Office of the Auditor General of Canada
Bureau du vérificateur général du Canada

February 1, 2021

International Auditing and Assurance Standards Board

529 Fifth Avenue
New York, New York 10017
United States of America

Re: Discussion Paper – Fraud and Going Concern in an Audit of Financial Statements

Thank you for the opportunity to provide feedback on the above Discussion Paper. I am responding on behalf of the Office of the Auditor General of Canada.

Our response to the specific questions posed in the Discussion Paper is provided below. Responses may be limited to questions of relevance to our Office and legislative audit. We wish to further note that while we understand the scope of the discussion paper was the expectation gap in the context of a traditional financial statement audit, our responses include reflections beyond this scope.

Sincerely,

Lissa Lamarche
Assistant Auditor General

Question 1:

a) While it is difficult to identify one single cause, broadly speaking the main cause of the current expectation gap relating to fraud and going concern in an audit of financial statements is likely sourced from the ease of access to markets by investors and the scope and pace of information impacting financial market valuations. While market valuations and traditional financial reporting include in their scope fraud and going concern impacts, the information used in each is not identical in terms of timing and scope, and impacts to market valuations may be inconsistent with accounting presentation and disclosure judgments. Traditional audits, performed at regular intervals, as at a point in time, have at best an indirect link to today's fast paced market valuations – yet their presence is seen as more directly linked. More investor/user awareness of audit limitations/scope may be needed.

b) In order to narrow the expectation gap related to fraud and going concern in an audit of financial statements, the scope and methods of the traditional financial statement audit and/or related services should be reassessed to enable them to meet, to the maximum extent possible, the needs of the marketplace. If the gap is real, and is having a significant impact on the value of financial statement audit, one should consider whether the audit is meeting the needs of its intended users. Where no changes are made to audit scope, additional information concerning the scope of the audit may help to reduce the gap.

   In addition, the introduction of mandatory auditor rotation, either via ethical requirements or assurance requirements could serve to heighten or renew auditor skepticism and objectivity, while simultaneously introducing greater variation in audit approaches which may serve to improve auditor performance in the detection of fraud and going concern issues, which may then serve to narrow the gap via improvements in performance.

   Going concern, which underlies many accounting frameworks, is not always presented with explicit requirements for preparers of financial statements in accordance with the applicable financial reporting framework. We would encourage each accounting framework premised on this assumption to include explicit accounting and disclosure requirements to assist users in understanding the principle, its application, limitations and risks. Further, accounting frameworks do not consistently instruct the preparation of management statements of responsibility or their content which could further explain management's responsibilities with respect to going concern.

Question 2:

a) The auditor's primary objective with regard to fraud in an audit of financial statements is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. In our view, this objective aligns to the scope of the financial statement audit and existing requirements properly support its achievement.

   We are supportive of recent enhancement to elevate the consideration of fraud risks in revisions to ISA 315. It is also recommended that auditing standards be further modernized given the pervasive impact of digitalization. For example, presumptions that records and documents are genuine may require revision to reflect the digital environment in which documents are created and maintained.

b)
   i) We do not believe that procedures in respect of fraud in the audit of financial statements should be different depending on the nature of the entity but would offer that procedures with respect to risk assessment could be strengthened.
   ii) Some or all of the fraud risk factors found in Appendix A of ISA 240 could be move to the body of the standard to elevate their importance. We do not believe it is necessary to

involve a forensic specialist in fraud inquiry procedures as suggested in the discussion paper, regardless of entity type. Engagement teams should consult outside the engagement team as appropriate when it is determined to be necessary.

iii) Changes would be made within the ISAs.

c) We are not supportive of the suspicious mindset concept, preferring instead the continuum of skepticism referred to from the Global Public Policy Committee where a neutral mindset may be appropriate in certain low-risk circumstances, but presumptive or complete doubt may be warranted in other higher-risk circumstances. We believe this continuum approach is a more balanced and efficient approach to that of a suspicious mindset. We believe that overburdening the auditor's evidence obligations will actually limit their ability to properly perceive and detect material fraud as the auditor may be unable to see the big picture beyond the detailed evidence gathering.

d) We do not believe that additional auditor reporting to those charged with governance or in the auditor's report is required in this area. We believe the IAASB and auditors should focus their efforts on auditor performance rather than reporting.

<u>Question 3</u>:

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, particularly in the public sector.

b) We do not believe there is a need for enhanced procedures for either certain entities or specific circumstances in the public sector.

c) We do not believe that additional auditor reporting to those charged with governance or in the auditor's report is required in this area. We believe the IAASB and auditors should focus their efforts on auditor performance rather than reporting.

<u>Question 4</u>:

We note the other matters presented on page 31 of the Discussion Paper included required forensic training for auditors. We would support initiatives to deepen auditors' understanding of fraud, in particular management reporting fraud and its detection. Given the ever changing audit environment, such training should be an ongoing activity and specific annual professional development obligation of the auditor.