

## **IFAC Response to the IAASB's Discussion Paper, *Fraud and Going Concern in an Audit of Financial Statements***

### **INTRODUCTION**

IFAC is pleased to respond to the IAASB (the Board) Discussion Paper, *Fraud and Going Concern in an Audit of Financial Statements* (the DP). IFAC is the global organization for the accountancy profession. It comprises more than 175 member and associate organizations in 130 countries and jurisdictions, representing more than 3 million professional accountants. One of IFAC's key objectives is 'contributing to and promoting the development, adoption, and implementation of high-quality international standards', which includes providing the global profession's perspective.

### **GENERAL COMMENTS**

IFAC supports the IAASB's focus on addressing the issues and challenges related to fraud and going concern in audits of financial statements. Due to recent high-profile corporate failures, these are critical areas on which significant questions have been asked about the role of auditors. Obtaining input from the DP to understand stakeholder views and respond to the issues is timely, especially with the Covid-19 pandemic, and it is in the public interest to explore whether the ISAs remain fit-for-purpose in the current environment.

We strongly agree that all those in the financial reporting ecosystem involved in the preparation, approval, audit, analysis and use of financial reports have an essential role in contributing to high-quality financial reporting. Notwithstanding the significance of recent corporate failures, overall, the standards and processes underlying financial reporting (both the preparation and audit of financial statements) have functioned well in providing balanced and transparent financial reports. The quality of audited financial reporting has reached a level which clearly underpins confidence and decision making and allows effective capital markets to exist in all major economies.

In general, we believe that ISA 240<sup>1</sup> and ISA 570 (Revised)<sup>2</sup> provide an effective basis for dealing with the auditor's responsibilities relating to fraud and going concern in an audit of financial statements and do not require far-reaching changes. The IAASB should take an evidence-based approach to any changes to the ISAs (e.g., clarification or potentially strengthening requirements where needed to drive better performance). Whilst we fully support efforts to explore what might be done to increase audit quality and investigate audit deficiencies, we are concerned about the potential costs of further changes (particularly for SMEs and SMPs) and whether changes to the ISAs would make a meaningful difference to the current audit model.

The IAASB (unlike those responsible for individual national regulation) is constrained by the internationally accepted audit model (i.e., reasonable assurance and the opinion required of the auditor). The IAASB alone cannot, for example, double the cost of an audit to increase fraud detection etc., since such decisions need to have wide international backing and so are generally made at a national level first. In addition, before any significant changes are made to the ISAs in relation to fraud and going concern, we believe the IAASB would need to coordinate its efforts with the financial reporting standard setting bodies, such as the IASB

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<sup>1</sup> ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

<sup>2</sup> ISA 570 (Revised), *Going Concern*

(e.g., exploring enhanced disclosures on internal controls relating to fraud and various aspects of the IFRS requirements on going concern).

In our opinion, changing the standards to include more requirements and be more rules-based is also not a solution to any issues that relate to the “performance gap.” Indeed, it may even have the opposite effect if auditors focus overly on complying with the letter of the requirements, rather than the principles. These are not new issues and to help address issues around inconsistent application of the ISAs, we consider that the focus should be on training and support for practitioners, including consideration of non-authoritative guidance.

We believe that a key issue with the expectation gap is around education of external users/stakeholders to have an appropriate understanding of audit and assurance engagements (the “knowledge gap”). We agree that the IAASB cannot solve the issue of the expectation gap alone. Addressing this issue effectively calls for looking across the participants in the corporate reporting ecosystem, including preparers of reports, audit committees, directors, and management. It is important other stakeholders consider whether addressing gaps in the expectations placed on audit might require broader changes, including a more rigorous approach to the accountability of company management for high quality financial reporting processes and internal controls. An organization's policies and procedures for whistleblowing will also be an important component of detecting and dealing with fraud.

In general, we consider the IAASB's focus should be on:

- Providing leadership and initiatives focused on audit as a valued service (e.g., importance of insights from the audit process) and narrowing the expectation gap (“knowledge gap”). One of the key public interest roles for the IAASB is to be open and transparent to stakeholders about the realities of what an audit can achieve and what it cannot under the current model, given the constraints in terms of time and cost.
- Taking an evidence-based approach to changes to the ISAs and ensuring they remain both principle and risk-based and retain the alignment with requirements under the applicable financial reporting framework. The exploration of additional reporting to management and those charged with governance (TCWG) may have the benefit of fostering better two-way communication, potentially improving audit quality. However, more detailed external reporting by the auditor is more contentious as the auditor may either be seen in hindsight as justifying a bad decision if things go wrong, or potentially falsely blowing the whistle on going concern or fraud that might have turned out to not be as severe after all.
- Exploring the need for (and potential development of) assurance standards for (voluntary or required in some jurisdictions) assurance engagements that could focus on the detection of fraud or going concern issues, in addition to the audit.

## **DETAILED COMMENTS**

We have outlined our responses to the questions (in bold) in the DP below.

### **Overall Questions**

#### **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?**

We strongly agree that each participant in the financial reporting ecosystem has an essential role that contributes to high-quality financial reporting. Unfortunately, very often with corporate collapses or significant accounting restatements, it is the auditor's role which is challenged first by the media, politicians, and other commentators, before also considering the responsibilities of management, boards, and audit committees. This significantly contributes to the general perception that the auditor must be responsible which impacts the expectation gap.

Globally, many thousands of audits are performed annually—in the public interest and in accordance with high-quality international standards for audit and ethics. From this perspective the number of significant audit failures is extremely low. It is also likely that the expectation gap around fraud and going concern is more acute when it leads to large companies going bankrupt than for SMEs. The level of attention given to the auditor's potential role in a small number of recent corporate failures leads to misperception of problems with audit and potentially invites overreaction.

IFAC's [Achieving High-Quality Audits](#) Point of View (the IFAC Audit PoV) notes that achieving high-quality audits (which includes in relation to fraud and going concern) requires a well-functioning ecosystem involving a number of factors and participants including the right people, the right governance, and the right regulation. The five elements in the IFAC Audit PoV discussed must all work together to produce the right audit that meets the expectations of stakeholders. The quality of audit must be assessed by the right measurements. In the absence of any of these components, the audit may not meet the expectations of stakeholders.

The IAASB's reference to the ACCA's description of three components of the expectation gap: the "knowledge gap," "performance gap" and "evolution gap" is helpful. The significance of the gap is likely to vary internationally, and measuring its extent objectively is inherently challenging as there are many different expectation gaps, even between those in the same stakeholder groups. We agree that some users of financial statements and other stakeholders may misunderstand the role of auditors and requirements of the ISAs in relation to others in the financial reporting ecosystem. In addition, there can be a lack of understanding that management and those charged with governance have the primary responsibility for the prevention and detection of fraud and assessing the entity's ability to continue as a going concern. One of the factors contributing to the expectation gap is a failure to understand the situation auditors face in reporting on matters such as going concern in the absence of adequate reporting to investors and employees by directors, which may also lead to calls for auditors to address issues that are unreasonable (i.e., an unreasonableness gap).

The role of the audit is to test the veracity of management's assertions as presented in the financial statements, which means that the auditor cannot be the original source of information about a company. Client confidentiality regulations also generally prohibit this. If the auditor finds that a company has presented information incorrectly, including its omission, such that the financial statements are materially misstated the auditor cannot form a so-called clean opinion, whereas if the auditor considers the impact of a misstatement to be immaterial a clean opinion can be expressed. Understanding the difference between material and immaterial in this context is likely to be a challenging part of the expectations gap. Therefore,

the IAASB could explore how it might best foster a better understanding of materiality in the context of 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?**

IFAC supports the IAASB taking an evidence-based approach to distinguish what aspects could possibly be addressed by standard setting and those aspects that may require action from others (e.g., professional accountancy organizations, regulators, investors, audit firms, academia etc.) in relation to the standards and their adoption and implementation. We agree that the IAASB alone will not be able to address such a perennial issue, but it does have a key role in exploring how it can narrow the expectation gap and in demonstrating leadership (such as through the DP and Roundtables), while encouraging others in the financial reporting ecosystem to also act. For example, one need identified is for more case studies which cover what went wrong in different fraud examples and what the various stakeholders can learn.

### **Education and Training**

We note the suggestion that both forensic accounting and fraud awareness could be enhanced as part of the formal qualification and continuous learning process for financial statement auditors. The IFAC Audit PoV encouraged Professional Accountancy Organizations (PAOs) to ensure professional accountants have access to relevant, high-quality continuing education and certification programs. It is vital that education takes full account of the growing need for technological competence, forensic accounting, and fraud awareness. The International Accounting Education Standards Board's (IAESB)<sup>3</sup> [four](#) International Education Standards (IESs) addressing learning and development for information and communications technologies (ICT) and professional skepticism are effective from January 1, 2021. Whilst it is important for technological competence and fraud awareness to be part of initial and continuing education, forensic accounting is often a post-qualification specialization.

We see a crucial role for audit firms to ensure all staff receive specific fraud training (e.g., on fraud indicators and issues such as confirmation bias). In addition, a greater emphasis could be placed on introducing unpredictability by requiring auditors to adapt or change their audit procedures. In this context it is highly important that the IAASB remains committed to developing principles-based standards that allow innovation where appropriate. Establishing and maintaining a proper tone and culture around fraud, honesty and ethics and professional skepticism is important for the firm's leadership. Engaging with client's management and those charged with governance can be challenging for individual staff, so having confidence they will be supported by senior leadership is important.

We note that the new IAASB Quality Management standards are a positive development in this regard, as well as the recent IESBA [revisions](#) to the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code) to better promote the role and mindset expected of all professional accountants. The revisions aim to reinforce the importance of the profession's public interest responsibility by stimulating professional accountants to better demonstrate the role, mindset and behavioural characteristics expected of them.

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<sup>3</sup> Note the IAESB is now part of IFAC's new approach to Accountancy Education.

IFAC acknowledges the suggestion that the use of forensic procedures/specialists on an audit engagement may be an effective way to reduce the risk of undetected fraud (recognizing the need to apply relevant ethical requirements, including independence). Guidance for when to apply forensics (e.g., how much, where and by whom) might be needed to determine whether forensics are needed. The procedures are similar to those used in an audit – the difference is that forensics focus intensively on certain matters and go into more depth etc. Some forensic-type procedures might be performed by the audit firm and we note that SMPs may be at a disadvantage when they need to engage external forensic specialists as the cost can be higher compared to larger firms who are able to access inhouse forensic specialists.

We also recognize that data or information technology experts may be used to help perform procedures using advanced technologies to test full populations or identify populations subject to greater risk. It is important for audit firms to ensure they have training specifically on fraud and the use of technologies as appropriate to their audit client's circumstances. We note that with respect to large public accountancy practices, the multidisciplinary firm model best supports bringing this type of additional expertise to more audits. Guidance could be helpful to practitioners on how to investigate and conclude in different going concern examples and circumstances, since ultimately professional judgement is needed in determining the appropriate response in individual audit circumstances.

In general, IFAC also considers that other professional organizations responsible for training and certification of members who rely on financial information (e.g., investors) also play an important education and training role. For example, in relation to communicating the benefits and limitations of audit and assurance engagements.

### **Value of Audit**

In the 2019 IFAC Survey<sup>4</sup> “users not valuing audit as a service” was the most significant matter impacting the audit environment for audits of less complex entities. IFAC believes that audit stakeholders—particularly company boards, governing bodies, and management—should view audit as a value-added process rather than a compliance exercise that simply results in an audit opinion on the financial statements (see the IFAC Audit PoV). The IAASB and other stakeholders should continue to highlight the value of audit, including the importance of insights from the audit process (e.g., weaknesses in internal controls) to management and TCWG. A related area is for audit firms to ensure that staff also have appropriate training in communication (e.g., “soft skills”).

### **External Messaging**

It is always appropriate to evaluate the root causes of audit deficiencies. We believe the stakeholders in the accountancy profession are committed to continuous improvement, recognize the negative consequences of audit failures, and take their public interest role seriously. However, we consider that the profession, as a whole (including regulators), needs to be more robust in challenging statements made by politicians and commentators in the media about the role of the auditor and more clearly explain what an audit actually is, what it is designed to do, and the inherent limitations involved.

One of the challenges for the accountancy profession is attracting talent<sup>5</sup>, especially in the field of audit. A more positive portrayal in the media about the value and role of an audit of financial statements for all

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<sup>4</sup> The IFAC survey was conducted between June 19 – September 12, 2019. It received 1,706 responses from 142 countries.

<sup>5</sup> For example, 54% of SMPs had difficulty attracting next generation talent in the [IFAC 2018 Global SMP Survey](#).

stakeholders may also help address this important issue. This matter was highlighted well by Sir Donald Brydon in 2019: *"It is not auditors that cause companies to fail, that's the result of the actions of directors. I'm a little troubled by the current mood that reaches for a shotgun aimed at auditors every time there's a corporate problem. Audit needs to be an attractive profession that attracts the brightest and the best who can have confidence that a good piece of professional work will not be misdescribed in times of stress"*<sup>6</sup>.

**2) The 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?**
- 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.**

IFAC supports a principles-based approach to standard setting and believes that changes to the ISAs should be founded on robust evidence.

In general, the existing requirements that already require additional procedures when fraud is suspected or identified (i.e., are scalable) and the recently completed revised standard on risk identification and assessment ISA 315 (Revised 2019)<sup>7</sup> are considered appropriate and therefore the ISAs do not require far-reaching changes.

We are concerned that Alternative A - enhanced procedures to all entities as part of the audit (no matter if there is a specific fraud risk or not) would not be practical or cost effective for the majority of audits. While different stakeholders' interests differ, a suspected fraud leading to a material misstatement has to be addressed whatever the type of entity. If the client will not cooperate (i.e., investigate properly itself or pay for the audit to cover this with forensics if necessary) the auditor faces a scope limitation and likely disclaimer of opinion.

We also note that a fraud in an SME and fraud in a large entity are potentially very different, which may need to be considered by the IAASB as it considers any work it undertakes going forward.

The enhancement of procedures only for entities where certain specific triggers have been met (e.g., only in circumstances where there is reasonable suspicion of fraud), which is included as one of the descriptions in Alternative B (enhanced procedures apply conditionally as part of the audit depending on facts and circumstances), would be in line with the ISAs being principles-based and taking a risk-based approach. Guidance for when to apply forensics (what tests, how much, where and by whom) might be needed e.g., providing clarity when indications are sufficiently strong as to warrant further measures. However, this needs to be balanced with the fact the auditor is required to obtain reasonable but not

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<sup>6</sup> [Interview: Sir Donald Brydon on the future of audit | ICAS](#)

<sup>7</sup> ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatements*

absolute assurance that the financial statements are free from material misstatement and an unreasonable trigger should not result in disproportionate audit work being undertaken.

We note the cost is likely to be proportionately higher for SMPs who may need recourse to external forensic services, compared to those able to access inhouse forensic specialists. In addition, as noted in the DP, ISA 240 (A35) already includes that auditors may respond to identified risks of material misstatement due to fraud by assigning additional individuals with specialized skills and knowledge, such as forensic and IT experts, to the engagement. The IAASB could also explore a better clarification on the way the auditor would connect fraud risk factors to the assessment of risk of material misstatement at both assertion levels and financial statements as a whole.

Overall, we are not convinced that changes to the ISAs will address the “performance gap” or make a meaningful difference under the current audit model (i.e., reasonable assurance and the opinion required of the auditor). It may therefore be worthwhile exploring enhanced procedures required conditionally outside the scope of the audit depending on facts and circumstances (Alternative C, e.g., introducing a new subject-matter specific standard related to fraud for these circumstances). In IFAC’s [response](#) to the Brydon Review it was noted that unless an engagement is fraud specific, the annual audit is unlikely to be the appropriate vehicle for detecting fraud. The IAASB could explore the need (and potential development) of assurance standards for complimentary (voluntary or required in some jurisdictions) assurance engagements. For example, management and TCWG may seek enhanced support (specific assurance engagements) from the auditor if they have concerns on specific matters or where national legislation might require auditors to perform supporting assurance services supplementary to the audit for certain entities.

In our view, the IAASB’s immediate focus should be on developing support material outside the ISAs (non-authoritative guidance) and encouraging other stakeholders (e.g. PAOs and audit firms) to provide further education and training. For example, this could address the mind-set of the audit team and issues such as unconscious bias, which may occur during the phases of fraud identification and fraud response procedures.

- 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?**

As outlined earlier, in October 2020 IESBA released the [revisions](#) to the Code to better promote the role and mindset expected of all professional accountants. For example, it includes strengthening the fundamental principle of integrity by emphasizing the importance of having the strength of character to act appropriately, a new requirement for professional accountants to have an “inquiring mind” when applying the conceptual framework (this differentiates having an inquiring mind from the exercise of professional skepticism when performing audits, reviews and other assurance engagements), as well as emphasizing the importance of being aware of one’s bias in the exercise of professional judgment.

IFAC is not convinced that requiring a “suspicious mindset” would contribute to enhanced fraud identification when planning and performing every audit. This is similar to the IAASB recognition that “merely asking auditors to be ‘more skeptical’ will not drive the behavioral change needed”. The key would be what a suspicious mindset means and what additional requirements would need to be performed. We would also



be concerned about the potential cost implications (e.g., proving the validity of every document), as well as the impact on the auditor-client relationship.

We believe that it is more important to focus on education, training and support on “professional skepticism” (e.g., through sharing of actual fraud cases, behavioral aspects/ risks that are red flags in a company culture etc.), as well as the new IESBA role and mindset pronouncements (effective as of December 31, 2021), rather than introduce new terminology to the ISAs.

Please note that IFAC’s SMP Advisory Group closely followed the IESBA project on role and mindset expected of professional accountants, providing a number of comment letters for the Board and Task Force’s consideration, feedback during various meetings, as well as a formal [response](#) to the initial Consultation Paper on *Professional Skepticism – Meeting Public Expectations* and a [response](#) to the Exposure Draft *Proposed Revisions to the Code to Promote the Role and Mindset Expected of Professional Accountants*.

**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 believe that it is imperative for the public to be able to have an appropriate level of trust in the information provided by companies as being of a standard where they can have confidence it has been prepared with the necessary integrity and due care to enable quality and reliable reports to be produced.

In our opinion (as outlined earlier) the issue of addressing public trust in the profession is also one of educating the users of information about the different types of reports and roles of professional accountants. This includes an awareness that there is an underlying requirement that certain standards must be adopted by a professional accountant to prepare quality output, as well as that the depth of work performed by practitioners and therefore the individual degree of reliance on information provided by a client differs significantly depending on the type of the engagement.

The focus on material misstatements is not well understood – i.e., the role of “materiality” – in the context of fraud, since instances or suspicions of fraud that the auditor determines as having not led to material misstatement of the financial statements are not reflected in the auditor’s opinion. The only way to communicate these publicly is via Key Audit Matters (KAM) following ISA 701<sup>8</sup>. The auditor’s report is already criticized as being too long. If the auditor’s report included the specific procedures performed to address risks of material misstatement due to fraud it would lengthen it further. In addition, there is a risk these procedures would become “boilerplate”. It is also noted that there are a lot of concerns that auditors would be open to accusations of having made false accusations if reporting publicly on fraud findings where it is found that a fraud has not been perpetrated.

The requirements in ISA 240 (para. 41-43) on communications to management and TCWG are considered appropriate. We consider that this is the place of auditor reporting of instances or suspicions of fraud that the auditor determines as having not led to material misstatement of the financial statements, rather than in the auditor’s report. For example, para. 43 includes “in the auditor’s judgement” for which the relevant

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<sup>8</sup> ISA 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*



application material is helpful. The communication is intended to facilitate a corrective action where needed and so it is proactive.

Before considering any changes to the ISAs there would be a need to investigate ways in which the audit clients can monitor and disclose the existence and operation of the company's internal controls to prevent fraud in financial statements or non-financial information. The IAASB may therefore need to coordinate with the financial reporting standard setting bodies, such as IASB to require management to report more. An alternative could be where companies voluntarily disclose and explain a related internal control system to prevent material fraud (or material fraud-related compliance management system), which could then be subject to assurance (outside the scope of the current audit model).

**3) The 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? 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.**

The Covid-19 pandemic continues to have a major impact on organizations of all sizes and industry sectors, with many small businesses being significantly affected as they can lack key components to withstand adverse conditions (e.g. strong reserves, skills and experience, Government grant support etc.) and therefore the ability to sustain their operations.<sup>9</sup> The extremely challenging business environment and level of uncertainty about future earnings for the foreseeable future will, in many cases, likely make the going concern assessment by management extremely challenging.

We note the potential solution to require auditors to explain how they evaluated management's assessment of the entity's ability to continue as a going concern and, where relevant, key observations arising with respect to that evaluation, even where the auditor concludes through their work on management's assessment that no material uncertainties exist.

One of the key challenges facing audit firms in conducting the required procedures related to going concern is often a lack of formal documented forecasts, especially by SMEs' management and TCWG. This can also be challenging if the businesses survival depends on the owner's funds (and willingness to invest) and therefore obtaining the evidence to support those assertions. Some companies may also not be willing to openly talk to the auditor about a potential liquidation, bankruptcy or financial effects that may lead to the conclusion that the company will not be able to carry out its activities in the near future and therefore not

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<sup>9</sup> The latest [OECD SME Survey](#) identified the impact with more than half of SMEs facing severe losses in revenues, one third fear to be out of business without further support within 1 month and up to 50% within three months.

generate cash flows to cover operating expenses and debts, especially if this could result in restricting financing from third parties, including financial institutions.

Supplying original information is not the auditor's role and it is not appropriate for auditing standards to override the applicable financial reporting framework, which also stipulate the time period assessed. There would need to be a requirement for management to always provide detailed disclosures regarding its assessment of the entity's ability to continue as a going concern in order for the auditor to be able to offer any detailed observations on such disclosures. As noted in the DP, alignment would need to be retained between the requirements under the applicable financial reporting framework and the auditing standards. The IAASB may thus need to coordinate with the financial reporting standard setting bodies, such as IASB.

We are also concerned that such a change may impact the expectation gap. The historical financial statements are at a point in time and they neither contain nor serve as a forecast but are often taken to encompass an implicit assertion about future performance or a presumption about the future viability of a company – this may be enhanced with a longer timeframe. The longer the period the less reliable the assumption. Even if the ISAs were amended the risk of error would still be present and the pandemic has highlighted how difficult predictions can be.

To some extent the calls in this area might be confused with discussions in the area of non-financial information and around sustainability of business models and companies' resilience to withstand risks. Over time, expanded external reporting (EER) and related assurance may help mitigate large, high-profile, unexpected corporate failures.

**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.)?**

In an interconnected, globalized marketplace, any form of modification to the auditor's opinion regarding an entity's viability can serve to hasten corporate failure. The auditors should have sufficient knowledge of the business and external environment factors to be able to evaluate management's assessment, or where appropriate the assessment of those charged with governance, of the entity's ability to continue as a going concern. But management and TCWG bear the ultimate responsibility for recognizing material issues (whether identified during the audit or otherwise), notifying stakeholders, and taking appropriate mitigating action.

The auditor's report includes the responsibilities of management and TCWG and already explains the auditor's responsibilities for the audit of financial statements, which includes the responsibility to conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to going concern etc.

As indicated above, changes to introduce further transparency would need alignment with the requirements of the applicable financial reporting framework. For example, for management to always provide detailed disclosures regarding its assessment of the entity's ability to continue as a going concern. The auditor's report could then describe the work performed by the auditor on management's assessment. We note the

developments in the UK and the specificity now included in the auditor's report related to the responsibilities of the directors in selecting the appropriate basis and the auditor's responsibilities.

IFAC also considers that more transparency may be helpful with regard to effective, two-way communications with management and TCWG relevant to the procedures undertaken by the auditor.

(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?**

The IAASB is interested in views on whether changes are needed with regard to going concern and other concepts of resilience (within the purview of the IAASB's remit). Audits already cover a large amount of forward-looking information, including the assumptions in valuation of many items on balance sheets. Every asset and liability reflects events expected to take place at some time in the future – the inflow or outflow of economic benefits. Notwithstanding, there are major challenges in going beyond the context of financial reporting and seeking to audit other forward-looking statements such as a business viability statement. There is a risk of boiler plating and not providing valuable information arising from the substantial risks involved in attesting to such a statement without adequate context.

ISA 720 deals with the auditor's responsibilities relating to other information, whether financial or non-financial information, included in an entity's annual report and there could be a "knowledge gap" with some stakeholders that the auditor's opinion on the financial statements does not cover the other information.

We believe the assertions of company boards and management represent the main source of information shareholders obtain other than from auditor's reports in respect to the financial statements. Investors and other stakeholders are increasingly demanding more, higher-quality information and insights about company performance, risks, opportunities, and long-term prospects than are available from the conventional financial reporting process. The emergence of Integrated Reports, Strategic Reports, Corporate Sustainability Reports, and other equivalents reflects shareholder and broader societal interest in expanded corporate reporting that examines current and prospective business environmental factors as well as an organization's accountability for all the resources (capitals) it utilizes. Over time, EER and related assurance may help mitigate large, high-profile, unexpected corporate failures given such reporting, particularly in the form of integrated reporting, provides investors and stakeholders greater transparency on their opportunities and threats to their strategy and business model.

IFAC's [Enhancing Corporate Reporting Point of View](#) supports a more holistic, extended corporate reporting framework that yields more useful information, including forward-looking information. To the extent that companies provide EER, this information (in the Annual Report, Corporate Sustainability Report, Strategic or Integrated Report, etc.) could also be subject to assurance outside the scope of the financial statement audit. This could assist in reducing the expectation gap that the audit can satisfy all stakeholder needs, and further highlight the importance of assurance on EER.

IFAC embraces the evolution of assurance services that better meet the needs of investors and a wider stakeholder group. For example, assurance of internal controls and risk management systems, fraud detection or forensic reviews, forward looking/ going concern assessments or disclosures that enhance corporate reporting. There are clear benefits of voluntary assurance services such as these (or required in

some jurisdictions) and such advances must clearly indicate what information is subject to reasonable assurance versus limited assurance.

**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?**

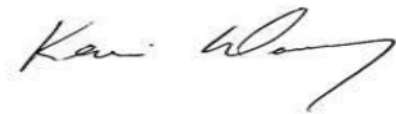
We do not have any other matters for the IAASB to consider at this stage.

**CONCLUDING COMMENTS**

We hope that the IAASB finds this letter useful. We are committed to helping the Board in whatever way we can to build upon the results of the Discussion Paper.

Please do not hesitate to contact me should you wish to discuss matters raised in this submission.

Sincerely,

A handwritten signature in black ink, appearing to read "Kevin Dancey", with a stylized flourish at the end.

Kevin Dancey

IFAC Chief Executive