



PAFA

PAN AFRICAN FEDERATION
OF ACCOUNTANTS

BUILDING A BRIDGE TO A BRIGHTER AFRICA

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The Chairman International Auditing and Assurance Standards Board (IAASB)

By email

PREFACE

The Pan-African Federation of Accountants (PAFA), is the continental body representing Africa's professional accountants. Our objective is to accelerate the development of the profession and strengthen the voice of the accountancy profession within Africa and worldwide.

In its unique regional capacity to facilitate PAOs and present a unified position of the profession, PAFA presents below its comments on the Discussion Paper titled *Fraud and Going Concern in an Audit of Financial Statements: Exploring the Difference Between Public Perceptions About the Role of the Auditor and the Auditor's Responsibilities in the a Financial Statement Audit* issued by the International Auditing and Assurance Standards Board (IAASB).

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 three components (knowledge, performance and evolution gaps) detailed in the Discussion Paper aptly describe contributors to the audit expectation gap with a greater emphasis towards the knowledge gap.

- 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?

While it is our view that a knowledge gap is the main contributor to the expectation gap, it is our view that the Profession need to own the process of addressing this gap and one of the ways this can be done is by telling more of the good stories as a way of raising awareness of the successes of external audits (without compromising confidentiality). In addition to that, while we note that the IAASB has over the years made effort to simplify auditing standards, there still remains some complexity in these which leaves room for interpretation and inconsistent application in practice and this should be addressed. Further enhancements are proposed below.

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?

Yes, PAFA supports the notion that as part of their planning process, auditors be required to evaluate and report on management's processes and controls to prevent and detect fraud, further to that, enhancements are required in the area of professional skepticism throughout the audit process.

- 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?



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While we believe that enhancements to all audits would be beneficial, it is our view that at the very least, enhancements be mandatory for listed and public interest entities.

- ii. What enhancements are needed?

The Japanese examples in regards to enhanced quality control review procedures related to fraud, i.e. that an engagement quality control review be conducted at appropriate stages during the audit, such as when significant judgments are made and conclusions reached to address the risks of fraud, in compliance with the policies and procedures of the audit firm as well as an explicit requirement that when the auditor determines that a suspicion of material misstatement due to fraud exists, the auditor not express an opinion until the engagement quality control review procedures in regard to the auditor's response to that suspicion have been completed, are commendable and should be strongly considered by the IAASB. PAFA further supports, the requirement that firms establish policies and procedures that explicitly address the risks of fraud in the elements of the quality control system (i.e., leadership responsibilities for quality within the firm, acceptance and continuance of client relationships and audit engagements, human resources, engagement performance, and monitoring).

- 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.

The above proposed changes do and should fall within the ambit of the ISAs. For the avoidance of doubt, any other enhancements deemed necessary should also fall within the scope of the ISAs as a way of enhancing their credibility and removing any misconception that these may be "optional" as might be the case if provided elsewhere.

- c) Would requiring a "suspicious mindset" contribute to enhanced fraud identification when planning and performing the audit? Why or why not?

While we note concerns highlighted over requiring a "suspicious mindset," we believe that this would improve audit quality and contribute positively towards reducing the audit expectation gap.

- 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?

For the reasons detailed above, all audit would benefit from an enhancement to incorporate a "suspicious mindset."

- 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.)?

Yes, we would support requirements to include as part of reporting to those charged with governance and in the audit report, the inclusion of the specific procedures performed by the auditor in relation to fraud.

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:



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- 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?

Similar to fraud considerations, PAFA supports the notion that as part of their planning process, auditors be required to evaluate and report on their procedures around management's processes in making the assessment that the entity will continue as a going concern.

- 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?

While we believe that enhancements to all audits would be beneficial, it is our view that at the very least, enhancements be mandatory for listed and public interest entities. Additionally, this should be a standard requirement for every audit of these entities.

- ii. What enhancements are needed?

The UK practice requiring auditors to evaluate whether judgments made by management in making its assessment of going concern are indicators of possible management bias should be replicated in the ISAs.

- 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.

As already stated in response to the fraud related question, enhancements deemed necessary should be mad in the ISAs in order to solidify their credibility and to eliminate any misconception that these may be "optional" as might be the case if provided elsewhere.

- 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.)?

Auditors should be required to detail in their report the work they have done in relation to the going concern as well as the conclusions reached. This should not cause additional costs to performing an audit but will force auditors to think about their procedures more thoroughly.

- 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?

No.

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?

None.