



January 29, 2021

Mr. Tom Seidenstein
Chair, IAASB
529 Fifth Avenue
New York, NY 10017
United States of America

DISCUSSION PAPER – FRAUD AND GOING CONCERN IN AN AUDIT OF FINANCIAL STATEMENTS

Dear Chairman Seidenstein,

For the past 50 years, HLB International has been one of the go to networks for small and medium-size entities (SMEs) and we strongly believe that the invaluable contribution made by SMEs to economies worldwide cannot be overestimated.

It is for this very reason that the significant efforts undertaken not only by the International Auditing and Assurance Standards Board (IAASB), but also by the International Federation of Accountants (IFAC) and the Forum of Firms to consider and address issues which touch small and medium-size firms, have not gone unnoticed and are greatly appreciated.

Fraud and going concern are two key areas which preoccupy all auditors, including those of SMEs. It is with this knowledge in mind that we are honoured to present our responses to the questions raised in the Discussions Paper for your kind consideration:

Questions to respondents :	HLB response :
Questions 1 (a) and (b)	We believe that the main cause of the expectation gap relating to fraud and going concern in an audit of financial statements is a knowledge gap, a difference between what the public thinks is provided by an audit engagement and what an audit engagement is actually intended to do. In particular, there is a knowledge gap regarding the concept of reasonable assurance (as required by the ISAs) versus absolute assurance, as is sometimes expected by the public. In our view, to narrow this knowledge gap, the IAASB and others could undertake public education campaigns regarding the concept of reasonable assurance, and the importance of other participants in the financial reporting ecosystem. The responsibility for fraud and going concern is a

hl**b.global**

123 Buckingham Palace Road, London, SW1W 9SH, UK

TEL: +44 (0)20 7881 1100

FAX: +44 (0)20 7881 1109

EMAIL: mailbox@h**l**b.global

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	<p>shared responsibility with those in the financial reporting ecosystem, in particular management and those charged with governance.</p> <p>We acknowledge that the performance gap is also a contributing cause to the expectation gap. In particular, consideration of fraud and going concern in an audit of financial statements should be an area lead and completed by partners and managers, with junior staff observing for training and education purposes. To reduce the performance gap, the IAASB could provide more support for practical examples, audit programs or checklists and other tools to assist practitioners in appropriate implementation and documentation of the ISA requirements. We note size and complexity matter in the performance of an audit engagement, and that these practical examples and tools would need to be responsive to the differences encountered across publicly traded entities and small and medium sized entities. In addition, we expect these issues would also be dealt with through implementation of the ISQM1 and ISA 220 revisions.</p>
Question 2 (a)	<p>We do not believe the auditor should have enhanced or more requirements with regard to fraud in an audit of financial statements. We believe the existing standards are sufficient and appropriate and enhanced or more requirements with regard to fraud in an audit of financial statements will ultimately not serve the public interest. We agree that sometimes auditors do not fully understand or appreciate the requirements and more application guidance is needed, not enhanced or additional requirements. Failures occur because the auditor did not do what should have been done. This does not mean the existing standard is insufficient and will therefore not be fixed by a new standard.</p>
Question 2 (b)	<p>We do not believe there is a need to prescribe enhanced procedures only for certain entities or in specific circumstances. We believe there are other engagements and methods to address fraud, such as forensic audits or use of forensic</p>

	specialists, that are already available in instances where additional effort is necessary in the professional judgement of the auditor or in the evaluation of management or those charged with governance.
Question 2 (c)	We do not believe requiring a 'suspicious mindset' will contribute to enhanced fraud identification when planning and performing the audit. As a result, we do not believe the IAASB should enhance the auditor's considerations around fraud to include a suspicious mindset. We believe the current professional skepticism requirements in ISA 240 and ISA 570 are appropriate and do not require change. If auditors were to adopt a suspicious mindset we believe this would create an adversarial relationship between the entity and the auditor, which would not support effective, two-way communication. In addition, adopting a suspicious mindset is inconsistent with an auditor's assessments in engagement acceptance and continuance in which an auditor evaluates if it is appropriate to accept or continue an engagement. In this case, if an auditor had a suspicious mindset relative to a client they would likely not accept the engagement.
Question 2 (d)	We believe auditors already have all they need at their disposal in order to be fully transparent with regard to fraud. For instance, auditors may communicate directly with those charged with governance. In addition, auditors already have the ability to use emphasis of matter, other matter and key audit matter disclosures in the auditor's report.
Question 3 (a)	No, we do not believe the auditor should have enhanced or more requirements with regard to going concern in an audit of financial statements. We believe the current standard is sufficient.

Question 3 (b)	No, we do not believe enhanced procedures need to be prescribed only for certain entities or in specific circumstances. We believe the standards already provide the auditor with the opportunity to use their professional judgment to respond appropriately and proportionately to the circumstances of the engagement.
Question 3 (c)	We believe auditors already have all they need at their disposal in order to be fully transparent with regard to going concern. For instance, auditors may communicate directly with those charged with governance. In addition, auditors already have the ability to use emphasis of matter, other matter and key audit matter disclosures in the auditor's report.

We trust the IAASB will carefully consider all stakeholder feedback arising from the Discussion Paper with the view of obtaining a final outcome which will not only serve the best interest of audit practitioners but also that of the wider public.

Please do not hesitate to contact us should you require additional explanations regarding our response to the questions raised in the Discussion Paper.

Yours sincerely,



Corney Verstedden
Global Chairman



Bettina Cassegrain
Global Assurance Leader



Jennifer Chowhan
Leadership Team Member,
International Assurance Committee

hl**b.global**

123 Buckingham Palace Road, London, SW1W 9SH, UK

TEL: +44 (0)20 7881 1100

FAX: +44 (0)20 7881 1109

EMAIL: [mailbox@h**l**b.global](mailto:mailbox@hlb.global)

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