Botswana Accountancy Oversight Authority

01 February 2020

Tom Seidenstein
Chair
International Auditing and Assurance Standards Board
545 Fifth Avenue
New York
NY 10017 USA

Dear Mr Seidenstein

COMMENTS ON DISCUSSION PAPER ON FRAUD AND GOING CONCERN IN AN AUDIT OF FINANCIAL STATEMENTS: *Exploring the Differences Between Public Perceptions About the Role of the Auditor's responsibilities in a Financial Statements Audit.*

The Botswana Accountancy Oversight Authority (BAOA) values this opportunity to comment on the Proposed FRAUD AND GOING CONCERN IN AN AUDIT OF FINANCIAL STATEMENTS: *Exploring the Differences Between Public Perceptions About the Role of the Auditor's responsibilities in a Financial Statements Audit*

The BAOA is responsible for providing oversight to accounting and auditing services and promotion of the standard, quality, and credibility of providing financial and non-financial information by entities, including Public Interest Entities (PIEs). This is attained through standard setting, financial reporting monitoring, audit practice reviews, corporate governance reviews, enforcement of compliance and oversight over Professional Accounting Organisations, and education and training of professional accountants in Botswana.

Our comments are presented under the Appendix 1: Request for specific comments.

Kindly e-mail us at dmajinda@baoa.org.bw or phone directly on +267 3919735, if further clarity is required on any of our comments.

Yours faithfully

Duncan Dankie Majinda
Chief Executive Officer

BAOA
Botswana Accountancy Oversight Authority

APPENDIX 1
REQUEST FOR SPECIFIC COMMENTS

Overall Questions

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

   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?**

   Users of financial statements, not knowing exactly what the Auditors responsibilities are in relation to fraud and going concern. General expectation is that the responsibility for detection of fraud and assessment of going concern lies with the Auditor. This, however, is not the case as per the International Standards on Auditing (ISAs).

   The Auditors responsibilities as defined by the ISAs viewed to be not as robust to detect or identify fraud and going concern matters.

   ISA 200 requires the Auditor to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to FRAUD or error. When an audit opinion has been given to that effect, and later on there is a corporate collapse, stakeholder start asking questions such as, 'Where were the Auditors'. Ideally a reasonable assurance is expected to be supported by sufficient appropriate audit evidence, in this case such evidence is assumed to cover fraud.

   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?**

   Additional disclosure requirements in relation to fraud and going concern by both the Auditor and Management. The disclosure requirements should be defined in ISAs to avoid inconsistencies in reporting.

   Awareness or educating the stakeholders and users of financial statements on the Auditors responsibilities on fraud and going concern.

   Educate Those Charged with Governance and Management of the entities on their responsibilities on fraud and going concern and encourage them to adopt a culture that is anti-fraud.

Define key concepts that are currently inconsistently understood, e.g., material uncertainty, and give examples.

2. **This paper sets out the auditor's current requirements in relation to fraud in an audit of financial statements, and some of the issues and challenges that have been raised with respect to this (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?**

   Yes, at risk assessment and substantive levels and also at Engagement Quality Review level.

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

   (i) For what types of entities or in what circumstances?

   Enhanced procedures should be mandatory for Public Interest Entities as defined by local laws and regulation, including listed entities and also for any other audit engagement when the Auditor determines it is appropriate based on the understanding of the facts and circumstances of the entity.

   (ii) What enhancements are needed?

   Enhance the auditor's responsibility by iintroducing additional requirements over and above what is currently in the International Standards on Auditing. Requirement to:

   - Involve forensic expects as part of the engagement team who would focus specifically on fraud related matters at risk assessment level and throughout the audit.

   - Design audit procedures over and above what is currently in the ISAs to address non-material frauds at substantive level. Any non-material frauds identified should be reported to Management and Those charged with Governance.

   - For an Engagement Quality Reviewer to review audit work performed on fraud at risk assessment level and conclusions reached thereon for audits of public interest entities, including listed entities, and any other entity which the firm has determined an Engagement Quality Reviewer is required.

- Design audit procedures that specifically address any fraud that might be perpetrated by use of the systems that feed into the ledger of an entity.

(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 changes should be made within the ISAs, so that these become requirements that are enforceable and considered before issuing any Auditor's Report.

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

Yes, requiring a suspicious mindset would contribute to enhanced fraud identification. A suspicious mindset would lead the Auditor to scrutinizing transactions and balances beyond their face value.

(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?

Yes, having a 'suspicious mindset' should be included as a requirement in the ISAs. This is in view of the world robust requirements surrounding Anti Money Laundering where there is a requirement to reporting suspicious transaction. For one to identify such transactions there is need to have a 'suspicious mindset'.

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.)?

Yes,

- In addition to the disclosure requirements in ISA 700 *(Forming an opinion and reporting on Financial Statements)*, the Auditor's responsibilities section should expand and/or elaborate the auditor's responsibilities in relation to fraud, this would help in reducing the knowledge gap.

- The auditor's responsibilities in relation to fraud and results should also be communicated through an audit committee document to management and those charged with governance of the entity.

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 (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?**

   Yes, there should be more requirements in terms of disclosures to be made in the Auditor's Report and audit work to be performed in evaluating management's assessment and assumptions on going concern.

   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?

   Enhanced procedures should apply to all entities as part of an audit.

   (ii) What enhancements are needed?

   Requirement to:

   - Include as part of the disclosures in the Auditor's Report, the Auditor's basis of conclusion on the appropriateness of management's use of going concern basis of accounting in the preparation of the financial statements.

   - Design robust audit procedures for interrogating management assessment and assumptions on going concern.

   (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 changes should be made within the ISAs, so that these become requirements that are enforceable and considered before issuing any Auditor's Report.

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.)?

- More transparency is needed as this would reduce the expectation gap and also it would be clearer to the users of financial statements as to what informed the auditor to conclude that the entity is a going concern.

- Communication should be through the Independent Auditor's Report and also to those charged with governance through an audit committee document. The Independent Auditor's report should have a standard paragraph on going concern.

- Refer to 3(b(ii)) above for the additional information to be communicated.

(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?

- No.

4. Are there any other matters the IAASB should consider as it progresses its work on fraud and going concern in an audit of financial statements?

Yes, as detailed below:

a) Whether entities should be required to assess their ability to continue as a going concern for longer than twelve months, and therefore whether auditors should be required to consider this longer time period in their assessment, beyond the current required period.

Currently the IAS 1 *(Presentation of Financial Statements)* requirement on the assessment of going concern provides for a period of more than 12 months. The twelve-month prescribed is a minimum (at least twelve months). Based on this, there is no need for a new requirement.

b) **Whether more is needed related to professional skepticism when undertaking procedures with regard to fraud and going concern and what additional procedures, if any, may be appropriate.**

Requirement to have documented evidence to the fact that the Auditor was alert throughout the audit. Minimum procedures should be performed, and such procedures should be documented in the audit engagement file.