

IAASB  
New York  
United States of America

Re: Discussion Paper "Fraud and Going Concern in an audit of financial Statements"

Dear Sirs,

We are pleased to submit a comment regarding the Discussion Paper, mentioned above. SRA is an association of some 450 audit firms, based in The Netherlands, which firms focus on providing services to small and medium-sized clients. Our comments primarily relate to this market segment. We have structured our comments in a number of remarks, with a general nature and perspectives regarding the questions included in the Paper.

#### General remarks

We would like to note the following:

1. We strongly agree that fraud and going concern are two issues, which are vital to an audit of financial statements. We therefore support IAASB's decision to focus in a special project on these 2 issues.
2. The Background paragraph of the Paper prominently mentions a number of corporate failures and scandals across the globe. We feel that this discussion suggests that the project, which is the subject of the Paper, should resolve issues which played a role in these corporate failures and scandals.
  1. The failures and scandals mentioned relate to public interest audits only. The extent to which the problems also relate to non-public interest companies is not discussed in the Paper. For example, in non-public interest entities fraud may often occur in the form of unapproved withdrawal of funds from the entity or charging private expenses to the entity.
  2. A root cause analysis of the failures and scandals in relation to the two issues, discussed in the Paper is not provided. Such an analysis could substantiate whether the proposals put forward in the Paper could resolve the causes of the failures and scandals. An example of relevant findings of such an analysis would be to analyze to what extent fraud is related to either management fraud or fraud by staff personnel.
3. In our view the following starting points should be taken account in the discussion on the two issues, discussed in the Paper.
  1. It is of the essence to frequently communicate with relevant stakeholders about the role of the financial statement auditor, in order to narrow the expectation gap, the knowledge gap in particular. Communication in general terms is, in our view, more effective, than communication via the auditors' report as the latter will quickly result in boiler plate language. Both frequency and the contents of communication with relevant stakeholders should be carefully considered.
  2. Present auditing standards on both issues are in our view extensive and adequate, with a few minor exceptions, which we will elaborate on in the comments regarding the Discussion Paper questions.
3. The Discussion Paper does not include clear suggestions regarding guidance on the subject of non-material fraud. Both the concept and the audit treatment should be elaborated on.
4. The note on page 11 of the Discussion Paper states, that situations where auditors fail to do what standards or regulations require are not discussed in the Paper. Also referring to the remark, made above, under point 2, regarding the lack of analysis in the Paper, we feel that these situations might be an important cause of failures and scandals also in the non-public interest segment of the audit market. We therefore do not understand the exclusion of these situations in the Paper, as these situations might require other measures, than those suggested in the Paper.


Discussion Paper questions

The numbers mentioned refer to the relevant pages in the Paper.

- 18 We do not agree with the inclusion in the auditing standards of a requirement to include forensic specialists in the audit team, especially in a non-public interest environment. Adequate training in fraud awareness and relevant auditing standards should secure, that fraud aspects are adequately covered in these audits.
- 19.1 As stated under general remarks, item 3, we suggest to elaborate on the concept and the audit treatment of non-material fraud, in order to improve the clarity of the auditing standards in this regard. We do not feel that the requirements in the auditing standards should be extended, as an audit is designed to obtain assurance that financial statements are free of material misstatements.
- 19.2 We do not support extension of present auditing standards regarding third-party fraud.
20. We do not support extension of the existing requirements regarding quality control procedures.
23. It could be considered whether the twelve months period after the end of the book year could be changed to a twelve months period after the date of the financial statements. The consequences of such a change should be carefully investigated. Such a change would require, that reliable information is gathered by the entity and reviewed by its auditor regarding the financial status per the date of issuance of the financial statements and regarding prognosis for the twelve months period thereafter. In deciding to implement such a change no doubt the relevant accounting standards should be taken into consideration. In principle the auditing approach should follow the required accounting approach. The relevant change may also require providing additional information in the notes to the financial statements.
24. No comment.
- 25.1 Reference is made to the general remarks, under 3.1.
- 25.2 No comment.
27. In our view the concept of professional skepticism is relevant to each audit in performing audit procedures regarding fraud and going concern. We do not advocate however to apply a mindset of deep suspicion. Such a mindset is in our view contradictory to the purpose and basic concepts of an audit of financial statements. Introduction of such a mindset would also blur the concept of professional skepticism.
- 28.1 A further elaboration on fraud or going concern in the auditor's report is in our view not effective. We refer to the arguments, provided in the general remarks, under 3.1.
- 28.2 In the non-public interest segment communication with those charged with governance regarding fraud and going concern may be extensive, through e.g. a long-form auditor's report. The extent and the format of such communication can be agreed on a case by case-basis between both parties. We therefore do not support inclusion of requirements regarding this aspect in the auditing standards.

We should be glad to provide any explanation regarding the comments you may require.

Yours faithfully,



Paul Dinkgreve  
Chairman Technical Committee