



Tel: +1 212 885 8000
Fax: +1 212 697 1299
@: bdo@bdointernational.com
www.bdo.global

BDO International Limited
Contact:
100 Park Avenue
New York, NY 10017
United States of America

1 February 2021

Mr. Willie Botha
IAASB Technical Director
International Auditing and Assurance Standards Board
International Federation of Accountants
529 5th Avenue
New York 10017
USA

Re: 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

Dear Mr. Botha,

BDO International Limited¹ (BDO) is pleased to have the opportunity to comment on the International Auditing and Assurance Standards Board (IAASB) Discussion Paper in respect of 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*.

Overall, we are supportive of the IAASB's identification of the challenges, issues and need to develop a set of potential responses related to fraud and going concern in an audit of financial statements. The analysis and consideration of the expectation gap has been a helpful way to shine a light on fraud and going concern issues while also providing an opportunity to:

- Highlight what can be done through IAASB standards as one part of the 'financial reporting ecosystem', and
- Challenge whether the International Standards on Auditing (ISAs) remain fit-for-purpose in the current environment.

We recognize that expectations in these areas are high and both fraud and going concern remain complex issues that involve a range of individuals within the financial reporting ecosystem. From an audit perspective, more immediate challenges such as how auditors and entities have responded to COVID-19 may help identify innovations that could help drive future development of the ISAs. Increasing use of technology (audit data analytics, auditor access to online confirmations or bank accounts, greater insights through improved data pool comparisons, opportunities for skills development, etc.) has the potential to evolve the nature and extent of fraud and going concern procedures. However, in addition to working with auditors, we would strongly encourage the IAASB to further develop their ongoing engagement with entities, Those Charged with Governance (TCWG), investors, audit regulators and other standard-setters to help identify solutions that work for the financial reporting ecosystem as a whole and not just one part of it. Any solution or set of solutions should not be designed to be a 'quick fix' based on recent high-profile frauds or matters

¹ BDO International Limited is a UK company limited by guarantee. It is the governing entity of the international BDO network of independent member firms ('the BDO network'). Service provision within the BDO network is coordinated by Brussels Worldwide Services BV, a limited liability company incorporated in Belgium. Each of BDO International Limited, Brussels Worldwide Services BV and the member firms is a separate legal entity and has no liability for another such entity's acts or omissions. Nothing in the arrangements or rules of the BDO network shall constitute or imply an agency relationship or a partnership between BDO International Limited, Brussels Worldwide Services BV and/or the member firms of the BDO network.

related to going concern but should represent a sustainable planned set of steps designed to reduce the expectation gap based on identified needs of stakeholders.

In order to provide input to the IAASB's Discussion Paper, we engaged with audit leaders from across our global network. Consequently, we received a range of views which reflect the rich tapestry of applicable financial reporting frameworks, national standard-setter innovations in respect of fraud and going concern, different operation of financial reporting ecosystems, specific auditing challenges and cultural differences. To assist the IAASB, where we had different or a range of views, we have explained this in answer to each of the sections below. Where we had unanimity of views, we have noted this in our response too.

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?

Discussions within our network indicated that the largest factor which had resulted in an expectation gap was the knowledge gap - particularly amongst those stakeholders who are not as closely involved in the audit process - such as investors, shareholders, the public.

Taken as a whole, we also recognize that the expectation gap is not just '*someone else's problem*' and that, as a profession, auditors should not be complacent. We may have a key role to play through (1) steps to evolve *what* and *how* we perform our procedures, (2) better communication of what we have done, and (3) improved or clearer performance of our procedures.

It is important to note that in our discussions, we perceived there to be:

- A difference in the expectation gap relating to fraud and going concern - while they may be linked, the expectations of users for each may differ (and the causal factors may be different too).
 - When a material fraud has occurred at some point in the past and the nature of an auditor's work is to review to what has already happened (i.e., to look back retrospectively), there is an expectation that auditors should be able to identify that material fraud.
 - For going concern, stakeholders have a more realistic understanding that auditors are not able to predict the future especially as the 'future' is being set out by management's assessment of going concern. So, in general, there appears to be less of an expectation gap in this particular area.
- Differences in the relative importance of the knowledge, performance and evolution gaps for fraud and going concern respectively; also, the extent to which these 'gaps' were dependent on each national jurisdiction (for example, a number of colleagues cited innovations in financial reporting ecosystems that had been implemented to improve reporting on fraud or going concern matters, through additional procedures or controls testing).

Potential causes of the knowledge gap included:

- **Communication challenges** - whereby components of the financial reporting ecosystem and those outside the system, such as the media and public, may not have a sufficient understanding of what the scope of an audit entails and specifically the standards' requirements for auditors in relation to fraud and going concern. Conversely, we received feedback that:
 - Auditors may need to do a better job of communicating what has been done (through improved transparency, greater focus on certain areas, etc.).

- There may also be a role for regulatory and professional bodies to aid consumption of financial statements information (and an understanding of what it is to be audited), and to better explain how different parts of the financial reporting ecosystem operate.
 - **Expectations about the extent of an audit** - there may be a perception that *being audited* means that everything has been checked which contrasts with ISA concepts of:
 - Materiality
 - Adopting a risk-based set of procedures to address assessed risks
 - Obtaining reasonable (but not absolute) assurance that the financial statements are not materially misstated.
 - **Nature of fraud and going concern** - another factor contributing to the knowledge gap is that despite the procedures performed by auditors, there remains an element of risk that is unaddressed, essentially because:
 - Fraud is, by its very nature, designed to be concealed, making it difficult to detect, particularly when accompanied by collusion and/or extending over a longer period of time;
 - Going concern includes an element of unpredictability as it is based on future events and, as we have seen in recent recessions and the COVID-19 pandemic, facts and circumstances can and often change quickly and without warning.
 - **Other suggestions** we received during our discussions, included:
 - Variations in laws and regulations at the national level which may mean there are different requirements when reporting on fraud in the auditor's report (which has already started to emerge in certain jurisdictions) or regarding the reporting timeframes being considered in respect of going concern (whether from reporting date, financial statement date, auditor's report date, etc.).
 - A failure to communicate to TCWG (or, in the case of small owner-managed businesses, directly to management) what procedures we have performed around fraud and, to a more limited extent, going concern.
 - A perceived failure by auditors to use forensics or fraud experts as part of their audit strategy and planned approach, particularly where facts and circumstances, with hindsight, may seem to suggest that it would have been prudent to do so.
- 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?**

We recognize that the IAASB has a difficult balancing act to ensure that the ISAs remain principles-based, sufficiently flexible to accommodate different situations, entities or applicable financial reporting frameworks, while also helping to drive greater consistency to help reduce the expectation gap.

As we noted earlier, the solutions for fraud and going concern should also be considered separately and need to involve all parts of the financial reporting ecosystem (otherwise the expectation gap as it relates to the role of auditors could potentially increase).

Suggestions for what could be done to narrow the expectation gap related to fraud and going concern, included:

Fraud:

- We noted in part 1(a) about the importance of communication as a key driver of the knowledge gap. The IAASB could explore how best to communicate:
 - The role of the auditor and extent of ISA-required fraud procedures.
 - The role of other participants of the financial reporting ecosystem (i.e., management and TCWG who have responsibilities for prevention and detection of fraud).
- There may be an opportunity to reduce the evolution gap by auditors meeting stakeholders' expectations through the use of automated tools and techniques (such as use of virtual procedures, real-time audit procedures, real-time access to systems, and application of audit data analytics).
 - Management/TCWG and public expectations of what auditors can do has evolved and there may be a responsibility for auditors to better explain their procedures and also explain how they have used technology to help identify or respond to fraud risks.
- When frauds are discovered and then reported in the media, in some cases there is a tendency to immediately blame the auditors for failure to detect the fraud. In addition, there often tends to be little discussion about *how* the audited entity failed to prevent or detect the fraud.
 - In such situations, few comments can be made by the firm under scrutiny as an investigation into the facts and circumstances are still pending, they do not have direct access to the entity's information and there may be legal impediments to providing further comment.
 - Perhaps when these types of high profile cases occur, this could be an opportunity for standard setters, local professional bodies and regulators to educate the public about the role of the auditor, respective responsibilities of auditors and management/TCWG and some reasons why frauds are often difficult to detect.
- Auditors may also have a responsibility to seek to provide more transparency about the work that they perform on fraud - this could be through provision of thought leadership to explain how and when fraud may occur, the extent of the auditor's role and respective responsibilities of management/TCWG.
- Other suggestions included:
 - Certain jurisdictions (such as the Netherlands and the UK) have already started to enhance procedures related to fraud - such as a *fraud protocol* or enhanced fraud standard - this may be something the IAASB should monitor in order to see if it has the potential for global application to help reduce the expectation gap.
 - To help improve skills and the vigilance of auditors when performing extant fraud procedures, with the aim of reducing the performance gap, our internal contacts suggested a range of options (that could be provided by the IAASB, professional bodies, groups of firms, etc.), including:
 - Providing case studies of different types of fraud, potential red flags and examining how forensics expertise helped to reveal the existence of frauds
 - Providing access to good quality information about corporate fraud - such as national fraud registers² (which would help auditors and provide greater information to the public)
 - Use of video learning (such as the ICAEW's³ False Assurance and Without Question series of video learning)
 - Relaying real cases within firms to share knowledge and approaches, for example, when forensics or fraud examiners have been used, or frauds identified

² This was cited as a recommendation of the UK's '[Report of the Independent Review into the Quality and Effectiveness of Audit](#)' - by Sir Donald Brydon, page 13, reference 2.7.3.

³ Institute of Chartered Accountants in England and Wales education films - [False Assurance](#) and [Without Question](#)

- Having jurisdiction regulators prepare FAQ-style resources based on real frauds and taking into account that the nature and prevalence of frauds may differ in different countries/cultures
- A potential role for standard setters or perhaps audit regulators in each jurisdiction could be to establish guidance that clearly defines the scope of the work to be carried out by the auditor regarding fraud (and error).

Going concern:

- Where performance gaps have been identified, it has usually been because individuals performing the procedures may have lacked sufficient business acumen to be able to form judgments (for example, in the area of going concern for an entity in a particular sector) and as a result, there may be an education and skills development need within firms for certain auditors to help improve performance.
 - The IAASB could assist by working with regulators to identify where these skills gaps may be most evident.
 - This is especially important when recognizing that there may be opportunities for auditors to move towards more innovative ways of looking at going concern (such as through predictive analytics, use of data pools to benchmark expected performance, etc.).
- The economic shock associated with COVID-19 has led to greater focus associated with going concern by stakeholders and heightened awareness or activities by others, including auditors, within the financial reporting ecosystem.
 - There may be lessons that can be learned by management, TCWG, investors, regulators and auditors when considering the extra steps that all these stakeholders undertook in respect of going concern and to see whether that rigor should continue to be applied in a post-COVID-19 period.
 - Management, TCWG and auditors have had to focus on resilience of the entity's business model (i.e., supply chain, liquidity, customer access issues) resulting in greater use of stress testing and reverse stress testing approaches.
- A key theme emerging from our discussions was the need to align or make clear the differences in applicable financial reporting frameworks (i.e. the starting and end points for going concern, the impact of accounting standards, identified responsibilities on management/TCWG with respect to going concern).

Both fraud and going concern:

- There should be an open and honest debate - engaging with relevant stakeholders⁴ - to establish what is *really* expected from auditors in these areas and including, if requested by stakeholders, a cost-benefit analysis of more in-depth or additional testing or procedures that may be proposed. The IAASB can help facilitate this dialogue.
- Working in partnership with others (entities, director and governance bodies, etc.) the IAASB should also consider the skills needs of management and TCWG.
- There is a role for continued and targeted regulator and/or national standard setter education of the public and users of financial statements with respect to the distinctive nature of management and audit responsibilities.
- A final observation we received from internal stakeholders was that there may be a difference in the expectation gap country to country due to different cultures, legal frameworks, history of the audit profession, political

⁴ This may need to include other stakeholders such as the International Accounting Standards Board (IASB), stock exchanges, securities regulators, investor groups such as International Organization of Securities Commissions (IOSCO), etc.

systems and (as already referenced above) applicable financial reporting frameworks.

2. The IAASB's Discussion 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?

We received mixed views about whether the auditor should have enhanced or more requirements with regards to fraud in an audit of financial statements.

Where there was support for enhancement this was counterbalanced by the need for greater clarity about what it is that stakeholders want or need. There was general agreement that before enhancing or creating additional requirements, it was important to perform appropriate root cause analysis to determine *what* it is that users of financial statements require in relation to fraud and *how* this can best be communicated.

Some of the suggestions we received included:

- Enhancing the rigor of engagement team discussion of fraud risks (including considering the timing of these discussions to ensure there was consideration throughout the engagement).
- Further exploration about the nature and extent of automated tools and techniques and how these can aid identification of potential frauds by analyzing large data sets over multiple periods.
- Improving requirements to communicate what has been done (this could be through greater two-way communication with management or TCWG, alternative reporting methods or additional reporting requirements within auditors' reports) although this was counterbalanced by a concern that in many jurisdictions, auditors' reports are already quite lengthy.
- A new potential assurance service (and accompanying report) addressed on fraud risks and specifically designed to focus on management/TCWG or users of the financial statements informational needs in respect of fraud in an entity.
- Exploring whether users of financial statements (and TCWG) may want some form of reporting on internal controls (i.e., to identify potential gaps that could give rise to heightened fraud risks in an entity).

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.**

On balance, we did not support a differentiated approach to enhanced audit procedures for different types of entities. However, we did acknowledge that our responsibility is to tailor our approach to suit the facts and circumstances of each entity being audited.

While the Discussion Paper cited several high profile, multinational, large-scale frauds, our internal contacts noted that the majority of entities worldwide do not fit into this category and that any changes to the ISAs with respect to fraud should apply to all types of entities. Failure to do this could lead to a two-tier audit approach or addressing the expectation gap only for a certain type of

entity, potentially creating a comparatively bigger expectation gap for some entities.

We did acknowledge that where certain risks, facts or circumstances are present (as they related to fraud), there could be a need to adopt more rigorous fraud testing procedures (linked to the suggestion about greater use of forensics expertise). There may be an opportunity for the IAASB, working with others such as fraud examiner organisations and linked to our earlier suggestion about increased access to information about corporate frauds, to help identify *when* more rigorous testing may be necessary.

In our view, enhanced procedures should not just be attached to the auditor, as the IAASB's Discussion Paper makes clear; there is as important a role to be played in improving consideration and responses to fraud by management and TCWG as part of the financial reporting ecosystem. It is also important that regulators/governments/accounting standards-setters take a more proactive approach to reflect the information that is required from a public interest perspective and that securities and exchange commissions also determine what is needed by investors and markets.

Where investors or the public desire more assurance about the potential presence of large-scale frauds, such assurance could be provided by a separate 'fraud' assurance engagement, which could sit outside the normal audit. This may enable users of financial statements to receive more targeted information and would permit a more flexible response based on the entity and jurisdiction. Such an engagement would need to be carefully designed to meet the needs of respective users to avoid creating another expectation gap.

Another option could be for the IAASB to consider the communicative value associated with Key Audit Matters and whether this type of vehicle, at least for listed entities, could be something that could be used to communicate fraud issues and responses within auditors' reports.

With respect to specific circumstances, one area of potential consideration was whether there may be an opportunity to provide further guidance for those engagements of entities that routinely handle complex financial instruments, or assets that require determination of fair value or special treatments (for example, natural resources). In these circumstances, there should be some standard procedures for reducing risks of financial reporting fraud which may require involvement of accounting specialists/experts.

We discussed potential involvement of forensics experts within the work of engagement teams. We do not support mandatory use of forensics experts in relation to all audits; however, we did note that there could be benefits to including these experts to help support the work of the engagement team when fraudulent concerns had been identified or to enable engagement teams to make more informed judgments. There was an acknowledgment that it is currently possible to bring in experts under extant ISAs, with the opportunity to use this expertise when the:

- a) Facts and circumstances of the engagement required it (e.g., information or concerns had surfaced during the audit about unusual transactions, an individual had suddenly left the entity due to post-year end allegations of fraud or other performance issues)
- b) Engagement team resources necessitated it (i.e., where the engagement partner recognized that the engagement team required additional or different expertise in a particular area).

Other potential suggestions included more guidance for auditors to supplement the ISAs in the following circumstances:

- When frauds are discovered - what should the auditor do next in terms of their audit strategy or reporting mechanisms? Specifically a contrast was drawn between the potential for fraud and the recently established requirements related to Non Compliance with Laws and Regulations (NOCLAR) which were perceived to have more clarity in terms of next steps required of auditors.
- When an engagement has an Engagement Quality Control Reviewer appointed, whether there specific areas that the EQCR Reviewer should focus on in respect of fraud as part of their review.

c. Would requiring a ‘suspicious mindset’ contribute to enhanced fraud identification when planning and performing the audit? Why or why not?

Notwithstanding the authoritative sources of information cited within the Discussion Paper⁵ and the desire to continue to explore how confirmatory bias (and potentially anchoring bias) can further be reduced in the performance of an audit by the engagement team, we do not believe that requiring a ‘suspicious mindset’ would lead to enhanced fraud identification when planning and performing an audit.

Our internal discussions were unanimous on this matter and resulted in the following observations:

- The concept of professional skepticism has become fully embedded in the IAASB’s standards and our firm’s methodologies/tools, as well as in the behaviour of engagement teams throughout each engagement.
 - A better approach would be to build on these successes and to focus more on the spectrum approach - with engagement teams leveraging heightened professional skepticism when facts and circumstances indicate it is necessary, as included in ISA 315 (Revised).
- The introduction of another concept could result in further confusion (i.e., just swapping one term for another, or potentially the assumption that there are two levels - skepticism and suspicion). A lack of understanding between the two concepts might lead to an increased expectation gap. Having two levels may also create translation issues.
- If everything provided to the engagement team is to be treated with suspicion, then there is a danger that an audit never ends - that every new piece of information is analyzed with suspicion so that the purpose of an audit switches from one designed to provide reasonable assurance to a model which is more akin to an ongoing investigation. Additional potential delays in corporate reporting could significantly affect the relevance of information provided to users the financial statements.
- Finally, the application of a ‘suspicious mindset’ has the potential to actually *reduce* the information available to engagement teams and may ultimately diminish their ability to perform enhanced fraud identification when planning and performing the audit. By applying this concept as a starting point, it is likely to fundamentally change the nature of the relationship between entity management/staff and the auditor. This could:
 - Reduce the willingness of entity management/staff to share information based on a concern that whatever is shared with the auditor is likely to be treated with suspicion and used against them;
 - Make the relationship more fraught - placing unnecessary stresses and strains on different components of the financial reporting ecosystem with little beneficial effect;

⁵ Including references made in the Discussion Paper to the UK Brydon Report, GPPC ‘Enhancing Auditor Professional Skepticism’ publication and other research materials.

- Inhibit open, honest and constructive dialogue between entity management/staff and engagement teams. Accounting (and by implication auditing) is increasingly complex and subject to professional judgment. It is critically important that engagement teams are able to obtain and analyze information in order to form a view about the assumptions and judgments made by entity management. By adopting a ‘suspicious mindset’ as a starting point rather than seeing it as one end of the spectrum of professional skepticism, entity management may be less inclined to share what they considered or how they formed their views for fear that everything they have shared is being looked at with suspicion and ulterior motives;
 - Radically change how auditors perform an audit and tilt it towards becoming more an ongoing investigation which would create additional cost implications for entities. This may cause practical and legal limitations regarding the auditor’s ability to obtain information/IPE as outlined in ISA 200⁶ and could also give the wrong impression to users that auditors have more responsibility for the preparation of the financial statements which would reduce the importance of the role that management should be playing.
- 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?**

No, the IAASB should not include the concept of ‘suspicious mindset’ as part of considerations around fraud. In our view, it would be far better to reinforce the concept of a spectrum of professional skepticism.

By applying a spectrum approach (which can also be linked to ISA 315 (Revised) assessment of risks), auditors and engagement teams can address those situations when facts and circumstances do require the level of skepticism to be ‘dialled-up’. This may mean that in certain circumstances, it may be appropriate for an auditor and engagement team to apply a heightened level of professional skepticism that treats what they are being told or the information provided by the entity (IPE) with suspicion - but it is not the starting point for every engagement.

We believe there could be some value in providing an insight for other members of the financial reporting ecosystem about how auditors form their views about fraud by applying professional skepticism and conducting engagement team discussions and other activities throughout an audit. This could include providing more transparency about how we analyze indicators of fraud risk, look at information cumulatively, explore and examine contradictory information or IPE - and how, in combination, these could lead to heightened professional skepticism at one end of a spectrum. This may help to reduce the knowledge gap about what is meant by professional skepticism and how it is applied practically by auditors.

- 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.)?**

⁶ This would be similar to those limitations described in paragraph A49 of ISA 200 - *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*.

As we noted in our initial comments, we believe improved ‘communication’ is critically important to meeting the informational needs of users of financial statements and thus helping to reduce the expectation gap.

Our discussions with internal stakeholders revealed a range of views about whether there should be greater transparency concerning the auditor’s work in relation to fraud in an audit of financial statements. On balance, we are supportive of providing more information, to help reduce the knowledge gap, concerning what auditors do and don’t do in relation to fraud in an audit of financial statements. Where we had divergent views, it related to the precise vehicle for providing this transparency and whether the right place for this was in the auditor’s report or elsewhere such as in communications with TCWG.

Potential suggestions included:

- **Auditors’ reports** - inclusion of a dedicated section (similar to current inclusion of material uncertainty related to going concern paragraphs). This approach would need to provide users with entity-specific content without unduly adding to the length of the auditor’s report.
- Use of a ‘**Key Audit Matter**’ approach - to provide at a headline level an overview of potential areas of fraud that the auditor considered and what procedures they performed to deal with these fraud risks. This approach would need to consider the impact for non-listed entities and degree of variation in terms of how information was communicated by auditors.
- There was the potential to provide **greater transparency** about the nature of communications with TCWG in relation to fraud matters - with the possibility that any final written documentation could be more widely shared. For owner managed businesses or entities where Those Charged with Governance and management of the entity are one and the same, written documentation would not be as extensive as in the case of a listed/shareholder-based entity.
- It may be helpful, whether in the auditor’s report or communications with Those Charged with Governance or via another mechanism, to **communicate** to stakeholders when something *different* was performed specific to the entity that was required over and above standard fraud procedures performed on each engagement.

Recurring themes from our internal discussions with stakeholders were that whatever is recommended by the IAASB to improve transparency, it should:

- Address the needs of different users of the financial statements (shareholders, investors, regulators, etc.).
- Be designed in such a way that it does not create or add to the expectation gap (i.e., inadvertently assert that auditors are performing a forensic examination of the financial statements) or fall foul of local confidentiality or secrecy laws that could expose the auditor if too much was disclosed publicly about what was done in relation to fraud.

3. This [discussion] paper sets out the auditor’s 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?**

We do not believe that additional going concern requirements are necessary although we remain open to consideration of proposed suggestions from the IAASB once engagement with a wider range of stakeholders has taken place.

As the nature of management’s going concern assessment is inherently based on future events - the auditor’s role can only be limited to performing a review of

management's going concern assessment and the assumptions that have been used to form that assessment.

In our view, it is more important for the IAASB to consider (in consultation with the IASB and other stakeholders in the financial reporting ecosystem) the informational needs of users of the financial statements, including consideration about minimum disclosures. This does give rise to questions about whether the definition of going concern from an accounting perspective is appropriate (or consistently understood) and indeed whether users of financial statements are actually more interested in other practical and more immediate measurements such as 'viability' or 'solvency'.

As part of our internal discussions regarding the IAASB's Discussion Paper, we considered a range of options including whether a longer period (for example 18 or 24 months) for the period of management's consideration of going concern would help reduce the expectation gap. Although we heard a range of views, the majority indicated that:

- A potentially longer timeframe may be less useful for users of financial statements especially given the increased uncertainty or potential risk of out of the ordinary events, exemplified by an event such as COVID-19. This could potentially increase the expectation gap and weaken the information provided by the auditor (i.e., management and auditor assessments of going concern would inevitably become increasingly vague the further out the assessment is made).
- Irrespective of the timeframe, it was much more important to have more consistency between jurisdictions about the length of the period of assessment in order aid understanding, application and comparability within group audit and transnational situations.
- There should also be more consistency in applicable financial reporting frameworks about adjusting or non-adjusting events and to have greater clarity about the starting point of any assessment (such as financial year-end date, financial statements approval date, auditor's date of sign off).

One option could be to require that auditors bring forward the timing of their going concern assessment within the audit process as there is a tendency to perform these procedures towards the end of the engagement when other priorities may take precedence. By positioning going concern as more of a planning phase activity, there was a view that this may:

- Heighten engagement team awareness of risks affecting the entity at an earlier stage of the engagement
- Make the going concern assessment more of a priority for management, and
- Lead to increased vigilance of contradictory information/IPE relating to going concern matters during the course of the engagement.

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.**

We do not support enhanced procedures for certain types of entities although we do support a flexible approach that enables auditors to increase going concern work in response to changes in facts and circumstances as exemplified by the recent response by auditors and others to COVID-19 impacts. In our view, users of

financial statements are also potentially well-served by the addition of the material uncertainty related to going concern paragraph in the auditor's report.

Options that were considered included:

- Feedback that there may be a need to improve the nature and type of disclosures, and thus consistency, provided within the financial statements (this may be more of an issue for the accounting standards-setters than the IAASB).
- We also identified an opportunity to provide additional guidance to auditors so that when a material uncertainty related to going concern paragraph is needed, it is drafted in such a way as to provide users with more specificity and detail from an audit context rather than simply a cross reference to a disclosure note within the financial statements.
- In addition, for certain entities that require Key Audit Matters, there is also the potential to provide additional information to users where a potential going concern, or factors linked to going concern (that did not rise to the level of a material uncertainty related to going concern) were considered.
- We had concerns that while some of the case studies highlighted issues affecting particularly large and/or public interest entities, the reality is that an 'audit is an audit' and that an increased range of differentiated procedures for certain entities over others would expand rather than contract the expectation gap (with the potential for further confusion for non-auditors).
- As we noted earlier, the need for entities, regulators, governments and auditors to consider going concern matters with an increased level of rigor during the COVID-19 period may enable the IAASB (working with others) to identify whether some additional procedures or changes in response to COVID-19 should be retained for future audits or similar 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, and what action is required to put this into effect?**

As we noted earlier (in our general comments and in response to fraud in question 2), we strongly support steps that can improve communication to support the informational needs of users of financial statements. As a result, we agree that there may be a public interest objective in explaining *how* the auditors form their views about management's going concern assessment (i.e., to help reduce the knowledge gap) and to provide more insights to users of the financial statements and other stakeholders in the financial reporting ecosystem.

Critical to greater transparency is the need to have greater consistency about the period of the going concern assessment made by management so that users - particularly in transnational entities - have a fuller understanding of the timeframe being considered. This is something that will require further engagement with accounting standards-setters and the IASB. As we noted earlier, there may also be other measures (viability, solvency, etc.) that may be more helpful for users of financial statements - so it is important that the IAASB's ongoing engagement with this stakeholder group continues to establish their needs.

Other suggestions included:

- There may be an opportunity for the IAASB to help eliminate part of the knowledge gap by requiring that auditors explain what they did in terms of performing their going concern procedures.
- The quality of financial statements disclosures surrounding going concern could be improved (which may be more of a matter for the IASB rather than IAASB) so that, particularly for small and medium-sized entities, the information provided is less standardized and provides greater value to users.
- Improving the collective understanding of what is *going concern* by all stakeholders in the financial reporting ecosystem and what is a material uncertainty related to going concern. This would necessarily involve engagement with accounting standards-setters, which could improve performance of the going concern assessment by management, Those Charged with Governance and auditors.
- Another area that may need improved communication is that of differences in interpretation or understanding by users and other stakeholders on whether the material uncertainty '*related to events or conditions casting significant doubt on an entity's ability to continue as a going concern*' compared to just '*related to the entity's ability to continue as a going concern*'.
- In addition, another option for IAASB consideration was whether the material uncertainty related to going concern paragraph should be written to be more in keeping with the Key Audit Matter approach under ISA 701 (i.e., providing users with more information about what the auditor did by way of procedures to respond and assess the material uncertainty).
- We also received feedback about some confusion by certain users of financial statements about the distinction between use of Key Audit Matters to communicate going concern considerations or use of the material uncertainty related to going concern paragraph. When a Key Audit Matter approach had been used, more information is provided to users, but this is ironically on a going concern matter that has not risen to the level of being a material uncertainty. This could be an area where further guidance, for all stakeholders but specifically users, could help eliminate confusion and enhance knowledge by all.

We did note that going concern was a difficult area to consider for auditors as there is a risk that by saying too much in the auditor's report that the auditors could 'get ahead' of management in terms of what they have presented elsewhere within the financial statements (including disclosures) and the annual report.

One of the other considerations we heard was how management can be encouraged to be proactive when making their going concern assessments and take greater responsibility for:

- a) Identifying material uncertainties
- b) Considering the potential impact of business risks disclosed within the annual report when making their going concern assessment, and
- c) Drafting the going concern disclosures at an earlier stage of the financial reporting process.

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?

Although the Discussion Paper is focused on audit engagements, we did receive some feedback that it may be helpful for the IAASB to include consideration of the impact on interim reviews. We note that some jurisdictions have recently changed their auditing standards to create more of an alignment between interim review reports and year-end auditor's reports. There could be an opportunity for the IAASB to clarify



the nature of an auditor's responsibility relating to going concern (in an interim versus year-end engagement).

We appreciate the opportunity to comment on the IAASB's Discussion Paper which, in combination with other engagement activities, has proven to be an informative piece of work. We hope that our comments and suggestions will be helpful to you in your deliberations and development of future recommendations.

Please contact me should you wish to discuss any of these comments.

Yours sincerely,
BDO International Limited

Chris Smith
Global Head of Audit and Accounting