



Crowe Global
515 Madison Avenue,
8th Floor,
Suites 9006-9008
New York
NY 10022
USA
+1.212.808.2000
+1.212.808.2020 Fax
www.crowe.com/global
david.chitty@crowe.org

28 January 2021

Mr Tom Seidenstein,
Chair,
International Auditing and Assurance Standards Board,
529 Fifth Avenue, 6th Floor,
New York,
NY 10017,
USA

Dear Mr Seidenstein

Discussion Paper *Fraud and Going Concern in an Audit of Financial Statements*

Crowe Global is delighted to present a comment letter on the Discussion Paper *Fraud and Going Concern in an Audit of Financial Statements*. Crowe Global is a leading global network of audit and advisory firms, with members in more than 130 countries.

The IAASB has initiated an important discussion about fraud and going concern in an audit of financial statements. A discussion about the expectation gap in these areas is needed. There is a case for enhancements the requirements of auditors with a view to promoting the public interest and narrowing the gap. However, other stakeholders also have responsibilities and the IAASB is in a position to promote a dialogue with these stakeholders.

Our responses to the questions in the Discussion Paper. are presented in the appendix to this letter. In our responses we have particularly identified subject matter that could be developed further in the Application Material or addressed in future Implementation Guidance.

We trust that our comments assist IAASB in progressing this project. We shall be pleased to discuss our comments further with you.

Kind regards

Yours sincerely

A handwritten signature in black ink, appearing to read "David Chitty".

David Chitty
International Accounting and Audit Director

Appendix – Response to Questions for Respondents Discussion Paper *Fraud and Going Concern in an Audit of Financial Statements*

Question	Comment
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?	The main cause of the expectation gap relating to fraud and going concern in an audit of financial statements are perceptions by some groups of stakeholders that the audit is an exercise in “fraud discovery” and that auditors have a greater responsibility for forming an opinion on going concern than is actually the case.
(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?	<p>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.</p> <p>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.</p> <p>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.</p>
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. 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?	We agree that the requirements for auditors with regard to fraud in an audit of financial statements ought to change, particularly for the audit of listed entities. This is a recognition that auditors have to take steps towards closing the expectation gap through their actions and responsibilities.

	Changed requirements ought to reflect the recommendations arising from due purpose inquiries such as Brydon in the United Kingdom and the experience from countries such as Japan where requirements have been changed.
(b) Is there a need for enhanced procedures only for certain entities or in specific circumstances? If yes:	We consider that the need for enhanced procedures ought to be directed to certain entities.
(i) For what types of entities or in what circumstances?	Enhanced procedures are most needed for the audits of listed entities and other public interest entities because of the greater number of stakeholders and higher public profile.
(ii) What enhancements are needed?	Enhancements procedures could include: <ul style="list-style-type: none"> • Reinforcing the meaning of professional scepticism with regard to fraud risk and updating how it is applied in ISA 240 and other standards; • Encouraging greater involvement in the audit by forensic and other specialists; • Specifically addressing the role of the Engagement Quality Reviewer in the area of fraud; • Addressing how auditors respond in their risk assessment and design of procedures to information about the entity's experience of all forms of fraud; and • Revisiting the understanding by auditors of internal controls and the testing of these controls.
(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.	These changes ought to be made within ISAs, as the discussion ought to focus on enhancing the delivery of financial statement audit. Other forms of engagement are a different conversation.
(c) Would requiring a "suspicious mindset" contribute to enhanced fraud identification when planning and performing the audit? Why or why not?	Rather than requiring a "suspicious mindset" attention should be concentrated on developing "professional scepticism". Introducing new concepts is potentially confusing and could broaden rather than narrow the expectations gap. Stakeholders might misunderstand what "suspicious mindset" means.
(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?	The concentration ought to be on developing "professional scepticism".
(d) Do you believe more transparency is needed about the auditor's work in relation	More transparency ought to be presented about the work auditor's work in relation to

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.)?	fraud in an audit of financial statements. More information ought to be presented in the auditor's report and in communications with those charged with governance.
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. 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?	The auditor ought to have enhanced requirements with regard to going concern in an audit of financial statements. In particular, the assessment of going concern ought to be for a period longer than twelve months. The expectations regarding the information about going concern that is made available to auditors ought to be enhanced.
(b) Is there a need for enhanced procedures only for certain entities or in specific circumstances? If yes:	We consider that the need for enhanced procedures ought to be directed to certain entities.
(i) For what types of entities or in what circumstances?	Enhanced procedures are most needed for the audits of listed entities and other public interest entities because of the greater number of stakeholders and higher public profile.
(ii) What enhancements are needed?	Enhancements should particularly concern the period of assessment of going concern and expectations regarding the information about going concern that is made available to auditors.
(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.	These changes ought to be made within ISAs, as the discussion ought to focus on enhancing the delivery of financial statement audit. Other forms of engagement are a different conversation.
(c) 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.)?	More transparency ought to be presented about the work auditor's work in relation to going concern in an audit of financial statements. More information ought to be presented in the auditor's report and in communications with those charged with governance.
(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	More transparency is needed about going concern. This has to be the responsibility of the entity and those charged with governance. The information ought to be

provided, and what action is required to put this into effect?	presented in the overall reporting package. There is a case for the entity presenting a “going concern report”.
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?	The subjects of fraud and going concern in an audit of financial statements are not just issues for the IAASB and auditors. Other stakeholders also have responsibilities, and unless these responsibilities are also examined, the expectations gap will not sufficiently narrow. The IAASB is in a position to encourage a broader discussion with its stakeholders.