



September 15, 2022

Mr. Willie Botha
Technical Director
International Auditing and Assurance Standards Board
529 Fifth Avenue
New York, NY 10017

Re: Sharing Survey Results Regarding Transparency in the Auditor's Report with Respect to Fraud and Going Concern

Dear Mr. Botha:

The American Institute of Certified Public Accountants (AICPA) Auditing Standards Board (ASB) commends the International Auditing and Assurance Standards Board (IAASB) for undertaking projects related to possible revisions of ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, and ISA 570 (Revised), *Going Concern*. We appreciate the outreach efforts of the IAASB's Fraud Task Force to obtain the views of users related to transparency in the auditor's report at a critical juncture in that project's timeline. Notwithstanding the important feedback gathered prior to the IAASB's approval of its fraud project proposal, collecting user feedback during the project is prudent given the public interest significance and the potential ramifications for financial statement users and preparers, those charged with governance, and auditors.

As described in more detail below, the ASB is in the process of conducting outreach relevant to these projects. The preliminary results of our outreach are not entirely consistent with the results of the IAASB's user outreach on auditor reporting related to fraud. Accordingly, we believe that it is in the public interest for the IAASB to conduct further outreach (e.g., understanding the impact of the fraud-related disclosures that have already been implemented in the United Kingdom and Netherlands) ahead of issuing the exposure drafts.

The ASB began conducting outreach efforts related to fraud and going concern, including transparency in the auditor's report in March 2022. Because the IAASB has an active project on going concern, which among other targeted changes, aims to enhance transparency with respect to the auditor's responsibilities and work related to going concern, including through communication and reporting requirements, the ASB determined it was also important to consider going concern during our outreach. In addition, we are aware that the U.S. Public Company Accounting Oversight Board (PCAOB) is taking up a project on going concern¹.

¹ Refer to the PCAOB's standard-setting and research [Going Concern](#) project page.

The focus of the ASB’s outreach is on whether potentially enhanced disclosure about fraud and going concern in the auditor’s report would influence users of the auditor’s report. The ASB is using a multi-pronged approach to obtaining perspectives and insights related to revisions to both fraud and going concern standards. Our approach consists first of a survey of U.S.-based financial statement users and preparers, followed by interviews of U.S.-based² financial statement users and preparers, and a synthesis of relevant academic literature³. We are performing this outreach and synthesizing the academic literature to

- Provide additional data-driven insights to the IAASB to inform these two standard-setting projects,
- Inform the ASB’s views regarding these IAASB projects, and
- Provide data-driven insights to the ASB for use in its standard-setting activities.

We surveyed a broad set of users of financial information (including those charged with governance and financial statement preparers) to obtain their views about transparency in the auditor’s report. Our approach was intended to challenge any preconceived notions that the ASB might have regarding auditor reporting transparency and disclosure. We developed and structured our survey questions and interview protocol in ways to avoid potential demand effects⁴.

As noted above, the results from our preliminary outreach are not entirely consistent with the results of the IAASB’s user outreach on auditor reporting related to fraud. For example, although we find that a majority of respondents prefer some type of additional fraud-related transparency in the auditor’s report, there is no agreement regarding the nature of that additional transparency. In addition, we find that only a minority of respondents believe the benefits of providing additional fraud-related transparency would exceed the costs of that additional information. Our fraud-related survey findings do not provide a clear indication on the appropriate way forward.

With respect to going concern, the overwhelming majority of survey respondents believe that information related to going concern should be provided by management while approximately half of the respondents believe going concern information should be provided by auditors as well. We also find that a slight majority of survey respondents support the addition of a “new” going concern disclosure in the auditor’s report regarding the auditor’s conclusion that management’s use of going concern is appropriate and that no material uncertainties were identified.

² The focus of obtaining U.S.-based stakeholder input is consistent with the mission of the ASB’s need to assess unique environmental or jurisdictional circumstances affecting the ASB’s promulgation of auditing standards for the audits of financial statements of a nonissuer in the U.S.

³ A research synthesis concisely summarizes the academic literature on a topic of interest and offers potential insights and recommendations that are based on research. For purposes of our work, “synthesizing academic literature” related to fraud refers to identifying and combining into a comprehensive report the academic literature that examines the auditor’s identification, assessment, and response to fraud risks.

⁴ In research, a demand effect occurs when an individual infers a preferred response and behaves or responds in a manner that aligns with the researcher’s expectations.

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It is important to note that we did not find statistically significant differences in the views of financial statement users and preparers who responded to our survey. Nor did we find that respondents' views were dependent on an entity's status as an issuer or nonissuer.

Although our survey is complete and preliminary analysis has concluded, our research efforts are ongoing. We are conducting interviews and preparing a synthesis of the academic literature related to the auditor's identification, assessment, and response to fraud risks. We anticipate completing that work and reporting our findings before the end of the fourth quarter of the calendar year 2022.

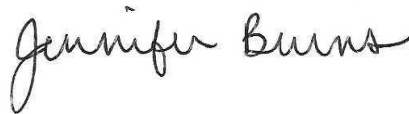
We are pleased to share the preliminary results of our outreach received to date with the IAASB because we have a common objective in serving the public interest and advancing audit quality. We know the IAASB welcomes feedback and will carefully consider data-driven insights and recommendations.

If you have any questions regarding the comments in this letter or of the attached appendix, please feel free to contact the Chair of the ASB, Sara Lord, at sara.lord@rsmus.com or the AICPA's Chief Auditor, Jennifer Burns, at jennifer.burns@aicpa-cima.com.

Respectfully submitted on behalf of the ASB,



Sara Lord
Chair, Auditing Standards Board



Jennifer Burns, CPA
Chief Auditor

Appendix Summary of Preliminary Findings Survey on the Auditor's Report, Going Concern, and Fraud

Overview

In the summer of 2022, the Auditing Standards Board (ASB) surveyed financial statement users and preparers to obtain their perspectives on three issues: the content of the auditor's report, transparency in the auditor's report related to going concern, and transparency in the auditor's responsibility related to fraud. The survey was distributed to multiple groups and 134 complete responses were collected.

Respondent Demographics

Twenty-one percent of respondents are employed at a non-profit organization, while 18% work in financial services, 11% work in professional services, and the balance representing a variety of other industries. Forty-eight percent of respondents are either Controllers or CFOs at their company, while 4% are CEOs. On average, respondents have 30 years of professional experience, with about half having over thirty years of experience:



Respondents reported working for relatively smaller companies, with half reporting that their company's total assets are less than \$50 million. Further, most work for companies that primarily operate domestically and report less than 10% of revenues, on average, being generated from international operations.

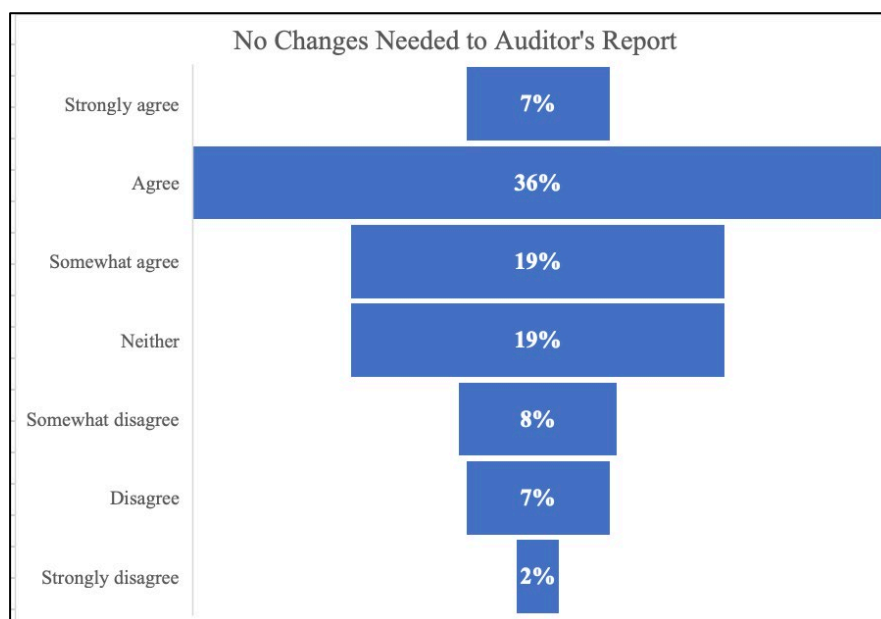
Most respondents (78%) report using the financial statements related to their own company as opposed to others, by either producing financial statement information (43%), or using that information to make operational, investment, or financial decisions on behalf of their company (35%). Meanwhile, 7% of respondents report primarily using *another company's* financial statements to make such decisions, while 5% report that they primarily produce information that is used in the preparation and audit of another company's financial statements. The remaining 10% of respondents reported that their role requires them to use financial statements in other ways, such as through education or compliance roles. In summary, the sample is comprised of 48% financial

statement preparers and 52% financial statement users.

The Auditor's Report

Most respondents report engaging with the audit report, with 60% (81) either agreeing or strongly agreeing with the statement, “Whenever I evaluate an entity’s financial statements, I carefully read the auditor’s report.” Most of these participants (75%) believe no changes are needed to the current version of the auditor’s report. Of the 11% of respondents who do not read the report carefully, some referenced rationale of “boiler-plate jargon”, “standard language” or not knowing of any companies without a clean opinion.

Most respondents (62%) strongly agree, agree, or somewhat agree with the statement that, “the content and length of the current version of the auditor’s report is appropriate and no additional information is necessary.” A not insignificant proportion, 17 %, do not believe additions to the report are needed because the current report is “too long.”



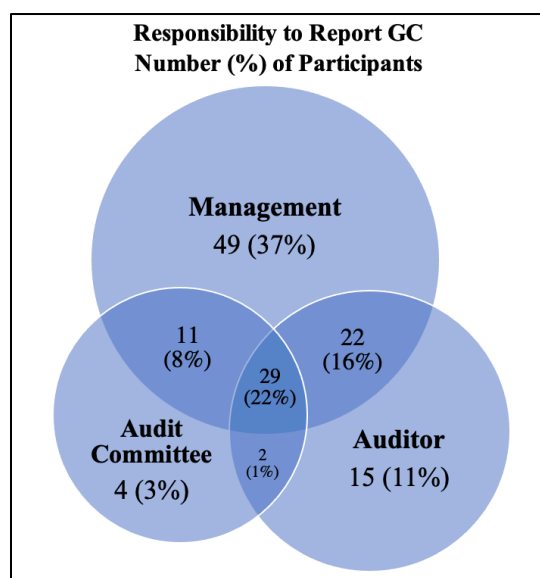
Going Concern Transparency

Survey respondents were also asked to report their views related to going concern matters. Most believe that the current version of the auditor’s report contains information that is relevant in assessing the possibility that an entity will not continue, with 33% “somewhat agreeing” and 27% agreeing or strongly agreeing.

Respondents were also asked whether they believe that the current version of the auditor’s report contains timely information that is useful in assessing the possibility that an entity will not continue. There was no consensus on the matter of timeliness. Forty-three percent agreed that the

report is timely, 23% “neither agreed nor disagreed” and 34% disagreed. Of those who disagreed, 61% provided commentary suggesting that this was due to the time lag between year end and the issuance of the auditor’s report. As one respondent stated, “by its nature, such information in an audit report will not be timely.”

Respondents were asked whose responsibility it is to present information about an entity’s ability to continue as a going concern. Overwhelmingly, 83% of respondents believe this information should at least come from the company’s management. Almost half (46%) of those believe that the information should come from the independent auditor as well. Only 11% of respondents believe that going concern information should come solely from the auditor.⁵



Respondents were presented with the following suggested new disclosure and asked whether it should be included in the auditor’s report. More than half of respondents (54%) either agree or strongly agree that the following statement should be included:

“The auditor has obtained evidence to conclude that management’s use of the going concern basis of accounting is appropriate, and the auditor has not identified any material uncertainties related to events or conditions that may cast doubt on the entity’s ability to continue as a going concern.”

The survey asked about “close calls,” defined as situations in which the auditor initially has doubt about the entity’s ability to continue as a going concern, but that concern is alleviated after speaking with management and evaluating their plans. When asked whether they want to receive information about close calls, about 34% agreed while 40% disagreed. The remaining 26% neither agreed nor disagreed.

Of the respondents who would like information about close calls, 48% prefer the information to

⁵ Two percent of respondents not represented in the graph selected “Other” and provided suggestions that the information come from the Board of Directors or lenders.

be presented in both the auditor's report and management disclosures, while 36% believed this information should be solely in management disclosures. Sixteen percent (7 respondents) stated this information should come solely from the auditor.

Respondents were asked whether requiring auditors to include information about close calls in the auditor's report would encourage management to develop more effective plans to address the events or conditions that cast doubt on the entity's ability to continue as a going concern. About 12% neither agreed nor disagreed with this sentiment, and the remaining sample was split between "agree" and "disagree", with no clear consensus.

Fraud Transparency

Respondents were asked to consider the disclosure of additional information related to the auditor's consideration of risks of material misstatement due to fraud. Six options were presented, five of which suggested the addition of information to the auditor's report, and respondents were asked to rank the options from most to least preferred.

The belief that "No additional disclosure is needed" was polarizing, with 32% ranking it as their most preferred option, and 53% ranking it as their second to least or least preferred option. The remaining 15% ranked this option somewhere in the middle.

The order of preference for the remaining five options is (Note: Results excluding respondents who indicated that "no additional disclosure is needed" are shown in **bold font**):

1. *In the auditor's report, describe identified material weaknesses in internal control that are relevant to the prevention and detection of fraud.* (17%, **26%**)
2. *In the auditor's report, describe the identified and assessed fraud risks, and the auditor's response to the assessed fraud risks.* (16%, **24%**)
3. *In the auditor's report, describe the identified and assessed fraud risks, the auditor's response to the assessed fraud risks, and the auditor's findings/observations when responding to the assessed fraud risks.* (13%, **19%**)
4. *In the auditor's report, describe the auditor's approach to fraud risks.* (12%, **18%**)
5. *In the auditor's report, require the reporting of a fraud risk as a Key Audit Matter.* (9%, **13%**)

When asked whether the benefits of additional fraud disclosures in the auditor's report would exceed the costs of the additional information, 40% agreed, 31% neither agreed nor disagreed, and 29% disagreed.

Respondents were given the following two statements and asked which most accurately captures their definition of fraud. Most (87%) reported that both statements capture their definition of fraud, while 9% selected either the first or second statement. The remaining 4% offered another explanation, about half of which specified the importance of materiality.

- *Fraud is the theft of an entity's assets.*
- *Fraud is deliberately inaccurate financial reporting.*

Finally, respondents were asked about their views related to the auditor's responsibility related to fraud. The graph below shows what type of fraud should be identified and reported:

