CPA Uganda **INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF UGANDA**

Our Ref: STA/001

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International Auditing and Assurance Standards Board (IAASB)
529 Fifth Avenue, 6th Floor,
New York, NY 10017
United States of America

Submitted via website: www.iaasb.org

Dear Sir/Madam,

DISCUSSION PAPER- FRAUD AND GOING CONCERN IN AN AUDIT OF FINANCIAL STATEMENTS: EXPLORING THE DIFFERENCES BETWEEN PUBLIC PERCEPTIONS ABOUT THE ROLE OF AUDITOR AND THE AUDITOR'S RESPONSIBILITIES IN A FINANCIAL STATEMENT AUDIT

The Institute of Certified Public Accountants of Uganda (ICPAU) appreciates the opportunity to respond to the **Discussion Paper- Fraud and Going Concern in an Audit of Financial Statements: Exploring the Differences Between Public Perceptions about the Role of the Auditor and the Auditor's Responsibilities in a Financial Statement Audit.**

We appreciate your consideration of our comments to the Discussion Paper and further state our comments as herein attached.

We hope you will find our comments helpful.

Yours sincerely,

CPA Mark Omona
DIRECTOR, STANDARDS AND REGULATION

Appendix: Comments to the Discussion Paper: Fraud and Going Concern in an Audit of Financial Statements

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APPENDIX: ICPAU'S COMMENTS ON THE IAASB DISCUSSION PAPER- FRAUD AND GOING CONCERN IN AN AUDIT OF FINANCIAL STATEMENTS: EXPLORING THE DIFFERENCES BETWEEN PUBLIC PERCEPTIONS ABOUT THE ROLE OF AUDITOR AND THE AUDITOR'S RESPONSIBILITIES IN A FINANCIAL STATEMENT AUDIT

Question 1: In regard to the expectation gap:

a) **What do you think is the main cause of the expectation gap relating to fraud and going concern in an audit of financial statements?**

Comment:

According to Liggio (1974)[1] the term "audit expectation gap" is the difference between the levels of expected performance as perceived by both users of financial statement and the auditor. The audit expectation gap has also been defined as the difference in beliefs between auditors and the public about the duties and responsibilities assumed by auditors and the message conveyed by the audit (auditor's) reports and the difference between what the public expects from the auditing profession and what the profession actually provides (Monroe and Woodliff, 1993).[2]

ICPAU believes that the key components of the expectation gap including the knowledge, performance and evolution gaps, require equal effort in demystifying the difference between what users expect from the auditor and the actual obligations of the auditor in an audit of financial statements. The expectation gap is generally due to the difference resulting from misconstruing and or misapplication or neglect of changes taking place world over to suit the current provisions of the auditing standards. For example, many users always expect auditors to identify and report about all incidences of fraud during audits of financial statements yet according to the requirements of ISA 240: The Auditor's responsibility to consider fraud in an audit of financial statements- the primary responsibility for the prevention and detection of fraud rests with those charged with governance of the entity and with management. Some users don't appreciate that the primary role of the auditor is to express an opinion whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. Relatedly, as technological competencies take centre stage in the main business world, the aspects of fraud and going concern become vital and very sensitive. This tends to refocus the public expectation in terms of what the auditors should do if the expectation gap is to be narrowed.

b) **In your view, what could be done, by the IAASB and/or others (please specify), to narrow the expectation gap related to fraud and going concern in an audit of financial statements?**

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[1] Liggio, C.D. (1974), The expectation gap: the accountant's waterloo, Journal of Contemporary Business, Vol. 3, Spring, pp. 27-44

[2] Monroe, G.S. & Woodliff, D.R. (1994), An empirical investigation of the audit expectation gap: Australia evidence Accounting and Finance, Vol. 34, May, pp. 47-74

Comment:

The expectation gap related to fraud and going concern in an audit of financial statements may be narrowed through the following measures;

a) The IAASB is encouraged to develop more implementation guidance to support the auditors to fulfill their requirements under the auditing standards. This will help to narrow the performance gap caused by complexity of certain auditing standards or differences in interpretation of auditing standards or regulatory requirements between practitioners and regulators.

b) IAASB in conjunction with other Professional Accountancy Organisations and Regulators should carry out some publicity in order to inform the public about the role of the auditor in an audit of financial statements. The increased public awareness of the nature and limitations of an audit enhances users' knowledge and limits their level of expectation as well as the gap. According to Epstein and Geiger (1994)[3] more educated investors (with respect to accounting, finance and investment analysis knowledge) are less likely to demand higher auditor assurance.

c) The IAASB may consider expanding the auditor's report further to give a fuller understanding of the scope, nature and significance of the audit which may influence the reader's perceptions concerning the audit and the auditor's role. Kelly and Mohrweis (1989)[4] found that users' perceptions of the nature of an audit were significantly changed by wording modifications in audit reports. Miller et al. (1990)[5]reported that bankers found expanded audit reports to be more useful and understandable than the short form reports. The expanded auditor's report should thus be able to narrow the expectation gap particularly from the angle of informed stakeholders' perspective. The report should bear a distinct section that demonstrates the procedures performed by the auditor around fraud for public interest entities.

Question 2: This paper sets out the auditor's current requirements in relation to fraud in an audit of financial statements, and some of the issues and challenges that have been raised with respect to this. In your view:

a) Should the auditor have enhanced or more requirements with regard to fraud in an audit of financial statements? If yes, in what areas?

Comment:

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[3] Epstein, M.J. and Geiger, M.A. (1994), "Investor views of audit assurance: recent evidence of the expectation gap", Journal of Accountancy, Vol. 177, January, pp. 60-6

[4] Kelly, A. and Mohrweis, L. (1989), "Banker's and investors' perceptions of the auditor's role in financial statement reporting: the impact of SAS No. 58", Auditing: A Journal of Practice and Theory, Vol. 9, Fall, pp. 87-97

[5] Miller, J., Reed, S. and Strawser, R. (1990), "The new auditor's report: will it close the expectations gap in communications?", The CPA Journal, Vol. 60, May, pp. 68-72

ICPAU believes that the auditor should have enhanced or more requirements with regard to fraud in an audit of financial statements especially in regard to the audit of public interest entities. The enhancements should be made especially in regards to the audit of risky areas such as revenue, expenditure and assets. The auditors should always endeavor to critically audit the clients' financial reporting policies and controls when investigating any material misstatements due to fraud. The auditors may consider engaging a forensic specialist in engagement team discussion and/or engage the specialist to perform additional procedures on areas that may lead to material misstatements.

b) **Is there a need for enhanced procedures only for certain entities or in specific circumstances? If yes:**
   i) **For what types of entities or in what circumstances?**
   ii) **What enhancements are needed?**
   iii) **Should these changes be made within the ISAs or outside the scope of an audit (e.g. a different engagement)? Please explain your answer**

Comment:

ICPAU believes that the enhanced procedures should apply only in specific circumstances such as when there is suspected fraud as indicated in media reports, board minutes, staff revelations or police investigations. The enhanced procedures should also apply to some high risk entities such as financial institutions (banks, insurance companies, pension schemes etc) and other public interest entities. The enhancements should include requirements for analytical procedures as a measure of identifying risks of material misstatement caused by fraud and enhanced procedures in the evaluation of control environment of the audit clients.

ICPAU also believes that these enhancements should be made within the ISAs. Enhanced publicity campaigns may then be used to help support and encourage auditors to fulfill those requirements as stated in the ISAs.

As the above is being done, there may be a need for a refined approach to fraud and going concern among the small entities as these are usually with limited internal controls and hence the auditor may require applying procedures not as they would under audit of bigger entities.

c) **Would requiring a "suspicious mindset" contribute to enhanced fraud identification when planning and performing the audit? Why or why not?**
   i) **Should the IAASB enhance the auditor's considerations around fraud to include a "suspicious mindset"? If yes, for all audits or only in some circumstances?**

Comment:

ICPAU does not agree with the requirement for a "suspicious mindset" in fraud identification especially when planning and performing the audit. With a suspicious mindset, management may become defensive and hence hold onto vital information that should enable the auditor form their opinion on the state of affairs in the entity. However a "suspicious mindset" approach may be appropriate, in certain circumstances, when planning and performing audits of public interest entities.

d) **Do you believe more transparency is needed about the auditor's work in relation to fraud in an audit of financial statements? If yes, what additional information is needed and how should this information be communicated (e.g. in communications with those charged with governance, in the auditor's report, etc.)?**

Comment:

ICPAU believes that more transparency is needed about the auditor's work in relation to fraud in an audit of financial statements. Auditors need to avoid boilerplate disclosures in relation to fraud consideration in relation to the audit of financial statements and should consider being more transparent by highlighting particular procedures performed around fraud assessment.

Question 3: This paper sets out the auditor's current requirements in relation to going concern in an audit of financial statements, and some of the issues and challenges that have been raised with respect to this. In your view:

a) **Should the auditor have enhanced or more requirements with regard to going concern in an audit of financial statements? If yes, in what areas?**

Comment:

ICPAU believes that the auditor should have enhanced or more requirements with regard to going concern in an audit of financial statements. For example, with the lessons from the COVID-19 crisis, it would be prudent for auditors to have enhanced requirements in relation to potential future events that may cast doubt on the entity's ability to continue as a going concern. The COVID-19 crisis and all the resultant devastating effects for businesses mean auditors cannot afford to ignore future events in their audits. Such transparency will enhance the confidence of the users of the financial statements.

b) **Is there a need for enhanced procedures only for certain entities or in specific circumstances? If yes:**
   i) **For what types of entities or in what circumstances?**
   ii) **What enhancements are needed?**
   iii) **Should these changes be made within the ISAs or outside the scope of an audit (e.g. a different engagement)? Please explain your answer.**

Comment:

ICPAU believes that the enhanced procedures should apply to all entities. There should be requirements for auditors to disclose procedures done during going concern assessments. This information should be detailed in the audit reports.

ICPAU further believes that the changes should be made within the ISAs as an enhancement of the current requirements in the ISAs regarding audit of going concern in audits of financial statements taking into considerations as raised under our comments in Question 2(b) above.

c) **Do you believe more transparency is needed:**
   i) **About the auditor's work in relation to going concern in an audit of financial statements? If yes, what additional information is needed and how this information should be communicated (e.g. in communications with those charged with governance, in the auditor's report, etc.)**

Comment:

ICPAU believes that more transparency is needed about the auditor's work in relation to going concern in audit of financial statements. Auditors should disclose the procedures carried out in relation to going concern in the auditor's reports.

   ii) **About going concern, outside of the auditor's work relating to going concern? If yes, what further information should be provided, where should this information be provided, and what action is required to put this into effect?**

Comment:

In addition to our comment under Question 1(b), believes that more transparency is needed about the auditor's work regarding to their evaluation of the appropriateness of the use of the going concern assertion in the financial statements being audited. This may be achieved through providing more details in this regard in the auditor's report.

Question 4: Are there any other matters the IAASB should consider as it progresses its work on fraud and going concern in an audit of financial statements?

Comment:

No additional comments.