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Joint submission by Chartered Accountants Australia and New Zealand and The Association of Chartered Certified Accountants

4 February 2021

To: Mr Thomas R. Seidenstein
The Chairman
International Auditing and Assurance Standards Board
529 5th Avenue 6th Floor
New York 10017
United States of America

Submission via IAASB website

Submission on IAASB's Discussion Paper Fraud and Going Concern in an Audit of Financial Statements

This submission is made jointly by Chartered Accountants Australia and New Zealand (CA ANZ) and the Association of Chartered Certified Accountants (ACCA) under our strategic alliance.

ACCA and CA ANZ created a strategic alliance in June 2016, forming one of the largest accounting alliances in the world. It represents 870,000 current and next generation accounting professionals across 179 countries and provides a full range of accounting qualifications to students and business. Together, ACCA and CA ANZ represent the voice of members and students, sharing a commitment to uphold the highest ethical, professional and technical standards. More information about ACCA and CA ANZ is contained in Appendix B.

General comments

We welcome the opportunity to comment on the IAASB's Discussion Paper on Fraud and Going Concern in an Audit of Financial Statements (the DP). We commend the IAASB for continuing to explore ways that auditors and other participants in the financial reporting ecosystem can address these issues. In our view, it is essential that audits and the profession evolve alongside the needs and expectations of key stakeholders including investors and the public, particularly when it comes to matters such as the auditors' role in detecting and reporting actual or suspected fraud and dealing with going concern issues. We note that in many cases this may not necessarily be achieved by way of auditing standards alone, but will call for a much broader willingness to conceive and embrace change on the part of the profession, rand all of the other key members of the ecosystem.

We agree with the IAASB's stance that these issues are a whole financial reporting ecosystem issue and that auditors and their responsibilities are only part of the answer. Stakeholders believe that without change in other areas, namely addressing the responsibilities of management and those charged with governance (TCWG) in the areas of financial reporting, corporate risk management and the internal control environment, any change to auditors' responsibilities will have little impact in addressing the expectation gap in relation to fraud and going concern.

As referenced in the IAASB's DP, ACCA, together with CA ANZ, conducted a global research published in May 2019 entitled *Closing the expectation gap in audit*. Amongst other findings, of ACCA's research found that the public sees audit as part of the solution for preventing corporate failure. Furthermore, ACCA's research found that there's a demand for a wider audit scope including assigning more responsibilities to the auditor for identifying and reporting fraud. These findings are directly relevant to the discussions regarding the expectation gap on fraud and going concern.

ACCA's research on the expectation gap surveyed 11,000 people across 11 countries weighted evenly by sample size, gender and a spread across age, education level and household income. The countries in scope of this research were Australia, New Zealand, Canada, South Africa, the Netherlands, Singapore, Malaysia, Greece, Czech Republic, the UAE and the UK.

ACCA in collaboration with CA ANZ, CPA Canada and the Canadian Auditing and Assurance Standards Board (Canadian AASB), are currently working on a follow up project on the expectation gap focusing on fraud and going concern. As part of this project a series of roundtables were held with stakeholders of the wider financial reporting ecosystem across the globe. The IAASB's DP formed a key part of these roundtable discussions. The Canadian AASB has issued a response to the IAASB DP reflecting the views of Canadian stakeholders that participated in the project and of the Canadian AASB. The feedback we received on the IAASB DP is reflected in this response.

From our outreach, we believe that the main causes of the expectation gap in relation to fraud and going concern are the knowledge gap and the evolution gap. There were limited areas where performance gap issues were considered as a main cause compared to the other gaps.

The key areas that are our stakeholders considered would have the potential for the biggest impact on addressing the expectation gap are:

1. The need to refine and improve auditor's skills in relation to fraud detection. This was viewed as preferable to simply including fraud specialists on all engagements, though there may be a role for such specialists in some engagements. Fraud detection skills should be addressed at the university, qualification and continuing professional education levels. This includes finding mechanisms for practitioners to learn from actual fraud cases which often is prevented by long litigation time-frames, non-disclosure agreements and other legal impediments. Sharing of such cases would assist auditors to refine knowledge to adjust risk assessment and audit procedures. Consideration should also be given to the appropriate methods by which forensic specialists could be utilised in audit engagements where the auditor's judgement indicates it is appropriate to use such expertise.

2. Examine areas where the auditing standards could be enhanced to further enhance the application of professional scepticism, including the use of random testing. The correct execution of the risk assessment stage of the audit was seen as vital to correctly addressing fraud in particular. However, before revision is made to the standard, it is important to gain greater

evidence on the current methods used in financial statement fraud and the areas of the financial statements which are most often targeted, so that any proposed revisions are targeted.

3. Clarify the accounting standards' definition of going concern. Until those charged with governance and preparers have clear and consistent practice in making their assessments of going concern, including implementing appropriate processes and internal controls in relation to the data they need to make their assessments, auditors can have limited impact on improving the management of going concern.

4. Enhance the responsibilities of management and those charged with governance to manage, and provide transparent reporting over how they have managed, business risks related to financial reporting (including fraud) and other areas which maybe be of interest to stakeholders. This could be achieved by some form of internal controls reporting, subject, where appropriate by assurance. Calls for such regimes have been made in both as per the Independent Review Report of Sir Donald Brydon (the Brydon report) and the recent Australian Parliamentary Joint Committee Inquiry into the regulation of auditing in Australia. We also recognise the cost of such reporting involved for smaller entities, so they need to be developed with appropriate consultation and consideration of which entities should be subject to such regimes.

Our responses to the specific questions for comment raised in the DP follow in Appendix A. Should you have any queries about the matters in this submission, or wish to discuss them in further detail, please contact Melanie Scott, Senior Policy Advocate at CA ANZ via email; melanie.scott@charteredaccountantsanz.com and Antonis Diolas, Head of Audit and Assurance at ACCA via email: antonis.diolas@accaglobal.com.

Yours sincerely

Amir Ghandar CA
Leader, Reporting and Assurance
Chartered Accountants Australia and New Zealand
Amir.Ghandar@charteredaccountantsanz.com
+61 2 9080 5866

Antonis Diolas FCCA
Head of Audit and Assurance
ACCA
antonis.diolas@accaglobal.com
+44 20 7059 5778

Appendix A

IAASB 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?

According to feedback received in our outreach for this DP, there was a wide recognition that the expectation gap is a wider financial reporting ecosystem issue with all relevant stakeholders having a role in narrowing it, as noted in the DP. The views we've heard regarding the main cause of the expectation gap relating to fraud and going concern were mixed, with most stakeholders referring to the knowledge and evolution gaps. Some feedback was also provided for the performance gap but to at a lesser extent.

Knowledge gap

We consider that there is still a lack of understanding by the general public regarding the purpose of an audit and what the respective responsibilities of auditors and those charged with governance are, in relation to the management of risks, the preparation of financial statements and the provision of assurance over those financial statements. In the case of going concern, this is exacerbated by the lack of clarity over the concept of going concern used in the accounting standards which drive preparers' responsibilities versus the auditor's responsibilities established in the auditing standards. There is also the fundamental issue that, at heart, users would like there to be no corporate failures or fraud even if this is not achievable in our current markets, regardless of how much regulation is put in place.

Furthermore, some of the feedback received emphasised that there is a general lack of knowledge regarding fraud and a confusion as to what fraud means in the context of an audit of financial statements. Recommendations suggest audit firms need to place more emphasis in educating their staff via training regarding fraud, if they are to be in a better position to detect and report fraud when it occurs and/or properly investigate suspicions.

Evolution gap

Based on the feedback received, the other primary cause of the expectation gap relates to the evolution gap. During our outreach a large majority of the stakeholders expressed the view that, for auditors, there is more room for evolution in the area of fraud than for going concern.

Some stakeholders also suggest that the focus should only be on the evolution gap and how the profession can evolve to satisfy users' expectations rather than keep focusing on the knowledge gap as one that will always exist. Businesses continue to increase in complexity and, in response, users' expectations of what they require from assurance changes over time.

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Performance gap

Although according to the feedback received, fewer stakeholders identified the performance gap as one of the main causes of the expectation gap, some stakeholders, other than audit practitioners, consider that the expectation gap is caused either by auditors not following the requirements of ISA 240 or because the requirements of ISA 240 are not robust enough.

We note that in respect of the performance gap, in the UK as per the Brydon report it was noted that ISA (UK) 240, the equivalent UK standard on fraud, 'appears to be a balancing act between managing, or possibly lowering, expectations whilst seeking to avoid going so far as to affect significantly users' perceptions as to the value of audit. The messaging in this standard is therefore somewhat ambiguous, in Brydon's view'[1]. Similar points were raised by regulators during our outreach, more specifically, regarding para 5 of IAASB's ISA 240 which states that 'while the audit may be properly planned and performed, some material misstatements may not be detected' who are of the view that such statements undermine the auditor's responsibility in detecting and reporting fraud. As a result, the UK Financial Reporting Council (FRC) is currently consulting on certain revisions to ISA (UK) 240, to address some of the concerns raised in the Brydon report. In our view, the feedback received by the FRC on these revisions will be very relevant for the IAASB's consideration.

(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 agree with the IAASB's view that these issues are a wider financial reporting ecosystem issue and that addressing the role of auditors and their responsibilities is only part of the answer. Stakeholders believe that without change in other areas, namely, addressing the responsibilities of management and those charged with governance in the areas of financial reporting and corporate risk management, any change to auditors' responsibilities will have little, if any, impact in addressing the expectation gap in relation to fraud and going concern.

The key areas where an impact can be made that were identified during our outreach are:

- The need to refine and improve auditor's skills in relation to fraud detection. This was viewed as preferable to simply including fraud specialists on all engagements, though there may be a role for such specialists in some engagements. Fraud detection skills should be addressed at the university, qualification and continuing professional education levels. This includes finding mechanisms for practitioners to learn from actual fraud cases which often is prevented by long litigation time-frames, non-disclosure agreements and other legal impediments. Sharing of such cases would assist auditors to refine knowledge to adjust risk assessment and audit procedures. Consideration should also be given to the appropriate

[1] https://www.gov.uk/government/publications/the-quality-and-effectiveness-of-audit-independent-review

methods by which forensic specialists could be utilised in audit engagements where the auditor's judgement indicates it is appropriate to use such expertise.

- Examine areas where the auditing standards could be enhanced to further enhance the application of professional scepticism, including the use of random testing. The correct execution of the risk assessment stage of the audit was seen as vital to correctly addressing fraud in particular. However, before revision is made to the standard, it is important to gain greater evidence on the current methods used in financial statement fraud and the areas of the financial statements which are most often targeted so that any proposed revisions are targeted.
- Clarify the accounting standards' definition of going concern. Until those charged with governance and preparers have clear and consistent practice in making their assessments of going concern, including implementing appropriate processes and internal controls in relation to the data they need to make their assessments, auditors can have limited impact on improving the management of going concern.
- Enhance the responsibilities of management and those charged with governance to manage, and provide transparent reporting over how they have managed, business risks related to financial reporting (including fraud) and other areas which maybe be of interest to stakeholders. This could be achieved by some form of internal controls reporting, subject, where appropriate by assurance. Calls for such regimes have been made in both as per the Independent Review Report of Sir Donald Brydon (the Brydon report) and the recent Australian Parliamentary Joint Committee Inquiry in the regulation of auditing in Australia. We also recognise the cost of such reporting involved for smaller entities, so they need to be developed with appropriate consultation and consideration of which entities should be subject to such regimes.

2. This paper sets out the current requirements for the auditor 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?

Generally, the feedback received suggested that the auditing standards are fundamentally sound in this regard. However, as business practices and technology have evolved since ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* was developed, we recommend that the board obtain further evidence on where and how frauds most commonly occur and where/how they are being detected before determining if the standards still appropriately address fraud. During our outreach some stakeholders questioned whether the standard focuses on the right procedures given the technological developments that have occurred since it was released. Auditors do need to have appropriate focus on assessing fraud risk with a sceptical mindset and responding to that risk assessment appropriately.

We believe that auditors require enhancements to their skills in fraud detection, but these enhancements would be obtained via training, not via changes to the standards. There was recognition that it is often difficult for experienced auditors to share the knowledge they have gained dealing with frauds as major frauds often involve legal proceedings with associated non-disclosure responsibilities. There should be mechanisms for these lessons to be shared.

Similar points were raised during the IAASB's roundtable on fraud and going concern session with the wider stakeholder groups, where some stakeholders noted that there is not much information shared regarding fraud cases after they are discovered which could be used as lessons learned for the wider financial reporting ecosystem. This could also help prevent similar cases occurring in the future. The Brydon report in the UK includes a relevant recommendation that 'ARGA maintains an open access case study register detailing corporate frauds that have occurred in order that auditors can learn in real time from these frauds.'[2] Although this recommendation has yet to be publicly consulted, similar developments could be a starting point at the international level.

We have previously heard similar concerns from audit committee chairs about how it is difficult for directors to learn from other directors who have been through corporate failures as they often get tied up in litigation and confidentiality agreements. Management and TCWG also need to be skilled in preventing and detecting fraud, particularly TCWG, as management can often be the perpetrators of major financial statement fraud.

Presumed risk of fraud in revenue

In our view, the IAASB should consider exploring other areas in addition to revenue, such as for example, expenditure which particularly in light of Covid-19 may be more susceptible to fraud. This may be more relevant in the case of LCEs where for example, targeting reduced tax liability is more common, particularly in owner managed businesses. Similar views were raised by stakeholders during the IAASB's roundtable discussion on fraud and going concern for LCEs.

Audit procedures responsive to risks related to management override of controls i.e. journal entry testing

We note that in the case of journal entry testing there seem to be some inconsistencies in practice, particularly in LCE audits, with practitioners often questioning the value added when for example, many, if not all, of those entries already formed part of their substantive testing. We therefore suggest providing guidance regarding the 'why' of performing certain audit procedures is better articulated, allowing practitioners to recognise the value added which in its turn will lead to better performance in this area as noted in our response to the IAASB's Discussion Paper on LCEs.

[2] https://www.gov.uk/government/publications/the-quality-and-effectiveness-of-audit-independent-review

Use of forensic specialists or other relevant specialists in a financial statement audit

In our outreach views on the mandated use of forensic specialists were mixed, with most stakeholders stating that this is likely to increase costs with very little, if any, value added. Furthermore, mandating the use of forensic specialists is likely to be a bigger challenge for SMPs given that in many cases they would need to seek outsourced support. There may also be supply issues as forensic practitioners are specialists within the profession and there may not be enough of them to meet such a requirement. However, our stakeholders did express support for increased involvement of forensic specialists where the auditor's professional judgement is that their involvement is appropriate for the circumstances of an audit engagement, similar to the use of other experts. Furthermore, some stakeholders also suggested that the use of forensic specialists could be considered to be mandated in the planning stage of listed and/or regulated audit engagements and then based on the auditor's judgement decide if they should be involved throughout the engagement. We do emphasise that such developments should be considered carefully as there is a risk of widening the expectation gap, particularly, in the case where forensic specialists are used and fraud still goes undetected.

As noted earlier in our response to 1(a), the UK FRC is currently consulting on certain revisions to ISA (UK) 240, the equivalent standard on Fraud in the UK. One of the revisions under the Identification and Assessment of the Risks of Material Misstatement Due to Fraud, is the addition of para 27-1 which states 'If the auditor identifies a misstatement due to fraud or suspected fraud, the auditor shall determine whether a forensic expert is needed to investigate further'[3]. We consider that this revision would reflect the views that represent the majority of our stakeholders as noted above, and we therefore suggest the IAASB to consider this.

Additional audit procedures should be required when a non-material fraud is identified

According to the feedback received the majority of stakeholders consider that the current requirements are still sufficient and appropriate when either material or non-material fraud is identified. Some practitioners emphasised that performing procedures for non-material fraud will only lead to widening the expectation gap. We do note that some stakeholders other than audit practitioners, did support additional audit procedures when a non-material fraud is identified. We consider that given the knowledge gap that currently exists regarding the extant requirements, the current standard is still sufficient and appropriate.

Additional engagement quality control review procedures specifically focused on the engagement team's responsibilities relating to fraud for audits of financial statements

As noted in the DP, in certain jurisdictions, such as in Japan, such procedures have already been implemented and based on to the feedback received in our outreach, we suggest that the IAASB should explore this further. The introduction of additional engagement quality control review

[3] https://www.frc.org.uk/getattachment/ac4b8f2d-a6a0-43c0-84fe-2b972b322f5f/ISA-(UK)-240-2020-Exposure-Draft-FINAL.pdf

procedures was considered one of the easier developments to implemented compared to the other potential areas that were included in the DP. A starting point could be following up with jurisdictions that have already implemented such procedures and consider whether post implementation reviews suggest that these procedures were effective.

Emphasis placed on the auditor's responsibilities around fraud related to third parties

We didn't receive any strong feedback that supports revisions to the extant standard regarding fraud related to third parties. We do note however, that some stakeholders noted additional procedures should be considered as the current environment in light of Covid-19 increases risk of third-party fraud that could have material impact on the financial statements. Some feedback suggests that cybersecurity risks and their interaction with financial reporting, should also be considered.

(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?

As noted in our response to 2(a) according to outreach views on the use of forensic specialists were mixed, with most stakeholders stating that mandating their use is likely to increase costs with very little, if any, value added. Furthermore, mandating the use of forensic specialists is likely to be a bigger challenge for SMPs given that in many cases they would need to seek outsourced support. However, our stakeholders did express support for increased involvement of forensic specialists where the auditor's professional judgement is that their involvement is appropriate for the circumstances of an audit engagement, similar to the use of other experts. Furthermore, some stakeholders also suggested that the use of forensic specialists could be considered to be mandated in the planning stage of listed and/or regulated audit engagements and then based on the auditor's judgement decide if they should be involved throughout the engagement. However, before requiring the involvement of forensic specialists, further research into what additional services/procedures would be useful is required as the nature of the work such experts usually do i.e. investigating fraud that has already occurred utilising time intensive, is different to the nature of an audit.

(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

There may be some circumstances where forensic specialists could add value as part of the audit team, however any requirement for this would need to be conditional to allow for auditor judgment and jurisdictional impacts. There were mixed views on whether this should be addressed by increasing the auditor's responsibilities in the audit engagement or whether there should be a separate fraud related engagement where the auditor's risk assessment would indicate that the fraud risk is such that specialists are required.

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

Overall, we do not believe requiring a "suspicious mindset" would contribute to enhanced fraud identification when planning and performing the audit. The feedback received regarding this question varied according to what 'suspicious mindset' was perceived to mean. For example, some stakeholders perceived that it was referring to professional scepticism and that it does not involve introducing a different concept, hence, they were in support that having a suspicious mindset could enhance fraud identification.

However, most stakeholders, particularly audit practitioners, perceived that requiring a 'suspicious mindset' implies introducing a new concept in addition to professional scepticism. These stakeholders were therefore against requiring a 'suspicious mindset' for a number of reasons, including, the risk of impairing the relationship between management and auditor and the additional time that would be required for audits to be completed, given that instead of starting from a neutral mindset, they will start with suspicion. Furthermore, some stakeholders also referred to the fact that, currently professional scepticism is an area where auditors tend to lack performance and therefore introducing another concept is likely to cause more confusion rather than help. The focus should therefore be in narrowing any performance gap that exists in exercising professional scepticism rather than introducing new concepts.

We therefore consider that a 'suspicious' mind set would not necessarily contribute to enhanced fraud identification and could cause more harm than benefit. However, it would be beneficial for firms to embed forensic accounting and fraud awareness throughout the training of their audit staff which in turn, will result in having future professionals better equipped to detect and report actual or suspected fraud because of their enhanced set of skills and mind set. Firms should also continue to monitor the performance of their staff regarding professional scepticism and find ways to mitigate any gaps.

(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?

No, please refer to reasons outlined under 2(c).

(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.)?

According to the feedback received, audit practitioners are willing to be more transparent regarding their work in relation to fraud in an audit of financial statements provided that, there is more transparency on how management and those charged with governance have fulfilled their primary responsibility for preventing and detecting fraud. Some recommendations included in the Brydon's report are very relevant, for example, one of them suggests that 'directors should report on the action they have taken to fulfil their obligations to prevent and detect material fraud against the background of their fraud risk assessment.[4] This recommendation could be a starting point with auditors then evaluating the management's assessment on fraud and reporting on it in the auditor's report. Similarly, in Australia, the recent Parliamentary Joint Inquiry into the regulation of audit recommended that there should be a requirement that Australian companies to establish internal control frameworks in relation to financial reporting, that management should evaluate and annually report on the effectiveness of those internal controls and that this assessment be subject to audit[5]. It seems clear that there is a need to evolve the ways in which management and those charged with governance manage and monitor business risks via their internal controls system and that these be communicated with users. We therefore do not believe that simply increasing the disclosures in the auditor's report would address the expectation gap.

There may also be room for enhancements to discussions held with TCWG, but we did not hear strong views that current practice in this area is lacking. However, alternative forms of assurance where management/TCWG make statements around their system of internal controls, including controls for preventing and detecting fraud, and assurance on those statements may be useful in providing relevant information to the users.

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?

Extending the entity's assessment of going concern beyond 12 months, and whether auditors should be required to consider this longer time period in their assessment.

According the feedback received, most of our stakeholders did not support extending the period of the entity's assessment for going concern. There was a common view that there is diminishing value from any form of assurance as the forward-looking period lengthens. Furthermore, our stakeholders noted that, rather than extending the going concern assessment beyond 12 months, it would be more relevant to look at 12 months from the date of the auditor's report rather than 12 months from the balance sheet date in those jurisdictions that have not yet adopted this approach. To illustrate our point, in light of Covid-19, in most countries there were extensions of reporting deadlines and, as a result the usefulness of a 12-month going concern assessment starting from the balance sheet date was less relevant as the report may not be signed for six months or more after this date. Requiring management and auditors to assess/assure going concern from the date of signing would be more useful to stakeholders and an evolution of current practice in many jurisdictions.

We note that both Australia and New Zealand have already implemented this development and require the auditor to sign off on 12 months from the date of their report. This is an extension of the

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[4] https://www.gov.uk/government/publications/the-quality-and-effectiveness-of-audit-independent-review

[5] https://www.aph.gov.au/Parliamentary_Business/Committees/Joint/Corporations_and_Financial_Services/RegulationofAuditing

assessment period beyond what is required under IAS 1, *Presentation of Financial Statements,* for preparers. We do note that, the NZASB has moved to enhance going concern disclosures in the absence of change from the IASB. As the NZ accounting standards reforms are new, we do not yet have insight as to whether they have impacted the expectation gap. However, only when such revisions happen at the international level, in this case via the IASB, we will be able to have consistent application internationally.

Clarity regarding the meaning of material uncertainty related to going concern

From the research undertaken for our *Closing the expectation gap* in audit publication, it was clear that there was a knowledge gap in users, with a majority of users expecting that if an entity is audited, it should not subsequently fail. From the feedback we received, confusion regarding the concept of going concern as it is defined in auditing and accounting standards, is part of this knowledge gap. Users of financial statements often demonstrate limited understanding of what the responsibilities and requirements for preparers/TCWG are compared to those of auditors under current standards, and that there are differences between accounting and auditing standard requirements. We are also of the view that, there is also an evolution gap, in the wake of continued corporate collapses, where users are expecting more comfort in relation to business viability.

We did not hear strong concerns about a performance gap in terms of ISA 570, but there are strong concerns around the differences in the accounting standard requirements versus the auditing standard requirements. The feedback received during our outreach strongly suggest the need for clarity regarding the meaning of material uncertainty related to going concern in the accounting standards. One of the main reasons behind this, is the different views as to what constitutes events and conditions that could lead to material uncertainty regarding going concern. In addition, some stakeholders noted that currently, there are conditions that are not always taken into consideration but can very well lead to material uncertainty relating to going concern. For example, in a case of an LCE when it loses a key member of staff. Similar comments were raised during the IAASB's roundtable session on fraud and going concern for LCEs.

There was strong support from our stakeholders to look at a spectrum of going concern risks to supplement the current binary approach of determining whether disclosure material uncertainty on going concern is required in clarifying the financial reporting frameworks. Therefore, in our view what needs to improve is the nature of the assessment and the disclosures in the financial statements about that assessment and the assumptions that underly it. Such change will require revisions to the relevant accounting standards by the IASB. Once these issues are addressed, then the assurance that auditors can provide will be enhanced and could also support more informative reporting.

The concept of, and requirements related to, a material uncertainty in auditing standards should be more sufficiently aligned with the requirements in the international accounting standards

Our stakeholders noted that there's a need for the International Accounting Standards Board (IASB) to review the current IAS1, *Presentation of Financial Statements*, with regards to going concern, as the guidance is limited. More specifically, it was emphasised that there is a separate ISA dealing with going concern but when comes to the IASB standards, it is only addressed by two paragraphs within a standard. This highlights that in order to narrow the expectation gaps there need to be changes to the responsibilities and obligations of other stakeholders in the financial reporting ecosystem and that the IASB needs to address these issues.

Changes needed with regard to going concern and other concepts of resilience

The feedback received suggests that this is an area worth exploring further as it relates more to the expectations and needs of users i.e. whether a business is viable. For example, in the UK certain companies are required to issue a viability statement with auditors performing certain audit procedures on the statement to identify if there are inconsistencies based on their knowledge acquired during the audit as mentioned in the DP. The Brydon's report includes recommendations building on going concern and the existing viability statements in the UK, which could be a starting point for the IAASB to explore. Furthermore, the guidance on EER reporting may assist in helping entities further enhance their reporting on these matters and assurance can be added where appropriate.

Other relevant comments

There was acknowledgement amongst our stakeholders that there is potential for confusion in relation to how KAMs, MURGCs, and EOMs are used in auditors reports in relation to going concern and these could potentially be simplified.

We found that there is also a general recognition that going concern is complex and challenging and that the current environment in the light of Covid-19, has highlighted that there are issues with how management and those charged with governance deal with assessing going concern.

Whether changes are needed with regard to going concern and other concepts of resilience

(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?

(ii) 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 stated in our response to 3(a) above, we did not hear strong concerns about a performance gap in terms of ISA 570 but there are strong concerns around the differences in the accounting standard requirements versus the auditing standard requirements. Until the accounting standards requirements, and the responsibilities of preparers/TCWG, are remedied, there is little appetite for auditing standards change, including further enhancement of responsibilities. However, there was acknowledgement that there is potential for confusion in relation to how KAMs, MURGCs, and EOMs are used in auditors reports in relation to going concern and these could potentially be simplified to assist both listed entities and complex entities and LCEs.

(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.)?

Improved transparency in relation to going concern should come through enhancements to the accounting standards as noted in our response to 3(a) above (as has begun to happen in some jurisdictions such as New Zealand in the absence of action from the IASB) so that management and those charge with governance can make appropriate assessments and disclosures of those assessments. A consideration of introducing a SOX-like regime may also assist in the robustness of these assessments for those entities where the benefits of such a regime outweigh the costs.

In our view, the IAASB should then consider further informative disclosures regarding the auditor's work in evaluating management's going concern assessment. The recent revisions to ISA (UK) 570, the equivalent standard on Going Concern in the UK, could be a starting point. We also note that the Australian Parliamentary Joint Committee Inquiry into the regulation of auditing in Australia recommends a formal review by the Australian Financial Reporting Council on the sufficiency and effectiveness of reporting requirements under the Australian standards in relation to going concern.

Furthermore, some of our stakeholders noted that users find the use of both KAMs and MURGCs confusing and we therefore suggest considering whether there is a need to revisit how the auditor's report discusses going concern close calls in KAMs versus actual material uncertainties in MURGCs.

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?

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 understand that technology did not form part of this discussion paper, however, we do note that many of our stakeholders suggested that the advancements in technology can help narrowing the expectation gap and more specifically the evolution gap. ACCA's thought leadership report titled, *Machine learning: more science than fiction,* found that machine learning (ML) can help improve fraud detection. For example, in risk assessment, supervised learning algorithms can be used to help identify specific types or characteristics that warrant greater scrutiny; and improve targeting of the areas of focus for the audit. In this context, the choice of an appropriate ML method can be valuable for audit testing[6]. This is only an example and we therefore suggest the IAASB to explore further the opportunities where technology can help.

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[6] https://www.accaglobal.com/gb/en/professional-insights/technology/machine-learning.html

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Appendix B

About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand (CA ANZ) represents more than 128,000 financial professionals, supporting them to make a difference to the businesses, organisations and communities in which they work and live. Chartered Accountants are known as Difference Makers. The depth and breadth of their expertise helps them to see the big picture and chart the best course of action.

CA ANZ promotes the Chartered Accountant (CA) designation and high ethical standards, delivers world-class services and life-long education to members and advocates for the public good. We protect the reputation of the designation by ensuring members continue to comply with a code of ethics, backed by a robust discipline process. We also monitor Chartered Accountants who offer services directly to the public.

Our flagship CA Program, the pathway to becoming a Chartered Accountant, combines rigorous education with practical experience. Ongoing professional development helps members shape business decisions and remain relevant in a changing world.

We actively engage with governments, regulators and standard-setters on behalf of members and the profession to advocate in the public interest. Our thought leadership promotes prosperity in Australia and New Zealand.

Our support of the profession extends to affiliations with international accounting organisations.

We are a member of the International Federation of Accountants and are connected globally through Chartered Accountants Worldwide and the Global Accounting Alliance. Chartered Accountants Worldwide brings together members of 13 chartered accounting institutes to create a community of more than 1.8 million Chartered Accountants and students in more than 190 countries. CA ANZ is a founding member of the Global Accounting Alliance which is made up of 10 leading accounting bodies that together promote quality services, share information and collaborate on important international issues.

We also have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents more than 870,000 current and next generation accounting professionals across 179 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications.

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About ACCA

ACCA is the Association of Chartered Certified Accountants. We're a thriving global community of 227,000 members and 544,000 future members based in 176 countries that upholds the highest professional and ethical values.

We believe that accountancy is a cornerstone profession of society that support both public and private sectors. That's why we're committed to the development of a strong global accountancy profession and the many benefits that this brings to society and individuals.

Since 1904 being a force for public good has been embedded in our purpose. And because we're a not-for-profit organisation, we build a sustainable global profession by re-investing our surplus to deliver member value and develop the profession for the next generation.

Through our world leading ACCA Qualification, we offer everyone everywhere the opportunity to experience a rewarding career in accountancy, finance and management. And using our respected research, we lead the profession by answering today's questions preparing us for tomorrow.

Find out more at www.accaglobal.com