



# IAIS

INTERNATIONAL ASSOCIATION OF  
INSURANCE SUPERVISORS

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Tom Seidenstein  
Chairman  
International Auditing and Assurance Standards Board  
International Federation of Accountants  
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New York, New York  
10017 U.S.A.

**RE: Discussion Paper, *Fraud and Going Concern in an Audit of Financial Statements***

Submitted via IAASB website

Dear Mr Seidenstein:

The International Association of Insurance Supervisors (IAIS) welcomes the opportunity to comment on the recent International Auditing and Assurance Standards Board's (IAASB) Discussion Paper, *Fraud and Going Concern in an Audit of Financial Statements*. The IAIS is very supportive of further work in relation to fraud and going concern as they are important audit issues. Although these are challenging areas, we do think that a review of the relevant audit standards is warranted, with the objective of enhancing audit quality and adapting to changes in the audit environment (eg, digitalisation, ability to forge documents). The IAASB may wish to consider the following points as part of its review:

*General Comments*

- **Approach and Process:** We are supportive of the thematic approach that has been set out by the IAASB. This approach recognises that there may be changes necessary in relation to fraud and going concern that cut across a number of existing ISAs.

We are also supportive of the process that the IAASB has outlined in the discussion paper to review these areas. This includes the engagement with stakeholders, discussions with national standard setters, holding roundtable discussions and consideration of other reviews and research. These steps should help to ensure that the work of the IAASB takes account of lessons learned from recent examples of fraud and going concern issues. Additionally, it may be instructive for the IAASB to look to jurisdictions that have addressed some of the issues in the Discussion Paper to determine if there are standards/guidance that could be beneficial in a global context.

*Issues affecting both Fraud and Going Concern*

- **Focus on audit quality:** The IAIS suggests that a key focus of the IAASB's review should be to set out clearly the responsibility of auditors in relation to fraud and going concern and what is expected from auditors with the objective of enhancing audit quality. This should aim to help to ensure that auditors are able to deliver high quality audits.

The issue of whether there is an expectations gap in relation to fraud and going concern may be of some use but would appear to be of secondary importance given the IAASB's role. If the focus of the IAASB's review is a perceived expectation gap then this could lead to the review focusing on what auditors are not able to do rather than what they can and should. Similarly, it could also focus on communications and managing expectations rather than on auditors' appropriate responsibilities and activities, factors that are more likely to improve audit quality.

- **Clear communication:** It may be helpful for the auditor to clearly communicate any specific or general limitations in their audit, so that financial statement users understand the likelihood of fraud detection and the auditor's view as to whether an organisation is a going concern. However, such communication should not be viewed as an alternative to carrying out appropriate audit procedures. In addition, communication is likely to be less useful if it uses 'boilerplate' wording. Setting out clearly what can be expected from auditors in relation to fraud and going concern should help to limit any expectation gap.
- **Clarity of role and purpose:** In working to update the relevant auditing standards, the IAASB should remain robust in relation to comments and advice that may detract from its objectives and the public interest. For example, the statement on page 27 of the discussion paper states that "...some have raised concerns that this [i.e. a suspicious mindset] may jeopardise the audit relationship". This argument is presented without challenge and we note that arguments along those lines have presumably already been dismissed in relation to professional scepticism.<sup>1</sup> We would encourage the IAASB to focus on what is required for a high quality audit.

#### *Issues relating to Fraud*

**Clarity of objectives and the responsibility of auditors:** The IAIS considers that revisions to auditing standards should clarify and emphasise that the objectives of the auditor in relation to fraud include obtaining reasonable assurance about whether the financial statements as a whole are free from material misstatement due to fraud. This seems clear from the requirement of an audit "to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error" (ISA 200 para 11). However, this message may appear to be diluted by the statements such as that in ISA 240 that "the potential effects of inherent limitations [on the auditor's ability to detect material misstatements] are particularly significant in the case of misstatement resulting from fraud" without clearly stating that the auditor's responsibilities are not affected by this increased difficulty.

Although we agree that the identification of material misstatements may be more difficult for material fraud than for material error, auditing standards and auditors should

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<sup>1</sup> Similarly, page 18 mentions that some have suggested the use of specialists to perform fraud procedures and states that "...proportionality and scalability are important considerations, particularly for audit firms who do not have access to these specialists in-house." These are important considerations but this should not drive what is required for a high quality audit.

nevertheless strive to ensure that both are detected<sup>2</sup>. The IAASB should therefore clarify the responsibility of auditors and their role in identifying and mitigating material risks from fraud. It is important for auditors to consider how fraud may affect the risk of material misstatement or the quality and persuasiveness of the audit evidence that is gathered. It may also be helpful for auditors to consider the extent to which there might be signs in governance, internal controls or corporate culture that might point to the increased risk of both financial and non-financial fraud that are material.

- **Auditor mindset:** The difference between a suspicious mindset and a sceptical one is not adequately explained, and so it is not clear that this is a helpful or necessary distinction. Although the auditor mindset is important, we suggest that this issue might be better addressed through clarification and training in relation to the application of existing requirements rather than the creation of a new concept.

#### *Issues relating to Going Concern*

- **Balance is necessary:** In regards to going concern, we believe there will need to be a balance between what auditors can reasonably accomplish considering their expertise and the expectation that they consider possible future events negatively affecting the company. It is clear that auditors should consider all facts and circumstances existing at the balance sheet date that impact the firm's ability to meet its future cash needs, with due account taken of subsequent events when the audit report is signed. However, it may be more difficult to expect auditors to make judgments as to the viability of new products or the decline of existing products. Similar to the comment above on fraud, clear communication about what auditors are expected to achieve is necessary for both auditors and users of the financial statements.
- **Greater clarity and information:** We would encourage the IAASB to consider how the work of auditors in relation to going concern can be made clearer, more insightful and more helpful for users of the accounts. Currently, the identification of a 'material uncertainty' relating to going concern relies on a number of judgements and is not well understood. In addition, this disclosure can appear 'binary' in nature with a significant step existing between circumstances where a 'material uncertainty' is identified and where it is not. This can contribute to the risk that going concern issues that are disclosed become self-fulfilling.

This response letter was prepared on behalf of the IAIS by its Accounting and Auditing Working Group (AAWG). The AAWG's membership represents a subset of all IAIS members. If you have further questions regarding this letter, please contact Jay Muska at the IAIS Secretariat (tel: +41 61 280 8953; email: [jay.muska@bis.org](mailto:jay.muska@bis.org)) or Markus Grund, Chair of the AAWG (tel: +49 228 4108 3671; email: [markus.grund@bafin.de](mailto:markus.grund@bafin.de)).

Yours sincerely,

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<sup>2</sup> We also note that the primary responsibility for the prevention and detection of fraud rests with those charged with governance and management of the audited entity. However, this does not lessen the responsibility of auditors.



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