more confusing than helpful to the users of the financial statements and auditor's report. We encourage the IAASB to undertake appropriate outreach and research before making decisions on this type of additional transparency.

⁹ FASB ASC 205-40-50-12.

¹⁰ Paragraph .A54 of AU-C section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*.