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Mr. Willie Botha
Technical Director
International Auditing and Assurance Standards Board
529 Fifth Avenue
New York, New York 10017

Re: 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*

Dear Mr. Botha:

Mazars USA LLP (Mazars USA) welcomes the opportunity to provide our insights on the questions raised in the International Auditing and Assurance Standards Board's (IAASB or the Board) 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* (the Discussion Paper).

Currently, Mazars USA has over 100 partners and 800 professionals across the United States (U.S.) and is an independent member firm of the Mazars Group, an organization with 1,000 partners and 24,400 professionals in more than 90 countries around the world, and a member of Praxity, a global alliance of independent firms. As a member of an international network, we strive for continuous improvement by collaborating with our other member firms to set high standards for audit quality throughout the Mazars Group and tailoring these standards to meet U.S. Generally Accepted Auditing Standards established by the American Institute of Certified Public Accountants (AICPA), the auditing and related professional practice standards established by the Public Company Accounting Oversight Board (PCAOB) and the auditing, assurance and quality control standards set by the IAASB.

Our views on the Discussion Paper are driven by our position in the U.S. marketplace as a medium sized public accounting firm servicing mainly small to mid-size public and private businesses in a variety of industries and as a member firm in a global network. Thus, we find ourselves subject to the standards for audits promulgated by the AICPA and PCAOB, as well as the IAASB. We encourage the IAASB to continue to collaborate with the other audit standards setters, market regulators, financial reporting standards setters and the various stakeholder groups to reduce the present gap between the expected role and responsibilities of the auditor for fraud and going concern in a financial statement audit and public perceptions.

We appreciate the content and flow of the Discussion Paper as it appropriately explores the best ways to narrow the audit expectation gap by gathering perspectives from all participants in the financial reporting ecosystem to improve financial reporting transparency and the public's confidence, and to consider if the auditing standards related to fraud and going concern remain fit-for-purpose in the current environment. As we will discuss in our responses below, there are likely many effective methods that could successfully contribute to narrowing the expectation gap, including standards implementation and other non-authoritative guidance and supporting tools, educational materials, and increased communication and practice alerts before any changes to the auditing standards are needed. In our recommendations, we carefully considered desired outcomes and potential unintended consequences in arriving at a mostly interconnected approach to addressing the questions raised.

Please see our responses below to the questions in the Discussion Paper:

1. In respect to the expectation gap:

(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: We believe the knowledge gap is the main cause of the expectation gap. We recognize there are performance and evolution gap factors as well, but to a much lesser degree, therefore our focus is on closing the knowledge gap.

Fraud:

There are many financial statement users who think the auditor's main focus during an audit is to search for and uncover any possible fraud. Many users fail to understand that ISA 240, *The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements* (ISA 240) clearly indicates that management and those charged with governance (TCWG) have the primary responsibility for the prevention and detection of fraud. Additionally, it is management who has the primary responsibility to determine that its financial statement disclosures are compliant, complete and fairly stated. Many users overestimate the assurance an audit truly provides, namely that the audit is designed to provide only reasonable, not absolute, assurance that the financial statements are free of material misstatement, whether due to fraud or error. Said another way, a standards compliant audit may not identify all fraud or error, or even material fraud or error, due to inherent limitations in an audit and the actions of those perpetrating the fraud. This lack of common understanding between the auditors and users of financial statements causes the difference in "knowledge" between what the auditors are actually responsible for, and what the public perceives as the auditor's responsibility, hence the expectation gap. If the users of financial statements had more education leading to a better understanding the auditors' responsibilities, there would be less of an expectation gap.

Going Concern:

A financial statement audit is primarily focused on assessing the reasonableness of the financial condition of a company at a historical point in time. The going concern consideration is one of the few audit areas that requires an assessment of future operations which are highly dependent on management actions and decisions, and market conditions. As is recognized in ISA 570 (Revised), *Going Concern* (ISA 570), "inherent limitations on the auditor's ability to detect material misstatements are greater for future events or conditions that may cause an entity to cease to continue as a going concern." The auditor cannot predict such future events or conditions, while investors, lenders and many other users of the financial statements are focused on prospective company performance. A collaborative method should be developed to educate the members of the financial reporting ecosystem as to the key roles and responsibilities, at a minimum, of the auditor, preparer and TCWG. The expectation gap around going concern would be reduced if users understand better that the auditor's evaluation of the ability of the entity to "continue its operations for the foreseeable future" is highly dependent on the diligence and objectivity of management's own assessment and financial statement disclosures.

(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: Given our response to Question 1(a) is focused on a lack of common understanding, education of the preparers and external users of financial statements is the best way to narrow the expectation gap. Such education should address the key roles that lead to the divide, namely, the respective responsibilities of management, TCWG and the auditors. This education can be accomplished in a variety of forms, and would best to come from all interested parties, management, the auditors, regulators, institutional investors, and standards setters in the form of expanded communication and tools related to what is expected from each participant in the financial reporting ecosystem. This interconnected approach would help narrow the expectation gap.

While we recognize that financial reporting standards and certain other disclosures required by regulators are not the purview of the IAASB, we believe that improving disclosures around fraud prevention and the consideration of the going concern assumption would assist with closing the expectation gap. Disclosure regarding fraud prevention might focus on detailing the client's key processes, structure and controls that support the accurate reporting of financial information. Enhanced disclosures around going concern might address both the key assumptions that support the conclusion as to the appropriateness of reporting on a going concern basis and greater transparency around management's assessment of potential risks. When there is a close call, or the going concern basis is not warranted, additional disclosures of key assumptions around financial modeling may be appropriate. Given management assessments of going concern vary widely in terms of approach and diligence, we believe that financial reporting standards globally should establish a more detailed, diligent financial reporting framework for management to follow in building their going concern analysis. We believe that convergence among regulators and financial reporting standard setters on these topics would benefit the users of the financial statements and assist in closing the expectation gap.

One area where the IAASB could provide support to auditors through non-authoritative guidance would be around the application of professional skepticism as it relates to fraud and going concern. For example, a frequently asked questions document regarding the design of auditing procedures for fraud and going concern could heighten auditor awareness in specific circumstances. Familiarity with an entity may create a challenge to detecting fraud on longer term clients on the part of the auditors. One way that this familiarity can be mitigated is by varying the procedures performed in recurring engagements. While ISA 240 requires, and auditors incorporate, a level of unpredictability in the selection of audit procedures, often the audit work follows similar procedures year over year, making it less likely that fraud will be identified over time. Familiarity can also cause bias when auditors consider the going concern assumption, especially in client situations where there is a history of financial challenge, but the client continues to manage such challenges. Guidance from the IAASB in these special circumstances could benefit auditors in performing their audits and, in doing so, assist in closing the expectation gap.

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. 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: We believe that the current auditing and ethics standards, including those recently updated, provide the appropriate guidance to auditors for execution of risk assessed and principles-based fraud procedures tailored to each audit. As such, we do not believe the auditor should have enhanced or more requirements with regard to fraud. When audit testing is performed with an appropriate level of rigor and professional skepticism, the auditors have a reasonable likelihood of identifying material fraud, as is contemplated by the standards.

(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: No, we do not believe there is a need for enhanced procedures only for certain entities or in specific circumstances. The standard, ISA 240, allows for flexibility so that judgment can be used to determine if there is a specific circumstance that warrants additional procedures. ISA 240, as a principles-based standard, can be applied to all industries, complexities and sizes of entities, and as the auditing environment changes, auditors can still utilize the standards through evolving their approaches and procedures. We do not support amending ISA 240 to provide for use of forensic specialists in special circumstances.

We acknowledge that there could be value in additional implementation guidance or tools related to the auditor's challenge of risks that may be specific to certain industries.

(c) Would requiring a "suspicious mindset" contribute to enhanced fraud identification when planning and performing the audit? Why or why not? 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: We believe that the existing requirements on the application of professional skepticism in ISA 240 positions the auditor to have an objective and appropriately challenging relationship with their clients in order to fulfill their responsibilities. The proper application of professional skepticism will, when appropriate, lead to the use of additional procedures and occurrence of pointed or difficult conversations. We believe that starting an engagement from the perspective of a suspicious mindset would have unintended negative consequences. For a quality audit, management needs to feel comfortable with two-way transparent dialogue. sharing information and being honest with auditors. Applying a suspicious mindset, which implies the use of a more confrontational approach at all times, would likely cause management to be less open with the auditor and make compliance with the ISAs more difficult.

While we do not recommend a change in the definition or the present concepts of professional skepticism, we do recognize the importance that it plays in the performance of a quality audit and the ability to identify potential or actual fraud through audit procedures. We also recognize that it can be a challenge to identify when and how to augment or adjust the planned audit approach based on the application of professional skepticism. Given the interplay between professional skepticism and obtaining sufficient appropriate evidence, we encourage the IAASB to consider whether the current audit evidence project should have, as one of their focuses, the application of professional skepticism when assessing audit evidence.

(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 be communicated (e.g. in communications with those charged with governance, in the auditor's report etc.)?

Response: While we have concerns with there being a general misunderstanding of the procedures employed in relation to fraud, we do not advocate for greater transparency about the specific procedures performed. Rather, we recommend improvements in ecosystem-wide communication and tools to reduce the expectation gap. Increased transparency related to the auditor's work in relation to fraud may have the unintended consequence of effectively educating preparers on how to conceal fraud.

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. 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: We do not believe the auditor needs enhanced requirements related to going concern. As is clear in ISA 570, the primary responsibility for assessing the appropriateness of the going concern assumption must reside with management. Given that significant assumptions regarding going concern are based on future events that are highly dependent on management's choices among alternatives, a robust analysis by management is the predicate to any effective auditor assessment.

(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? (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: Similar to our response to Question 2(b), we do not believe there is a need for enhanced procedures only for certain entities or in specific circumstances given the principles-based nature of ISA 570.

(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. Do you believe more transparency is needed 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: We do not believe that more transparency is needed about the auditors work in relation to going concern in an audit of financial statements.

We do believe that greater transparency of management's assessment of the appropriateness of the going concern assumption in the disclosures to the financial statements would be beneficial to reducing the expectation gap. As discussed in our response to Question 1(b) above, enhanced disclosures around going concern might address both the key assumptions that support the conclusion as to the appropriateness of reporting on a going concern basis and greater transparency around management's assessment of potential risks. When there is a close call, or the going concern basis is not warranted, additional disclosures of key assumptions around financial modeling may be appropriate. Expanded management disclosure, possibly leveraging the disclosure requirements under generally accepted accounting standards in the United States, may provide more context to the users of the financial statements enhancing their understanding of the basis for the auditor's judgment as to the appropriateness of the going concern assumption, thus mitigating the need for more transparency regarding the auditor's judgments. We recognize that disclosure requirements are outside of the purview of the Board, but it is an area where collaboration with relevant financial reporting standards setters would be beneficial given the differences in the standards across jurisdictions.

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

Response: We would also like to comment on some of the requests for perspective noted in the paper as follows:

"*The IAASB is interested in perspectives about the impact of corporate culture on fraudulent financial reporting and what, if any, additional audit procedures for the auditor should be considered by the IAASB in this regard.*" (page 15)

Response: Corporate culture and tone at the top certainly impact the financial reporting environment and the likelihood fraud may occur. This inherent risk exists and is considered during the audit risk assessment process. We do not believe that additional procedures should be considered by the Board at this time.

"The IAASB is interested in perspectives on whether enough emphasis is placed on the auditor's responsibilities around fraud related to third parties. We are also interested in feedback about the auditor's role in relation to third party fraud that does not result in a material misstatement of the financial statements but may have severely negative impact on the entity (e.g., cybercrime attacks)." (page 13)

Response: We do not support expanding the auditor's responsibility around fraud related to third parties.

"The IAASB is interested in perspectives on whether additional engagement quality control review procedures specifically focused on the engagement team's responsibilities relating to fraud should be considered for audits of financial statements of listed entities, and those other engagements, if any, for which the firm has determined an engagement quality control review is required." (page 20)

Response: The recently issued standards, International Standard on Quality Management 2, *Engagement Quality Reviews* addresses the completion of an effective engagement quality control review, including the considerations related to fraud and ISA 220 (Revised) *Quality Management for an Audit of Financial Statements* will serve to increase audit quality overall, and as written will allow the engagement quality control reviewer to focus on areas of risk within the audit. We do not believe that additional procedures are necessary.

"*The IAASB is interested in perspectives on 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. If stakeholders believe a longer timeframe should be required, alignment will need to be retained between the requirements under the applicable financial reporting framework and the auditing standards in order for auditors to be able to adequately perform their procedures*." (page 23)

Response: Presently, there is inconsistency in the application of ISA 570 on this topic, especially in jurisdictions where national standard setters and regulators have established clarifications to the requirements of ISA 570 and/or reporting frameworks. For improvement in audit quality, and consistency in auditor reporting and entity disclosures, we support a one- year assessment period starting from the date of the issuance of the auditor's report. Supporting guidance may be needed related to ISA 570 and the IASB reporting framework for this recommendation to be implemented.

We applaud the Board's decision to issue the Discussion Paper and appreciate the opportunity to provide our comments. We would be pleased to discuss our responses with you at your convenience.

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Please direct any questions to:

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Very truly yours,

Mazars USA LLP

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cc:
IAASB
Mr. Thomas Seidenstein, Chairman