

IAASB
Attn. Mr. Thomas Seidenstein, Chairman
529 fifth Avenue, 6th Floor
10017 New York
USA

P.O. Box 7984
1008 AD Amsterdam
Antonio Vivaldistraat 2-8
1083 HP Amsterdam
T +31 20 301 03 01
nba@nba.nl
www.nba.nl

Date	Re	Our ref	Attachment
February 1, 2021 (extended deadline)	Fraud and Going Concern	KvH	

Direct dial nr
020-3010281

Dear Mr. Seidenstein,

General

The NBA welcomes the opportunity to respond to the IAASB discussion paper *Fraud and Going Concern in an Audit of Financial Statements*. Before answering your questions, we would like to make some general remarks.

We appreciate the initiative as these two topics are important subject matters which give reason for a lot of debate. These are indeed relevant issues for all stakeholders and they relate to the financial ecosystem as a whole as mentioned in the discussion paper. As audit profession we should pro-actively be involved and coordinate initiatives worldwide at short term. Currently, there are various national initiatives relating to these subject matters. For example, in the Netherlands there is an initiative to report by default about fraud and going concern in the auditor's report (first this will be done in a pilot and later it will become mandatory).

At the same time, the problems need to be clearly analyzed with all parties involved which could take more time and would also need action from other parties (e.g. accounting standard setters such as IFRS related to going concern issues). Nevertheless, alternative solutions might be available even in the short term. For example, auditors are able to insist that material fraud and going concern issues are reported by management in the management 's discussion and analysis in the annual report. If management and those charged with governance do not report about this, then the auditor is able to report findings related to the other information by applying ISA 720.

Royal Netherlands
Institute of Chartered
Accountants



Questions and Answers

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?

The various components of the expectation gap each play a role. Regarding the knowledge gap, we should not act defensive as auditors, but see what we can contribute ourselves to improve in this area. 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.

Furthermore, the performance gap also plays a role. Both the complexity of the standards including interpretation thereof as well as appropriate application thereof are causing difficulties in practice, the latter being the most important.

Finally, the evolution gap is also relevant. The public expects that technology such as data analytics is used to further improve the audit.

(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?

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).

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.

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.

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?

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



Furthermore, the connection between revised ISA 315 and ISA 240 might be reconsidered. Although the inherent risk factors in revised ISA 315 do include fraud, the importance thereof could be stressed. Finally, It should also be investigated whether clear agreements between all parties involved can be made Management and those charged with governance are responsible for the control of fraud risks and have to play their role. For fraud where management is involved, those charged with governance should act.

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

We do not consider it necessary to require forensic specialists to be involved in every audit by default. We consider it useful involving them where deemed necessary in a specific audit when there are specific risks or for example in a first time audit. A trigger mechanism could be helpful. A broader solution would be to train the audit staff mandatory and permanently specific on identifying fraud risks and respond to these risks. Experienced auditors should assist in this and audit staff should be given the possibility to build up experience. Sharing knowledge and exchanging lessons learnt from specific cases will be useful. Guidance in this respect in or outside ISA 240 will be useful.

We also think that more attention should be paid in the audit to culture and behavior in the entity as part of the control environment ('soft controls'), especially related to 'tone at the top' in the audited entity. Furthermore, quality management might help, but cannot fix the issues that are not detected at the start of the audit. Finally, using (automated) detection tools could also help to provide more understanding of the risks (e.g. patterns, unusual transactions), but are not the ultimate solution either.



(b) Is there a need for enhanced procedures 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.*

In specific circumstances based upon risk assessment and scalability considerations, enhanced procedures will help auditors to better understand what actions are to be taken if there is an indication of fraud as fraud cases are becoming more complex and sophisticated. It should not lead to additional requirements, but more guidance. Although this may be partly country specific, guidance as mentioned above for different scenario's might be useful e.g. whether a formal letter should be sent to the entity to point out the responsibilities of all parties involved if there is an indication of fraud. We do not consider a distinction between various entities useful as fraud can be an issue in all entities. It is a sensitive matter which needs to be handled carefully. Often auditors find it difficult to discuss fraud issues with management and those charged with governance. Guidance on how to deal with whistleblowers will also be useful as they are an important source of detecting fraud.

(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*

In normal situations the auditor should have professional skepticism. We do not consider it necessary to be suspicious at all times and distrust all information. In some circumstances a suspicious mindset might be warranted. For example, when received information is contradictory or documents do not seem to be authentic, the auditor should be alert. However, it is not possible to make this a general requirement and it will be difficult to regulate this in standards.

- (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.)?*

More transparency about the auditor's work in relation to fraud is needed. The public should be informed but not only about the auditor's work but also about the work of the entity itself to prevent and detect fraud. It should be carefully thought out what needs to be communicated and to whom. We recommend a layered approach which takes various audiences into account:

1. Report from the management and those charged with governance regarding fraud risks and controls as part of the management's discussion and analysis in the annual report;
2. An elaborated and detailed report of the auditor to management and those charged with governance;
3. A high level report to stakeholders. This could be a separate report from the auditor's report and take some elements of the report of the auditor to the management and those charged with governance. This would keep the auditor's report clean and concise.

Both reports from the auditor (2 and 3) could include the auditor's risk analysis, responses and findings and/or conclusions similar to key audit matters. These reports can refer to the report from management and those charged with governance (1) and are part of the reports of the auditor on the financial statement as a whole. This can gradually be introduced following a maturity model and evolve to become one report where all information is reported to all stakeholders. The auditor can also discuss and explain this subject matter in the annual shareholders meeting.

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?*

In our opinion, the requirements for the auditor are sufficient. On the other hand, the requirements for entities should be enhanced. The entities should be required to report always about going concern issues and not only when there is significant doubt on the entity's ability to continue as going concern. Entities should clearly state whether there are risks related to going concern in different scenarios and what their expectations are in the forward looking statement in order to inform stakeholders more clearly.

Furthermore, the definition and various aspects of going concern should be clear. It should also become clear which time period the auditor is to consider, preferably twelve months or more after the approval of the financial statements. A difference between short term and longer term (e.g. 3-5 years) going concern might be useful. Aspects of going concern also include sustainability. This depends upon the accounting standards, but auditors should not be hindered by them. Auditors should be able to report independently to stakeholders about going concern issues.



(b) *Is there a need for enhanced procedures 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.*

Enhanced procedures when there are going concern issues will help auditors when there is a grey area e.g. when management and the auditor have different views about the outlook and underlying assumptions of the entity and/or the financial impact of uncertain events and conditions. Now the focus is only on when there is significant doubt on the entity's ability to continue as a going concern, while in many cases it is not binary. Especially now with Covid-19, going concern issues are relevant but should not become boilerplate texts. Furthermore, auditors should pay attention to going concern in all phases of the audit and not only at the end of the audit whereby it should be noted that depending upon the circumstance the depth of the focus will differ in the various phases. This is not something that should be changed in the ISAs, but something that should be done in practice.

(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.)?*

Entities should report more clearly about going concern and going concern issues. They should adequately disclose in the annual report going concern risks, various scenarios and controls. Then it is possible for the auditor to emphasize this in the auditor's report and/or to have a key audit matter. However, various financial reporting frameworks only require to report explicitly if the going concern basis of accounting is no longer valid. If they do not report on this, the auditor should report this in the other information section in the auditor's report by using ISA 720.

The same reporting structure as for fraud issues as mentioned above (see Q2d) could be useful for relevant going concern issues:

1. Report from the management and those charged with governance regarding going concern status and going concern issues as part of the management's discussion and analysis in the annual report;
2. An elaborated and detailed report of the auditor to management and those charged with governance about;
3. A high level report to stakeholders. This could be a separate report from the auditor's report and take some elements of the report of the auditor the management and those charged with governance. This would keep the auditor's report clean and concise.

(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?*

As mentioned above (see Q3 c(i)), entities should disclose more information related to going concern in the annual report. If accounting standards do not require this explicitly, then the auditor should nevertheless insist on this information be disclosed as the entity should report on material risks.

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?

There might be a relationship between fraud and going concern issues. The auditor should insist that entities report about both issues to inform stakeholders adequately.



As mentioned above, it is impossible for the auditor to have a suspicious mindset about all information. Rather, the auditor should act upon contradictory information received and/or when the auditor has doubts about the authenticity of documents.

Closing Remarks

For further information, please contact Jan Thijs Drupsteen (j.th.drupsteen@nba.nl).

Yours sincerely,

NBA, the Netherlands Institute of Chartered Accountants,



Anton Dieleman,
Chair of the Dutch Assurance and Ethics Standards Board

NBA

