25 February 2021

BOTSWANA INSTITUTE OF CHARTERED ACCOUNTANTS COMMENT LETTER TO DISCUSSION PAPER *FRAUD AND GOING CONCERN IN AN AUDIT OF FINANCIAL STATEMENTS: EXPLORING THE DIFFERENCES BETWEEN PUBLIC PERCEPTIONS ABOUT THE ROLE OF THE AUDITOR AND THE AUDITOR'S RESPONSIBILITIES IN A FINANCIAL STATEMENT AUDIT*

Introduction

The Botswana Institute of Chartered Accountants ("BICA") is a statutory body established by Accountants Act, 2010 for the regulation of the accountancy profession in Botswana. The Institute's mission is to protect public interest through promoting the accountancy profession, supporting accountants, facilitating quality professional accountancy services through the monitoring and regulation of professional accountants.

The Institute appreciates the opportunity to contribute towards the Discussion Paper, *Fraud and Going Concern in an Audit of Financial Statements: Exploring the Differences Between Public Perceptions About the Role of the Auditor and the Auditor's Responsibilities in a Financial Statement Audit*. We have provided our comments to each specific question as per the Discussion Paper. Should you wish to have further engagements please do not hesitate to contact the undersigned.

Yours Faithfully

Signed electronically	*Signed electronically*
Mosireletsi M Mogotlhwane ACA	**Edmund Bayen**
Manager –	Director -
Technical and Public Sector	Technical and Public Sector
Accounting Services	Accounting Services

RESPONSES TO SPECIFIC QUESTIONS

Question 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?**

   Response:

   The main contributor to the expectation gap is the *knowledge gap.* More often the public, including those charged with governance, lack the basic principle of what financial statements audit entails. In most cases the expectation is that the auditor has the responsibility of detecting fraud and assessing an entity's going concern. For this reason, investors often attempt to take action against the auditors when things go wrong for any period for which the auditor issued an unmodified report.

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?**

   Response:

   National Audit Regulators should take the responsibility of educating the public about the nature of an audit of financial statements. The main focus should be those charged with governance and Institutional investors. This will reduce the knowledge gap and help better decision making by those charged with governance and investors.

   At the moment there are a few audit regulators across the world. In Africa, there are less than 10 Audit specific regulators, out of 54 countries. This means the work of auditors goes unchecked and therefore performance gap will continue to widen. Jurisdictions should take reasonable steps to come up with measures to ensure that the audit profession is regulated and their work reviewed against the adopted auditing standards.

Question 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 (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?**

   Response

   The current requirements are sufficient. Increasing the auditor's responsibility with regards to fraud will perpetuate the already existing knowledge gap.

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.**

   Response

   ISA 240, requires an auditor to identify and assess an entity's risks of material misstatements due to fraud or error at the financial statements level and at the assertion level. This requirement is enough guidance for auditors to consider different circumstances when identifying risk of materials misstatement due to fraud. Fraud cannot be blankly associated with certain entities and therefore it would not be necessary to enhances procedures only for certain entities.

   Generally, certain entities are prone to fraud due to nature of operations. And this is covered under the risk assessment process that auditors perform during audits. Since the ISAs are detailed regarding review of risk when performing an audit, sufficient guidance is already provided.

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?**

Response

Requiring a "suspicious mindset" implies that the auditor will be doing a forensic accounting engagement and would exacerbate the expectation gap. Requirements for professional scepticism are sufficient to allow the auditor to identify risks of material misstatements due to fraud.

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.)?**

Response

The current audit report illustrations in ISA 700 have clear guidance for responsibilities of both directors and auditors particularly with respect to the area of material misstatement due to fraud or error. ISA 240 further requires the auditor to obtain management representation letter acknowledging their responsibility of preventing and detecting fraud. This responsibility is disclosed in the audit report as well. There is therefore no need for further transparency of the auditor's work than is already disclosed.

Question 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?**

Response

The current requirements are sufficient. Increasing the auditor's responsibility in relation to going concern will perpetuate the already existing knowledge gap.

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.**

Response

ISA 570 gives clearly guidance to the auditor regarding consideration for management's assessment for the entity's going concern. There is no need to enhances procedures because any further procedure will lead to increased expectation gap and management's responsibility overshadowed.

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.)?**

   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?**

Response

The current audit report illustrations in ISA 700 have clear guidance for responsibilities of both directors and auditors particularly with respect to the going concern assessment. ISA 570 further requires the auditor to obtain management representation letter acknowledging their responsibility of assessing the entity's ability to continue as a going concern. This responsibility is disclosed in the audit report as well. There is therefore no need for further transparency of the auditor's work than is already disclosed.

Question 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?

Response

No further comments.