REF# 767291

01 February 2021

Submitted electronically at www.iaasb.org

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Dear Willie

SAICA's COMMENT LETTER ON THE IAASB'S DISCUSSION PAPER: FRAUD AND GOING CONCERN IN AN AUDIT OF FINANCIAL STATEMENTS

The South African Institute of Chartered Accountants (SAICA) is the home of chartered accountants in South Africa – we currently have approximately 47,000 members from various constituencies, including members in public practice, business, the public sector, education and other industries. In meeting our objectives, our long-term professional interests are always in line with the public interest and responsible leadership. SAICA is currently the only professional accountancy organisation that has been accredited by the Audit Regulator in South Africa, the Independent Regulatory Board for Auditors (IRBA).

In response to your 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 (Discussion Paper), please find included the comments prepared by SAICA. To inform this submission, SAICA established a task group comprising representatives from the wider financial reporting ecosystem including audit firms, regulators and preparers of financial information.

We thank you for the opportunity to provide comments on this Discussion Paper. Our comments have been provided under two sections:

A. Overall comments;
B. Response to specific questions;

Please do not hesitate to contact us should you wish to discuss any of our comments. You are welcome to contact Thandokuhle Myoli (thandokuhlem@saica.co.za).

Yours sincerely

Signed electronically

Thandokuhle Myoli
Project Director: Audit and Assurance

A. Overall comments

1. SAICA welcomes the efforts of the IAASB in issuing the Discussion Paper. Auditors of financial statements play a significant role in the operation and maintenance of the global capital markets and a well-functioning profession will promote investor confidence. There is a definite need to create dialogue in exploring the differences between public perception about the role and responsibilities of the auditor in a financial statement audit, with the view of clarifying need for change to ensure that the auditor continues to serve the needs and meet the expectations of the public.

2. Globally, there have been numerous corporate failures that have brought the role of the auditor under scrutiny. In South Africa, some of these corporate failures include Steinhoff, African Bank, Tongaat Hulett and EOH. These failures have devastating effects on investors and the public and have prompted the Department of National Treasury to announce their intention to establish a ministerial panel of independent experts to review practices in the auditing profession.

3. As highlighted in the Discussion Paper, when these corporate failures occur and the role of the auditor is questioned, the issue of the expectation gap, in particular as it relates to the role of the auditor in detecting fraud, often arises as a possible cause that needs to be addressed. Therefore, it is not surprising that the audit reform inquiries taking place throughout the world are placing significant emphasis on this matter. An example of this is evident in the Brydon Review in the United Kingdom, where one of the recommendations is for the auditing standards in that jurisdiction to make it clear that it is the obligation of an auditor to endeavour to detect material fraud in all reasonable ways.

4. It is evident that there is an urgent need to restore trust in the auditing profession and to regain the auditing profession’s relevance and reputation. From a South African point of view, the decision was made to consolidate the audit reform agenda within SAICA. As part of this agenda, SAICA has undertaken numerous consultations and is tracking other global developments in this area with the aim of establishing a view on how chartered accountants, including auditors stay relevant into the future. One such development being monitored closely relates to the IAASB’s project on fraud and going concern.

5. Given the interconnectedness of the global financial market system as well as the auditing profession through the emergence of network firms, SAICA is of the view that it is not desirable to have standards that are too divergent between the various jurisdictions. To this end, SAICA believes that the IAASB has an important role to play in bringing uniformity in the standard-setting process and in this case as it relates to the auditing standards for fraud and going concern.

6. As outlined in the Discussion Paper, there are various players that have a unique and essential role to play in ensuring an effective financial reporting ecosystem that ultimately reports high quality financial information. It is unlikely that the standard setting activities of the IAASB alone will be sufficient to address the current expectation gap, particularly as it relates to knowledge gap. SAICA therefore supports the need for a holistic approach to addressing the current challenge, involving all players within the financial reporting ecosystem. Creating interventions that are aimed only at auditors without taking into account the wider corporate reporting ecosystem will not result in the achievement of the desired outcomes as the inherent limitation of an audit is that it only provides reasonable assurance on financial statements.

7. Any future actions considered necessary in addressing the expectation gap must be considered in the context of scalability and, as such should take into account the work currently being undertaken by the IAASB on LCEs.

B. Responses to Specific Questions

1. In regard 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?

8. One of the reasons for the expectation gap is that there appears to be a lack of understanding of what the needs of the public are in relation to an audit of financial statements. This could be due to the fact that there are no mechanisms for dialogue between the public and the auditors resulting in a lack of understanding in terms of what auditors are expected to deliver. The term ‘public’ is undefined and often used loosely without clarity as to which stakeholder groups represent the public’s views with regard to the audit process. These stakeholder groups may vary from one jurisdiction to the other but it is critical that they are identified and for formal mechanisms to be implemented in order to identify how best to solicit their views on the expectations of an audit of financial statements. The stakeholder groups may also vary as a result of differences in complexities, size, laws and regulations and the regulators who oversee the entities being audited. Some of the traditional stakeholder groups include regulatory authorities such as audit regulators, stock exchanges and large institutional investors that may have a direct interest in the audit process. However, there is a need to move beyond the traditional stakeholder groups to allow for a more inclusive process.

9. Users of financial statements have evolved from being predominantly individuals with financial backgrounds to individuals from various other careers. This has led to a lack of understanding over audit concepts such as materiality, the responsibilities of management with respect to fraud and going concern, and the concept of reasonable rather than absolute assurance.

10. It can be argued that a significant contributor to the expectation gap is the information contained in media reports and other information reported on informal platforms such as social media, which may contain misleading information that adds to widening the knowledge gap. There is a need for appropriate structures to be created to address the expectation gap in appropriately responding to media reports and ultimately educating the public on the roles and responsibilities of the auditor.

11. The distinction between the knowledge, performance and evolution gap as defined in the Discussion Paper is useful. Any changes to the International Standards of Auditing (ISAs) that the IAASB may propose will only address the performance gap in clarifying the requirements and the evolution gap in responding to the changing needs of the general public demands, but other action is required to address the knowledge gap. This is probably the reason why, although the ISAs have been updated and revised over the years, the issue of the expectation gap remains unabated. The importance of educating and having a continuous dialogue with the appropriate stakeholder groups in an effort to close the knowledge gap cannot be emphasised enough. This should not be the responsibility of the IAASB alone but of everyone involved in the wider financial reporting ecosystem. It is SAICA’s view that the knowledge gap is the main contributor to the expectation gap as this is beyond the profession’s control. The mere fact that auditors are also called “watch dogs” might be an indication on what the public expects from auditors, compared to what they really do.

12. The complexities of business and the very stringent reporting deadlines imposed by regulators and management, together with the ever-reducing number of auditors have increased the workload and pressure and due to this, the appropriate composition of the audit teams may be lacking. This contributes to widening the evolution and performance gaps.

13. With regards to fraud, there seems to be an expectation by the public that the auditor should be performing procedures to detect fraud while the ISAs only require the auditor to:
    - Identify and assess the risks of material misstatement of the financial statements due to fraud;
    - Obtain sufficient appropriate evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
    - Respond appropriately to fraud or suspected fraud identified during the audit.

    This has the potential effect that where the auditor's risk assessment procedures do not indicate that fraud may exist at the audited entity then it may go undetected by the auditor. The risk of this scenario occurring is heightened when the auditors ability to exercise professional scepticism is compromised, where as an example the auditor has a long association with the client or financial dependency on the audit fee from the client. Tight audit deadlines and the resultant pressure to complete the audits on time, either from management and regulators are other examples that could result in the diminishing of professional scepticism by the auditor.

14. Similarly with going concern, auditors may find management's assumptions and basis for conclusion on the use of the going concern basis of accounting appropriate and a corporate failure may occur at the same company a few months down the line. This contributes to the widening of the expectation gap, particularly as it relates to the knowledge gap. In making the determination on the appropriateness of the going concern basis of accounting, auditors often make use of historical financial information to predict future trends. In addressing the evolution gap, there is a need to relook at the examples of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern provided in paragraph A3 of ISA 570, Going Concern. For example, negative analysts' reports on the future of a company could be an example of an event or condition that may need to be considered by the auditor. Some of the trends identified in the recent corporate failures should be incorporated in these examples. Furthermore, technology and data analytics could provide the auditor with useful trends, including industry specific trends that may allow for more appropriate conclusions on going concern to be made.

(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?

15. SAICA is of the view that there is room for improvement when it comes to communication of the reasons for the corporate failures when these occur and after the appropriate investigations have been made by the regulatory authorities. This would give clarity in terms of whether auditors are failing in carrying out their responsibilities in accordance with the current ISAs or not. Significant changes to the ISAs should only be made after a thorough analysis of the investigations into the corporate failures indicates that the root cause was an audit failure due to the ISAs being insufficient or inappropriate. Transparency is required from regulatory authorities in this regard. The IAASB should interact with them in order to ascertain whether the underlying problems are with the requirements included in the ISAs, the application thereof or something else entirely.

16. The International Forum of Independent Audit Regulators (IFIAR) is an example of a structure that could provide the IAASB with meaningful information on what the causes of the corporate failures could be as this is a forum representative of independent audit regulators from multiple jurisdictions. The IAASB should seek to use its influence to promote transparent and consistent reporting with these type of stakeholders globally in order to get understanding of some of the root causes for these failures. Such reporting may not necessarily prevent corporate failures may give the IAASB insights on how the ISAs may be improved to better serve the needs of the public.

17. Globally, numerous inquiries are taking place to review practices in the auditing profession. Proposed recommendations from these inquiries could provide useful insights to the IAASB on what the needs of the public are from an audit of financial statements, in particular as it relates to fraud and going concern.

18. There is a need to also place more accountability on the other role players such as the preparers of financial statements (Chief Executive Officers and Chief Financial Officers) and those charged with governance (e.g. Audit Committees). Corporate culture and the quality of the reporting and internal controls at the organisation have a significant impact on whether fraud will be detected even without involving the auditor and on whether the going concern basis of accounting is appropriate. Therefore, explicit reporting could be required from both the preparers and those charged with governance on actions that they have undertaken to ensure that they fulfil their responsibilities in these two areas. This management responsibility needs to be given increased public acknowledgement.

19. In addressing the evolution gap, the focus should not be solely on broadening the underlying scope and purpose of an audit of financial statements and the role and responsibilities of the auditor. Separate assurance engagements in areas such as the entity's system of internal control (including fraud) or forward-looking information used in assessing the resilience of entities could be performed in accordance with the International Standard on Assurance Engagements 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information, (ISAE 3000 (Revised)) suite of standards. The appropriate reporting frameworks would need to be developed before such engagements may be conducted and this requires collaboration with the relevant reporting bodies.

20. It is interesting to note that in South Africa, the Johannesburg Stock Exchange recently amended their Listings Requirements to require the CEO and Financial Director to make a positive statement attesting that the annual financial statements fairly present the state of affairs of the company and/or group, that internal financial controls are adequate and effective and that where deficiencies and any fraud involving directors have been identified, these have been disclosed to the Audit Committee and the auditor and the necessary remedial action has been taken.

21. Stakeholders such as financial institutions may be in a position to provide insight on the latest fraud schemes that auditors and entities need to be aware of. SAICA recommends that the IAASB maintains interactions with these institutions and their regulators in order to communicate and provide regular guidance to auditors on how to deal with these fraud schemes.

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?
(b) Is there a need for enhanced procedures only for certain entities or only in specific circumstances?
(c) Would requiring a "suspicious mindset" contribute to enhanced fraud identification when planning and performing an audit? Why or why not?
(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.)

22. The responsibility for identifying, detecting and preventing fraud sits primarily with management and not necessarily with the auditor. Internal controls over the financial reporting process are not, in themselves, designed to address fraud risks. Management have a responsibility to assess fraud risks and to design appropriate responses and controls to mitigate the fraud risks. There is room for enhancements to be made in the financial reporting frameworks to create more transparency on the procedures performed by management in relation to fraud and how they have responded to the fraud risk factors that they have identified. Enhanced reporting by management would clarify their responsibility for the internal control environment and give users of the financial statements an understanding of how they have discharged their responsibilities in relation to fraud in accordance with a clear framework. The auditor would then be required to perform a secondary function of assessing the procedures performed by management against this recognised framework. Therefore, SAICA's view is that the starting point for any enhanced requirements with regard to fraud should first be on the preparers before imposing additional requirements on the auditor. For example, entities should have updated fraud registers that the auditors could review as part of their planning procedures. Transparency should be made in the auditor's report about both the responsibilities of management and the auditor as they relate to fraud. This could assist in narrowing the knowledge gap.

23. SAICA is of the view that the objectives of the auditor in ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* (ISA 240), are clear and appropriately set out even though the expectation gaps may continue to exist. For example, ISA 240 clearly points out that auditors should be aware of the risk of fraud and design appropriate responses if fraud risk factors are identified. [1]Although the requirements are clear, SAICA's view is that guidance is needed to give more detail about how the auditor can practically go about meeting these objectives in specific situations that may exist in practice. Guidance and practical examples can be enhanced to provide auditors with information on the potential fraud schemes and fraud risk factors that may exist as well as how the auditors should respond in these potential scenarios. The IAASB should consider issuing implementation guidance in the form of staff practice alerts in this regard to allow for more flexibility in terms of the content as well as the speed and frequency at which such guidance can be updated, thereby contributing to narrowing the performance gap as it relates to fraud.

24. Deficiencies in the overall control environment and in the design of the internal controls or failure to implement such internal controls are contributing factors to fraudulent activities. At some point significant internal control deficiencies are usually identified by the auditor, even if it is not during the financial period when fraud occurred. However, such deficiencies are not reported to the users of financial statements in the auditor's report when they are initially identified. There is room for the IAASB to enhance the reporting requirements in the auditor's report when it comes to deficiencies in the overall control environment and the internal controls. Reporting on internal control deficiencies would alert the users of financial statements of areas where the opportunities to perpetrate fraud may exist due to weaknesses in the overall control environment and the internal controls. This is a reporting requirement that can be made applicable to all types of engagements where internal control deficiencies are identified by the auditor, including both public interest entities as well as LCEs. Such disclosure, should, however, not be done in isolation but off the back of enhanced management disclosures. . The IAASB would further need to assess the impact of such requirement on other ISAs such as ISA 265, Communicating Deficiencies in Internal Control to Those Charged with Governance and Management, as this would require that enhanced guidance may need to be provided on what constitutes 'significant deficiencies.

25. There is currently no requirement within the ISAs to describe specific procedures performed and findings obtained regarding risks of material misstatement due to fraud in the auditor's report, although such information may be included if it is determined by the auditor to be a key audit matter. We highlight,

[1] ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraphs 10(a)-(c)

however, that such information is now required to be communicated by auditors in the UK. We suggest that the IAASB explore the inclusion of enhanced material in the ISAs in this regard, including factors to consider in determining whether fraud, or fraud risk, may be a KAM. We also recommend that the IAASB monitor UK investor views regarding the provision of more information by the auditor as to the fraud risks that the auditor considered and their related audit response to help inform their considerations in this area.

26. ISA 240 may also be enhanced to better emphasise the relevant considerations for determining the need to make use of a forensic specialist. For example ISA 240.30(a) and A35 could give detailed examples of the various scenarios that may lead to the engagement team requiring the services of a forensic specialist. The involvement of forensic specialists should be assessed on a risk-based approach and should be targeted towards specific risks identified by the engagement team. A risk-based approach is likely to be more suitable than a broad criteria such as the size of an entity or listed entity. For example, non-listed entities do not necessarily have a lower fraud risk profile than listed entities. A general involvement of forensic experts in audit engagements could further widen the expectation gap as this could possibly create an expectation that a forensic audit is being performed.

27. SAICA is of the view that it would not be appropriate to establish a general criteria for the possible enhancements as the risks identified by auditors are often entity-specific. Therefore, any enhancements to ISA 240 or any other ISA, where relevant, should be in relation to all audit engagements. Any decisions to create a broad criteria of application should be made per jurisdiction in consultation with the appropriate regulators and affected stakeholders.

28. If the IAASB were to introduce the concept of a “suspicious mindset”, clarity would be required as to what stage of the audit engagement this should be applied in relation to ISA 240. Specifically, clarity is needed around whether this should be at the stage where the auditor is in the process of identifying the fraud risk factors or at the stage where the auditor is designing and implementing the appropriate response to the risk factors. Audit engagements are by their nature risk-based engagements and auditors would be required to apply professional scepticism in a manner commensurate with their understanding of the entity and the risk assessment procedures performed. Furthermore, the auditor is required to apply professional scepticism throughout the engagement, and the risk assessment and responses re-designed if the auditor becomes aware of matters later in the audit that would have changed the assessments performed earlier. Therefore, in light of this, SAICA supports the concept of professional scepticism rather than the introduction of the concept of a ‘suspicious mindset’. The IAASB may explore other enhancements to the ISAs that emphasise the need to exercise professional scepticism in respect of fraud in an audit engagement. An example, could include introducing a ‘stand back’ requirement to consider all evidence obtained, similar to that included in ISA 315 (Revised), as well as guidance regarding auditor biases and how to address disconfirming audit evidence.

29. Bringing in a “suspicious mindset” could detract from the purpose of an audit which is not aimed at detecting fraud but rather providing reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error[2]. In terms of the suggestion by Sir Donald Brydon for auditors to approach an audit with a “suspicious mindset”, it is SAICA’s view that this concept has been introduced to address the close relationships and the risk of familiarity threat that arises between the auditee and the auditor and could impair the objectivity of the auditor and his/her ability to carry out the audit with professional competence and due care. Furthermore, SAICA’s view is that there is no need for the introduction of a new concept and that the concept of a ‘suspicious mindset’ can be incorporated into refining and further elaborating on the more familiar term of professional scepticism.

[2] ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph 11(a)

As described in the Discussion Paper, professional scepticism is an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence.[3] In applying professional scepticism, one cannot just assume that an auditor is always neutral, but there is a professional scepticism continuum ranging from complete trust on one end and complete doubt on the other. Where complete doubt exists, the auditor will move towards a forensic mindset and require more extensive audit evidence and documentation from the client. There are factors that exist in each audit engagement that will result in the auditor finding him or herself at a certain point along this continuum of professional scepticism based on the auditor's professional judgement. Requiring the auditor to automatically adopt a "suspicious mindset" is contrary to such professional judgement and in SAICA's view is not desirable in an audit of financial statements.

30. SAICA is of the view that the IAASB should continue in its endeavours to educate the profession about the concept of professional scepticism rather than introducing a new concept that may create further confusion. This could lead to a situation where there are two concepts that the profession has an inconsistent understanding of. The IAASB should consider issuing implementation guidance on professional scepticism to emphasise the practical aspects that auditors tend to struggle with on this concept. The concept of a "suspicious mindset" is likely to require the traits of a forensic auditor which an external auditor may not be appropriately trained in. Furthermore, including such a requirement in the ISAs could further widen the knowledge gap in particular as the public may expect that the auditors have these skills. The additional procedures performed as a result of this new concept could result in additional time and fees that the clients may not be readily willing or even able to absorb.

31. In those scenarios where the engagement team may need to heighten their professional scepticism in an audit engagement, ISA 240 could be enhanced to place a requirement on the external auditor to possibly make use of an expert such as a forensic auditor.

32. Examples of situations where a suspicious mindset may be required include those where:
    - There is a higher risk and susceptibility of material misstatement;
    - Fraud indicators are present;
    - Material errors are detected;
    - Complex judgement is required;
    - Audit evidence is inconsistent or contrary to the initial risk assessment

    Enhancements could be may made in the explanatory paragraphs in ISA 240 of these scenarios where a heightened level of professional scepticism may be required to be applied by the auditor and there would be more of leaning towards complete doubt in the professional scepticism continuum.

33. There is currently no requirement within the ISAs to describe specific procedures performed and findings obtained regarding risks of material misstatement due to fraud in the auditor's report, although such information may be included if it is determined by the auditor to be a key audit matter. The IAASB could explore the inclusion of enhanced material in the ISAs in this regard, including factors to consider in determining whether fraud, or fraud risk, may be a KAM.

[3] ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph 13(l)

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?
(b) Is there a need for enhanced procedures only for certain entities or only in certain circumstances?
(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?

34. Going concern is an important of area of the expectation gap. The key component of the expectation gap in this area is the evolution gap since financial statement audits have traditionally been premised on looking back at historical information, whilst many stakeholders are primarily focused on the viability and resilience of the entity over the longer-term. ISA 570.A14 states that 'since the degree of uncertainty associated with the outcome of an event or condition increases as the event or condition is further into the future, in considering events or conditions further into the future, the indications of going concern issues need to be significant before the auditor needs to consider taking further action'. The IAASB should consider issuing guidance to clarify how the determination on the significance of the events or conditions could be practically made by the auditors. As the standard stands currently, it is possible for two auditors to reach different conclusions based on the same set of information.

35. The challenging aspects with regards to the auditing of going concern under the current standard, ISA 570 as well SAICA's suggestion in terms of required enhancements are outlined in the paragraphs that follow:

- The term 'going concern' is not defined, and there is also a lack of clarity regarding terminology used in describing the threshold for which the going concern basis is no longer appropriate (An entity's financial statements are prepared on a going concern basis unless management either intends to liquidate the entity or to cease or has no realistic alternative but to do). Terms such as 'intends', 'liquidate', 'trading' or 'cease operations' are not defined, and there is a lack of clarity as to how these terms apply across the spectrum of business models that currently exist. SAICA's view is that the IAASB would need to work with other standard setters, in particular, financial reporting standard setters, e.g. International Accounting Standards Board (IASB), to ensure that concepts and requirements are clear and are aligned between ISAs and financial reporting standards.

- The definition of a material uncertainty – according to International Accounting Standard 1 (IAS 1), *Presentation of Financial Statement,* the phrase "material uncertainty" is used in discussing the uncertainties related to events or conditions which may cast significant doubt on the entity's ability to continue as a going concern that should be disclosed in the financial statements. However, this definition does not give preparers guidance in terms of when the uncertainty becomes material and judgement is applied by preparers in evaluating the materiality thereof. Paragraph 18 of ISA 570, states that a material uncertainty exists when the magnitude of its potential impact and likelihood of occurrence is such that, in the auditor's judgement, appropriate disclosure of the nature and implications of the uncertainty is necessary for:

  - In the case of a fair presentation financial reporting framework, the fair presentation of the financial statements, or
  - In the case of a compliance framework, the financial statements not to be misleading.

  Both the auditors and preparers are left to apply their own judgement in terms of when an uncertainty becomes material as IAS 1 does not give the required guidance and this could lead to inconsistent practices in the profession given the absence of a clear definition. Under the same set of circumstances, two auditors could get to a different conclusion as to whether a material uncertainty exists or not and this will affect the auditor's report that is issued. It is SAICA's view that enhancements to the ISAs need to be made in order to align the two definitions of material uncertainty – both from a financial reporting point of view as well as the auditing point of view. The ISAs also need to require transparency about the procedures performed to test the appropriateness of the going concern basis of accounting. Examples of more transparent reporting could include the assumptions and key judgements made by management as well as the procedures performed by the auditors to test the assumptions and key judgements. Such transparency could be enhanced in the auditor's report.

- In terms of auditing forward-looking information – the ISAs clearly state that the responsibility for assessing whether the going concern basis of accounting is appropriate rests with management who prepare the financial statements and that the auditor's role is to conclude on the appropriateness of management's use of the going concern basis of accounting. Traditionally, information and conditions that exist at year end could be a reliable source of information for both management to use in making their assessment and for auditors to use in arriving at their conclusion relating to the appropriate use of the going concern basis of accounting in preparing the financial statements. The COVID-19 global pandemic is likely to result in a situation where entities will need to make more use of forward-looking and predictive information in making their assessment as past trends identified are most likely no longer an appropriate basis for forecasting forward-looking information. Guidance should be provided in ISA 570 on what procedures the auditor can perform on forward-looking information and the link to ISA 540 (Revised), *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*, should be made as such forward-looking information requires the use of management judgements and assumptions and a lot of the concepts in ISA 540(R) would also apply in auditing forward-looking information prepared by management in performing the going concern assessment. ISA 570 could include more prescriptive requirements that the going concern assessment should be forward looking and only limited to the information being audited at the end of the financial period. Guidance should also be provided to the preparers of financial statements in the applicable financial reporting frameworks on how to perform going concern assessments based on the same type of forward-looking information. This is another example of an enhancement that should not only be made to the auditing process but also to the wider financial reporting ecosystem and it is SAICA's view is that the IAASB has the influence to initiate and lead these discussions.

- There is increasing demand for a longer-term, future-oriented view across a wider range of aspects of a company's performance, including non-financial information elements, the impacts of these different aspects and their interdependency with financial reporting. In connection with the above, there is increased stakeholder focus on the risks of climate change, environmental damage and societal issues, which have a close relationship with longer terms aspects of 'going concern' considerations, and such matters are likely to be in the spotlight more than ever as we emerge from the COVID-19 outbreak. As a result, there may be greater emphasis on reporting by companies that addresses their impacts and initiatives in relation to these overarching global concerns as a core feature impacting their market value. Such reporting by entities would provide important information to investors about the business model, key risks and uncertainties and their implications to the resilience of the entity in the longer-term. The IAASB, together with other relevant bodies, should explore the development a framework for such resilience/ viability measures, for reporting on by the entity and assurance by the auditor. Such reporting should be required, specifically for public interest entities and a framework of internal controls would need to be developed to assess the effectiveness of an entity's process over going concern, as well as the compliance with the framework. ISAE 3000(Revised) could be used by practitioners to provide assurance over such information.

36. Paragraph 13 of ISA 570 requires that, in evaluating management's assessment of the entity's ability to continue as a going concern, the auditor shall cover the same period as that used by management to make its assessment as required by the applicable financial reporting framework, or by law or regulation if it specifies a longer period. According to IAS 1, this period is 12 months from the financial reporting date. SAICA's view is that this period should be extended to at least 12 months after the auditor's report date. In South Africa, this is particularly important in the context of LCEs where audits are often completed long after the financial reporting date making an assessment that only considers 12 months after the financial reporting date inappropriate and insufficient. ISA 570 could be enhanced to include this requirement. Such enhancement could also be in the form of making the proposed requirement applicable under certain circumstances such as the one mentioned above. The 12 months' requirement should be a minimum requirement and where there is other relevant information that extends beyond this period, the auditor should be required to consider this information as well.

37. Another issue for concern is the lack of linkages between going concern disclosures in the auditor's report and the level of disclosures provided in the financial statements on the going concern basis of accounting. There is often an expectation that the level of disclosures in the auditor's report and in the financial statements would be similar, however, this is not usually the case. The relationship between the two sets of disclosures needs to be analysed and a determination needs to be made on whether this is a gap that the auditor or preparer needs to fill. There needs to be a balanced approach to disclosures in the auditor's report and disclosures made by management in the financial statements and transparency needs to be made by both parties. For example, financial reporting frameworks could be enhanced to require management to give more disclosures on the entity's business model, risks to continued operations and how these have been addressed by management and other similar issues that may be of concern to stakeholders. An imbalanced approach in the disclosure requirements for auditors and management will only lead to further widening of the expectation gap.

38. ISA 570 (Revised) could be enhanced to require an auditor to consider whether there should be KAM in relation to going concern when events or conditions are identified that may cast significant doubt over an entity's ability to continue as a going concern.

39. Certain jurisdictions such as the Netherlands and the UK have had extended reporting requirements on going concern. SAICA recommends that the IAASB should interact with the appropriate bodies in these jurisdictions to understand what impact such reporting has had on addressing the expectation gap and whether similar changes to ISAs would be useful. The IAASB should also gather responses from the recent Auditor reporting post-implementation review stakeholder survey to assess whether additional disclosures in the auditor's report are required by the stakeholders and respond accordingly.

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?

40. The IAASB should seek to consider the impact of matters such as cybersecurity, non-material frauds and technology within the context of the objective of the audit of financial statement which is to provide reasonable assurance on the financial statements. If considerations move beyond this objective there is a risk that auditors may be perceived to be providing absolute assurance which may widen the expectation gap. Due to the fact that auditors may not possess the skillset to provide assurance beyond the objective of a financial statement audit, there is a risk that the IAASB may be unsuccessful in pursuing these additional issues in great detail.

41. SAICA does not believe the auditor's responsibilities need to be expanded when it comes to non-material frauds. However, the IAASB could consider enhancing the current material in the ISAs regarding the auditor's responsibilities when non-material fraud is identified (whether by the entity or the auditor) in terms of evaluating the implications on the audit as a whole. For example, greater emphasis could be given to understanding the actions taken by management in response to the identification of fraud, and evaluating the implications this understanding may have on risk assessment, the auditor's understanding of the entity's internal control, the reliability of audit evidence, and the need to exercise professional scepticism. The IAASB should also consider including enhanced guidance in respect of the term 'material' fraud, to highlight that consideration of materiality should involve qualitative as well as quantitative factors.

42. The ISAs need to provide a framework on the appropriate use of technology in an audit of financial statements. This goes wider than the considerations of fraud and going concern. While technology may provide benefits to the auditor, there are also accompanying risks that it poses, particularly to the inexperienced auditor. Audit clients also make use of different types of technologies and this may create a lot of inconsistencies in the absence of an appropriate framework in the ISAs. It remains vital for auditors to continue to examine the data flow through an entity's systems; to understand the underlying rationale for transactions, as well as contractual terms. We also note there are challenges to use as a result of entities' systems of data infrastructure, as well as jurisdictional laws and regulation governing matters such as data privacy and data sharing. Therefore, whilst we consider that technology-based solutions are extremely useful additions to the suite of tools and techniques that an auditor may use, when deployed in a thoughtful and targeted manner at the discretion of the engagement team, we do not recommend that such techniques are mandated for use on all audits, or on audits of listed entities, and neither should they be intended to replace current audit concepts and procedures.