

# Audit (ISA) Update

Presenter: Nestene Botha (CA)SA RA

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# Presenter

## Nestene Botha (CA)SA RA

- Chartered Accountant & Registered Auditor
- CED: Explore ProTech Entrepreneurs' Tribe
- Top 35 under 35 Nominee \*2
- Top 50 women in accounting Nominee
- **I'm on a mission to save the Global Economy - one small business at a time.**
- **I can future-proof your business**



# Presenter

- In a world where good clients are hard to find and cashflow is uncertain - I bring stability, flexibility and durability to entrepreneurs from across the globe. I can future-proof your business.
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# Course Outline

# Learning objectives

By the end of this webinar the attendee should:

- Have a broad understanding of the ISA's and their importance to the auditing profession;
- Have an understanding of the latest developments in auditing;
- Understand where you need to focus in order to stay up to date with the latest developments;
- Understand practical implications of the new developments and how to implement these in practice; and
- Understand the penalties for non-compliance.

# Learning objectives

During this webinar we will discuss:

- relevant ISA updates,
- what is new in auditing and
- where every auditor needs to focus in order to remain compliant and up to date with the latest developments.

# Table of Content

UPDATES (Major sections)

UPDATE 1: BACKGROUND TO AUDITING 2021

UPDATE 2: IAASB COMMUNIQUE: AUDITS OF LESS COMPLEX ENTITIES

UPDATE 3: USING AUTOMATED TOOLS AND TECHNIQUES

UPDATE 4: FRAUD AND GOING CONCERN

UPDATE 5: IMPLEMENTATION PLANS FOR THE QUALITY MANAGEMENT STANDARDS

UPDATE 6: THE CONSIDERATION OF CLIMATE-RELATED RISKS IN AN AUDIT OF FINANCIAL STATEMENT - STAFF AUDIT PRACTICE ALERT

UPDATE 7: ISA 500, AUDIT EVIDENCE

UPDATE 8: ISA 540 (REVISED) IMPLEMENTATION: ILLUSTRATIVE EXAMPLES FOR AUDITING EXPECTED CREDIT LOSS ACCOUNTING ESTIMATES

# Table of Content

UPDATE 9: REVIEW ENGAGEMENTS ON INTERIM FINANCIAL INFORMATION IN THE CURRENT EVOLVING ENVIRONMENT DUE TO COVID-19

UPDATE 10: AUDITING ACCOUNTING ESTIMATES IN THE CURRENT EVOLVING ENVIRONMENT DUE TO COVID-19

UPDATE 11: ISA 540 (REVISED) IMPLEMENTATION: ILLUSTRATIVE EXAMPLES FOR AUDITING SIMPLE AND COMPLEX ACCOUNTING ESTIMATES

UPDATE 12: AUDITOR REPORTING IN THE CURRENT EVOLVING ENVIRONMENT DUE TO COVID-19

UPDATE 13: SUBSEQUENT EVENTS IN THE CURRENT EVOLVING ENVIRONMENT—AUDIT CONSIDERATIONS FOR THE IMPACT OF COVID-19

UPDATE 14: STAFF AUDIT PRACTICE ALERT: GOING CONCERN

# Table of Content

UPDATES (Major sections)

UPDATE 15: HIGHLIGHTING AREAS OF FOCUS IN AN EVOLVING AUDIT ENVIRONMENT DUE TO THE IMPACT OF COVID-19

Update 16: INTERNATIONAL STANDARD ON AUDITING 220 (REVISED), QUALITY MANAGEMENT FOR AN AUDIT OF FINANCIAL STATEMENTS

Update 17: MANAGEMENT (ISQM) 1, QUALITY MANAGEMENT FOR FIRMS THAT PERFORM AUDITS OR REVIEWS OF FINANCIAL STATEMENTS, OR OTHER ASSURANCE OR RELATED SERVICES ENGAGEMENTS

# Table of Content

UPDATEs (Major sections)

Update 18: INTERNATIONAL STANDARD ON QUALITY MANAGEMENT (ISQM) 2,  
ENGAGEMENT QUALITY REVIEWS

Update 19: CONFORMING AMENDMENTS TO THE IAASB INTERNATIONAL  
STANDARDS AS A RESULT OF THE REVISED IESBA CODE

Update 20: INTERNATIONAL STANDARD ON RELATED SERVICES (ISRS) 4400  
(REVISED)

# Quote Sage

*“A highly rated accountant/ bookkeeper is always there for clients, regardless of unpredictable circumstances, and is doing his or her utmost to shape-shift with the moving parts of the industry. The accountant is both a sounding board and an inspiration for the client to be ambitious and take smart risks. At the end of the day, there’s a trust relationship. That will always exist. To what extent that trust is earned now depends upon the adaptability of the accountant.”*

**Chris Downing, former certified accountant, and director for accountants and bookkeepers, Sage**



# Quote Internal Audit 360

*“Risk and Opportunity are two sides of the same coin.”*

**Norman Marks, Internal Audit 360**

# Quote Xero

*“Bookkeepers are generally good with people. They like breaking down concepts such as finance and tax so that any business owner can understand them. They’re also interesting characters. Meet some of them in our series of accountant and bookkeeper stories.”*

**Xero**

# Update 1: Background to Auditing in 2021

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- Your noble profession of auditing has of late taken a hard knock in the eyes of the public due to some negative events that occurred involving practising auditors and accountants.
- Public confidence in the profession is strengthened by the high-quality international standards for auditing, assurance, and quality control that are set by the International Auditing and Assurance Standards Board (IAASB). International Standards on Auditing (ISA) are subject to continuous review and improvement, resulting in significant changes to audit reporting and communication, and integration with ethics and professional scepticism.

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# UPDATE 2: IAASB COMMUNIQUE: AUDITS OF LESS COMPLEX ENTITIES

- Focusing on the effective and consistent application of our standards, the IAASB is addressing issues and challenges related to complexity, understandability, scalability and proportionality. This communique details development plans for a separate standard for audits of less complex entities.
- <https://www.ifac.org/system/files/publications/files/IAASB-Communique-Less-Complex-Entities.pdf>

# UPDATE 2: IAASB COMMUNIQUE: AUDITS OF LESS COMPLEX ENTITIES

## *What will the separate standard look like?*

The IAASB is developing the standard on the following basis:

- ❖ **Using similar concepts and principles as the International Standards on Auditing (ISAs)** – the audit approach will be risk-based, to obtain sufficient appropriate audit evidence to result in a reasonable assurance opinion.
- ❖ **Containing all requirements relevant to an audit of an LCE within a ‘standalone’ standard.** These requirements are based on ‘core’ requirements from the ISAs, i.e., those requirements that the IAASB considers core to an audit that would be applicable in the circumstances of an audit of an LCE.



# UPDATE 2: IAASB COMMUNIQUE: AUDITS OF LESS COMPLEX ENTITIES

- ❖ Divided into “Parts” following the flow of an audit and setting out the relevant requirements for the various components within an audit



The IAASB is discussing how it will provide application material for the effective implementation of the separate standard, including what is encompassed within the separate standard itself.



# UPDATE 2: IAASB COMMUNIQUE: AUDITS OF LESS COMPLEX ENTITIES

## *Who will be able to use the separate standard?*

An introductory section will explain the applicability of the standard (i.e., the types of audits for which it will be suitable) – this is still under discussion by the IAASB and so may change as the separate standard is further developed. The applicability section will set out any restrictions on use of the standard, as well as the characteristics of an audit for which the separate standard is appropriate.

At its December meeting, the IAASB reaffirmed its position that this standard will not be appropriate for use for audits of listed entities (i.e., it will contain no requirements that are unique to listed entities, the IAASB believes only the ISAs would meet the public interest in this case). At future meetings, the IAASB will consider further limitations. Additionally, the IAASB recognizes that each jurisdiction will need to decide whether the separate standard for audits of LCEs is appropriate for use within their local environment, and appropriate authorities may also further restrict use of the separate standard.

## *What is the targeted timeline for the development of the Separate Standard*



# UPDATE 3: NON-AUTHORITATIVE SUPPORT MATERIAL: USING AUTOMATED TOOLS AND TECHNIQUES WHEN IDENTIFYING RISKS OF MATERIAL MISSTATEMENT IN ACCORDANCE WITH ISA 315 (REVISED)

This non-authoritative Frequently Asked Questions document assists auditors in understanding of the types of ATT could be used, and how they can be used, in performing risk assessment procedures in accordance with International Standard on Auditing 315 (Revised 2019), Identifying and Assessing Risks of Material Misstatement.

- does not amend or override the International Standards on Auditing (ISAs).
- <https://www.ifac.org/system/files/publications/files/IAASB-Technology-FAQ-Automated-Tools-Techniques.pdf>

# UPDATE 3: NON-AUTHORITATIVE SUPPORT MATERIAL: USING AUTOMATED TOOLS AND TECHNIQUES WHEN IDENTIFYING RISKS OF MATERIAL MISSTATEMENT IN ACCORDANCE WITH ISA 315 (REVISED)

In light of the increasing use of automated tools and techniques in performing audit procedures, the revised standard focuses on different aspects of automated tools and techniques (ATT) under discreet headings titled '*Automated Tools and Techniques*.' Such paragraphs provide application material and further explanations about how automated tools and techniques may be used in performing procedures in accordance with the relevant requirements. Although written in the context of the identification and assessment of the risks of material misstatement in accordance with ISA 315 (Revised 2019), the scope of this FAQ publication also provides support for the implementation of other standards, such as ISA 230<sup>1</sup> and ISA 500.<sup>2</sup>

# UPDATE 3: NON-AUTHORITATIVE SUPPORT MATERIAL: USING AUTOMATED TOOLS AND TECHNIQUES WHEN IDENTIFYING RISKS OF MATERIAL MISSTATEMENT IN ACCORDANCE WITH ISA 315 (REVISED)

## What are ATT ?

Audit procedures can be performed using a number of tools or techniques, which can be manual or automated (and often involving a combination of both). Practitioners may use various terms in practice to describe tools or techniques that are automated. For example, applying automated analytical procedures to data during risk assessment procedures are sometimes referred to as data analytics.

Although the term 'data analytics' is sometimes used to refer to such tools and techniques, the term does not have a uniform definition or description. This term is too narrow because it does not encompass all of emerging technologies that are being used when designing and performing audit procedures today. In addition, technologies and related audit applications will continue to evolve, such as artificial intelligence (AI) applications, robotics automation processes and the use of drones. Therefore, the IAASB uses the broader term automated tools and techniques.

# UPDATE 3: NON-AUTHORITATIVE SUPPORT MATERIAL: USING AUTOMATED TOOLS AND TECHNIQUES WHEN IDENTIFYING RISKS OF MATERIAL MISSTATEMENT IN ACCORDANCE WITH ISA 315 (REVISED)

## **Applying the ISAs: Use of ATT**

In applying the ISAs, an auditor may design and perform audit procedures manually or through the use of ATT, and either technique can be effective. Regardless of the tools and techniques used, the auditor is required to comply with the ISAs.

In certain circumstances, when obtaining audit evidence, an auditor may determine that the use of ATT to perform certain audit procedures may result in more persuasive audit evidence relative to the assertion being tested. In other circumstances, performing audit procedures may be effective without the use of ATT.

## **Technology is ever-changing**

As technology evolves and new approaches to auditing develop, the relevance of a particular ATT and its relative advantages may change.

# UPDATE 3: NON-AUTHORITATIVE SUPPORT MATERIAL: USING AUTOMATED TOOLS AND TECHNIQUES WHEN IDENTIFYING RISKS OF MATERIAL MISSTATEMENT IN ACCORDANCE WITH ISA 315 (REVISED)

## 1. What types of automated tools and techniques could be used in risk assessment procedures?

Automated tools and techniques, for the purpose of an audit, are IT-enabled processes that involve the automation of methods and procedures, including the analysis of data using modelling and visualization, robotic process automation, artificial intelligence and machine learning, and drone technology to observe or inspect assets.<sup>3</sup> Using such automated tools and techniques can supplement or replace manual or repetitive tasks.

# UPDATE 3: NON-AUTHORITATIVE SUPPORT MATERIAL: USING AUTOMATED TOOLS AND TECHNIQUES WHEN IDENTIFYING RISKS OF MATERIAL MISSTATEMENT IN ACCORDANCE WITH ISA 315 (REVISED)

**Examples of automated tools and techniques that could be used to perform risk assessment procedures include:**

**1. Data analytics** —used to evaluate entire data sets by discovering and analyzing patterns and trends, identifying and investigating unusual items, deviations and anomalies, through the use of, for example, predictive analytics. The auditor can also obtain other useful information from large data sets relevant to the identification and assessment of risks of material misstatement that may not have been as easily visible or obvious through the use of more traditional tools or techniques.

# **UPDATE 3: NON-AUTHORITATIVE SUPPORT MATERIAL: USING AUTOMATED TOOLS AND TECHNIQUES WHEN IDENTIFYING RISKS OF MATERIAL MISSTATEMENT IN ACCORDANCE WITH ISA 315 (REVISED)**

**Examples of automated tools and techniques that could be used to perform risk assessment procedures include:**

**2. Robotic process automation (RPA)** — the processing of structured data by using a software that automates activities that humans perform, typically repetitive tasks that require minimal judgment. For example, RPA can be used to perform general ledger analysis, such as identifying journal entries that do not balance, are duplicated, are over a defined threshold, or display certain characteristics.



# **UPDATE 3: NON-AUTHORITATIVE SUPPORT MATERIAL: USING AUTOMATED TOOLS AND TECHNIQUES WHEN IDENTIFYING RISKS OF MATERIAL MISSTATEMENT IN ACCORDANCE WITH ISA 315 (REVISED)**

**Examples of automated tools and techniques that could be used to perform risk assessment procedures include:**

**3. Artificial intelligence techniques** — machine learning technology trained to recognize patterns in vast volumes of data, including unstructured data such as emails, social media, contracts, invoices, images and conference call audio files. Auditors can use artificial intelligence in gathering information from various sources to assist the auditor in identifying risks of material misstatement.

# **UPDATE 3: NON-AUTHORITATIVE SUPPORT MATERIAL: USING AUTOMATED TOOLS AND TECHNIQUES WHEN IDENTIFYING RISKS OF MATERIAL MISSTATEMENT IN ACCORDANCE WITH ISA 315 (REVISED)**

**How can automated tools and techniques be used in performing risk assessment procedures?**

When performing risk assessment procedures in accordance with ISA 315 (Revised 2019), automated tools and techniques can assist the auditor in obtaining their understanding of an entity's business and organizational structure, and in understanding flows of transactions and processing as part of the auditor's procedures to understand the information system.

# UPDATE 3: NON-AUTHORITATIVE SUPPORT MATERIAL: USING AUTOMATED TOOLS AND TECHNIQUES WHEN IDENTIFYING RISKS OF MATERIAL MISSTATEMENT IN ACCORDANCE WITH ISA 315 (REVISED)

Procedures Required by ISA 315 (Revised 2019)	Examples
Understanding the entity's information system <sup>8</sup>	Using automated tools and techniques to analyze data (e.g., using visualization techniques) to understand how, when and by whom transactions are initiated, captured and processed.
	Process mining on the purchase to pay cycle, which includes visualizing standard transactions versus outliers using the unique elements of a transaction such as transaction ID, date/time and action performed.
Understanding the entity's IT environment, including general IT controls <sup>9</sup>	Using automated tools and techniques to analyze authorization settings, configurations and parameter settings in the IT system.

# UPDATE 3: NON-AUTHORITATIVE SUPPORT MATERIAL: USING AUTOMATED TOOLS AND TECHNIQUES WHEN IDENTIFYING RISKS OF MATERIAL MISSTATEMENT IN ACCORDANCE WITH ISA 315 (REVISED)

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Understanding the entity's IT environment, including general IT controls <sup>9</sup>	Using automated tools and techniques to analyze authorization settings, configurations and parameter settings in the IT system.

# UPDATE 3: NON-AUTHORITATIVE SUPPORT MATERIAL: USING AUTOMATED TOOLS AND TECHNIQUES WHEN IDENTIFYING RISKS OF MATERIAL MISSTATEMENT IN ACCORDANCE WITH ISA 315 (REVISED)

Understanding controls over the entity's journal entries<sup>10</sup>

Analyzing how journal entries are initiated, recorded and processed in the general ledger or sub-ledgers.

Analyzing which journal entries are manual vs system-generated in order to focus more on the manual sources/non-recurring/non-standard journal entries where controls might be more easily overridden, including identifying journal entries where there may be an increased risk of fraud due to management override (e.g., journal entries made by a member of management or personnel other than who would be expected to make such entries).

# UPDATE 3: NON-AUTHORITATIVE SUPPORT MATERIAL: USING AUTOMATED TOOLS AND TECHNIQUES WHEN IDENTIFYING RISKS OF MATERIAL MISSTATEMENT IN ACCORDANCE WITH ISA 315 (REVISED)

Identifying significant classes of transactions, account balances and disclosures<sup>11</sup>

An entire population of transactions may be analyzed to understand their nature, source, size and volume. By applying automated techniques, the auditor may, for example, identify that an account with a zero balance at period end was comprised of numerous offsetting transactions and journal entries occurring during the period, indicating that the account balance or class of transactions may be significant (e.g., a payroll clearing account). This same payroll clearing account may also identify expense reimbursements to management (and other employees), which could be a significant disclosure due to these payments being made to related parties.<sup>12</sup>

# **UPDATE 3: NON-AUTHORITATIVE SUPPORT MATERIAL: USING AUTOMATED TOOLS AND TECHNIQUES WHEN IDENTIFYING RISKS OF MATERIAL MISSTATEMENT IN ACCORDANCE WITH ISA 315 (REVISED)**

**How can automated tools and techniques be used to support the auditor's exercise of professional skepticism when performing risk assessment procedures? Are there any special considerations to demonstrate the exercise of professional skepticism when using automated tools and techniques?**

Demonstrating the exercise of professional skepticism when using automated tools and techniques is no different to demonstrating how professional skepticism is exercised when performing other types of audit procedures. ISA 315 (Revised (2019)) explains that documentation of various matters required by the standard may provide evidence of the auditor's exercise of professional skepticism. This includes, for example, documenting how the procedure was performed and how the audit evidence from the risk assessment procedure was evaluated, including documenting any professional judgments made.

# **UPDATE 3: NON-AUTHORITATIVE SUPPORT MATERIAL: USING AUTOMATED TOOLS AND TECHNIQUES WHEN IDENTIFYING RISKS OF MATERIAL MISSTATEMENT IN ACCORDANCE WITH ISA 315 (REVISED)**

**How can automated tools and techniques be used to support the auditor's exercise of professional skepticism when performing risk assessment procedures? Are there any special considerations to demonstrate the exercise of professional skepticism when using automated tools and techniques?**

- Increased Access to Information
- Don't rely solely on tech
- Document!!!



# **UPDATE 3: NON-AUTHORITATIVE SUPPORT MATERIAL: USING AUTOMATED TOOLS AND TECHNIQUES WHEN IDENTIFYING RISKS OF MATERIAL MISSTATEMENT IN ACCORDANCE WITH ISA 315 (REVISED)**

**How can automated tools and techniques be helpful when the auditor is considering the inherent risk factors in the identification and assessment of risks of material misstatement?**

- opportunity to more effectively review and
- analyze larger data sets and consider information from a variety of sources
- obtain unique insights about the data or information
- help identify events or conditions that affect the susceptibility to misstatement of a class or transaction, account balance or disclosure, or
- provide more information for supporting the basis for the auditor's assessment of the identified risks.
- trends, patterns or even anomalies that could be indicative of inherent risk to varying degrees

# **UPDATE 3: NON-AUTHORITATIVE SUPPORT MATERIAL: USING AUTOMATED TOOLS AND TECHNIQUES WHEN IDENTIFYING RISKS OF MATERIAL MISSTATEMENT IN ACCORDANCE WITH ISA 315 (REVISED)**

**Examples of such analyses or techniques may include:**

- Analyzing the payroll ledger, which may reveal unusual or unexpected activity in processing the data (management bias or fraud).
- Reviewing large volumes of daily investment security pricing data that may reveal the significance of the price volatility, which may assist the auditor in determining where on the spectrum of inherent risk the identified risk is assessed (i.e., taking into account the inherent risk factors of change and uncertainty in assessing inherent risk).
- Examining the data used in a share-based payment valuation calculation may identify various sources with different characteristics or the application of sophisticated algorithms used for the calculation (indicating a higher susceptibility to misstatement because of complexity).

# **UPDATE 3: NON-AUTHORITATIVE SUPPORT MATERIAL: USING AUTOMATED TOOLS AND TECHNIQUES WHEN IDENTIFYING RISKS OF MATERIAL MISSTATEMENT IN ACCORDANCE WITH ISA 315 (REVISED)**

**Examples of such analyses or techniques may include:**

- Comparison of individuals authorized to initiate or approve journal entries to persons actually recording journal entries may reveal susceptibility to misstatement due to fraud (management bias or other fraud risk factors).
- Analyzing transaction details at period end may identify unusual activity, which may reveal susceptibility to misstatement due to fraud (management bias or other fraud risk factors).
- Process mapping of an entire class of transactions for a period may provide insight into the complexity involved with processing such transactions (indicating a higher susceptibility to misstatement because of complexity).

# **UPDATE 3: NON-AUTHORITATIVE SUPPORT MATERIAL: USING AUTOMATED TOOLS AND TECHNIQUES WHEN IDENTIFYING RISKS OF MATERIAL MISSTATEMENT IN ACCORDANCE WITH ISA 315 (REVISED)**

**What are the auditor's considerations regarding the use of machine learning or artificial intelligence by the entity when performing risk assessment procedures?**

- Artificial intelligence (AI) and machine learning technology, in the simplest terms, is technology that replicates the thinking and actions of humans through use of algorithms programmed in software. When AI or machine learning is used by the entity, the objectives of the auditor's risk assessment (as compared to the risk assessment when such technology is not used by the entity) do not change. For example, in a non-AI environment, the auditor may make inquiries of entity personnel responsible for making decisions related to the processing of transactions. In this setting, the auditor would inquire about factors considered by the decision maker, data used in forming the decision, and so on, and determine further risk assessment procedures based on the answers to those inquiries.

# **UPDATE 3: NON-AUTHORITATIVE SUPPORT MATERIAL: USING AUTOMATED TOOLS AND TECHNIQUES WHEN IDENTIFYING RISKS OF MATERIAL MISSTATEMENT IN ACCORDANCE WITH ISA 315 (REVISED)**

**What are the auditor's considerations regarding the use of machine learning or artificial intelligence by the entity when performing risk assessment procedures?**

- In an AI (machine learning) environment, the auditor would be interested in obtaining the same information (i.e., factors and data used in forming the action taken through AI). However, the auditor may need to consider the algorithms embedded in, and the learning by the AI as a complement to the human thinking and decision-making process. As such, the auditor's understanding of how the creation and modification of the algorithms operating are controlled and maintained may be important.

# **UPDATE 3: NON-AUTHORITATIVE SUPPORT MATERIAL: USING AUTOMATED TOOLS AND TECHNIQUES WHEN IDENTIFYING RISKS OF MATERIAL MISSTATEMENT IN ACCORDANCE WITH ISA 315 (REVISED)**

**What are the considerations in documenting the auditor's use of automated tools and techniques in performing risk assessment procedures?**

- ISA 230.20 does not differentiate between the use of manual or automated audit procedures with respect to what is required to be documented. When using automated tools and techniques in performing risk assessment procedures, the auditor complies with relevant documentation requirements in paragraphs 8 and 9 of ISA 230, as well as those set out in paragraph 38 of ISA 315 (Revised 2019)
- [Also see Audit Staff Alert, Audit Documentation When Using Automated Tools and Techniques, which sets out matters for auditor consideration in relation to audit documentation.]

# **UPDATE 3: NON-AUTHORITATIVE SUPPORT MATERIAL: USING AUTOMATED TOOLS AND TECHNIQUES WHEN IDENTIFYING RISKS OF MATERIAL MISSTATEMENT IN ACCORDANCE WITH ISA 315 (REVISED)**

**What are the considerations in documenting the auditor's use of automated tools and techniques in performing risk assessment procedures?**

- ISA 230.20 does not differentiate between the use of manual or automated audit procedures with respect to what is required to be documented. When using automated tools and techniques in performing risk assessment procedures, the auditor complies with relevant documentation requirements in paragraphs 8 and 9 of ISA 230, as well as those set out in paragraph 38 of ISA 315 (Revised 2019)
- [Also see Audit Staff Alert, Audit Documentation When Using Automated Tools and Techniques, which sets out matters for auditor consideration in relation to audit documentation.]

# UPDATE 4: KEY TAKEAWAYS FROM IAASB'S ROUNDTABLE SERIES ON FRAUD AND GOING CONCERN

- 17 November 2020 (Full recordings on Youtube)

## **Discussion Focused on:**

- The impact of technology advancements on fraud perpetration and detection;
- The “expectation gap”, or differences between public perceptions and the auditor’s responsibilities for fraud and going concern; and
- Fraud and going concern in audits of less complex entities.



# UPDATE 4: KEY TAKEAWAYS FROM IAASB'S ROUNDTABLE SERIES ON FRAUD AND GOING CONCERN

– 17 November 2020 (Full recordings on Youtube)

## **Related 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

<https://www.iaasb.org/publications/fraud-and-going-concern-audit-financial-statements>

# UPDATE 4: KEY TAKEAWAYS FROM IAASB'S ROUNDTABLE SERIES ON FRAUD AND GOING CONCERN

## *How Technology is Used to Perpetrate Fraud*

Theme	Details
<b>Fraud schemes have become more sophisticated over the last 20 years, which is partially attributable to advances in technology.</b>	<ul style="list-style-type: none"><li>• While the nature of many frauds committed today have not significantly changed (e.g., invoice and check tampering), as technology evolves, fraudsters are using more sophisticated means to commit those frauds.</li><li>• Artificial intelligence (AI), robotic processing automation (RPA) and other forms of advanced technology can help detect fraud, but fraudsters can also use them to perpetrate fraud.</li></ul>

# UPDATE 4: KEY TAKEAWAYS FROM IAASB'S ROUNDTABLE SERIES ON FRAUD AND GOING CONCERN

The introduction of advanced technologies, such as AI or RPA, and the subsequent impact on internal controls may make companies more vulnerable to fraud. For example, the use of AI or RPA may reduce the number of employees necessary to perform tasks, which may cause issues related to lack of segregation of duties.

- Fraudsters will disregard relevant regulations when implementing technology and, as such, have greater flexibility in applying it to perpetrate fraud.
- Technological tools used by fraudsters may be specifically designed to evade detection.
- Cybersecurity and data security are increasingly important topics in today's environment due to the rise in cybercrime, which can exploit weaknesses in a system of internal control and cause severe reputational damage.

# **UPDATE 4: KEY TAKEAWAYS FROM IAASB'S ROUNDTABLE SERIES ON FRAUD AND GOING CONCERN**

## **2. With the COVID-19 pandemic, new opportunities to commit fraud have arisen.**

- In the COVID-19 pandemic environment, the increased level of remote-work and working in a virtual environment have raised the risk of cybercrime.
- Companies have shifted to new communication and collaboration platforms and technologies (e.g., different data processing, increasing use of mobile applications, teleworking), which, given the rapid timeline of events, exposes companies to an increased risk of fraud if internal controls are not appropriately designed and operating.

# **UPDATE 4: KEY TAKEAWAYS FROM IAASB'S ROUNDTABLE SERIES ON FRAUD AND GOING CONCERN**

## **2. With the COVID-19 pandemic, new opportunities to commit fraud have arisen.**

- In the current economic environment, remote working and increased workforce reductions have impacted the internal controls and control environment of many entities. For example, physical segregation of duties may no longer be possible, or people without adequate knowledge or experience may be stepping in to perform controls once performed by others. This may expose the company to increased risk of fraud.

# **UPDATE 4: KEY TAKEAWAYS FROM IAASB'S ROUNDTABLE SERIES ON FRAUD AND GOING CONCERN**

**2. With the COVID-19 pandemic, new opportunities to commit fraud have arisen.**

- Increased use of online shopping and e-commerce, along with the digitalization of businesses in the current environment enables increased opportunities to commit fraud.

# UPDATE 4: KEY TAKEAWAYS FROM IAASB'S ROUNDTABLE SERIES ON FRAUD AND GOING CONCERN

## *Technology Used by Financial Statement Auditors*

Theme	Details
<p><b>Data extraction and analytics are common types of technology used today for fraud-related procedures in financial statement audits, with other emerging technologies on the way.</b></p>	<ul style="list-style-type: none"><li>• Today, financial statement auditors often leverage data extraction and analytic technology to assist in obtaining an understanding of many aspects of the business, for example, to test the population of journal entries in accordance with International Standard on Auditing (ISA) 240.<sup>1</sup></li><li>• While computer-assisted audit techniques (CAATs)<sup>2</sup> have been used on audits for years, many audit firms now have more advanced tools that allow for more sophisticated visualization of entire populations of journal entries that can be performed directly by auditors rather than by data specialists.</li><li>• With these new tools, auditors are able to more effectively profile the journal entries and target populations to test based on certain risk characteristics (e.g., unusual or seldom-used accounts, entries with a debit to revenue, key word searches, duplicate entries, etc.).</li><li>• AI and machine learning algorithms can provide auditors with opportunities to review an entire population for anomalies.</li></ul>

# UPDATE 4: KEY TAKEAWAYS FROM IAASB'S ROUNDTABLE SERIES ON FRAUD AND GOING CONCERN

**There are benefits for using advanced technologies financial statement audits.**

- Auditors can obtain deeper insights through analysis of large sets of client data.
- Auditors are able to target their audit procedures more effectively to test areas with characteristics of higher risk.
- Once the technology is in place, auditors can perform procedures faster and more efficiently across many audits and can also run the analysis more frequently as needed or desired (e.g., quarterly instead of annually, thereby increasing effectiveness).



# UPDATE 4: KEY TAKEAWAYS FROM IAASB'S ROUNDTABLE SERIES ON FRAUD AND GOING CONCERN

**There are challenges associated with advanced technologies used in financial statement audits.**

- Obtaining data from the entity, particularly from larger entities that operate in a decentralized manner (e.g., numerous components and systems), can be challenging.
- In some cases, it may be difficult to reconcile information from client systems and verify completeness and accuracy of the data.
- The accessibility of data and information from outside of the entity is increasing. This can create challenges for the auditor to determine the relevance and reliability of the information, and therefore it can be difficult

# UPDATE 4: KEY TAKEAWAYS FROM IAASB'S ROUNDTABLE SERIES ON FRAUD AND GOING CONCERN

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# UPDATE 4: KEY TAKEAWAYS FROM IAASB'S ROUNDTABLE SERIES ON FRAUD AND GOING CONCERN

- The accessibility of data and information from outside of the entity is increasing. This can create challenges for the auditor to determine the relevance and reliability of the information, and therefore it can be difficult to determine what is confirmatory and what is contradictory audit evidence.
- Specific to technology used for journal entry testing, due to differences in IT system formats, it is sometimes difficult to isolate manual journal entries from automated journal entries.
- Automated tools and techniques provide many useful insights that were not previously available to auditors, but it is difficult to use the insights obtained from data analysis if it does not meet the requirements for audit evidence as described in ISA 500.
- Not all audit firms have access to the same technological resources, and some participants questioned if some of these tools would be effective in less complex audits.

# UPDATE 4: KEY TAKEAWAYS FROM IAASB'S ROUNDTABLE SERIES ON FRAUD AND GOING CONCERN

<p><b>While technology offers useful tools, it does not replace the human element of an audit.</b></p>	<ul style="list-style-type: none"><li>• Technology can help identify anomalies and 'red flags' that require further investigation. However, technology cannot replace professional judgment and professional skepticism that is necessary for auditors to undertake their work and draw conclusions.</li></ul>
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# UPDATE 4: KEY TAKEAWAYS FROM IAASB'S ROUNDTABLE SERIES ON FRAUD AND GOING CONCERN

## *Technology Used in Forensic Audits*

Theme	Details
<b>Forensic audits differ from financial statement audits.</b>	<ul style="list-style-type: none"><li data-bbox="1036 752 3235 1258">• In a financial statement audit, the role of the auditor is to identify risks of material misstatement arising from error or fraud. The purpose of a forensic audit is generally to investigate suspected or known fraud (i.e., a targeted examination focused on, for example, gathering evidence for legal proceedings). Accordingly, the objective, depth and breadth of the work of forensic auditors is different to that of a financial statement audit.</li><li data-bbox="1036 1309 3235 1553">• The mindset, questions and interview techniques of a forensic auditor are different to that of a financial statement auditor. Forensic auditors hone in on a very specific set of known or suspected circumstances.</li></ul>

# UPDATE 4: KEY TAKEAWAYS FROM IAASB'S ROUNDTABLE SERIES ON FRAUD AND GOING CONCERN

**Forensic auditors use similar types of advanced technologies as financial statement auditors and use some additional types of technologies used as well.**

- Forensic auditors use similar tools (e.g., data analytics) to perform quantitative and qualitative analysis, but often draw upon different data sets than what may be used in financial statement audits, such as operational data or tax data.
- AI and machine learning algorithms provide forensic auditors with opportunities to review an entire population for anomalies.
- Predictive coding is also used by forensic auditors to automatically review large volumes of documents (for example, for purposes of E-discovery, where forensic auditors review large volumes of emails, instant messaging chats, mobile phone logs, etc.).

# UPDATE 4: KEY TAKEAWAYS FROM IAASB'S ROUNDTABLE SERIES ON FRAUD AND GOING CONCERN

Theme	Details
<b>There are challenges when using advanced technologies in forensic audits.</b>	<ul style="list-style-type: none"><li>• Similar to financial statement audits, determination of the completeness and accuracy of the data that is used can be challenging.</li></ul>
<b>While technology offers useful tools, it does not replace the human element of a forensic audit.</b>	<ul style="list-style-type: none"><li>• Similar to financial statement audits, technology can help identify anomalies and 'red flags' that require further investigation. However, technology cannot replace professional judgment and professional skepticism that is necessary for auditors to undertake their work and draw conclusions.</li></ul>

# UPDATE 4: KEY TAKEAWAYS FROM IAASB'S ROUNDTABLE SERIES ON FRAUD AND GOING CONCERN

## Expectation Gap

Theme	Details
<p>The 'expectation gap' related to fraud and going concern will not be narrowed by standard-setting alone—it will require efforts from all participants in the financial reporting ecosystem.</p>	<ul style="list-style-type: none"><li>Audit committees, those charged with governance, management, internal audit, regulators, governments, investors and others all have a role to play in helping to narrow the expectation gap related to fraud and going concern.</li><li>The role of users (i.e., investors) should be further considered and their needs understood – i.e., what are their expectations (e.g., in some jurisdictions the use of proxy advisors has been increasing and this may impact the informational needs of users).</li><li>Certain changes in the auditing standards will need to be considered in tandem with the relevant responsibilities of management (i.e., changes to the applicable accounting framework may be needed before certain changes can be made to the auditing standards).</li><li>It was acknowledged that in some audit failures, the auditing standards were sufficient but auditors did not apply them properly.</li></ul>





# UPDATE 4: KEY TAKEAWAYS FROM IAASB'S ROUNDTABLE SERIES ON FRAUD AND GOING CONCERN

**While there is some overlap, the primary underlying causes of the expectation gap related to fraud and the expectation gap related to going concern are different in nature and should be considered separately.**

- With regard to going concern, there is an inherent uncertainty in considering future events, and all stakeholders experience that uncertainty (management, those charged with governance, auditors, investors, etc.).
- However, with regard to fraud, the inherent uncertainty discussed in the point above does not necessarily exist for all stakeholders – those involved in perpetrating the fraud have different information and incentives than those who are not involved (e.g., management may know the “full story,” but auditors may not).

# UPDATE 4: KEY TAKEAWAYS FROM IAASB'S ROUNDTABLE SERIES ON FRAUD AND GOING CONCERN

**The expectation gap related to fraud and going concern, respectively, can each be attributed to various elements of a knowledge gap, a performance gap, and an evolution gap. There were mixed views as to which elements more prominently drive the respective expectation gap.**

- Based on views expressed in the roundtable, the expectation gap related to going concern tends to be perceived as more heavily driven by a knowledge gap, while the expectation gap related to fraud was perceived as more heavily influenced by the performance and evolution gaps.
- There is opportunity for auditors to do more related to fraud. High-profile fraud cases are often not identified by auditors, but by others (for example, short sellers or whistleblowers).

# UPDATE 4: KEY TAKEAWAYS FROM IAASB'S ROUNDTABLE SERIES ON FRAUD AND GOING CONCERN

**It was highlighted that the auditor's procedures are meant to address 'error and fraud' but many of the procedures undertaken focused on finding material misstatements arising from 'errors.'**

- **Fraud procedures sometimes appeared to be an "add-on" and there was insufficient focus by auditors on procedures targeted at identifying fraud in some cases.**

# UPDATE 4: KEY TAKEAWAYS FROM IAASB'S ROUNDTABLE SERIES ON FRAUD AND GOING CONCERN

**Auditing standards related to fraud and going concern may not require a transformational overhaul of the standards but may instead require modernization and targeted updates within each standard.**

- Views were expressed that the auditing standards related to fraud and going concern include relevant and necessary procedures, and the core principles may not need to change. However, there are incremental procedures or targeted changes that may be considered to help enhance the standards, such as:
  - *Fraud:*
    - More robust requirements around testing controls when performing procedures related to fraud identification and assessment.
    - Requiring a more robust discussion about the fraud risk factors that are relevant to the nature and circumstances of the engagement.

# UPDATE 4: KEY TAKEAWAYS FROM IAASB'S ROUNDTABLE SERIES ON FRAUD AND GOING CONCERN

## **Going Concern:**

- Consideration for targeted work in respect of management's assertions about the financial health of the company (e.g., viability statements).

## **Both Fraud and Going Concern:**

- Encouragement by some for a move towards a more suspicious or doubtful mindset as opposed to a neutral mindset. However, other participants cautioned the need to also consider how this may impact the auditor-client relationship.
- More robust requirements to encourage auditors to exercise enhanced professional skepticism when undertaking procedures on fraud and going concern.

# UPDATE 4: KEY TAKEAWAYS FROM IAASB'S ROUNDTABLE SERIES ON FRAUD AND GOING CONCERN

## **Both Fraud and Going Concern:**

- More use of technology was encouraged.
- Introduction of a stand-back requirement to emphasize that auditors must consider cumulative audit evidence obtained in formulating their conclusions.

***This list of possible procedures is not exhaustive but highlights some of the ideas that were discussed***

# **UPDATE 4: KEY TAKEAWAYS FROM IAASB'S ROUNDTABLE SERIES ON FRAUD AND GOING CONCERN**

**It was noted that a financial statement audit should not be expanded to be forensic in nature, but there may be a role for forensic-type procedures or mindsets in various stages of the audit, such as planning or high-level analytic procedures.**

- It may be beneficial to incorporate forensic-type procedures in various stages of the audit (e.g., forensic interview skills when performing inquiries with management).
- It may be beneficial to consider requiring forensic-type procedures but only in certain circumstances or in audits of certain types of entities.
- There was, however, a caution as to maintaining balance, scalability, and proportionality in the procedures required given the scope and purpose of an audit.

# UPDATE 4: KEY TAKEAWAYS FROM IAASB'S ROUNDTABLE SERIES ON FRAUD AND GOING CONCERN

<p><b>The importance of robust two-way communication between the auditor and those charged with governance was highlighted.</b></p>	<ul style="list-style-type: none"><li>• More robust two-way communication between the auditor and those charged with governance on the topics of fraud and going concern was encouraged.</li><li>• More effective engagement between these parties would help inform auditors and those charged with governance so that they may better challenge management.</li></ul>
<p><b>Participants highlighted the need for more information with regard to the broader risks of the entity.</b></p>	<ul style="list-style-type: none"><li>• More information about broader entity risks in the front end of the annual report and in the financial statements is needed (e.g., in management's discussion and analysis), with further description about how those risks have impacted the audit of the financial statements.</li></ul>



# UPDATE 4: KEY TAKEAWAYS FROM IAASB'S ROUNDTABLE SERIES ON FRAUD AND GOING CONCERN

<p><b>Participants called for more bespoke information to be disclosed by the auditor in the auditor's report with regard to the work performed and findings in respect of fraud and going concern.</b></p>	<ul style="list-style-type: none"><li>• The need to maintain balance as to how much information is disclosed was emphasized; the information must remain meaningful.</li><li>• Greater transparency in the auditor's report would likely lead to different behaviors. For example, greater transparency can lead to higher accountability pressure as managers may expect their judgments to be scrutinized more comprehensively.</li><li>• Greater transparency may also help demonstrate the value of an audit.</li></ul>
<p><b>Some participants questioned how much more could be changed in the auditing standards without changes to the applicable financial reporting framework.</b></p>	<ul style="list-style-type: none"><li>• It was highlighted that accounting standard setters and other stakeholders should drive increased transparency in management's disclosures in respect of going concern in the first instance.</li></ul>

# UPDATE 4: KEY TAKEAWAYS FROM IAASB'S ROUNDTABLE SERIES ON FRAUD AND GOING CONCERN

**It was noted that the role of the auditor may be misunderstood in some cases – the expectation of what the auditor does in relation to fraud and going concern needs to be better understood by all.**

- Users of the financial statements need to be better informed about management's and the auditor's responsibilities, respectively, with regard to both fraud and going concern.
- With regard to the expectation gap related to going concern, some participants emphasized that auditors cannot be responsible for 'predicting the future.'
- It was noted that the auditor's role is to test the reliability of management's assessment and the assumptions used. Investors then use that information to make a judgment as to the future prospects of the entity.

# UPDATE 4: KEY TAKEAWAYS FROM IAASB'S ROUNDTABLE SERIES ON FRAUD AND GOING CONCERN

## Focus on Fraud and Going Concern in Less Complex Entities (LCEs)

### *Nature of Fraud Perpetrated in LCEs*

Theme	Details
<b>While both types of fraud are committed in LCEs, fraud related to misappropriation of assets is more commonly seen in practice in LCEs than financial reporting fraud.</b>	<ul style="list-style-type: none"><li>• Generally, misappropriation of assets is more commonly seen in practice, however, those types of frauds generally have less of a financial impact than financial reporting fraud.</li></ul>

# UPDATE 4: KEY TAKEAWAYS FROM IAASB'S ROUNDTABLE SERIES ON FRAUD AND GOING CONCERN

**Certain fraud risk factors may be more prevalent in LCEs because pressures, opportunities, and rationalizations are different as compared to more complex entities.**

- Fraud is not unique to LCEs, but the circumstances giving rise to fraud may be. The following points were discussed related to each component of the fraud triangle:

## Opportunities

- LCEs often have less anti-fraud controls (e.g. whistleblower hotlines, internal audit function, etc.). They also typically have less employees and therefore less segregation of duties. As such, there may be greater opportunity to commit fraud than in more complex entities.

# UPDATE 4: KEY TAKEAWAYS FROM IAASB'S ROUNDTABLE SERIES ON FRAUD AND GOING CONCERN

## Pressures/Incentives

- Owner-managers may have different pressures than management of more complex entities.
- For example, in LCEs, owner-managers may feel pressure to understate revenue in order to reduce tax liabilities (as compared to more complex entities, where earnings may be tied to performance metrics and the resulting incentive is to overstate revenue).
- In other cases, there may be pressure to renew, or obtain additional, financing from stakeholders and therefore there may be pressure to overstate revenue in order to demonstrate profitability and long-term viability.

# UPDATE 4: KEY TAKEAWAYS FROM IAASB'S ROUNDTABLE SERIES ON FRAUD AND GOING CONCERN

## Rationalization

- Owners of LCEs often take a lot of pride in their companies and in their employees as they may have started the company from the ground up. Therefore, if the company is going through a difficult time, they may rationalize the perpetration of fraud to help the company survive.

# UPDATE 4: KEY TAKEAWAYS FROM IAASB'S ROUNDTABLE SERIES ON FRAUD AND GOING CONCERN

<p><b>Similarly, certain fraud risk factors may be less prevalent in LCEs as compared to more complex entities.</b></p>	<ul style="list-style-type: none"><li>• For example, certain characteristics that may indicate fraudulent activities, such as journal entries posted outside normal business hours, may be normal operating practices for certain LCEs.</li></ul>
<p><b>Frauds may be perpetrated by trusted employees.</b></p>	<ul style="list-style-type: none"><li>• Often the owner-manager of an LCE may place a lot of reliance on the bookkeeper or company accountant, with whom they may also have a close relationship. As a consequence, that individual may have significant history and multiple roles in the company, with little segregation of duties, giving them greater opportunity to commit fraud.</li><li>• Fraud in LCEs may therefore be concealed for many years through exploitation of trust by an employee(s).</li></ul>

# UPDATE 4: KEY TAKEAWAYS FROM IAASB'S ROUNDTABLE SERIES ON FRAUD AND GOING CONCERN

<p><b>The link between fraud and going concern in LCE's is not strong enough.</b></p>	<ul style="list-style-type: none"><li>• The link between third party fraud and going concern is also not robust enough.</li></ul>
<p><b>There is not enough distinction between fraud within the entity and frauds perpetrated by third parties.</b></p>	<ul style="list-style-type: none"><li>• While some frauds may seem to be non-material when first identified, further investigation may reveal more complicated and material fraud schemes involving people inside the entity and/or third-parties (i.e., the non-material fraud may just be the "tip of the iceberg" in an environment that fosters fraudulent behavior).</li></ul>



# UPDATE 4: KEY TAKEAWAYS FROM IAASB'S ROUNDTABLE SERIES ON FRAUD AND GOING CONCERN

## *Procedures Related to Fraud in Audits of LCEs*

Theme	Details
<p><b>Participants questioned whether the minimum requirements in ISA 240 are appropriate in all circumstances for LCEs.</b></p>	<ul style="list-style-type: none"><li>• While it was acknowledged that certain procedures should be required to ensure an appropriate focus on fraud, the procedures currently required in the standard may not be as effective in all circumstances for LCEs.</li><li>• For example, in certain audits of LCEs, there are so few journal entries throughout the year that all journal entries may have already been captured in other audit procedures. In those circumstances, performing additional journal entry testing to fulfill the requirements of ISA 240 may not be the most effective way to respond to the risk of management override of controls.</li></ul>



# UPDATE 4: KEY TAKEAWAYS FROM IAASB'S ROUNDTABLE SERIES ON FRAUD AND GOING CONCERN

Theme	Details
<p><b>It was noted that it may be effective to require that auditors of LCEs apply more forensic type interview skills when performing inquiries of management.</b></p>	<ul style="list-style-type: none"> <li>• It may be beneficial to incorporate forensic-type procedures in various stages of the audit (e.g., forensic interview skills when performing inquiries of management).</li> <li>• There is a need to maintain balance, scalability and proportionality in the procedures required for the purpose of an audit.</li> </ul>
<p><b>The responsibilities of the auditor with regard to fraud may need to be more clearly emphasized.</b></p>	<ul style="list-style-type: none"> <li>• An auditor conducting an audit in accordance with ISAs is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However, in practice, auditors spend most of their time on procedures to identify material misstatements due to error.</li> <li>• The responsibilities of the auditor with regard to fraud and the procedures the auditor is required to perform in relation to fraud for the purpose of an audit may need to be clarified to stakeholders.</li> </ul>

# UPDATE 4: KEY TAKEAWAYS FROM IAASB'S ROUNDTABLE SERIES ON FRAUD AND GOING CONCERN

<p><b>The requirement to incorporate unpredictability in the selection of the nature, timing and extent of audit procedures can be difficult to apply in audits of LCEs.</b></p>	<ul style="list-style-type: none"><li>• The notion of unpredictability is important in audits of all entities but can be difficult in audits of smaller entities where procedures are already performed in most or all areas of the financial statements.</li><li>• Additional guidance focused on less complex circumstances in this area may be useful.</li></ul>
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# UPDATE 4: KEY TAKEAWAYS FROM IAASB'S ROUNDTABLE SERIES ON FRAUD AND GOING CONCERN

## *Going Concern Considerations*

Theme	Details
<b>Often, managers of LCEs do not prepare any formal forecast or going concern assessment.</b>	<ul style="list-style-type: none"><li>• Even if management prepares formal forecasts, there is often a lack of comparable information to assess reasonableness of assumptions used in going concern assessments. Participants acknowledged this is not necessarily specific to LCEs.</li><li>• These circumstances make it difficult to assess reasonableness and feasibility of management's plans.</li></ul>
<b>Often, LCEs operate with less formality and regularity than more complex entities.</b>	<ul style="list-style-type: none"><li>• For example, entities may extract money from the business on an as-needed basis, and therefore it may be difficult to predict purpose, timing and amounts from a cash flow perspective for purposes of assessing going concern.</li></ul>
<b>There are often key person dependencies where the business depends heavily on the skills of certain individuals.</b>	<ul style="list-style-type: none"><li>• Key person dependencies often exist in LCEs which results in increased pressure on one or a few people to maintain the company's survival. For example, a long-term or sudden health issue of key management could bankrupt a company if there are no feasible successors or succession plans.</li></ul>

# UPDATE 4: KEY TAKEAWAYS FROM IAASB'S ROUNDTABLE SERIES ON FRAUD AND GOING CONCERN

## *Procedures Related to Going Concern in Audits of LCEs*

Theme	Details
<p><b>The absence of formal forecasts or assessments related to going concern makes it difficult for the auditor to perform the procedures required by ISA 570 (Revised).</b></p>	<ul style="list-style-type: none"> <li>Auditors often place reliance on the knowledge of the owner-manager and on management representations.</li> <li>Informality of an LCE's environment often makes it challenging to apply certain required procedures.</li> </ul>
<p><b>Where the survival of the company depends on the owner-manager or a related party, it can be difficult to verify that they have the capacity and willingness to continue to fund the company in difficult times.</b></p>	<ul style="list-style-type: none"> <li>Since auditors typically do not perform audits of the individuals who provide funding (for example, an owner-manager's entire personal financial circumstances are not within audit scope), the ability of the auditor to obtain evidence on the ongoing or future financial support can be challenging to determine.</li> <li>One participant suggested there be a requirement to assess the party's performance relative to past commitments.</li> </ul>

# UPDATE 4: KEY TAKEAWAYS FROM IAASB'S ROUNDTABLE SERIES ON FRAUD AND GOING CONCERN

**Participants suggested it may be useful to consider if there is a "middle ground" that can be disclosed in the auditor's report to explain particular circumstances without raising serious concerns as to the entity's ability to continue as a going concern.**

- There is a lack of understanding of what a 'material uncertainty' is, and differences in the level of detail provided in the applicable accounting framework and the auditing standards may cause management and auditors to disagree on when a material uncertainty exists.
- Stakeholders often perceive transparent disclosures about going concern circumstances as 'red flags,' which puts pressure on management. For example, if a not-for-profit entity is completely dependent on charitable contributions from a particular third-party and those contributions have always been made in past years, there may not be a going concern issue, but the long term viability of the entity is completely dependent on a third party. The auditor may disclose this as a going concern issue in accordance with the ISAs, and stakeholders may view this in a highly negative light (as opposed to being constructive from a transparency perspective).
- There is no way of describing those instances when an owner-manager has a 'choice' about keeping the entity continuing as a going concern (i.e., when the owner-manager 'steps away,' the business also ceases).



# UPDATE 4: KEY TAKEAWAYS FROM IAASB'S ROUNDTABLE SERIES ON FRAUD AND GOING CONCERN

## Theme

**Auditors are required to assess management's going concern assessment which should cover at least twelve months from the date of the financial statements.**

**However, auditor's reports of LCEs may not be signed until much later, sometimes 9-10 months past the date of the financial statements (or even longer).**

## Details

- **Additional emphasis may be needed in ISA 570 (Revised) to require that auditors consider an extended period in situations where the auditor's report is issued much later than the date of the financial statements.**

# UPDATE 5: IMPLEMENTATION PLANS FOR THE QUALITY MANAGEMENT STANDARDS

Ahead of the anticipated release of the IAASB's suite of new quality management standards following Public Interest Oversight Board approval later this year, the IAASB has developed implementation plans for each of the three standards. The plans explain what implementation materials stakeholders can anticipate, topics covered, and expected timing.

<https://www.ifac.org/system/files/publications/files/IAASB-Quality-Management-Standards-Implementation-Support-Plan.pdf>



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## **UPDATE 6: THE CONSIDERATION OF CLIMATE-RELATED RISKS IN AN AUDIT OF FINANCIAL STATEMENT - STAFF AUDIT PRACTICE ALERT**

Climate change is increasingly front of mind for investors and other IAASB stakeholders as its effects are increasingly visible. Given climate change's potential to impact most, if not all entities, directly or indirectly, the IAASB issued this Staff Audit Practice Alert, which assists auditors in understanding what already exists in the International Standards on Auditing today and how it relates to auditors' considerations of climate-related risks in an audit of financial statements.

<https://www.ifac.org/system/files/publications/files/IAASB-Climate-Audit-Practice-Alert.pdf>

# UPDATE 7: PROJECT UPDATE: ISA 500, AUDIT EVIDENCE

Timing	Action
July – November 2020	Prepare project proposal and evolve approach to progress the revision of ISA 500 and conforming and consequential amendments to other standards
December 2020	Approval of project proposal and deliberation of issues
January – November 2021	Development of the exposure draft – progressing issues and drafting the proposed revisions to ISA 500.
	Dialogue with stakeholders on key issues and proposals
December 2021	IAASB approval of exposure draft, with a 120-day comment period, including proposed conforming and consequential amendments to other ISAs
June 2022 – February 2023	Analysis of responses and resulting revisions to the exposure draft in developing the final standard
	Dialogue with stakeholders on key issues and proposals
March 2023	IAASB approval of ISA 500 (Revised)

<https://www.ifac.org/system/files/publications/files/IAASB-ISA-500-Project-Update-September-2020.pdf>

# UPDATE 8: ISA 540 (REVISED) IMPLEMENTATION: ILLUSTRATIVE EXAMPLES FOR AUDITING EXPECTED CREDIT LOSS ACCOUNTING ESTIMATES

The International Standard on Auditing (ISA) 540 (Revised) Implementation Working Group has prepared illustrative examples for auditing expected credit loss (ECL) accounting estimates. The examples illustrate how an auditor could address certain requirements of ISA 540 (Revised), and have been developed to assist the auditor in understanding how ISA 540 (Revised) may be applied to:

- IFRS 9 Impairment (ECL) – Credit Card
- IFRS 9 Impairment (ECL) – Significant Increase in Credit Risk
- IFRS 9 Impairment (ECL) – Macroeconomic Inputs and Data

The examples illustrate accounting estimates with varying characteristics and degrees of complexity. Each example illustrates a selection of requirements from ISA 540 (Revised). Not all requirements are addressed in each example, nor do they cover all parts of those requirements that have been selected. The requirements selected across each example vary to illustrate different aspects of ISA 540 (Revised) and to focus on those requirements that are most relevant to the example.

# UPDATE 8: ISA 540 (REVISED) IMPLEMENTATION: ILLUSTRATIVE EXAMPLES FOR AUDITING EXPECTED CREDIT LOSS ACCOUNTING ESTIMATES

The three ECL examples are intended to be read together, as requirements that are addressed in one example may also be relevant to another example. For example, the Macroeconomic Inputs and Data example is focused primarily on the audit implications of such data, and does not repeat material in the other examples, which nevertheless may be relevant and applicable to that example more broadly.

*These examples do not constitute an authoritative pronouncement of the International Auditing and Assurance Standards Board, nor do they amend, extend or override the ISAs or other of the IAASB's International Standards. It is not meant to be exhaustive and reading these examples is not a substitute for reading the ISAs.*

*Simple and complex illustrative examples, which demonstrate how an auditor may address selected requirements of ISA 540 (Revised) in the context of the audit of the financial statements of an entity with simple and complex accounting estimates, respectively, are also available.*

<https://www.ifac.org/system/files/publications/files/IAASB-ISA-540-Expected-Credit-Loss-Illustrative-Examples.pdf>

## UPDATE 9: REVIEW ENGAGEMENTS ON INTERIM FINANCIAL INFORMATION IN THE CURRENT EVOLVING ENVIRONMENT DUE TO COVID-19

This Staff Audit Practice Alert highlights key considerations for auditors performing reviews of interim financial information in accordance with ISRE 2410,<sup>1</sup> given the unique challenges that may arise in the current environment.

<https://www.ifac.org/system/files/publications/files/IAASB-Staff-Alert-Interim-reporting-FINAL.pdf>

# UPDATE 10: AUDITING ACCOUNTING ESTIMATES IN THE CURRENT EVOLVING ENVIRONMENT DUE TO COVID-19

The COVID-19 pandemic has widespread global impacts on economies, markets and businesses, giving rise to significant volatility and considerable uncertainty. In such unpredictable circumstances, auditors will need to focus on the potential impacts of this volatility and uncertainty when auditing accounting estimates.

<https://www.ifac.org/system/files/publications/files/Staff-Alert-Auditing-Accounting-Estimates-final.pdf>

# UPDATE 11: ISA 540 (REVISED) IMPLEMENTATION: ILLUSTRATIVE EXAMPLES FOR AUDITING SIMPLE AND COMPLEX ACCOUNTING ESTIMATES

The International Standard on Auditing (ISA) 540 (Revised) Implementation Working Group has prepared illustrative examples for auditing simple and complex accounting estimates. The attached examples are designed to illustrate how an auditor could address certain requirements of ISA 540 (Revised), and have been developed to assist the auditor in understanding how ISA 540 (Revised) may be applied to:

- Simple Accounting Estimate – Provision on Inventory Impairment
- Complex Accounting Estimate – Provision on Property, Plant and Equipment Impairment

The examples illustrate accounting estimates with varying characteristics and degrees of complexity. Each example illustrates a selection of requirements from ISA 540 (Revised). Not all requirements are addressed in each example, nor do they cover all parts of those requirements that have been selected. The requirements selected across each example vary to illustrate different aspects of ISA 540 (Revised) and to focus on those requirements that are most relevant to the example.

[https://www.ifac.org/system/files/publications/files/ISA-540-Illustrative-Examples-1-and-2-Simple-and-Complex\\_Final.pdf](https://www.ifac.org/system/files/publications/files/ISA-540-Illustrative-Examples-1-and-2-Simple-and-Complex_Final.pdf)



# UPDATE 12: AUDITOR REPORTING IN THE CURRENT EVOLVING ENVIRONMENT DUE TO COVID-19

The effects of the COVID-19 pandemic have significant global implications for economies, markets and businesses, including volatility and possible material uncertainties. In such unpredictable circumstances, auditors of entities affected by these conditions will need to focus on the potential impacts for auditor and interim review reports, which are used to communicate audit opinions or review conclusions, respectively, to intended users. Appropriate actions will depend on the specific engagement circumstances.

This Staff Audit Practice Alert highlights potential implications for auditor and interim review reports arising from the current environment, including:

- Modifications to the auditor's opinion due to material misstatement of the financial statements or an inability to obtain sufficient appropriate audit evidence;
- Material uncertainty relating to going concern;
- Inclusion of key audit matters (KAMs) and/or emphasis of matter (EOM) paragraphs; and
- Reporting implications for interim review engagements, when the auditor of the financial statements is also performing the interim review.

<https://www.ifac.org/system/files/publications/files/Staff-Alert-Auditor-Reporting-Final.pdf>

## UPDATE 13: SUBSEQUENT EVENTS IN THE CURRENT EVOLVING ENVIRONMENT—AUDIT CONSIDERATIONS FOR THE IMPACT OF COVID-19

The uncertainty and challenges caused by the COVID-19 pandemic, including the likelihood of unplanned events occurring at any time, the uncertain duration of this current environment, and potential shifting timelines impact many areas within the audit. At the end of each reporting period, entities will be carefully evaluating information that becomes available after the reporting date but before the issuance of the financial statements. Accordingly, auditors will likely require greater focus on events occurring between the date of the financial statements and the date of the auditor's report (i.e., subsequent events<sup>1</sup>) and the effect, if any, of such on the entity's financial statements (see also Relevant Definitions and Descriptions on the last page for additional context).

[https://www.ifac.org/system/files/publications/files/IAASB-Staff-Alert-Subsequent-Events-in-the-Current-Evolving-Environment-Audit-Considerations-for-the-Impact-of-COVID-19\\_0.pdf](https://www.ifac.org/system/files/publications/files/IAASB-Staff-Alert-Subsequent-Events-in-the-Current-Evolving-Environment-Audit-Considerations-for-the-Impact-of-COVID-19_0.pdf)

# **UPDATE 14: STAFF AUDIT PRACTICE ALERT: GOING CONCERN** *in the Current Evolving Environment—Audit Considerations for the Impact of COVID-19*

This publication has been prepared to highlight key areas of focus in the current environment when undertaking procedures relating to, and concluding on, the appropriateness of management's use of the going concern basis of accounting in accordance with the International Standards on Auditing.

It does not amend or override the ISAs, the texts of which alone are authoritative. Reading this publication is not a substitute for reading the ISAs.

Preparers, those charged with governance and users of financial statements may find this publication helpful in understanding the auditor's responsibilities in relation to going concern, as well as any modifications made to the auditor's report in respect of any uncertainties related to going concern.

<https://www.ifac.org/system/files/publications/files/IAASB-Staff-Alert-Going-Concern-April-2020.pdf>

# UPDATE 15: HIGHLIGHTING AREAS OF FOCUS IN AN EVOLVING AUDIT ENVIRONMENT DUE TO THE IMPACT OF COVID-19

Global developments relating to the COVID-19 pandemic have also impacted the work of auditors. Uncertainty and unpredictability may create risks of material misstatement that are new, or intensified, in the circumstances. When planning the audit, auditors may not have considered these risks or may have considered identified risks differently.



<https://www.ifac.org/system/files/publications/files/Staff-Alert-Highlighting-Areas-of-Focus-in-an-Evolving-Audit.pdf>

# UPDATE 15: HIGHLIGHTING AREAS OF FOCUS IN AN EVOLVING AUDIT ENVIRONMENT DUE TO THE IMPACT OF COVID-19

Entities being audited are adjusting to the changing environment relating to their businesses and operations, including financial reporting processes, disclosures in financial statements and their ability to maintain operations in the foreseeable future.

Similarly, auditors have to adjust how they obtain sufficient appropriate audit evidence on which to base the audit opinion, amid challenges relating to, among other things, access to people or information, revising the identification and assessment of certain risks of material misstatement, and changing planned audit procedures or performing alternative or additional audit procedures as may be appropriate. Auditors may also find that the current circumstances bring opportunities to do things differently, for example, by using new, or flexing the use of existing, technology resources.



# UPDATE 15: HIGHLIGHTING AREAS OF FOCUS IN AN EVOLVING AUDIT ENVIRONMENT DUE TO THE IMPACT OF COVID-19

Lastly, other changes in the environment and financial reporting chain may also impact the audit, such as changes in the applicable financial reporting standards, changes in laws or regulations, or new transactions for the entity such as the receipt of subsidies.

Changes in how, and where, auditors are undertaking their work may necessitate firms to respond to the changing environment, for example by considering **quality control policies and procedures** relating to direction and supervision of engagement teams and the review of their work. At the engagement level, auditors should have heightened awareness of the possibility of **fraud or error**, including fraudulent financial reporting, with the importance of the exercise of **professional skepticism** top of mind in performing audit procedures.

The following highlights some of the more significant areas that may need to be further considered in designing and performing audit procedures to obtain sufficient appropriate audit evidence, and to report accordingly.

# **Update 16: INTERNATIONAL STANDARD ON AUDITING 220 (REVISED), QUALITY MANAGEMENT FOR AN AUDIT OF FINANCIAL STATEMENTS**

**Published: 17 December 2020**

ISA 220 (Revised) deals with the engagement partner and engagement team's responsibilities for quality management for an audit of financial statements. The revised standard modernizes the approach to quality management and requires the engagement partner and engagement team to be proactive in managing and achieving quality.

ISA 220 (Revised) is effective for audits of financial statements for periods beginning on or after December 15, 2022.

# **Update 17: MANAGEMENT (ISQM) 1, QUALITY MANAGEMENT FOR FIRMS THAT PERFORM AUDITS OR REVIEWS OF FINANCIAL STATEMENTS, OR OTHER ASSURANCE OR RELATED SERVICES ENGAGEMENTS**

**Published: 17 December 2020**

ISQM 1 strengthens firms' systems of quality management through a robust, proactive and effective approach to quality management. The standard encourages firms to design a system of quality management that is tailored to the nature and circumstances of the firm and engagements it performs. ISQM 1 applies to all firms that perform engagements under the IAASB's international standards. ISQM 1 replaces ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements*. Firms are required to have systems of quality management designed and implemented in accordance with ISQM 1 by December 15, 2022.



# **Update 18: INTERNATIONAL STANDARD ON QUALITY MANAGEMENT (ISQM) 2, ENGAGEMENT QUALITY REVIEWS**

**Published: 17 December 2020**

ISQM 2 deals with the appointment and eligibility of the engagement quality reviewer, and the engagement quality reviewer's responsibilities relating to the performance and documentation of an engagement quality review. ISQM 2 applies to all engagements for which an engagement quality review is required to be performed in accordance with ISQM 1.

ISQM 2 is effective for audits and reviews of financial statements for periods beginning on or after December 15, 2022, and other assurance and related services engagements beginning on or after December 15, 2022.

# Update 19: CONFORMING AMENDMENTS TO THE IAASB INTERNATIONAL STANDARDS AS A RESULT OF THE REVISED IESBA CODE

Published: 8 April 2020

*The Conforming Amendments to the IAASB's International Standards as a Result of the Revised IESBA Code*, propose limited amendments to the IAASB's International Standards in response to the revised International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code). The Conforming Amendments are intended to ensure that the IAASB International Standards can continue to be applied together with the IESBA Code.

# Update 20: INTERNATIONAL STANDARD ON RELATED SERVICES (ISRS) 4400 (REVISED)

Published: 3 April 2020

ISRS 4400 (Revised), *Agreed-Upon Procedures Engagements*, has been revised to respond to the growing demand for these engagements, particularly in relation to the need for increased accountability around funding and grants. A broad range of stakeholders, such as regulators, funding bodies and creditors, use agreed-upon procedures reports for a variety of reasons. The revised requirements and application material promote consistency in the performance of agreed-upon procedures engagements, and include enhancement relating to, among other matters, the exercise of professional judgement, compliance with independence requirements, engagement acceptance and continuance considerations, using the work of a practitioner's expert, and greater clarity and transparency in the agreed-upon procedures report.

# Final Note: Keep up to date on Social IAASB

- [https://twitter.com/IAASB\\_News](https://twitter.com/IAASB_News)
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# Q&A

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**Thank you for your  
participation**