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Dear Madam/Sir,

Accountancy Europe papers on recommendations to strengthen the financial reporting ecosystem – going concern and fraud

We are happy to respond on behalf of the Deloitte firms in Europe to Accountancy Europe's request for comments on the recommendations and ideas set out in its papers on recommendations to strengthen the financial reporting ecosystem – going concern and fraud.

- We welcome Accountancy Europe's approach in setting out constructive and forward-looking recommendations and ideas aimed at strengthening the different interdependent roles of key participants in the financial reporting ecosystem and inviting stakeholders to share views. Our view is that changes are required more broadly in the financial reporting ecosystem, including with regard to fraud and going concern and particularly given the challenges Covid-19 poses.
- EU capital markets and investors will benefit by increasing trust in financial reporting and its relevance for stakeholders.
- As capital markets and many companies operate at a global level, to the extent possible, consistency between different jurisdictions' operational or reporting requirements aimed at strengthening companies' and auditor's abilities and roles in tackling going concern and fraud issues will of course be crucial to improving financial reporting, providing benefits to stakeholders and narrowing any expectation gaps.
- Building on and taking into account existing systems and policy debates in European countries and other parts of the world[1], as mentioned by Accountancy Europe, will in our view be essential to

[1] We would like to highlight in this context the US Sarbanes-Oxley Act which brought in new corporate responsibilities for internal control systems for financial reporting with a range of other requirements – see Why did Sarbanes-Oxley (SOX) Stand Out? Deloitte, as well as the ongoing debates in the UK – see Deloitte UK comments on the launch of the BEIS consultation on audit and corporate governance.

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achieve effective and proportionate changes with benefits that would significantly outweigh their necessary costs.
- We suggest considering an EU regime of wider reporting by companies on the effectiveness of internal controls over financial reporting as a basis to underpin specific company disclosures on going concern and fraud.
- Finally, looking to the future and bearing in mind Accountancy Europe's important point on the interconnection between financial and non-financial/sustainability reporting, internal controls over non-financial/sustainability information will also be increasingly important.

You will find below our comments on the recommendations and ideas for consideration set out in the two papers.

Going concern paper

Recommendations

1. Broaden companies' work effort

- The responsibility for identifying and providing users with information on going concern (as well as fraud) is shared across multiple participants in the financial reporting ecosystem (e.g., the board of directors, audit committees, senior management, internal auditors, and external auditors) beginning with management and those charged with governance through the proper design and operation of internal controls over financial reporting.
- We agree that there is a need for companies to have integrated systems and adequate procedures around the going concern assessment:
    - however, the design of these systems and procedures should be developed in accordance with established frameworks;
    - these systems and procedures will constitute only a part – though a very fundamental part - of internal controls over financial reporting and
    - we think that there are merits in considering strengthening EU-wide requirements for companies' internal controls over financial reporting as a whole, including management/board statements on the effectiveness of these systems, of which a specific conclusion on going concern would be a key part, provided that an applicable going concern framework is available.
- Board and management competence:
    - we agree that management should have the necessary education, competences and skills in order to run such systems and execute the respective procedures;
    - as the ultimate responsibility for appointing executive management generally lies with the board, the board should in our opinion make certain that the competence requirements of management are fulfilled;
    - management mandating external expertise where needed is also subject to the oversight of the board;
    - for this oversight and monitoring role, board members and audit committee members must have the necessary experience and skills to be able to discharge their responsibility.

2. Mandate disclosure on companies‘ risk management systems on going concern and expand the auditor's involvement

- Regarding disclosures on the functioning of the risk management system on going concern:
  - if companies are required to run systems which are directed at going concern and perform related procedures, it makes sense that they report about the functioning of these measures, so reinforcing their responsibility and providing meaningful information to stakeholders. We also refer to our remarks under point 1 above.
- We support expanded auditor involvement as follows:
  - once a company selects a suitable internal control framework - including relevant procedures regarding going concern - and assesses the effectiveness of systems and procedures against this framework, the auditor will be able to provide assurance;
  - we believe this should in any case be performed by the statutory auditor as part of the statutory audit and
  - a mandatory requirement for companies to maintain adequate and effective internal controls over their financial reporting as a whole, which is subject to assurance procedures by the statutory auditor, could in our opinion be an effective means to improve the meaningfulness of specific disclosures around going concern.

3. Mandate going concern disclosure even if no uncertainties

- We agree that the idea of mandatory management public disclosure on the basis of their going concern assumption, in all circumstances, is worth exploring though care will be needed to avoid boiler plate disclosures.
- We note that the requirement to disclose the judgments made by management in "close call" scenarios (where it is unclear whether a material uncertainty over going concern exists) is currently encapsulated only in an IFRS Interpretation Committee Agenda Decision (July 2014) referring to the general requirements of paragraph 122 of IAS 1 on significant judgments made in the process of applying the entity's accounting policies. This Agenda Decision is used in the IFRS Foundation's recently published educational material "Going Concern – A Focus on Disclosure" to illustrate different disclosures that might become appropriate as an entity's circumstances deteriorate. While we believe this illustration is useful (and consistent with existing guidance, for example, from the UK Financial Reporting Council), it is recommended that a clear and concise framework for disclosure relating to going concern be added to the IFRS Standards themselves. Whilst agenda decisions published by the IFRS Interpretation Committee effectively have an authoritative status, we believe that incorporating the contents of the July 2014 Agenda Decision directly in IAS 1 would ensure that it has appropriate prominence.
- In relation to auditing standards, we note that regulators in certain countries (e.g. UK) have required auditors to carry out and report on additional procedures, including a statement on their consideration of management's going concern assumption, even where no material uncertainty or issues have been identified. We believe this is helpful, though not the only way to achieve the desired outcome. Implementation guidance for auditors could also be helpful. For example, on how

to understand management's processes and controls to assess going concern or the use of increased professional skepticism by the auditor when evaluating management's plans to alleviate any going concern issues[2].

- We are not supportive of the idea of gradual or progressive reporting on going concern by management and auditors. As Accountancy Europe mentions, a reporting framework will in any event be needed and we are concerned that gradual reporting can lead to an increased lack of consistency in reporting and possibly a greater level of misunderstanding by users of the financial statements about a company's going concern position.

4. Change in mindset, transparency and communication

- We agree that clear, understandable and balanced public communication from companies and auditors on going concern is important. We also agree that the current pandemic makes this all the more important.
- Consistency in communication by companies and auditors will also be crucial, to help stakeholders make comparisons.
- We also agree on the importance of tone at the top in both companies and audit firms in supporting and maintaining integrity throughout the organization. In this respect, dialogue that takes place between the auditor oversight authorities and audit firms on firm culture and ethics and measures taken to instill these considerations throughout a firm is important.
- We would add that the requirements under the new standard for audit firms' quality management (ISQM1), requiring firms to specifically address ethical matters, among others, will further help affirm best practices.

5. Mandate an audit committee in each public interest entity

- We agree with the recommendation to remove the current option in EU audit legislation for EU Member State legislation to allow a public interest entity not to have an audit committee if it has a body performing equivalent functions[3]. There may though be merits in continuing to allow Member States to exempt a limited number of public interest entities from the requirement to have an audit committee, such as those that are subsidiaries of other public interest entities that fulfil the audit committee requirements at parent/group level[4].
- We also agree that the audit committee should remain independent from management[5] and that a sufficient number of audit committee members should have competence in accounting and/or audit though we note that where audit committees have four or less members, one with such competence may be sufficient.
- Finally, we agree with the recommendation for all public interest entities to have an independent internal audit function. We also support the audit committee having direct access to the internal audit function, allowing the audit committee to obtain information and replies to its questions.

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[2] See Deloitte reply to the IAASB 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' (the "IAASB Fraud and Going Concern Discussion Paper", Appendix, p. 11-12.

[3] Under Article 39 paragraphs 2 and 4 of the EU Audit Directive. .

[4] Under Article 39 paragraph 3 of the EU Audit Directive.

[5] See ICAEW and Deloitte report 'Facing Change – Audit Committees in Europe' , p. 13-15 on audit committees' engagement with management, including comments on the need for audit committees to also meet without management.

- It may also be worth considering creating a requirement for the audit committee to monitor formal announcements relating to the company's financial performance in advance (such as preliminary announcements of results ahead of the annual report, investor presentations and analyst briefings) and to review underlying significant financial reporting judgments.

6. Clarify and harmonize the period for going concern assessment

- We support a harmonized period for the going concern assessment, across European countries and beyond.
- Due to the lack of clarity in IAS 1, Presentation of Financial Statements, related to how management performs that assessment, auditors may look to requirements in the auditing standards to challenge management on the adequacy of their assessment and disclosure.
- Instead of creating accounting requirements via auditing standards, IFRS Standards should provide a clear framework which:
    - expands the time period of management's assessment to cover twelve months from the date of approval of the financial statements, not the reporting date (for example, as already required by the UK Corporate Governance Code and US GAAP);
    - requires the performance by management of an assessment of the entity's ability to continue as a going concern;
    - specifies that developments after the reporting date but before the financial statements are approved should, as necessary, be factored into the assessment of going concern even if they are not themselves adjusting events under the general requirements of IAS 10, Events After the Reporting Period; and
    - clearly defines what is meant by "material uncertainty" and "significant doubt."[6]

7. Broaden auditor's area of consideration and work effort

- We believe that the existing requirements in ISA 570 and other international standards on auditing provide a robust basis for risk assessment adaptability and agility in selecting the most appropriate risk assessment procedures. The existing standards also require auditors to consider all relevant matters, including consideration of relevant contradictory evidence that challenges management's assessment.
- The increased work effort and, more importantly, increased effectiveness can be achieved through procedures that are tailored to engagement-specific circumstances.
- Thus, we do not believe that additional requirements for the auditor's work effort beyond what is currently set out in international standards on auditing (ISA) are needed. In any event, many helpful changes can be effected through implementation guidance for auditors. For example, implementation guidance or audit practice alerts which:
    - demonstrate how audit procedures already required by auditing standards other than ISA 570 may assist in the identification of conditions or events which may give rise to significant doubt;
    - illustrate an auditor's possible decision process via a flowchart: consideration of the existence of conditions or events, determination of whether those conditions or events may raise significant doubt, identification of whether management has plans to alleviate the significant doubt, consideration of whether management's plans are probable of being effectively implemented,

[6] See Deloitte reply to the IAASB Fraud and Going Concern Discussion Paper, Appendix, p. 4.

evaluation of whether management's plans would mitigate the conditions or events, and determination of whether disclosures necessary are sufficient. See examples in Australia Standards on Auditing 570 and in US GAAP (see FASB ASC 205-40-55-1);
- provide examples of procedures that may be performed when there is indication of a material uncertainty;
- provide examples of significant findings from the audit related to going concern which are required to be communicated to those in charge with governance (i.e., qualitative aspects of the entity's accounting practices, financial statement disclosures, significant difficulties encountered during the audit like management's unwillingness to extend the period of its assessment of the entity's ability to continue as a going concern, circumstances that affect the content of the auditor's report, significant events or transactions, and business conditions)[7].

- As for communication, the auditor's report under the ISAs currently includes statements regarding:
  - management's responsibility to assess the entity's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate, as well as disclosing, if applicable, matters relating to going concern. The explanation of management's responsibility for this assessment is required to include a description of when the use of the going concern basis of accounting is appropriate;
  - the auditor's responsibility to conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If the auditor concludes that a material uncertainty exists, the auditor is required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the opinion. The auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may still cause an entity to cease to continue as a going concern.
- These statements provide sufficient transparency into both management and the auditor's responsibility. Further information related to going concern and auditor's procedures are communicated in the auditor's report if there are material uncertainties or going concern becomes a key audit matter in accordance with ISA 570 and ISA 701.
- However, as mentioned in point 3 above, we consider that mandatory management public disclosure on the basis of their going concern assumption, in all circumstances, is worth exploring. If this disclosure were to be adopted, as a corollary, a general requirement to communicate in every auditor´s report on why the auditor agreed with management's assessment of going concern and what they did to satisfy themselves with management's assessment could be appropriate and could enhance the value of the auditor's report.

8. Make early warning mechanisms for auditors effective

- The effectiveness of the auditor's duty to report promptly to the supervisor of a public interest entity, or at the Member State's option to the auditor oversight body at the EU Member State's option, "any information which may bring about a material threat or doubt concerning the

[7] Again, see Deloitte reply to the IAASB Fraud and Going Concern Discussion Paper, Appendix, p. 11-12.

continuous functioning of the public interest entity"[8] is rightly being called into question. We agree that national legislation should clearly specify the competent authority and procedures enabling auditors to report such issues, under appropriate confidentiality rules.
- Guidance from the CEAOB regarding the conditions that could trigger reporting and when it should be done could be helpful.

Ideas to be explored

9. Assessing companies' longer-term viability and resilience

- We support the preconditions set out by Accountancy Europe for any longer term viability and resilience statement by companies and note that these would require robust corporate processes to be in place so that the disclosures made by management were sufficient, reliable and appropriately tailored so that an understanding of the risks could be gained.
- The proposal that the audit committee would be involved in challenging the disclosure and that the disclosure would be subject to greater scrutiny by public oversight bodies is also welcome.
- We note that in some countries, for example the UK, the relevant authorities require inclusion of a statement similar to this already in the company's annual report (although this is currently focused on longer-term viability and not necessarily resilience). In the UK, where such statements are made in the annual report, the auditors are required to perform certain procedures and report upon those publicly. However we would also note that the effectiveness of the existing viability statement in the UK has been under some scrutiny, particularly in respect of generic disclosure and a lack of detail.
- There is strong investor and wider stakeholder interest in how companies are building business resilience to cope with severe yet plausible scenarios in the short and medium term, and in understanding how company directors are exploring and preparing for likely challenges over the long term.

10. Interconnecting financial and non-financial information

- As noted in point 2 above, management is responsible for the assessment of an entity's ability to continue as a going concern. This assessment in order to be complete and comprehensive necessarily encompasses consideration of financial and non-financial/sustainability information.
- We support an interconnected approach between companies' financial reporting and their non-financial/sustainability reporting. This will help give a fuller picture of how the risks and opportunities faced by business translate into short, medium and long-term value creation and profitability – and of company resilience - and how, in turn, this relates to shorter-term financial performance.
- We also support mandatory assurance on non-financial/sustainability information to be reported against non-financial/sustainability reporting standards, to enhance the reliability, comparability and credibility of that information.

[8] Article 12.1 of the EU Audit Regulation.

Fraud paper

Recommendations

1. Require companies to have, and publicly report on, a fraud risk management system

- The responsibility for detecting fraud rests first and foremost with management and those charged with governance of an entity. Discharging that responsibility regarding fraud in financial reporting occurs through the proper design and operation of internal controls over that reporting.
- It is worth considering the merits, balanced against other factors such as cost, of establishing requirements for management to assess and publicly disclose a statement about the effectiveness of its fraud risk management program and relevant controls aimed at preventing and detecting fraud. This disclosure may foster an improved understanding of the responsibilities of management to prevent and detect fraud and will likely increase focus on fraud detection and prevention by management and those charged with governance, as well as provide stakeholders with valuable information and insight into the entity's corporate culture[9].
- Again, as mentioned above in point 1 addressing the Going Concern recommendations, we recommend that rather than focusing on reporting only on the fraud risk management system, companies instead report on the effectiveness of their internal control systems, which would include fraud risk management systems.
- A suitable reporting framework for companies is needed. We think that appropriate frameworks for companies' internal control over financial reporting including a financial reporting fraud risk management program exist, such as the COSO Fraud Risk Management Guide.

2. Pay specific attention to senior management fraud

- We are supportive of the recommendations made by Accountancy Europe in relation to the attention that is paid to senior management fraud by the board and audit committee and in particular the independence of the audit committee from management.
- As mentioned in our response to the IAASB Fraud and Going Concern Discussion Paper we encourage policy makers, regulators and listing exchanges to create requirements to increase awareness and accountability of management and those charged with governance for developing and adhering to robust fraud prevention and detection programs and impose serious consequences for individuals and entities for fraudulent financial reporting or misleading the auditors.
- We note that many of the recommendations have already been established in some countries both within and outside the EU although the focus on management fraud risk is not necessarily made explicitly.

3. Mandate an audit committee in all public interest entities

Note that the comments below address additional points compared to our comments above on the Going Concern paper.

[9] See also Deloitte reply to the IAASB Fraud and Going Concern Discussion Paper, Appendix, p. 3, Others, 1st bullet point.

- We agree that a sufficient number of audit committee members should have competence in risk management though we note that where audit committees have four or less members, one with such competence may be sufficient.
- We support any internal whistleblowing reports that relate to matters that may impact the reliability of financial reporting being shared with audit committees.
- Guidance would be helpful on how companies, and audit committees in particular where the issues reported by whistleblowers impact financial reporting, should deal with the content of whistleblower reports, in addition to the applicable rules under the EU Whistleblowing Directive on protecting whistleblowers.

4. Make early warning mechanisms for auditors effective

Again, the comments below address additional points compared to our comments above on the Going Concern paper.

- The effectiveness of the auditor's duty to inform the audited public interest entity of suspicions of irregularities, including fraud with regard to its financial statements, and to inform relevant authorities if the entity does not investigate the matter[10] is also rightly being called into question. We agree that national legislation should clearly specify the competent authority and clear guidance/procedures enabling auditors to report such issues, under appropriate confidentiality rules.
- We also suggest considering guidance from the CEAOB regarding the conditions that could trigger reporting and when it should be done.

5. Clarify auditing standards for a common understanding of the auditor's role

- The current auditing standards appropriately state that the auditor has a responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements due to fraud, and their principles-based nature enables the auditor to apply professional judgment in evaluating an entity's facts and circumstances to assess risks and design appropriate audit procedures to address the risk of fraud. This focus on applying a risk-based approach to responses (which requires the performance of additional procedures to respond to increased risk) is a fundamental premise of the auditing standards which should not be lost by the addition of "bolt-on" requirements that are not rooted in the risk assessment process.
- However we recognize that the role of the auditor in relation to fraud is often misunderstood and that improvements can continue to be made to audit procedures performed and so agree that there is an opportunity to provide further clarity and to issue implementation guidance. For instance to:
    - emphasize the foundational requirement to plan and perform the audit to detect material misstatement due to fraud;
    - better link existing requirements in individual ISAs (beyond ISA 240 and ISA 570) to their ability to detect fraud;
    - provide guidance on the necessity to fully understand the processes and controls of a company and the use of increased professional skepticism;

[10] Article 7 of the EU Audit Regulation.

- provide examples of how advances in technology enable fraud to be perpetrated in new and unique ways and develop guidance to demonstrate the use of audit data analytics and other automated tools to execute audit procedures[11].

- Given the risk-based approach in auditing standards which already requires performance of additional, tailored preocedures to respond to increased risk, we do not believe it necessary to add requirements for specific procedures addressing the risk of senior management fraud but do support additional application guidance in this area.

6. Improve auditors' access to knowledge and awareness about fraud

- We support the recommendation to establish and maintain a platform to share case studies and experiences on discovered fraud; making this platform or part of it publicly available may be worth considering. The following can be undertaken in this effort to increase the auditor's access to knowledge and awareness about fraud:
  - interfacing with regulatory bodies to collect information on exposed corporate fraud schemes (similar to what has been suggested in the Brydon report);
  - collaborating with academia to perform root cause analysis of actual cases, identify fraud characteristics, and highlight how the fraud was uncovered, and then
  - sharing redacted "lessons learned" (perhaps in the form of a database of cases) to provide auditors with examples and insights of how fraud can be perpetrated and detected.
- Further, the IAASB could use this information to determine if the current auditing standards are adequate, given the evolution of the topic and may consider partnering with academia or other stakeholders to identify and develop examples of effective data analytics for use on the audit. For example, the IAASB may consider building case studies through analysis of known frauds and how understanding KPIs may have helped identify the risk related to the fraud. As part of these case studies, it is important to note the strong link between management fraud and tone at the top issues, especially related to "achieving targets at any cost."

7. Auditors to clearly communicate their work and conclusions about fraud

- We agree that to improve fraud identification, detection and deterrence, open communication between the auditor and those charged with governance regarding the auditor's evaluation of management's programs and controls over fraud is critical and that the communication should be specific and not boilerplate.
- In addition, enhanced communication about identified or suspected fraud, even when management is not involved, may be helpful to those charged with governance as they execute their processes to monitor the entity. It is also important that those charged with governance understand the significance of their role in the financial ecosystem and that they are committed to using the information communicated to fulfil their fiduciary responsibilities.
- We recognize that some standard setters, including the UK FRC, have extended the level of reporting required of auditors by requiring the auditor's report to explain to what extent the audit was considered capable of detecting irregularities, including fraud.

[11] See also Deloitte reply to the IAASB Fraud and Going Concern Discussion Paper, Appendix, p. 6-9.

While there could be value in public auditor reporting on management's statement on fraud risk management, it would seem unlikely for this to provide a level of assurance that would be understandable by readers of the financial statements in the absence of wider reporting on the effectiveness of internal controls over financial reporting (see point 1 above in our comments on the Going Concern paper).

Enhanced requirements for management and those charged with governance related to internal control over financial reporting, coupled with certification backed by independent assurance from auditors, could effect change by driving the auditor to test operating effectiveness, not only as part of a control reliance strategy, but also as a means for reporting on an entity's internal controls over financial reporting. In case of such enhanced requirements, it would be appropriate for the IAASB to modify the auditing standards[12].

In our view any assurance work and public reporting specifically on management's statement on fraud risk management should be part of a separate assurance engagement undertaken by the auditor and not be part of the standard statutory audit. The reason for this being a separate engagement is that a statutory audit of financial statements is a risk-based exercise aimed at providing reasonable assurance that the financial statements as a whole provide a true and fair view. Assurance specifically on an anti-fraud program or controls goes beyond this scope.

Ideas to be explored

8. Considering more extensive use of forensic experts by auditors

- We agree that the decision to use a forensic specialist in an audit should be a risk based judgement made by the auditor and not mandated. The decision to use a forensic specialist should be informed by the auditor's assessment of the risk that the financial statements are materially misstated as a result of fraud.
- We can see benefit in implementation guidance being developed that provides considerations or examples of when involving a forensic specialist in an audit may be appropriate as well as implementation guidance on how a forensic specialist can assist in the audit. For instance, participating in the risk assessment process, fraud brainstorming session, management inquiries, the design and/or evaluation of testing relating to identified risks and the follow up on identified or suspected fraud.
- We also support a broader upskilling of auditors in respect of fraud, including assessment of bias. Integrating forensic specialists into audit training which provides auditors more exposure to fraud considerations to apply to their audit engagements and case studies of fraud indicators would be beneficial.

9. Considering more extensive use of data and technology by auditors

- Overall, we recommend the IAASB develop guidance regarding auditors' use of data and technology, which is rapidly evolving worldwide and is difficult to deal with appropriately in standards or legislation.

[12] See Deloitte reply to the IAASB Fraud and Going Concern Discussion Paper, Appendix, p. 7, final bullet point.

- We fully support the recommendation to encourage auditors to continue improving their skills in using technology. It is important to note that the advent of new technologies, from cloud computing to artificial intelligence, as well as changes in the cost and accessibility of these types of digital tools, have enabled entities to increasingly incorporate automation into the design of both business processes and control functions. The digitization of financial data and records, connection of supply chains to blockchain, and use of complex information systems have increased the likelihood that substantive testing alone would not provide sufficient appropriate audit evidence and expand the need and importance for auditors to closely evaluate the entity's controls underpinning these areas. Implementation guidance which addresses the continuously rising effect of technology on the audit and heightens the auditor's focus on internal control, including IT controls, related to these advancements would prove extremely helpful. We also agree that analyzing selected internal and publicly available external data could provide useful insights to auditors. The extent of information and data available both within and outside the entity is ever-increasing and auditors can use this to their advantage in increasing the effectiveness of audit procedures. Standard setters can provide examples of information that may be gathered and analytics that may be applied to such information to assist in identifying areas where the risk of material misstatement related to fraud may be elevated. Exemplifying data such as (1) statements and communications on the entity website and (2) analytics using external information such as trend analyses, comparison to peers or industry benchmarks, or media sentiment analysis, may aid in identification of fraud risk factors.
- Another example of using data effectively would be consideration of Key Performance Indicators (KPIs) as part of the auditor's fraud risk assessment. Standard setters can create application material or implementation guidance demonstrating how auditors may consider an entity's KPIs, including identification of KPIs and how data and information involved in their calculation may be manipulated by management or those charged with governance, combined with linking such considerations into the fraud brainstorming process, management fraud inquiries, and refining journal entry testing procedures.
- In addition, examples of KPIs more commonly used by investors and how auditors may consider analytics that are based on both internal and commonly available external information sources may be useful.[13]
- Finally, we agree with Accountancy Europe's comment that technology can support but cannot replace the human element of an audit.

We would be happy to discuss any of these points further and can be reached at jloeffler@deloitte.de and scleveland@deloitte.co.uk.

Yours sincerely,

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[13] See Deloitte reply to the IAASB Fraud and Going Concern Discussion Paper, Appendix, p. 6-8.