



Think Ahead



**CLOSING THE EXPECTATION GAP IN AUDIT –
THE WAY FORWARD ON FRAUD AND GOING CONCERN:
A MULTI-STAKEHOLDER APPROACH**

About ACCA

ACCA (the Association of Chartered Certified Accountants) is the global professional body for professional accountants.

We're a thriving global community of 233,000 members and 536,000 future members based in 178 countries and regions, who work across a wide range of sectors and industries. We uphold the highest professional and ethical values.

We offer everyone everywhere the opportunity to experience a rewarding career in accountancy, finance and management. Our qualifications and learning opportunities develop strategic business leaders, forward-thinking professionals with the financial, business and digital expertise essential for the creation of sustainable organisations and flourishing societies.

Since 1904, being a force for public good has been embedded in our purpose. We believe that accountancy is a cornerstone profession of society and is vital in helping economies, organisations and individuals to grow and prosper. It does this by creating robust trusted financial and business management, combating corruption, ensuring organisations are managed ethically, driving sustainability, and providing rewarding career opportunities.

And through our cutting-edge research, we lead the profession by answering today's questions and preparing for the future. We're a not-for-profit organisation.

Find out more at: www.accaglobal.com

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Around the world, Chartered Accountants are known for their integrity, financial skills, adaptability and the rigour of their professional education and training.

CA ANZ promotes the Chartered Accountant (CA) designation and high ethical standards, delivers world-class services and life-long education to members and advocates for the public good. We protect the reputation of the designation by ensuring members continue to comply with a code of ethics, backed by a robust discipline process. We also monitor Chartered Accountants who offer services directly to the public.

Our flagship CA Program, the pathway to becoming a Chartered Accountant, combines rigorous education with practical experience. Ongoing professional development helps members shape business decisions and remain relevant in a changing world.

We actively engage with governments, regulators and standard-setters on behalf of members and the profession to advocate in the public interest. Our thought leadership promotes prosperity in Australia and New Zealand.

Our support of the profession extends to affiliations with international accounting organisations.

We are a member of the International Federation of Accountants and are connected globally through Chartered Accountants Worldwide and the Global Accounting Alliance. Chartered Accountants Worldwide brings together members of 13 chartered accounting institutes to create a community of more than 1.8 million Chartered Accountants and students in more than 190 countries. CA ANZ is a founding member of the Global Accounting Alliance which is made up of 10 leading accounting bodies that together promote quality services, share information and collaborate on important international issues.

We also have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents more than 870,000 current and next generation accounting professionals across 179 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications.

About the Canadian Auditing and Assurance Standards Board

The Canadian Auditing and Assurance Standards Board is an independent body with the authority and responsibility to set standards and guidance for quality management, audit, other assurance, and related services engagements in Canada.

We serve the public interest by responding to the evolving environment, balancing the needs of all stakeholders, setting high-quality standards, and assisting in effectively implementing and applying them.

In our current strategic plan, we commit to:

- monitoring and understanding emerging issues in the changing environment to better anticipate standard-setting issues;
- engaging and collaborating with stakeholders to understand their needs and expectations;
- setting high-quality standards and guidance that respond to the evolving needs and expectations of stakeholders;
- enhancing our standard-setting processes and capabilities to develop more timely solutions; and
- supporting the effective implementation and application of standards and guidance to enhance consistency and quality in engagement performance.

We believe ongoing communication and targeted stakeholder outreach, such as that which was the basis for this publication, is necessary to support the development of high-quality standards and guidance.

Find out more at: www.frascanada.ca

About CPA Canada

Chartered Professional Accountants of Canada (CPA Canada) works collaboratively with the provincial, territorial and Bermudian CPA bodies, as it represents the Canadian accounting profession, both nationally and internationally.

This collaboration allows the Canadian profession to champion best practices that benefit business and society, as well as prepare its members for an ever-evolving operating environment featuring unprecedented change. Representing more than 220,000 members, CPA Canada is one of the largest national accounting bodies worldwide.

Find out more at: www.cpacanada.ca



CLOSING THE EXPECTATION GAP IN AUDIT – THE WAY FORWARD ON FRAUD AND GOING CONCERN: A MULTI-STAKEHOLDER APPROACH

We would like to thank the ACCA's Audit and Assurance Global Forum, the Australian Auditing and Assurance Standards Board, and the New Zealand Auditing and Assurance Standards Board. We would also like to thank all roundtable participants for their valuable contribution on this report.



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His research can be accessed via the ACCA Professional Insights website at: www.accaglobal.com/gb/en/professional-insights.html.

A person with blonde hair, wearing a red long-sleeved shirt and dark pants, is sitting on the edge of a large, flat rock ledge. The ledge is dark and textured, with some small green plants growing on it. The background is a vast, hazy mountain valley with steep slopes and a winding river or path. The sky is a pale, hazy blue. The overall mood is serene and contemplative.

**WE'RE A THRIVING GLOBAL
COMMUNITY OF 233,000
MEMBERS AND 536,000
FUTURE MEMBERS BASED
IN 178 COUNTRIES AND
REGIONS.**

Foreword



Maggie McGhee
Executive Director
Governance, ACCA

The global evolution of the profession is happening right now. This report highlights that all stakeholders of the wider financial reporting ecosystem should recognise they have a role to play in narrowing the audit expectation gap, which in general terms, is the difference between what users expect from the auditor and the financial statement audit, and the reality of what an audit is.

ACCA, in collaboration with CA ANZ, CPA Canada and the Canadian AASB, has further explored the expectation gap using a multi-stakeholder approach. Progress in closing the expectation gap is in the public interest, and this research continues the journey by focusing on fraud and going concern.



Simon Grant
Group Executive,
International Development
and Advocacy &
Professional Standing,
CA ANZ

Building upon the findings of ACCA's report *Closing the Expectation Gap in Audit* (ACCA 2019a), the perspectives offered in the present report recognise that a holistic approach is needed to narrow the expectation gap related to fraud and going concern, where all stakeholders play a vital role in driving meaningful change.

Our aim is to provide a thoughtful voice in exploring the important role that the auditor plays as a party within the wider financial reporting ecosystem. Audit quality continues to be a central consideration in this debate.

Our research suggests that addressing the 'knowledge gap' also provides an opportunity to ensure that the auditor's role and responsibilities, in relation to both fraud and going concern, evolve in a meaningful way.



Bob Bosshard
Chair, Canadian Auditing
and Assurance Standards
Board

Although, the performance gap was least commonly identified in our research as the main cause of the expectation gap, exercising professional scepticism and applying professional judgement, supported by enhanced and targeted training, were among the key points highlighted in seeking to improve audit performance as it relates to fraud.

The report also offers a number of recommendations, addressed to various stakeholders of the financial reporting ecosystem, with the aim of playing a key role in supporting constructive change towards the narrowing of the expectation gap.



Charles-Antoine St-Jean
President and Chief
Executive Officer,
CPA Canada

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Executive summary

Following the publication of *Closing the Expectation Gap in Audit* (ACCA 2019), ACCA, in collaboration with CA ANZ, CPA Canada and the Canadian AASB, sought to continue to examine the audit expectation gap with a focus on fraud and going concern in the context of an audit of financial statements.

Our recommendations within this report draw upon the outcome of a series of virtual roundtables held across various countries and regions around the globe. Using a multi-stakeholder approach, we collected views of representatives of the wider financial reporting ecosystem, including representatives of entities and their management (ie financial statement preparers), audit practitioners, regulators, those charged with governance (boards and audit committees) and financial statement users (ie investors).

Our collaboration revisited ACCA's proposed approach to closing the expectation gap by dividing it into three components: namely the knowledge, performance and evolution gaps, and considering the issues relevant to each component. This proposed approach also helped form the basis of the International Auditing and Assurance Standards Board's Discussion Paper (IAASB's DP) on *Fraud and Going Concern* (IAASB 2020a). The IAASB DP and the topics discussed within it formed a key part of our roundtable discussions

We also highlight several recent developments affecting the audit profession and more specifically the areas of fraud and going concern, including the impact of COVID-19, relevant national audit reform reviews, and the continuing growth in advanced technology deployment within the audit profession.

Fraud

In respect of fraud, among other recommendations, we encourage promoting the involvement of forensic specialists in risk assessment, allowing auditors to apply their professional judgement when determining how to respond to identified fraud risks. This utilises the flexibility provided within the current auditing standard.


Our findings suggest that there is no clear evidence that a 'suspicious mindset' would contribute to enhanced fraud identification when planning and performing the audit. We therefore suggest that the IAASB and national standard setters consider areas where the auditing standards could be enhanced to guide practitioners in the application of professional scepticism.

Going concern

In respect of going concern, among other recommendations, we suggest that the International Accounting Standards Board (IASB) and the IAASB explore supplementing the current binary approach to disclosing material uncertainty about going concern with additional going concern disclosures.

We also suggest that the IASB takes into consideration the concerns raised by some of our stakeholders regarding the inconsistencies noted in relation to the going concern assessment period. This relates in particular to the fact that, in some jurisdictions the going concern assessment period specified in their local accounting framework commences from the date that the financial statements are authorised to be issued rather than the reporting period as specified in IAS 1.

We support the IASB and the IAASB in exploring concepts of resilience and the mechanism for their reporting and/or assurance, as this may help inform the development of more understandable terminology.

A person stands on a dark, rocky shore, looking out at a range of jagged, snow-capped mountains. The sky is a deep, dark blue, filled with stars and a vibrant green aurora borealis that stretches across the horizon. The water in the foreground is dark and reflects the light from the aurora and the stars. A vertical red line is positioned to the left of the main text block.

**WE ENCOURAGE
PROMOTING THE
INVOLVEMENT OF
FORENSIC SPECIALISTS
IN RISK ASSESSMENT,
ALLOWING AUDITORS
TO APPLY THEIR
PROFESSIONAL
JUDGEMENT.**

Introduction


This report continues ACCA’s journey, which started back in May 2019 by looking into the age-old topic of the audit expectation gap with the publication of the initial report, *Closing the Expectation Gap in Audit (ACCA 2019a)*.

That report proposed a new approach to closing the expectation gap in audit, suggesting that it is necessary to consider three separate components of the expectation gap: the knowledge gap, the performance gap and the evolution gap, and to address each component separately. ACCA’s approach also helped form the basis of the IAASB DP published in 2020 (IAASB 2020a). One of the key messages of ACCA’s initial report was the need for stakeholders closely connected to the audit profession to collaborate in order to narrow the expectation gap in audit. Such stakeholders include management representatives, those charged with governance (TCWG), audit practitioners, governments, regulators, professional bodies and standard setters and financial statement users (eg investors, consumers, and the public). A recap of ACCA’s initial report is included in Chapter 1 of this report.


Since the release of ACCA’s initial report (ACCA 2019a), there have been several developments that have affected the audit profession in various ways, but particularly in relation to fraud and going concern. These include national audit reform reviews in a number of jurisdictions, and other relevant initiatives that are of interest internationally. The current environment, during COVID-19, has also affected the areas of fraud and going concern in the context of an audit of financial statements (thereafter ‘fraud and going concern’). In Chapter 2 of this report we provide an overview of some of the latest developments, whether national or international, which, we believe, are likely to have an impact on the audit of fraud and going concern.

In light of the developments since ACCA’s initial report (ACCA 2019a) and the need for the issue of fraud and going concern to be addressed by all key stakeholders, ACCA, in collaboration with CA ANZ and CPA Canada and the Canadian AASB (thereafter ‘we’) are continuing to explore this topic in this report. The underlying research included in this report involved a series of virtual roundtables and interviews held with stakeholders representing the wider financial reporting ecosystem across the globe. The IAASB DP, discussed in Chapter 2 of this report, formed the basis for these roundtable discussions and the key findings from our research are reflected in this report. More information on the research methodology can be found in Appendix 1 to this report.

Moving from theory to practice, this report outlines our recommendations for narrowing the expectation gap for fraud and going concern. Our action points are addressed to various stakeholders of the financial reporting ecosystem as all have an important role to play.



THE CURRENT ENVIRONMENT, DURING COVID-19, HAS ALSO AFFECTED THE AREAS OF FRAUD AND GOING CONCERN.

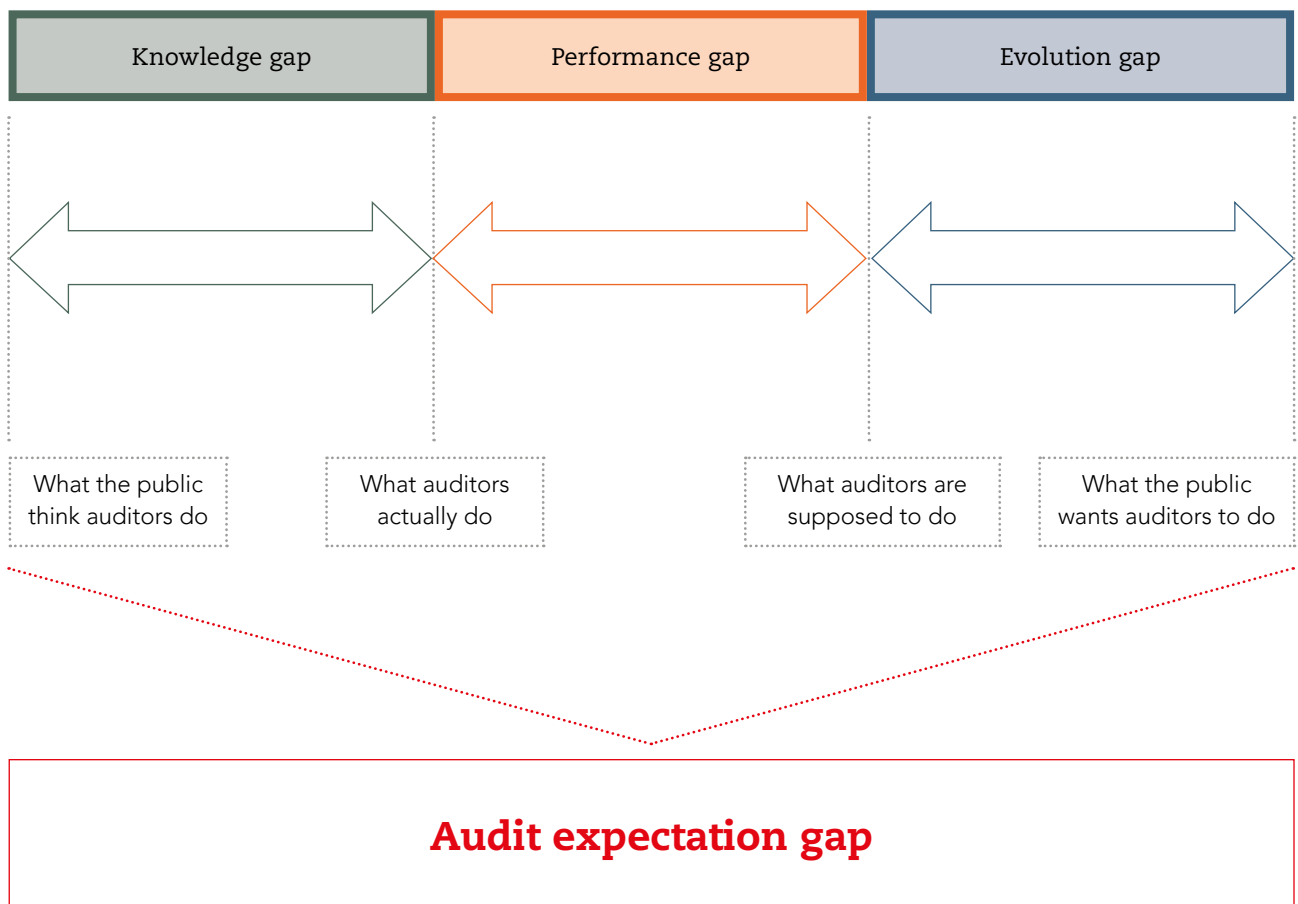
A person with long hair, wearing a dark jacket and pants, stands with their back to the camera on a wooden deck. They are looking out over a vast, hazy landscape of rolling hills and dense evergreen forests. The sky is a mix of soft blues and oranges, suggesting dawn or dusk. Numerous birds are seen in flight, scattered across the sky. A thick red vertical bar is positioned to the left of the main text block.

**MOVING FROM THEORY
TO PRACTICE, THIS
REPORT OUTLINES OUR
RECOMMENDATIONS
FOR NARROWING THE
EXPECTATION GAP FOR
FRAUD AND GOING
CONCERN.**

1. A **recap** of ACCA's initial report

In this chapter we revisit the proposed approach to closing the expectation gap in audit, set out in ACCA's initial report published in May 2019 (ACCA 2019a). ACCA's initial report on the audit expectation gap proposed dividing the expectation gap into three components as shown in Figure 1.1.

FIGURE 1.1: The audit expectation gap



This definition recognises that there's a difference between what the public thinks and what the public wants that drives public policy in audit. As a result, the public interest response – if it is to succeed – needs to adopt a holistic approach that encompasses public knowledge about audit, the audit standard-setting process and auditors' performance, as well as areas where auditors might do more (ACCA 2019a).

Knowledge gap

The 'knowledge gap' is defined as the difference between what the public thinks auditors do and what auditors actually do. This recognises that the public can sometimes misunderstand audit: for example, a belief that auditors are responsible for preventing corporate failure.

Performance gap


The 'performance gap' is defined as the difference between what auditors actually do and what auditors are supposed to do, given the requirements of auditing standards or regulations. Audit firms have systems and processes that seek to ensure quality in their engagements; in other words, that they comply with the standards and regulations. Audit regulators inspect files of completed engagements to evaluate whether quality is being achieved.

Evolution gap

The 'evolution gap' is defined as the difference between what auditors are supposed to do if they actually follow the requirements of auditing standards and regulation and what the public wants auditors to do. In other words, the evolution gap indicates the areas of the audit where there may be a need for evolution, taking into consideration the general public demand, technological advances and how the overall audit process could be enhanced to add more value in the public interest. Addressing the knowledge and performance gaps is, however, an important first step in determining what needs to evolve in audit. This will help to avoid overregulation and inappropriate developments in auditing standards, when the real problems could be lack of knowledge or poor performance (ACCA 2019a).

To gather evidence for both the knowledge and evolution gaps in support of the original report, ACCA designed a survey targeting members of the public in 11 countries, obtaining 11,000 responses in total. The public survey combined two types of question: those that tested knowledge about audit and those that asked about expectations of the audit (ACCA 2019a). The most relevant questions and the relevant findings on the areas of fraud and going concern are noted in Appendix 2 of this report.

TO GATHER EVIDENCE FOR BOTH THE KNOWLEDGE AND EVOLUTION GAPS IN SUPPORT OF THE ORIGINAL REPORT, ACCA DESIGNED A SURVEY TARGETING MEMBERS OF THE PUBLIC IN 11 COUNTRIES, OBTAINING 11,000 RESPONSES IN TOTAL.

A person is silhouetted against a bright blue sky with scattered white clouds. They are ziplining, with their body suspended from a cable. The person is in a crouched position, looking forward. The background is a vast, open sky with soft, white clouds. A red vertical bar is positioned to the left of the main text block.

**THE 'PERFORMANCE GAP' IS
DEFINED AS THE DIFFERENCE
BETWEEN WHAT AUDITORS
ACTUALLY DO AND WHAT
AUDITORS ARE SUPPOSED
TO DO.**

2. Developments affecting the audit profession

Since the publication of ACCA's initial report on the audit expectation gap in May 2019, numerous developments have occurred in the audit profession. For the purposes of this report, we refer only to developments, whether national or international, that we consider are likely to have an impact on fraud and going concern.

The effects of the COVID-19 pandemic

The COVID-19 pandemic disrupted most, if not all, professions globally and the audit profession has been no exception. Auditors had to adapt quickly to the new normal to continue executing audits on a timely basis, without compromising quality. Moving to a 100% digital environment led to a number of practical challenges. For example, gathering audit evidence in some cases proved to be more challenging, such as when auditors were unable to physically attend planned inventory counts (ACCA 2020a).

ACCA's *COVID-19 global survey: Inside Business: Impacts and Responses*, conducted in April 2020 found that a significant 53% of respondent auditors working in public practice said they were experiencing pressures completing work, and over one-third (36%) said they faced an inability to meet reporting deadlines – a point recognised in many jurisdictions, where reporting deadlines were extended (ACCA 2020b). One-quarter said that they were experiencing difficulties in gathering audit evidence, and 27% said they saw an increased risk relating to the valuation of assets, completeness of liabilities or going concern issues.

Fraud

'At a time when entities are under increased pressure, and internal controls may not be operating as planned, the auditor should also consider whether their assessment of risks of material misstatement due to fraud or irregularity needs to be heightened as a result, and additional audit procedures need to be carried out' (FRC 2020a). 'When controls change or don't operate effectively, the auditor needs to look at the nature, timing and extent of their audit work and how they deal with these changes' (Niesche 2020). This could also be linked with additional fraud-related risks. For example, owing to loss of clientele, an entity may need to engage with new customers. The pressure to react quickly could mean that clients are accepted without necessarily going through the thorough 'know your client' procedures that would normally have been carried out in the past, resulting in increased risk of fraud. Furthermore, many organisations have been forced to adopt digital strategies more quickly, presenting a heightened risk to the quality of related internal controls and a potential increased risk of fraud and error.

SINCE THE PUBLICATION OF ACCA'S INITIAL REPORT ON THE AUDIT EXPECTATION GAP IN MAY 2019, NUMEROUS DEVELOPMENTS HAVE OCCURRED IN THE AUDIT PROFESSION.

Going concern

While COVID-19 has forced many businesses to make significant changes to their operations, the impact of the pandemic on entities differs depending on the specific conditions and events as well as management's plans. The uncertainty brought on by COVID-19 led to the need for some entities to revisit preliminary going concern assessments when considering the potential impact on their future plans. This issue may have been significant for entities that have not been required to prepare detailed assessments before the pandemic.

At the international¹ level, as noted by the IAASB's Staff Alert on going concern, 'in completing work related to going concern in the current environment, auditors should focus on all the requirements set out in ISA 570 (Revised), *Going Concern*, with full consideration given to the entity's specific circumstances before any conclusions are reached. In completing the work on going concern, the importance of professional scepticism is amplified, particularly when management has determined that current circumstances are not expected to have any material financial impact on the entity and that no material uncertainties related to going concern exist for the entity' (IAASB 2020b).

Entities were required to reconsider their financial position and resilience in the era of COVID-19, the financial position and resilience of their key customers and their dependency upon them. They also had to consider whether they met the requirements for available government subsidies and, where possible, revisit their operational strategic plans. For example, some managed to switch to online business and adapted to the new normal fairly quickly, while others, owing to the nature of their operation, were not able to do so.

It's clear that the pandemic carried significant implications for companies, and therefore for their auditors, in the areas of both fraud and going concern. The pandemic highlights the importance of aligning the expectations about the auditor's responsibilities in these areas, with the expectation of users and other stakeholders of the profession.

Audit reform reviews

UK BEIS Consultation. The Department for Business, Energy and Industrial Strategy (BEIS) in the UK published its consultation document, *Restoring Trust in Audit and Corporate Governance*² in March 2021 (BEIS 2021). A holistic approach is suggested, with the proposals emphasising the importance of the involvement of all key stakeholders (including directors, shareholders, auditors and the regulator) for the success of the proposed reforms. Although the BEIS consultation focuses on the audit profession in the UK, it has attracted significant interest internationally.

The BEIS consultation proposes a package of measures in relation to fraud that would address the need for greater clarity on the related roles and responsibilities of auditors and directors (BEIS 2021: 103 para 6.4), as initially highlighted by the Brydon (2019) review. This observation is in line with ACCA's initial report findings on the auditor's responsibilities in respect of fraud, which was generally the area where the views of the general public and the audit profession were most misaligned (ACCA 2019a). Following from the Brydon recommendations, the BEIS (2021) consultation suggests that a change in the auditor's mindset and skill set will be necessary to meet the public expectations for detecting fraud. It also emphasises that fraud awareness and forensic accounting training should be part of the qualification and continuous learning process for financial statement auditors.

The BEIS (2021) consultation proposes the introduction of a statutory requirement for Public Interest Entities to publish an annual Resilience Statement, building on the existing Going Concern and Viability Statements.

The proposals suggest changes to company law, corporate governance and potentially relevant auditing standard(s), emphasising once again that taking action to address going concern issues affects all stakeholders of the financial reporting ecosystem.

1 There were many responses at the national level, as well. For example, CPA Canada's [blog](#) and [webinar](#) highlight management and the auditor's responsibilities, as well as the role of those charged with governance, in relation to going concern and the AASB's [Close Call Going Concern Assessments](#) publication.

2 This consultation is the next step in the process of audit reform and this consultation's proposals respond to recommendations made by three independent reviews commissioned by the government: Sir John Kingman's Independent review of the FRC (Kingman 2018); the CMA audit market study (CMA 2019); and Sir Donald Brydon's independent review of the quality and effectiveness of audit (Brydon 2019). The BEIS consultation was published in March 2021 and BEIS was seeking views on proposals by July 8th, 2021.

Parliamentary Joint Committee on Corporations and Financial Services issued its final report on Regulations of Auditing in Australia

The Australian parliamentary joint committee published its comprehensive interim report in February 2020 and its final report in November 2020 and gave 10 recommendations (Australian Parliamentary Joint Committee on Corporations and Financial Services 2020a; 2020b). The recommendations included in the interim report cover various aspects of the audit profession in Australia. As with the Brydon (2019) review in the UK, these reports are of interest internationally.

For the purposes of the present report, we draw attention to those recommendations that are more directly relevant to the areas of fraud and going concern. Recommendation 8 of the interim report states that the ‘Committee recommends that the [Australian] Financial Reporting Council oversee a formal review, to report by the end of the 2020–21 financial year, of the sufficiency and effectiveness of reporting requirements under the Australian Standards in relation to the prevention and detection of fraud; and management’s assessment of going concern’ (Australian Parliamentary Joint Committee on Corporations and Financial Services, 2020a).


Recommendation 9 is also relevant to the prevention of fraud. In it, the committee recommended that ‘the Corporations Act 2001 be amended such that entities required to have their financial reports audited under the Act must establish and maintain an internal controls framework for financial reporting. In addition, such amendments should require that management evaluate and annually report on the effectiveness of the entity’s internal control framework; and that the external auditor report on management’s assessment of the entity’s internal control framework’ (Australian Parliamentary Joint Committee on Corporations and Financial Services, 2020a). The committee also recommended that Australia adopt digital reporting to increase the transparency and quality of financial reporting.

The committee confirmed in its final report in November 2020 that it stands by the recommendations put forward in its interim report, including Recommendations 8 and 9 as noted above (Australian Parliamentary Joint Committee on Corporations and Financial Services 2020b).

Canadian Public Accountability Board (CPAB) Fraud Thematic Review

In 2019, following recent global corporate collapses, CPAB launched a project exploring the topic of fraud. The project was split into two phases. The objective of Phase 1 was to evaluate the quality of audit work performed by auditors to meet the requirements of CAS 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*, the equivalent standard on fraud in Canada, and to identify leading audit practices (CPAB 2020a). The objective of Phase 2 was to look beyond CAS 240 and explore what actions can be taken by all relevant stakeholders to improve prevention and detection of corporate fraud.

The review found that auditors met the requirements of the standard in the files under review. The review noted a number of specific areas for consideration by the auditor when designing their audit approach to identifying and responding to fraud risks. Some of those areas are discussed later in Chapter 3 of this report (CPAB 2020a).



THE OBJECTIVE OF PHASE 2 WAS TO LOOK BEYOND CAS 240 AND EXPLORE WHAT ACTIONS CAN BE TAKEN BY ALL RELEVANT STAKEHOLDERS TO IMPROVE PREVENTION AND DETECTION OF CORPORATE FRAUD.

CPAB Going Concern Project

In 2019, CPAB also launched a project on going concern. The objective of this project was to gather information to enhance CPAB’s understanding of how auditors in Canada approach their task of reviewing management’s assessment of going concern risk.

The project looked into a sample of Canadian reporting issuers where management (and the auditor’s report) did not disclose going concern issues even though the companies had shown some financial difficulties (CPAB 2020b).

The review focused on:

- how going concern risk was addressed in client acceptance and continuance
- how the audit team evaluated management’s assessment of going concern
- communication with TCWG
- consistency of the going concern evaluation with other parts of the audit file including auditing accounting estimates like goodwill or intangible asset impairment.

Similar to the fraud project, the findings of this project showed that auditors comply with CAS 570, *Going Concern*, the auditing standard on going concern in Canada. The project refers to certain observations and, like the report on fraud, some specific areas for consideration by the auditor. Some of those areas are discussed later in Chapter 3 of this report. (CPAB,2020b).

SIMILAR TO THE FRAUD PROJECT, THE FINDINGS OF THIS PROJECT SHOWED THAT AUDITORS COMPLY WITH CAS 570, GOING CONCERN, THE AUDITING STANDARD ON GOING CONCERN IN CANADA.

IAASB’s Discussion Paper on Fraud and Going Concern in an Audit of Financial Statements

In September 2020, the IAASB published a discussion paper (IAASB DP), focusing on fraud and going concern in an audit of financial statements as part of its information gathering and research activities (IAASB 2020a). This also explores the expectation gap resulting from the differences between public perceptions about the role of an auditor and the auditor’s actual responsibilities in a financial statement audit. In addition to publishing the discussion paper, the IAASB held three roundtable discussions covering the following topics:

- the impact of technology advancements on fraud perpetration and detection
- the expectation gap for the auditor’s responsibilities for fraud and going concern, and
- fraud and going concern in audits of less-complex entities.

The IAASB’s DP explicitly emphasises that there’s a need to work with other stakeholders of the financial reporting ecosystem, as many changes would depend on these stakeholders acting upon their role. Such stakeholders include the entity and its management (preparers), those responsible for governance, external auditors, governments, regulators, professional bodies and standard setters and financial statement users (eg investors, consumers, and the public) (IAASB 2020a).

The IAASB’s DP also refers to some of the largest corporate collapses of the previous few years, which have triggered the interest in, and demand to revisit, the areas of fraud and going concern. For example, the case of Wirecard, one of the most recent cases discussed globally, and particularly in the European Union. Wirecard filed for insolvency after admitting that ‘there is a prevailing likelihood that the bank trust account balances in the amount of 1.9 billion EUR do not exist’ (European Parliament 2020).

The discussion paper included specific matters where the IAASB was interested to hear the perspectives of all stakeholders of the financial reporting ecosystem. It also included other ‘open-ended’ questions. The consultation period for the IAASB DP closed on 1 February 2021. As noted in the introduction of this report, the IAASB’s DP formed a key part of our roundtable discussions, and feedback received is reflected in Chapter 3 of this report.

Technological developments


Technology continues its rapid evolution, putting the audit profession in a better position to deploy advanced technologies than in the past. For example, in the UK, the Financial Reporting Council (FRC) has published a series of reports emphasising the importance of using technology to enhance audit quality (FRC 2020b; 2020c). Evidence of an increased use of advanced technology in the form of audit data analytics was found to be ‘a routine at the largest UK firms’ (FRC 2020b).

In the international standard-setting arena, the recently revised ISA 315 (Revised), takes into consideration the use of automated tools (including data analytics) when performing risk assessment. Similarly, the FRC has recently revised the ISA (UK) 315 by including more material relating to the use of technology, recognising the importance of adapting those evolving trends in the course of financial statement audits and incorporating the technological developments in the current assurance model with the aim of delivering high-quality audits.

The IAASB is also currently revising ISA 500 on audit evidence and part of this project’s aim is to recognise the importance of the use of the technology, from both the preparer’s and the auditor’s perspectives, to reflect the increasing importance of technology in quality audits (IAASB 2021a).

Similarly, other tools, such as machine learning, are becoming a very powerful tool with a great range of applications, including assisting in the identification of fraud, as shown in the ACCA report *Machine Learning: More Science than Fiction* (ACCA 2019b). This report also discusses how *clustering*, for example, is a commonly used technique that supports the detection of anomalies in a data set when looking for fraudulent transactions, especially in a world where Big Data is prevalent.

TECHNOLOGY CONTINUES ITS RAPID EVOLUTION, PUTTING THE AUDIT PROFESSION IN A BETTER POSITION TO DEPLOY ADVANCED TECHNOLOGIES THAN IN THE PAST. FOR EXAMPLE, IN THE UK, THE FINANCIAL REPORTING COUNCIL (FRC) HAS PUBLISHED A SERIES OF REPORTS EMPHASISING THE IMPORTANCE OF USING TECHNOLOGY TO ENHANCE AUDIT QUALITY (FRC 2020B; 2020C).

A woman with dark hair and glasses is shown in profile, looking thoughtfully to the right. She has her hand near her chin. The background is dark with vibrant, colorful light trails in shades of blue, green, and red, suggesting a digital or technological environment. The overall mood is one of deep thought and innovation.

THE IAASB IS ALSO CURRENTLY REVISING ISA 500 ON AUDIT EVIDENCE AND PART OF THIS PROJECT'S AIM IS TO RECOGNISE THE IMPORTANCE OF THE USE OF THE TECHNOLOGY.

3. The **outcome** of the **roundtable discussions**

ACCA, in collaboration with CA ANZ, CPA Canada and the Canadian AASB, has examined the auditor's role in the areas of fraud and going concern, and the related expectation gap. We held a series of virtual roundtables and interviews with stakeholders of the wider financial reporting ecosystem across the globe.

The participants represented the following stakeholder groups: audit practitioners (including large, small–medium sized practices and practitioners from the public sector), management representatives (financial statement preparers), members of boards and audit committees, regulators (including audit regulators, audit oversight bodies), public sector representatives, user representatives (mainly investors) and internal auditors. The questions posed in the IAASB's DP (IAASB 2020a) formed a key part of our roundtable discussions and the feedback received is reflected within the present report. This chapter summarises the main points raised, during the roundtable discussions, about the potential areas to explore further on fraud and going concern and the expectation gap.

Throughout the sections that follow we refer to 'majority' when a view received support in more than half of the countries/regions in the scope of the project and by multiple participants. We refer to 'some' when a point is raised by either multiple participants in one country/region or when that was raised in more than one country/region. A summary of the key findings listed below can be found in our supplementary paper – *Summary of Key Findings*.

Expectation gap

The roundtable sessions canvassed an open question on the expectation gap, asking participants what they think is the main cause of the expectation gap relating to fraud and going concern. Participants were encouraged to provide their answers in the context of the knowledge, performance, and evolution gaps, where relevant. The participants' views on the expectation gap focused more on fraud than on going concern in all countries and/or regions in the scope of this project. A majority of roundtable participants indicated the knowledge gap as the main cause of the expectation gap for both fraud and going concern. Nonetheless, some participants argued that the cause is a combination of two gaps or of all three gaps, emphasising the need to continue to monitor auditors' performance and to consider areas for evolution. We summarise below some of the key points and recommendations raised by participants during the roundtable discussions. Many points that were raised about the expectation gap are also relevant and further discussed later in this chapter under the specific questions raised by the IAASB DP (IAASB 2020a).

ACCA, IN COLLABORATION WITH CA ANZ, CPA CANADA AND THE CANADIAN AASB, HAS EXAMINED THE AUDITOR'S ROLE IN THE AREAS OF FRAUD AND GOING CONCERN, AND THE RELATED EXPECTATION GAP.

Knowledge gap

Roles and responsibilities of stakeholders within the financial reporting ecosystem

A majority of roundtable participants across all stakeholder groups thought that the expectation gap was driven primarily by financial statement users' lack of understanding of the role of each party in the financial reporting ecosystem, including that of the auditor. For example, audit practitioners noted that management and TCWG have the primary responsibility for preventing and detecting fraud and therefore have a particularly significant role to play, which is often overlooked. Some noted that this knowledge gap creates a perception that it is the auditor's primary objective to discover irregularities or fraudulent transactions. Others mentioned that fraud from a financial statement's perspective is different from the general public's expectation of fraud and the financial statement concept of fraud should be better explained and communicated.

'Unless you have been an auditor, people generally don't understand what auditors do'. **TCWG, Canada**

Roundtable participants across all stakeholder groups suggested that all those with an involvement in the financial reporting ecosystem should collaborate to raise awareness of the role and responsibilities of all parties within the ecosystem. They commended the IAASB's DP for explicitly referring to the wider financial reporting system and the various parties involved. In relation, more specifically, to the auditor's role, some participants noted that the financial statements and auditor's report are getting longer and more complex. They therefore acknowledged the importance of looking at ways of communicating the role and responsibilities of the auditor outside the auditor's report. Some participants also suggested that holding 'knowledge gap briefings' or roundtable discussions could help. For example, audit practitioners could engage their respective communities, such as the entities they audit, and host information sessions to educate them on the role of the auditor.

Another suggestion put forward by some audit practitioners was to look at jurisdictions that have adopted Sarbanes–Oxley (SOX-style) reporting, such as in the US and Japan, and consider how successful that has been in enhancing communication about the role of the entity and its management. This, they noted, could be one way of enhancing communication about the role and responsibilities of other stakeholders. Furthermore, some suggested that the scope for auditors to do more work on fraud and going concern via a longer-format report, ie a SOX-style attestation report and report on internal controls, should be explored. This would allow audit practitioners to go beyond the current auditor's report extended by 'key audit matters', which would introduce more insights and information. We note that in the UK, the BEIS consultation referred to earlier in this report, includes options for a UK SOX-style regime and options for attestation (BEIS 2021).

CA ANZ's article *An Ounce of Prevention – Internal Control and Fraud* asserts that while there are certainly costs, this is perhaps the main recommendation that could, in CA ANZ's view, significantly change how key risks such as fraud and misreporting are addressed (CA ANZ 2020). Furthermore, the article suggests that internal controls over financial reporting, and other risk areas, are the most important tools directors and management have for managing risks, preventing fraud, and ensuring they have oversight of what is happening in their business. Roundtable participants in Australia and New Zealand broadly agreed that strengthened accountability for the establishment, maintenance and assurance of an effective internal control environment is an essential first step to tackling fraud risk.

Some participants also acknowledged that narrowing the knowledge gap could be done through better and more meaningful communication channels between auditors and shareholders. Some noted that while shareholders have the opportunity to ask questions at the AGM, very few do so in practice.

Inherent limitations and constraints that auditors face

Many audit practitioners noted that the inherent limitations and constraints that auditors face in detecting and reporting actual or suspected material fraud tend to be overlooked by users. For example, some referred to the limited time that auditors, as independent and external to the business, have to understand the entity's business and its environment, whereas TCWG and management know the business inside out. Participants also mentioned that if senior management really wants to commit fraud then it would be very challenging for auditors to detect it, as this would potentially involve a concerted effort by the organisation to orchestrate the fraud. While there are a wide range of differing views on what auditors can realistically achieve in addressing the risk of complex and deliberate fraud, this nonetheless sets the context for dealing with the challenge in itself, and the expectations surrounding it.

Hindsight bias

A number of audit practitioners referred to hindsight bias, and argued that it is generally present when evaluating the auditor's performance after the fact (eg when a corporate collapse has in fact occurred). They argued that in these circumstances, the events that caused the corporate collapse are known and with hindsight it is always easier to spot matters that cast significant doubt on the entity's ability to continue as a going concern or indicate fraud that were missed by the auditor at the time but later appear to be 'obvious'.

Materiality concept and audit terminology

Another area where audit practitioners found that a knowledge gap exists was the concept of materiality, which audit practitioners argued is often misunderstood by users. Enhancing users' knowledge of this concept would enable them to understand why auditors focus on material misstatements due to fraud or error. Some suggested we should aim to explain in simple words what is meant by 'material misstatements due to fraud' in order to narrow the knowledge gap, while a few audit practitioners suggested disclosing materiality in the auditor's report.

Some roundtable participants also argued that the terminology used in the audit profession creates confusion for a lot of people. For example, forensic audit, internal audit and financial statement audit all sound similar to a lay person.

In the UK, disclosing materiality is already a requirement for listed entities. ACCA's thought leadership report *Key Audit Matters: Unlocking the Secrets of the Audit* also found that some network firms were disclosing materiality voluntarily across all their networks (ACCA 2018).

Furthermore, the IAASB has recently published a Feedback Statement on Auditor Reporting Post-Implementation Review (IAASB 2021b) noting mixed views about disclosing materiality. The feedback suggests that:

- investors, regulators, and preparers and TCWG found the inclusion of materiality and scope of the audit useful or very useful
- national standard setters, Professional Accountancy Organisations, and auditors indicated that there had been limited or no demand in their jurisdictions for inclusion of additional information on materiality and the scope of the audit when not otherwise required.

Enhancements in accounting standards

Audit practitioners argued that to reduce the knowledge gap on going concern, the IASB should review the current IAS1, *Presentation of Financial Statements*, as the guidance provided is limited. They emphasised that there is a separate auditing standard dealing with going concern, with extensive guidance in the auditing standard on events and conditions that may cast significant doubt on an entity's ability to continue as a going concern. In the IASB's standards, however, going concern is addressed in only two paragraphs within one standard.

MANY AUDIT PRACTITIONERS NOTED THAT THE INHERENT LIMITATIONS AND CONSTRAINTS THAT AUDITORS FACE IN DETECTING AND REPORTING ACTUAL OR SUSPECTED MATERIAL FRAUD TEND TO BE OVERLOOKED BY USERS.

Performance gap

The performance gap was least commonly identified as the main cause of the expectation gap.

Some audit practitioners emphasised the importance of professional scepticism in raising the right questions in respect of fraud and suggested that the profession may need to go beyond what we currently understand as professional scepticism. Others argued that the current requirements in the standard are robust enough if applied with proper professional scepticism and in the presence of quality reviews.

Some stakeholders noted that auditors should respond to risks of fraud differently from the way they respond to risks of error, owing to the need for an elevated level of professional scepticism when considering whether something was deliberate, which differentiates fraud from error. These stakeholders wondered whether audit practitioners can do more within the existing standards.

Others suggested that the staff normally involved in the execution stage of an audit can be relatively junior and this may reduce the chance of identifying and reporting material fraud, given their relative lack of experience in such matters. Some audit practitioners also argued that sometimes the tone at the top from the senior audit team members and pressure for efficiency can reduce the likelihood that junior staff will raise concerns.

Finally, some regulator representatives also noted that Professional Accountancy Organisations and audit regulators have a significant role to play in monitoring the performance gap via audit quality reviews and by supplying training materials to support smaller firms with resource challenges.

THE PERFORMANCE GAP WAS LEAST COMMONLY IDENTIFIED AS THE MAIN CAUSE OF THE EXPECTATION GAP.

Evolution gap

Technology

Audit practitioners, internal auditors, user representatives, management representatives and TCWG suggested that the use of technology can help enable auditors to satisfy, to a greater extent, the users' expectations of auditors in respect of fraud, and to narrow the evolution gap that exists here. Some noted that technologies, such as advanced data analytics and artificial intelligence, can be helpful for identifying red flags and inconsistencies.

Some representatives of users noted that the audit should evolve using technology in areas of investor concern. Such areas relate to the future prospect of entities, ie forecasts and other future-oriented information. Audit practitioners and TCWG noted that auditors could do more but that would be subject to additional time, cost and risk.

'Audits should evolve to include areas that investors focus on. For example, investors care about the future prospect of the company for merger or acquisitions.'
User, Africa

'Fraud has an intangible nature and it is constantly changing according to the business plans and the IT environment. Technology has given businesses the opportunity to evolve to a great extent. Audit as we know it now cannot capture this constant change and needs to evolve.'
TCWG, Africa

Some representatives across all stakeholder groups emphasised that management and TCWG, who hold the primary responsibility for preventing and detecting fraud, have a particularly significant role to play in addressing the evolution gap. They stressed that it would be impractical to meet the users' expectations on fraud without disclosure and statements on management's responsibilities for implementing systems that are adequate to prevent and detect fraud.

Fraud: Possible revisions to ISA 240

The auditor’s responsibility for detecting material fraud

Some regulator representatives raised concerns about the introduction of ISA 240 and particularly paragraph 5, which notes the inherent limitations of an audit. This paragraph states that while the audit may be properly planned and performed, some material misstatements may not be detected. The regulators argued that this underplays the responsibility that auditors have in detecting material fraud, as it states that fraud may go undetected. Conversely, some participants pointed to the need to be very clear on the limitations of reasonable assurance engagements in order to avoid widening the expectations gap.

We note that similar comments were raised in the Brydon (2019) review in the UK. The UK FRC has already moved ahead by making revisions to the equivalent paragraph in ISA (UK) 240 (FRC 2021).

Journal entry testing

Some audit practitioners and regulators noted that there is inconsistency, in practice, on how journal entry testing is tailored, in relation to the fraud risks identified in the audit, and the extent of testing required. Some also suggested that ISA 240 could be updated to recognise the use of audit analytics when conducting journal entry testing. Furthermore, some audit practitioners argued that, in their experience, they had not come across any instances of fraudulent financial reporting identified by journal testing over the past few years and questioned whether the effectiveness and relevance of journal testing should be reassessed.

Presumed risk of fraud in revenue recognition

Some audit practitioners questioned whether the presumption of risks of fraud in revenue recognition continues to be appropriate. Some commented that, frequently, this presumption leads auditors to spend an undue amount of time designing and performing fraud procedures in areas where, for many entities, the risks are not high because of the nature of the business. As a result, they may not devote sufficient resources to other risky areas. These practitioners believe that while there are instances of fraud in revenue recognition, it should not be presumed in all cases and, instead, the risk assessment should determine the fraud risks appropriate for the entity. In contrast, regulators appeared to be concerned that auditors are rebutting this presumption too often without good cause.

Database of fraud case studies

Audit practitioners suggested there is a need for more sharing within the auditor community, ie with other audit practitioners/firms of recently identified frauds. This could aid audit practitioners to apply professional scepticism more consistently, taking into consideration uniform fraud schemes in different territories, different countries and across auditing firms. Similar points were raised during the IAASB’s roundtable session on the expectation gap, where participants noted that there is a lack of detailed information following discovery of a fraud case, which could be a useful education tool. The BEIS consultation in the UK includes proposals for creating an accessible case study register of fraud cases (BEIS 2021). Additionally, Anti-Fraud Collaboration has published a fraud study which breaks down fraud cases by industry and type of fraud (Anti-Fraud Collaboration 2021).

‘We need to make sure what we are changing would actually have made a difference with previous frauds and corporate failures’ **User, Canada**

Fraud awareness

Many stakeholders across all stakeholder groups emphasised the importance of continuous training of auditors on matters relating to fraud. For example, auditors should be encouraged to consider additional training and education qualifications related to fraud. This may assist them in the identification of frauds.

‘Responding to fraud risk presumes that we understand how fraud schemes are put together and perpetrated, which is not always the case as there are different fraud schemes everywhere.’ **Audit Practitioner, Africa**

In order to enhance auditors’ skills, there needs to be more understanding of how frauds occurs. Information about how frauds happen is not shared, it is tied up in courts and Non-Disclosure Agreements. **Audit Practitioner, Australia**

Fraud: Opportunities for evolution to be explored further

We allocated the second part of our roundtable sessions, with all stakeholder groups, to discussing specific matters related to both fraud and going concern on which the IAASB sought input beyond the overall expectation gap. The roundtable participants were also encouraged to share ideas on what could be explored other than those highlighted by the IAASB DP (IAASB 2020a), whether it was for the auditor specifically or for other stakeholders in the financial reporting ecosystem.

Increased use of forensic specialists or other relevant specialists

One of the options discussed in the roundtable sessions was whether audit practitioners should be required to use forensic specialists in a financial statement audit. Participants expressed mixed views that varied between stakeholder groups. The key themes that emerged are discussed below.

Audit practitioners of both large and small and medium-sized practices (SMPs) noted that mandating the involvement of forensic specialists more broadly in financial audits may widen the expectation gap because it could give the impression to users that a forensic audit was conducted. They suggested that the involvement of forensic specialists should continue to be based on the auditor's professional judgement rather than being mandated. Some audit practitioners also raised concerns that mandating the involvement of forensic specialists would create a risk that their work would become a 'box-ticking' exercise and the real value to be had from their involvement could be lost. Other audit practitioners noted that, if there is a requirement to use forensic specialists in all audit engagements, it might be more practical to require a separate engagement on fraud since it would change the nature of the audit.

Nevertheless, some audit practitioners expressed the view that using forensic specialists as part of the engagement team could be helpful in the risk-assessment stage, as they could provide their insights on possible fraud schemes that could be perpetrated.

Some representatives of TCWG supported the use of forensic specialists, but suggested that this should be when, in the auditor's judgement, there is a high risk of fraud.

Regulators were the only stakeholder group that appeared to be more supportive of mandating the involvement of forensic specialists. They believe this specialised skill set is needed within the audit team and since audits already involve many experts, this is another area where the involvement of an expert should be required. Even so, some regulator representatives thought that requiring the use of forensic specialists on all audits may not be appropriate, depending on the fraud risks identified for the entity.

'We have an opportunity to incorporate a forensic specialist's knowledge as much as possible into the audit engagement, but doing so needs to be strategic.' **Regulator, Canada**

A suggestion put forward by one regulatory representative was that auditors need to focus more on understanding fraud risks rather than on the detailed testing, which often proves to be a 'box-ticking' exercise to meet the standard's requirements. This approach would assist auditors to identify potential areas with a high risk of fraud, which in turn could support the appropriate engagement of a forensic specialist. This is also in line with some of the comments heard about the expectation gap and the need for auditors to enhance their skills and knowledge for dealing with fraud. We note that audit practitioners were supportive of the need to extend their forensic and fraud awareness skills.

Accessibility, scalability, costs

Some audit practitioners raised concerns about the potential increase in audit costs if a requirement to use forensic specialists became mandatory. Audit practitioners representing SMPs noted that most firms of their size would need to engage forensic specialists from outside the firm, which could have a significant impact on audit costs. Furthermore, some noted that they run the risk of not recovering the increased costs as it would be difficult to rationalise the need for involving forensic specialists in some small or less complex audits. Public sector audit practitioners appeared to be less concerned about the costs as, in their case, the auditor and audited entity model is different.

Furthermore, both large-firm audit practitioners and SMPs questioned whether there are sufficient forensic specialists available in the market to satisfy the demand for them if they are to be involved in every audit.

Finally, some participants queried what specific group of ‘forensic’ specialists would be best placed to help address fraud risk – forensics is a wide and varied field, mainly focusing on procedures such as trawling through data and documentation to establish a defensible forensic case for presentation to courts after a fraud has been perpetrated and exposed. This is a very different situation from seeking to detect fraud or contribute to its prevention.

Professional scepticism

Professional scepticism is defined within international auditing standards as:

‘An attitude that includes a questioning mind, being alert to conditions that may indicate a possible misstatement due to error or fraud, and a critical assessment of evidence’ (IAASB 2018: 31).

WHEN USING A SUSPICIOUS MINDSET, AUDITORS WILL NEED TO MOVE A STEP FURTHER FROM THE NEUTRAL POSITION.

The IAASB’s DP includes the following specific question on what it describes as a ‘suspicious mind set’: ‘Would requiring a ‘suspicious mindset’ contribute to enhanced fraud identification when planning and performing the audit? Why or why not?’ (IAASB 2020a).

We note that the IAASB DP and other publications do not define what is meant by a ‘suspicious mindset’. The concept of a suspicious mindset was referenced extensively in the Brydon review, which was introduced in Chapter 2 of the present report (Brydon 2019). That publication explains that currently auditors ‘start with a neutral mindset – assuming neither honesty nor dishonesty with respect to the preparation of the information provided and seek confirmation of its appropriateness’ (Brydon 2019). It suggests, however, that when using a suspicious mindset, auditors will need to move a step further from the neutral position and start with a form of suspicion similar to a forensic specialist’s mindset.

Professional scepticism or suspicious mindset?

Many roundtable participants, except for audit practitioners, were initially in favour of requiring auditors to have a suspicious mindset. It appeared, however, that the majority of those that were in favour were not familiar with the current requirement in ISA 240 and were unaware that the introduction of a suspicious mindset would mean introducing a new concept, which goes beyond professional scepticism. When these participants were asked to explain their understanding of ‘suspicious mindset’, the type of attitude they described often aligned more closely with the concept of ‘professional scepticism’. For example, some of them mentioned that auditors should have a questioning mind, remaining sceptical throughout the audit and particularly when dealing with the evidence provided.

Some stakeholders referred to the fact that auditors are currently challenged in applying professional scepticism appropriately and, therefore, introducing another concept is likely to cause more confusion rather than help. Many stakeholders therefore recommended that the focus should be on narrowing any performance gap that currently exists in applying professional scepticism, rather than on introducing a new concept. Some suggested that this could be narrowed by involving more senior-level staff in performing audit work, or by placing more emphasis on effective supervision and review.

‘Audit practitioners already struggle with the application of professional scepticism, we don’t need to introduce another concept.’ **Regulator, Canada**

Additionally, some participants noted that psychology research shows that it is difficult to have a sceptical mindset and that it is more natural to seek confirming rather than contradictory evidence, for example, anchoring on numbers and information provided by management during an audit.

Following some discussion and clarification of the suspicious mindset concept, most participants supported the idea of equipping all auditors, including the new generation of auditors, with a forensic skill set. For the new generation of auditors, specifically, it was suggested that this could be done via embedding forensic accounting and fraud awareness within their training. This would allow them to exercise professional scepticism but also have the skills to identify behaviours and patterns that could improve their detection of actual or suspected fraud in an audit of financial statements.

Cognitive biases and their impact on professional scepticism was a key area of focus in ACCA’s thought leadership report *Banishing Bias? Audit, Objectivity and the Value of Professional Scepticism*, which found that ‘audit quality will only be improved further when all stakeholders in the financial reporting process understand how cognitive biases impact the use of information in decision making’ (ACCA 2017).

The recently approved ISA 220, *Quality Management for an Audit of Financial Statements* (revised December 2020), refers to unconscious bias. The enhanced application material paragraph A35 gives a list of unconscious biases that may impede the exercise of professional scepticism. This is a great step forward by the IAASB and we hope it will have a positive impact following the adoption of the standard and incorporation within firms’ audit methodologies.

Impact on the auditor’s relationship with management

One of the main concerns about adopting a suspicious mindset raised by audit practitioners and by some representatives of TCWG is the risk of impairing the relationship between management and the auditor. Given the importance of this working relationship to an effective and efficient audit, audit practitioners and TCWG were cautious about creating an adversarial relationship. Nonetheless, some audit practitioners acknowledged the importance of auditor independence and downplayed any concerns about impairing this relationship.

Objective, time, and cost

Some concerns were also raised about the practicality of the approach, given the additional time that would be required to satisfy a change from professional scepticism to suspicious mindset. Audit practitioners noted that the suspicious mindset concept works for forensic specialists because of the difference in their objectives. They are most often engaged when fraud has been uncovered or there is strong reason to suspect fraud, and therefore, their role is to focus on the details of the fraud, not audit the financial statements.

Additionally, some audit practitioners noted that requiring a suspicious mindset would mean a greater burden of proof when collecting audit evidence, and it could lead to onerous information demands on entities.

Enhanced quality control review requirements

Introducing additional engagement quality control review procedures focusing on the engagement team’s responsibilities relating to fraud, from regulators’ and audit practitioners’ perspectives was one of the more favoured options for further exploration.

While many stakeholders supported exploring enhancements to quality control review requirements, some noted the need to be careful not to add another ‘checklist’-type procedure. They suggested that additional requirements should be supported by evidence from jurisdictions that have already implemented such enhanced procedures, and whether this led to a positive impact on the auditor’s ability to identify and address fraud risks in the audit.

Audit practitioners and regulators recognised that this proposal could be easier to implement than the others discussed in the IAASB’s DP (IAASB 2020a) since the framework for incorporating additional quality control review procedures already exists and can be targeted in line with the entity’s fraud risk profile.

Some audit practitioners did not support this option as they argued that the application guidance in ISQM 2 already has sufficient requirements for the engagement quality control review role relating to fraud.

Additional focus on non-material fraud

Requiring additional audit procedures when a non-material fraud is identified had some support from a mixed group of stakeholders. Those who supported this option believed some work needs to be done even if non-material fraud is identified, as it could lead to the discovery of a material fraud. They also referred to cases where non-material fraud was not-material only because the full extent of it had not been uncovered. Also, it could highlight systemic issues, for example with controls in areas of high fraud risk, which, if not addressed, could lead to material fraud.

‘I believe human nature is to start small, then when successful, you start to take more’
TCWG, Canada

Nonetheless, audit practitioners noted that when fraud is identified, irrespective of whether it is material or not, auditors are already required to perform certain procedures. They therefore argued that the extant requirements continue to be appropriate and sufficient. Furthermore, they raised concerns that additional focus on non-material fraud during the audit would go beyond the current objectives of an audit.

In reflecting on our discussions with participants on this topic, we believe that controversy in this area may be exacerbated by the knowledge gap, as there appears to be a lack of understanding of the auditor's current responsibilities when non-material fraud is discovered.

Paragraph 36 of ISA 240 states that 'If the auditor identifies a misstatement, whether material or not, and the auditor has reason to believe that it is or may be the result of fraud and that management (in particular, senior management) is involved, the auditor shall re-evaluate the assessment of the risks of material misstatement due to fraud and its resulting impact on the nature, timing and extent of audit procedures to respond to the assessed risks. The auditor shall also consider whether circumstances or conditions indicate possible collusion involving employees, management or third parties when reconsidering the reliability of evidence previously obtained' (ISA 240 para 36)

Third-party fraud

We did not receive any strong views supporting revisions to the extant standard on fraud related to third parties. We do note, however, that some stakeholders suggested that additional procedures should be considered as the current environment, given COVID-19, increases the risk of third-party fraud that could have a material impact on the financial statements.

WE DID NOT RECEIVE ANY STRONG VIEWS SUPPORTING REVISIONS TO THE EXTANT STANDARD ON FRAUD RELATED TO THIRD PARTIES.

Going concern: Opportunities for evolution to be explored further

Time period for going concern assessments

Most participants thought that expanding the period beyond 12 months would add little, if any, value. More specifically, some stakeholders argued that as the period for assessment increases, the assessment becomes less meaningful owing to the increased level of uncertainty. Some audit practitioners noted that changes in the period covered by going concern assessments may need to be considered in conjunction with changes in the legal liability regime, reflecting concerns that auditors may need some form of legal protection if they are required to provide assurance on what are essentially future predictions.

Some participants also noted that the period for assessing going concern could be affected by external factors beyond the control of management or the auditor. For example, in the case of not-for-profit organisations that have a 12-month funding cycle, management might not be able to assess going concern sufficiently beyond the next funding cycle.

Some audit practitioners believe that users already overestimate the level of assurance obtained by auditors. Therefore, extending the time period for the going concern assessment may inadvertently increase the expectation gap, as financial statement users may derive unwarranted confidence in the future viability of the entity from the longer-term assessment. A few participants suggested that entities should not have a specified period for their assessment on going concern, other than a minimum of 12 months, as currently required by IAS 1. In their view, entities should align their going concern assessments with how they manage their performance. Entities in some industries may have a budgeting cycle and manage their performance for periods of three years or beyond. In such cases, a longer period for going concern assessments may be appropriate.

Audit practitioners noted that ISA 570 requires auditors to cover the same period as management used to make its own assessment, as required by the applicable financial reporting framework. In their view, it is the entity's financial reporting framework that determines the appropriate period for going concern assessments and, therefore, this is primarily a financial reporting framework issue.

As a result, some stakeholders suggested that instead of extending the period covered by the going concern assessment, it would be more meaningful for the IASB to consider revising IAS1, *Presentation of Financial Statements*, to require management to take into account all available information about the future, which would be at least, but not limited to, 12 months from the date when the financial statements are authorised for issue, rather than the reporting period. This would serve to lengthen the period covered by management’s going concern assessment in a reasonable manner and possibly also address the inconsistencies at the jurisdictional level.

Given that the financial statements are usually authorised for issue after the reporting date and, similarly, an audit takes place after the reporting date, the going concern assessment does not really cover 12 months. To illustrate this point, during COVID-19 in most countries there were extensions of reporting deadlines and, as a result, the usefulness of a 12-month going concern assessment starting from the reporting date was less relevant, as the report might not be signed for six months or more after this date.

In the UK, FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland, has already incorporated this revision and now refers to a period of at least, and not limited to, 12 months from the date when the financial statements are authorised for issue. Following this, ISA (UK) 570 (Revised), Going Concern has been amended accordingly.

**DURING COVID-19
IN MOST COUNTRIES
THERE WERE
EXTENSIONS
OF REPORTING
DEADLINES.**

Going concern and other concepts of resilience

Going concern along with other concepts of resilience was another area that captured the interest of our roundtable participants across all stakeholder groups. Nonetheless, some stakeholders were hesitant about moving away from the concept of going concern to resilience concepts until there is greater clarity about these concepts.

Some stakeholders considered that exploring resilience could be beneficial for assessing the company’s prospects, as they regard current disclosure requirements on ‘material uncertainty relating to going concern’ as a binary determination that may take place too late in an entity’s life cycle. If an entity can explain how resilient it is, stakeholders may have a better understanding of how well it can address challenges, survive significant risks, and have early warnings about emerging concerns.

Others noted that it is very evident, especially given the recent past, how important it is for entities to consider resilience to position themselves to continue in a meaningful way despite the impact of internal and external factors. External factors, such as COVID-19, affect most entities, even those that have robust business continuity plans in place.

Stakeholders also noted that introducing new resilience concepts must be coordinated with accounting standard-setting bodies and regulators. It is important that management assesses the entity’s resilience so as to provide auditors with a basis for evaluating management’s assessment. Some suggested that this could either be in the financial statements, which would require the IASB to include it in their standards, or outside the financial statements through legislation or another mechanism. A subsequent consideration is the auditor’s responsibility and the level of assurance to be provided on such resilience information.

Stakeholders emphasised that TCWG and management have primary responsibility for assessing going concern and resilience. One suggestion on enhancing the transparency of such assessments is to incorporate some form of stress-testing from management’s perspective, and to provide users with additional information when assessing the entity’s resilience. We note that the BEIS consultation paper in the UK (BEIS 2021) includes relevant proposals.

Some public sector audit practitioners mentioned that the concept of resilience is very relevant to the public sector and is consistent with the concepts set out in public sector accounting standards in some jurisdictions that deal with an entity's flexibility, sustainability, and vulnerability. These concepts may also be relevant in the private sector.

Some representatives of TCWG also noted that another concept of resilience that may be explored is risk exposure, as an entity may be exposed to internal risks, such as those of fraud and error, and strategic risks.

Material uncertainty related to going concern

Material uncertainty related to going concern was another important area explored during our roundtable discussions.

Lack of clarity and consistency around material uncertainties

Audit practitioners noted that there is a lack of clarity about what constitutes 'material uncertainty related to going concern', with inconsistent practice in this area, and that it is hard for users to understand what it means. Significant concerns were also raised about the understanding of the term 'going concern', and material uncertainty related to this, by stakeholders outside the accountancy profession.

'The auditor's report needs to define what is meant by going concern so users can understand this concept.'
Audit practitioner, Canada

Further, it was noted that there are often varying interpretations of whether a particular set of events and circumstances constitute material uncertainty in relation to going concern. It was also pointed out that there is no definition of material uncertainty in the accounting or auditing standards. This needs to be addressed to promote consistent identification of material uncertainties by preparers and auditors. Many stakeholders therefore recommended that the IAASB should work with the IASB to clarify what events or circumstances would indicate that there is a material uncertainty relating to an entity's ability to continue as a going concern. At a minimum, the accounting standards disclosure requirements must be aligned with the requirements in ISA 570.

The New Zealand Accounting Standards Board has added additional disclosure requirements to *Financial Reporting Standard No. 44 New Zealand Additional Disclosures*, to be more explicit about the nature of disclosures that management should make when a material uncertainty exists, including their judgements and assumptions.

The spectrum of going concern risks

With regard to clarifying the relevant financial reporting frameworks, there was strong support from our stakeholders in the roundtable discussions for considering disclosure of a spectrum of going concern risks to supplement the current binary approach to determining whether the disclosure of material uncertainty on going concern is required.

Furthermore, some audit practitioners noted that the assessments of material uncertainty often focus on liquidity and solvency indicators in current practice. In practice, there may be other factors, such as losing key personnel, for example in a Less Complex Entity (LCE), or technological developments that may result in material uncertainty relating to going concern. Similar comments were raised during the IAASB's roundtable on fraud and going concern (IAASB 2020c). Others noted that there could be other issues, such as dependency on a supplier, which could be detrimental for an entity if that supplier is lost.

Going concern links to directors managing solvency and risk. There needs to be more detailed discussion of risks in other information provided with the financial statements.
Audit Practitioner, Australia

The auditor's report

Auditors address going concern in their reports in several ways, depending on whether or not a material uncertainty exists. Auditors also address other key audit matters (KAMs) and stakeholders noted that this is potentially confusing to users. They therefore noted that more guidance is needed on the distinction between discussions of going concern issues in the KAM section and the going concern section in the audit report. They also suggested that the IAASB should consider whether there is evidence that users understand the difference between a material uncertainty related to going concern and a KAM, as this may be contributing to the knowledge gap.

The public sector perspective

In the public sector, we heard some varied views from stakeholders, as the ‘going concern’ concept may have different meaning.

Some public sector representatives in certain jurisdictions noted that the concept of material uncertainty for going concern is mostly irrelevant to them. Their rationale was that it is highly unlikely that governments will cease operations even if they default on debt. For example, for government bodies, the government itself is likely to backstop such entities if they run into financial problems, as they were probably established to serve certain public needs.

In contrast, other public sector representatives mentioned that going concern is important in their jurisdiction as it effectively determines whether a public sector function will continue to operate or not. For example, in New Zealand, the Office of the Auditor General has the power to report on the going concern assumption via the Auditor General’s statement as per ISA (NZ) 570 (Revised),³ which may have some increased requirements for providing additional guidance to reflect the public sector perspective. This would conclude on the public sector function’s ability to continue as a going concern, or not, and it is crucial for the function’s continuance of operations.

Enhancements to accounting standards

Our stakeholders noted that there is a need for the IASB to review the current IAS1, *Presentation of Financial Statements*, with regard to going concern, as the guidance is limited. More specifically, it was emphasised that there is a separate auditing standard dealing with going concern, with extensive guidance in the auditing standard on events and conditions that may cast significant doubt on an entity’s ability to continue as a going concern. Even so, in the IASB’s standards, going concern is addressed in only two paragraphs within one standard.

Transparency about fraud and going concern

The third part of our roundtable discussions focused on whether more information is needed in the auditor’s report on fraud and going concern. However, the majority of the participants views outlined below relate to transparency from management rather than in the auditor’s report.

Fraud

Some regulatory representatives suggested that auditors could be more transparent in their report about their work on fraud if management were to disclose how their primary responsibility for preventing and detecting fraud has been addressed. The Brydon (2019) review included specific recommendations for what such disclosure from management could look like in practice, which were also proposed in the BEIS consultation paper in the UK (BEIS 2021).

This disclosure by management would allow auditors to comment on what they have done with regard to that disclosure to satisfy their audit. Even so, some audit practitioners cautioned there is also a risk of further increasing the expectation gap if users misinterpret the nature of the auditor’s work in this area.

Going concern

As discussed earlier in this chapter, there was strong support from our stakeholders for considering the disclosure of a spectrum of going concern risks to supplement the current binary approach to determining whether disclosure of material uncertainty on going concern is required.

Some stakeholders noted that there is a need for more disclosures on management’s assessment that the going concern assumption is appropriate in the financial statements. They suggested that this could include both qualitative and quantitative information for the next 12 months. In their view, such disclosures are likely to provide the auditor with more information for evaluating management’s assessment.

Furthermore, some stakeholders noted that users find the use of both KAMs and material uncertainty related to going concerns confusing and therefore suggested considering whether there is a need to revisit how the auditor’s report discusses going concern close calls in KAMs versus actual material uncertainties.

If management would disclose in the financial statements what they do in order to prevent fraud, then it would make sense that auditors comment on what they have done to address or evaluate the management’s action on fraud.

Regulator, Eastern Europe

³ The Appointed Auditor cannot assume that, because an entity is operating in the public sector, the Government will automatically support the entity should it run into financial difficulties. When assessing the validity of the going concern basis of accounting in relation to a public entity, the Appointed Auditor needs to ask the question: Without government or other external assistance over and above that provided to fund normal operations (including the need to invoke statutory processes to amend an entity’s ability to levy or rate), will the entity be able to continue operating for at least one year (or for the foreseeable future) from the date of the approval of the financial statements?’ (p.2)

4. Limitations of our approach

Stakeholder group representation

Our aim was to have separate sessions with each stakeholder group of the financial reporting ecosystem for each region and, where possible, to have a combined session with all stakeholder representatives coming together. In many jurisdictions we had significant participation from audit practitioners, financial statement preparers, those charged with governance, public sector practitioners and regulatory representatives (including audit oversight bodies). We also had some representation of investors and financial advisers representing the users. Even so, we note that engaging with the user community proved to be more challenging than with the other stakeholder groups and therefore their representation was more limited.

We believe that our approach was robust and included views from a wide range of the profession's stakeholders from different countries and regions. This enabled us to consider the expectation gap from an international perspective and take into consideration that some countries and/or regions are more developed than others.



5. Conclusion and the way forward

ACCA, in collaboration with CA ANZ, CPA Canada and the Canadian AASB, examined fraud and going concern, and the related expectation gap. The underlying research for this report was supported by a series of roundtables held with stakeholders of the wider financial reporting ecosystem across the globe.

Such stakeholders included audit practitioners (including large, small-to-medium sized practices and practitioners from the public sector), management representatives (financial statement preparers), TCWG (boards and audit committees), regulators (including audit regulators, audit oversight bodies), public sector representatives, user representatives (mainly investors) and internal auditors. The IAASB's DP (IAASB 2020a) formed a key part of these roundtable discussions and the stakeholder feedback received was reflected within this report.

Given the findings of our research, we collectively emphasise the following key messages.

- Stakeholders recognise that a holistic approach is needed to narrow the expectation gap related to fraud and going concern and that they all play a vital role in driving meaningful change.
- Addressing the knowledge gap provides an opportunity to ensure that the auditor's role and responsibilities, relating to both fraud and going concern, evolve in a more meaningful way. This further substantiates the initial findings of ACCA's initial report on the knowledge gap (ACCA 2019a).
- Professional scepticism and applying professional judgement are among the key factors in addressing any performance gap related to fraud. These skillsets could be enhanced through further training.

The way forward – fraud and going concern

This report has provided us with the opportunity to obtain views and recommendations for narrowing the expectation gap from a wide range of stakeholders representing the financial reporting ecosystem. More specifically, their comments focused on the knowledge gap, performance gap and evolution gap and how each one might be narrowed. Our stakeholders also shared their views on the potential areas for the IAASB's DP to explore further, and whether more transparency is needed about the auditor's work in relation to fraud and going concern.

THE UNDERLYING RESEARCH FOR THIS REPORT WAS SUPPORTED BY A SERIES OF ROUNDTABLES HELD WITH STAKEHOLDERS.

Moving from theory into action, we suggest the following key actions to help narrow the expectation gap for fraud and going concern.

Fraud

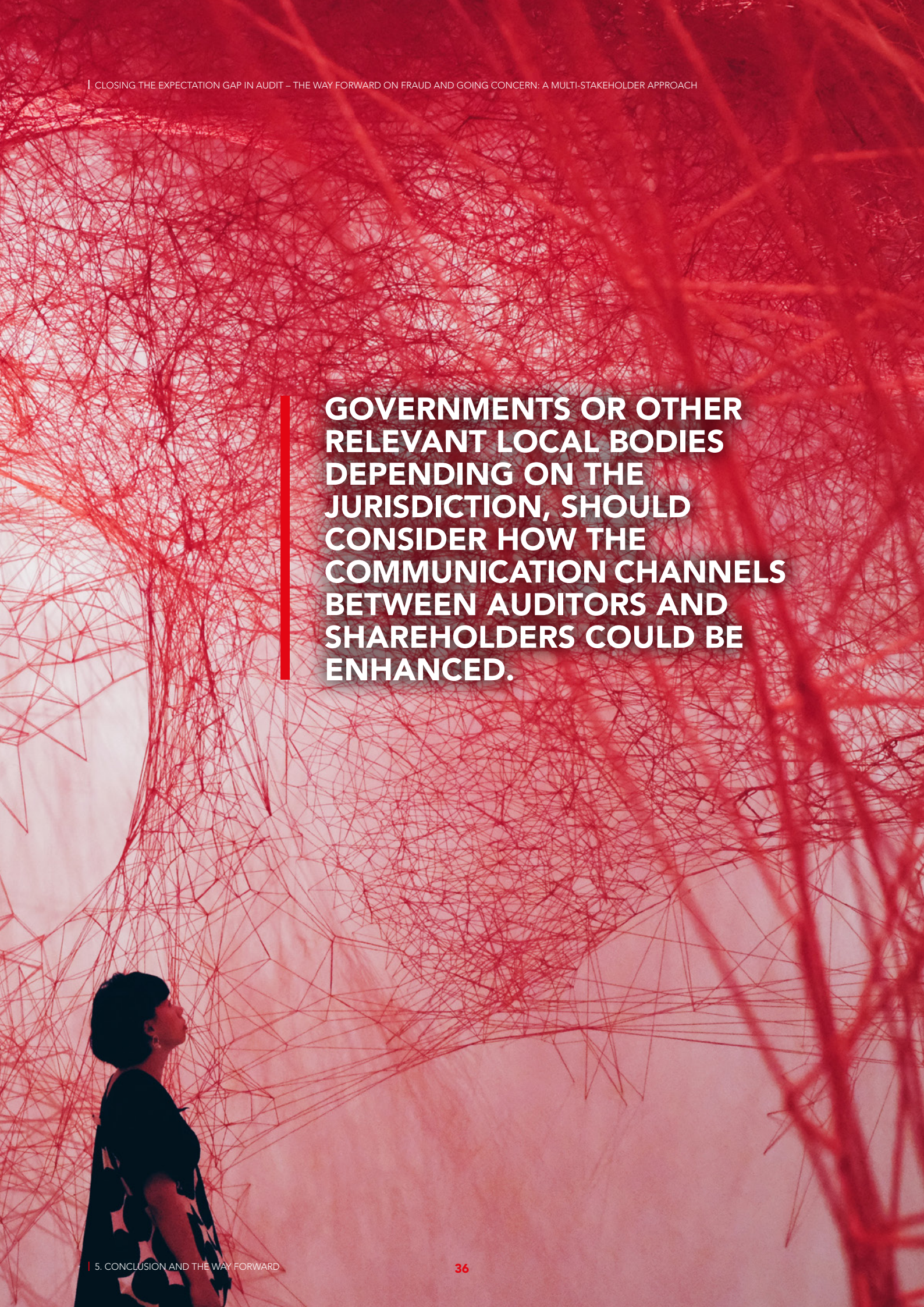
- The involvement of forensic specialists in risk assessment should be encouraged. Nonetheless, we support the flexibility currently provided in the standard for auditors to apply their professional judgement when determining how to respond to identified fraud risks (page 26).
- We do not believe that requiring a ‘suspicious mindset’ would contribute to enhanced fraud identification when planning and performing the audit; instead, we suggest that the IAASB and national standard setters consider areas where the auditing standards could be enhanced to guide audit practitioners in the application of professional scepticism (page 27).
- Governments or other relevant local bodies depending on the jurisdiction, should explore the development of a database of fraud case studies following a root cause analysis in their respective markets, which could be used as an educational tool for audit practitioners (page 25).
- The IAASB should explore ways of improving the auditor’s understanding of their responsibilities when fraud is identified, by providing non-authoritative guidance. Such guidance should clearly describe, in plain English, the current requirements for auditors when fraud is identified. This guidance could also be used to help other interested stakeholders enhance their knowledge of the auditor’s responsibilities in this area (page 29).
- Governments or other relevant local bodies depending on the jurisdiction, should consider how the communication channels between auditors and shareholders could be enhanced, which could help narrow the knowledge gap for both fraud and going concern. (page 22).
- The IAASB should consider overcoming any ambiguity that exists in the Introduction section of ISA 240. We suggest the standard be enhanced to explain how the requirements in ISA 240 provide the basis for auditors to fulfil their responsibilities related to material fraud. The extant material explaining the inherent limitations of an audit and what difficulties auditors may face could be moved to application material to strengthen the tone of the standard. (page 25).

- The IAASB should consider the challenges associated with journal entry testing, such as inconsistent application, and articulate more clearly the ‘why’ of performing certain procedures and how these can address fraud risks (page 25).
- The IAASB should explore whether there are other areas in addition to revenue recognition where a presumed risk of fraud should be considered (page 25).
- The IAASB should conduct analysis, in collaboration with national standard setters in jurisdictions that have already in place a SOX-style regime, to determine whether there has been a positive impact showing improvements on audit quality, in particular in relation to fraud. This analysis would assist the IAASB in determining whether to recommend that regulators explore SOX-style regimes in all jurisdictions (page 22).

WE DO NOT BELIEVE THAT REQUIRING A ‘SUSPICIOUS MINDSET’ WOULD CONTRIBUTE TO ENHANCED FRAUD IDENTIFICATION WHEN PLANNING AND PERFORMING THE AUDIT.

Going concern

- The IASB and the IAASB should explore supplementing the current binary approach to disclosing material uncertainty on going concern with additional going concern disclosures (page 31).
- The IASB should take into consideration the concerns raised by some of our stakeholders regarding the inconsistencies noted in relation to the going concern assessment period. This is particularly the case, in some jurisdictions where the going concern assessment period specified in their local accounting framework commences from the date that the financial statements are authorised to be issued rather than the reporting period as specified in IAS 1 (page 29).
- The IASB and IAASB should explore the concepts of resilience and the mechanism for their reporting and/or assurance, as it may help inform the development of more understandable terminology (page 30).

A woman in silhouette is shown in profile, looking upwards. She is positioned in the lower-left corner of the frame. The background is a dense, intricate network of thin red lines that form a complex, web-like structure, resembling a large-scale architectural or digital model. The overall color palette is dominated by red and white, with the woman's silhouette in black.

**GOVERNMENTS OR OTHER
RELEVANT LOCAL BODIES
DEPENDING ON THE
JURISDICTION, SHOULD
CONSIDER HOW THE
COMMUNICATION CHANNELS
BETWEEN AUDITORS AND
SHAREHOLDERS COULD BE
ENHANCED.**

Appendix 1: Methodology

ACCA in collaboration with CA ANZ, CPA Canada and the Canadian AASB examined the expectation gap in the areas of fraud and going concern. The underlying research for this report was supported by a series of multi-stakeholder virtual roundtables representing the financial reporting ecosystem, held across different countries and regions.

The virtual roundtables' discussions focused mainly on obtaining feedback on the IAASB's Discussion Paper on Fraud and Going Concern (IAASB 2020a). We outline below the methodology used in running our roundtable sessions for each country and/or region.

Stakeholder groups

- Audit practitioners (large firms, small-to-medium sized practices, and public sector)
- Representatives of those charged with governance (boards and audit committees)
- Management representatives (financial statement preparers)
- User representatives (mainly investors)
- Regulators (audit regulators and oversight bodies)
- Internal auditors

ACCA

The methodology used by ACCA in the countries/ regions noted in the list below focused on having targeted consultations with individual stakeholder groups in isolation, such as audit practitioners (including large, small-to-medium sized practices and practitioners from the public sector), management representatives (financial statement preparers), TCWG (boards and audit committees), regulators (including audit regulators, audit oversight bodies), public sector representatives, user representatives (mainly investors) and internal auditors, to get their detailed feedback on these issues. We held 13 targeted outreach sessions ranging from individual interviews through to small group sessions with audit practitioners, regulators, and those charged with governance.

In the case of Africa, we also held a multi-stakeholder session with representatives of the targeted individual sessions attending. We also held a session with ACCA's Audit and Assurance Forum, which consisted of representatives of audit practitioners (including large, small-to-medium sized practices) and academics.

Eastern Europe

- Czech Republic
- Slovakia
- Serbia
- Bosnia and Herzegovina
- Croatia

Asia

- Singapore
- Malaysia
- Philippines

Middle East

- Qatar
- UAE

Africa


- South Africa
- Zimbabwe
- Zambia
- Botswana
- Nigeria
- Ghana
- Mauritius
- Uganda
- Kenya
- Ethiopia

CA ANZ

CA ANZ worked with the local auditing standard-setting boards and participated in their outreach events on both fraud and going concern in both Australia and New Zealand. These sessions involved audit practitioners, directors and audit committee members, preparers, regulators, academics and user representatives to get detailed feedback on the issues raised. We also held discussions on both fraud and going concern with some of our key stakeholder groups and these involved auditor practitioners, academics, directors and audit committee members, regulators and standard-setter representatives.

AASB/CPA Canada

In Canada, the methodology used was split into two parts. Part one focused on targeted consultations with individual stakeholder groups in isolation, such as audit practitioners, management representatives, audit committees, regulators, and user representatives, to get their detailed feedback on these issues. We held 15 targeted outreach sessions, ranging from individual interviews with members of the user community to small group sessions with audit practitioners, regulators, and those charged with governance. The second part of our outreach plan was a larger multi-stakeholder session that we hosted in November 2020. The multi-stakeholder session allowed for a more balanced discussion that considered the views of all stakeholders together, rather than any one group in isolation.



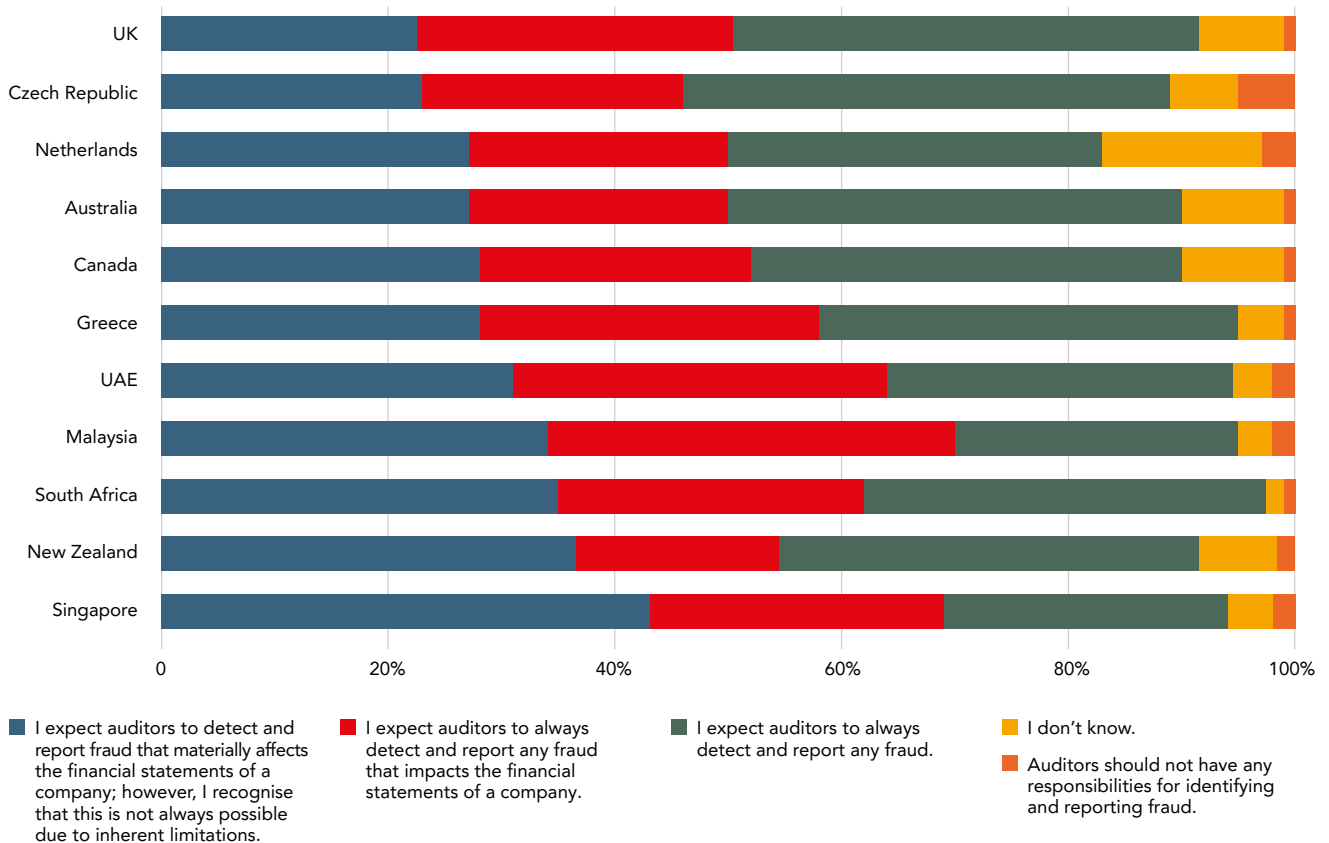
THE MULTI-STAKEHOLDER SESSION ALLOWED FOR A MORE BALANCED DISCUSSION THAT CONSIDERED THE VIEWS OF ALL STAKEHOLDERS TOGETHER.

Appendix 2: Relevant key findings from ACCA’s initial report

Fraud

For fraud, ACCA intended to find out what the general public expects from auditors in detecting and reporting fraud (Figure 1.2).

FIGURE 1.2: Responses to the question ‘Which of the following best reflects your expectations of the auditor’s responsibility for fraud?’



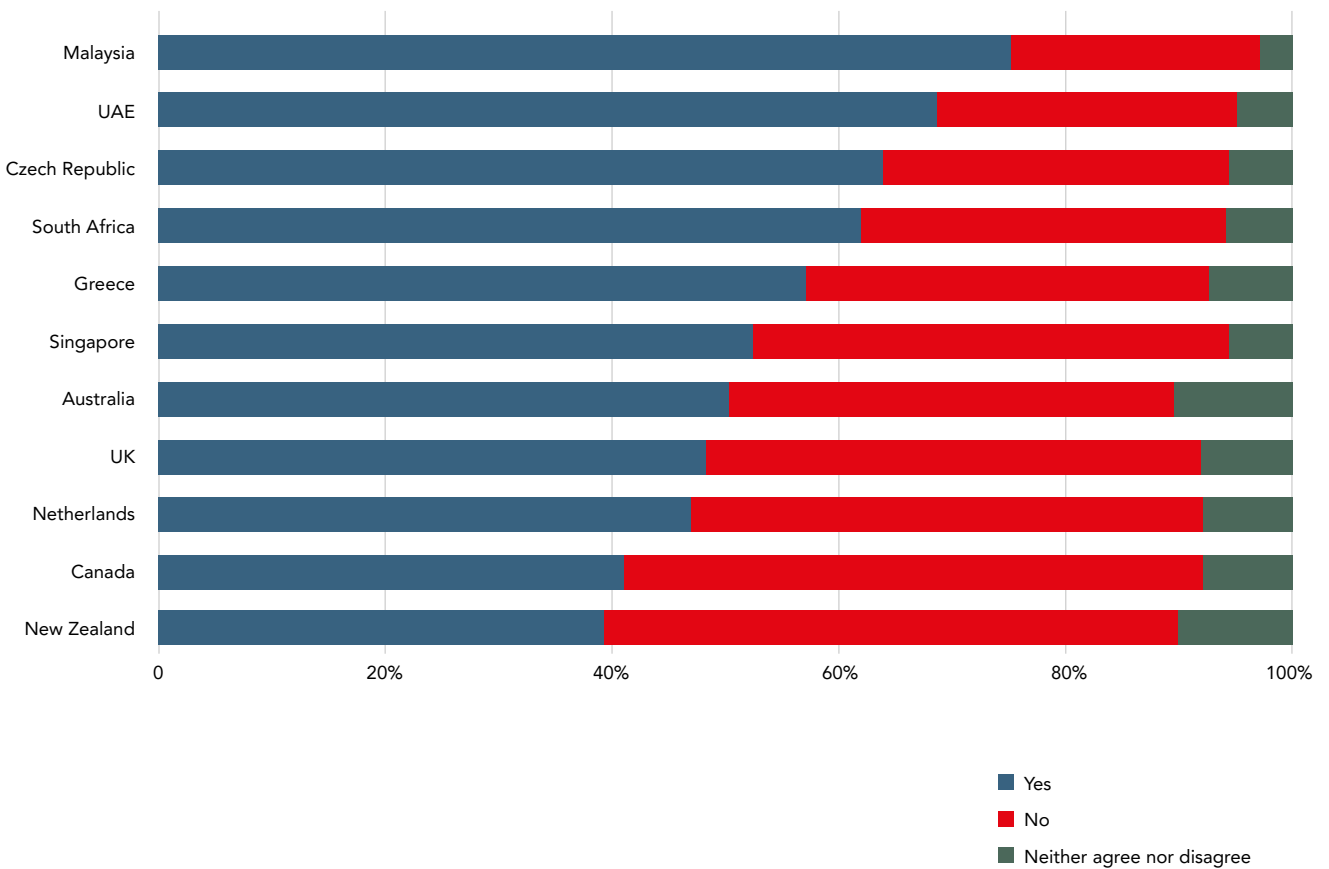
ISA 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*, requires an auditor to obtain reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error (ISA 240.5). Nonetheless, the results of the survey, as noted above, indicate that the public expects more from auditors on fraud. When considering the responses in aggregate, 35% of respondents want auditors to ‘always identify and report any fraud’, which was the most extreme option provided. It is also worth noting that only 6% chose to answer ‘I don’t know’ indicating that the 11,000 respondents had a view on the responsibilities of the auditor in relation to fraud (ACCA 2019a).

Going concern, viability

As regards going concern, the survey showed that 55% of the respondents believed that existing auditing standards, if followed, would prevent corporate failures (Figure 1.3). Interestingly, 93% of respondents selected a 'yes' or 'no' answer versus the option of 'neither agree nor disagree' indicating that the large majority of the survey respondents had a view when answering this question (ACCA 2019a).

55% OF THE RESPONDENTS BELIEVED THAT EXISTING AUDITING STANDARDS, IF FOLLOWED, WOULD PREVENT CORPORATE FAILURES.

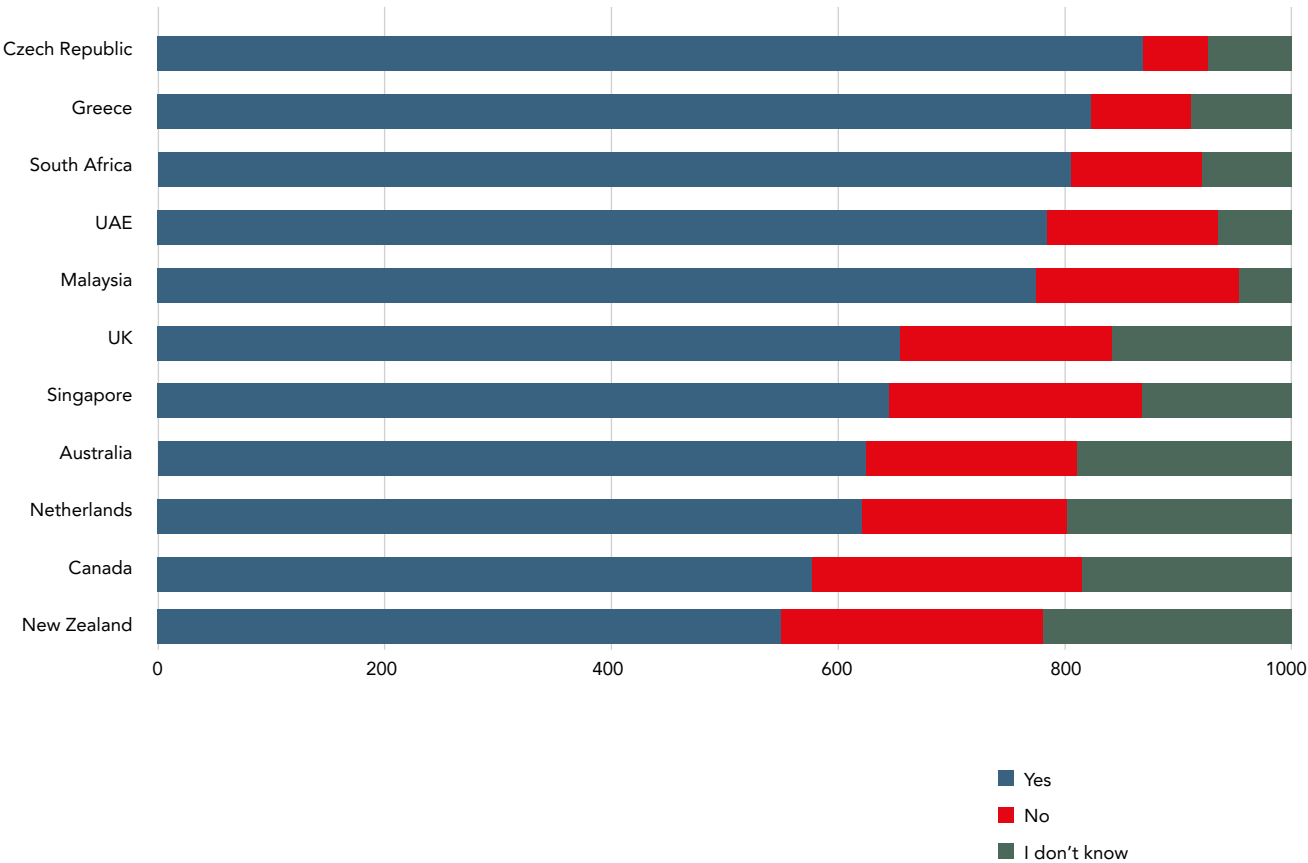
FIGURE 1.3: Responses to the question: 'If auditors did their job as they should, we would not have company failures. Do you agree?'



The question in Figure 1.4 aimed to find out whether the general public would like to see the audit profession evolving in a way that would prevent corporate failures. The aggregated results showed that 70% of the survey respondents answered ‘yes’ to this question, indicating that in addition to those respondents who already believed that audit prevents corporate failure (55%, as noted above), some of those who didn’t believe so, would like to have seen the auditor’s role change (ACCA 2019a).

70% OF THE SURVEY RESPONDENTS ANSWERED ‘YES’ TO THIS QUESTION ‘SHOULD AUDIT EVOLVE TO PREVENT COMPANY FAILURES?’

FIGURE 1.4: Responses to the question: ‘Should audit evolve to prevent company failures?’



As an attempt to demonstrate the link between the knowledge and evolution gaps, we compared the results of a knowledge-based question with the results of an evolution-based question to find out whether a correlation exists. ACCA found that the respondents with more knowledge had less demanding expectations about evolution (ACCA 2019a).

**THE RESULTS OF THE SURVEY,
INDICATE THAT THE PUBLIC
EXPECTS MORE FROM
AUDITORS ON FRAUD.**



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