

**ASOCIACION INTERAMERICANA DE CONTABILIDAD
INTERAMERICAN ACCOUNTING ASSOCIATION
ASSOCIAÇÃO INTERAMERICANA DE CONTABILIDADE**

Panamá, January 26th, 2021

Letter N.º 033/2021 AIC

Members of the Board

International Auditing and Assurance Standards Board (IAASB).

529 5th Avenue, 6th Floor

New York, New York 10017

REF: Proposed 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 Members of the Board,

The Inter-American Accounting Association (IAA) (AIC – in Spanish), welcomes the opportunity to comment on the **Proposed 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**

This reply summarizes the views of different member countries of the IAA, according to the following due process:

Due process:

The Draft was submitted to the different IAA member, the Inter-American Technical Commissions (ITC) and the Sponsor Organizations (SO), hence all members had the opportunity to participate in the discussion of the Draft.

All comments received from the ITC and SO, were compared and discussed, before preparing a reply which has been approved upon by all members

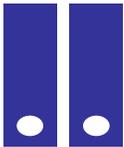
General comments:

We decisively support the IAASB initiative on this important issue, considering the educational issue as fundamental in the formation and exercise of the accounting and auditing professional.

If you have any questions about our comments, please do not hesitate to contact us.

Sincerely,

María Clara Cavalcante B.
PRESIDENT



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Comment Letter of the Interamerican Accounting Association- IAA on the document for public discussion referred to; “Proposed 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 have answered the questions of the document in accordance with the provided instructions. Please see our answers and related comments below.

While the IAASB welcomes comments on all matters addressed in this ED, the IAASB is specifically seeking comments on the following matters:

1. In regard to the expectation gap (**see Section I**):

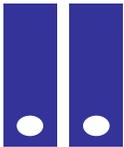
a) What do you think is the main cause of the expectation gap relating to fraud and going concern in an audit of financial statements?

a) We believe that there are three fundamental causes.

- 1. Greed, voracity, craving, etc. for the money by many of those responsible for the administration that do everything in their power to appropriate the entity's resources, covering fraud with accounting tricks,**
- 2. Lack of greater intervention by personnel with sufficient experience professional in conducting the audit of financial statements, in particular in the application of the respective auditing standards in force, both for fraud and for the operating entity, and**
- 3. We also believe that another of the main causes of the Expectation gap related to fraud and going concern in an audit of financial statements is based on the diversity of entities that are subject to audit in different environments from one country to another and in changing situations, in this way it is difficult to raise a common approach since it must be approached in a flexible way completely made and designed tailored to the needs of each entity and in the context of the country in which it is carried out.**

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 the IAASB, professional bodies, global and regional AUDIT FIRM FORUMS, as well as other groupings can do much to reduce the expectation gap related to fraud and the going concern in a financial statement audit, especially the IAASB for the great prestige and respect of the professional and business community, for the high quality of the standards issued. It is important to delve into the knowledge gap since many times, especially in our Latin American countries, there is an erroneous perception of what the public thinks that auditors do and what we really do. On the other hand, we consider that the IAASB could propose more practical elements and specific recommendations to be taken into consideration in constantly changing environments, especially in extreme situations such as the Pandemic caused by COVID 19 as well as the constant exposure to the derived risk.



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of money laundering and financing of terrorism in Latin American countries, as well as the scourge of corruption since in these scenarios the risk of fraud and going concern increases.

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 think so. Especially in the area of integrity, although the IESBA Code of Ethics is clear and forceful on this matter, due to the lack of disclosure on the part of the auditor, it is highly probable that many of the auditors are not properly complying with the prescriptions about this fundamental principle of the Code

b) Is there a need for enhanced procedures only for certain entities or in specific circumstances?¹

If yes:

Yes, improved procedures are needed, for certain entities.

i. For what types of entities or in what circumstances?

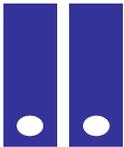
Mainly for entities listed on the stock exchange and other public interest entities, in a first stage, if the expectation gap in this sector decreases, require in all audits

ii. What enhancements are needed?

Require improvements in the auditor's communication, revealing its procedures and significant findings regarding its integrity and the effective application of ISA 240 and 570.

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.

We believe that it would be more effective if it were addressed in a new auditing standard that strongly addresses the need to disclose the auditor's procedures on two matters: 1. Its compliance and how it does it with the Code of Ethics, especially with respect to the fundamental principles, and 2. Procedures applied and the evidence reached in the requirements of ISA 240 and ISA 570, already mentioned in the previous section. Additionally, we consider that given the current and constantly evolving situations of the accounting profession, it is necessary to deepen and maintain a constant update on improved requirements for certain entities and environments in which risk is maximized or present a higher degree of exposure, as well as weak control environments.



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- c) Would requiring a “suspicious mindset” contribute to enhanced fraud identification when planning and performing the audit? Why or why not?²

We think that possibly using an expression of "suspicious mentality" would not contribute to improve the identification of fraud when planning or conducting the audit, because it could be considered as "distrustful" of the auditor by the entities and because the audit relies heavily on trust, it could have the opposite effect. For this reason, we believe that the IAASB should analyze the advisability of issuing new disclosure standards on the auditor's work in its communication of its report. This new standard should require not only the disclosure of the procedures and findings regarding the application of the ISAs referring to fraud and going concern, but should also be more comprehensive, comprehensive of all relevant standards regarding inaccuracies that could be detected through due diligence in the application of the rules.

- 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?

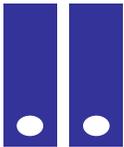
In the event that the IASB decides to require a “suspicious mentality”, in the first instance it should affect only the entities that are listed on the stock exchange, and then reach all audits.

- 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.)?

We do believe that more transparency is needed on the part of the auditor in communicating his work. In the auditor's report, similar to key matters, he should disclose his procedures and the evidence obtained regarding compliance with fundamental principles of ethics and about his evidence regarding fraud and the operating entities.

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?¹ If yes:
- i. For what types of entities or in what circumstances?



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- li. What enhancements are needed?
- lii. 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:

- 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.)?
- 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?

Answered in number 2, above

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.

Yes, we understand that the IAASB should initiate a strong communication crusade of this work in order to generate an appropriate environment for when it establishes any specific requirement about this project.