On Setting of Standard to Address Risks of Fraud in an Audit (tentative name) (Exposure Draft)

December 21, 2012
Audit Committee of the Business Accounting Council

I. Background and the approach to developing Standard to Address Risks of Fraud in an Audit (tentative name)

1. Background

Under the current Auditing Standards, the auditor is required to perform an audit by maintaining professional skepticism and assessing the risks of material misstatement due to fraud or error, reflecting the results of such assessment in the audit plan and conducting the audit based on the plan. However, as fraud is an intentional act involving the use of deception, the risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting a material misstatement resulting from error. Moreover, the risk of the auditor not detecting a material misstatement resulting from management fraud is greater than for employee fraud because fraud involving the management is often executed by overriding internal controls.

Regarding the recent succession of inappropriate cases resulting from fraud, the comments have been provided that, under the current Auditing Standards, the requirements for the auditor when there are any circumstances that indicate the possibility of a material misstatement due to fraud were not necessarily clear, and that has caused inconsistency in audit practice. It has also been suggested that if there are any such circumstances, the audit procedures should be performed in a more cautious manner in light of the abovementioned characteristics of fraud.

Accordingly, the Audit Committee, which is a sub-committee on auditing standards of the Business Accounting Council, has decided to establish a new standard titled “Standard to Address Risks of Fraud in an Audit” (which is a tentative name but hereinafter referred to as “Standard to Address Risks of Fraud” or "this Standard" for convenience), in order to clarify audit procedures to address the risks of material misstatements due to fraud and to require more cautious performance of audit procedures in certain specific cases.

2. Basic Concepts Underlying the Standard to Address Risks of Fraud

The Standard to Address Risks of Fraud has been established based on the following basic concepts:

(1) Misstatements in financial statements can arise from either fraud or error, but this Standard covers the fraud that would cause material misstatements which the auditor is required to address in the financial statement audit. The term "fraud" as referred to in this Standard means an intentional act by one or more individuals among management, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage.

(2) This Standard, which stipulates the requirements for the auditor to address risks of material misstatements due to fraud (hereinafter simply referred to as "risks of fraud") in the financial statement audit, is not intended to change the purpose of the financial statement audit nor intended to expose fraud itself.

(3) This Standard is not intended to uniformly require additional specified audit procedures to respond to risks of fraud in all the financial statement audits. This Standard is, based on the concept of risk-based approach which has already been adopted in the current Auditing Standards, intended to enhance the effectiveness of the financial statement audit through appropriate assessment of risks of fraud and performance of audit procedures appropriately in response to the assessed risks of fraud.

(4) An auditor is responsible for expressing an audit opinion on the financial statements prepared by management, and such auditor's responsibility to express an opinion on the financial statements is distinguished from the management's responsibility to prepare those financial statements. When an auditor performs an audit with the professional due care, such auditor would not be held liable, which is unchanged under this standard.

3. Applicability of the Standard to Address Risks of Fraud

(1) Scope of Application of the Standard to Address Risks of Fraud

The purpose of this Standard is to secure transparency and fairness of the capital market in Japan by more effectively addressing risks of fraud. Therefore, this Standard has been prepared with the prospect that it shall be applied mainly in the audits of companies that are required to make disclosures under the Financial Instruments and Exchange Act (excluding unlisted companies with a stated capital less than 500 million yen or with annual sales less than one billion yen and total liabilities less than 20 billion yen), whose financial statements or the audit report thereon are used by a broad range of users. The scope of application of this Standard shall be clarified in the relevant laws and regulations and thus, unless explicitly required by the relevant laws and regulations, this Standard is not applicable.

(2) Status of the Standard to Address Risks of Fraud

The Auditing Standards shall be commonly applied in all the audits. However, this Standard has been established as a standard that is separated from the current Auditing Standards and the Quality Control Standard for Audit (hereinafter referred to as the "Quality Control Standard") since, (i) as stated above, this Standard would be applied to the audits of specific companies, and (ii) it would be more understandable for the auditors if the requirements to address risk of fraud were organized in one standard.

This Standard constitutes generally accepted auditing standards, and would be applied by the auditors together with the Auditing Standards and Quality Control Standard. Also, it is necessary for the auditors to apply this Standard together with the Auditing Standard Committee Statements (ASCSs) and a Quality Control Standard Committee Statement (QCSCS), prepared by the Japanese Institute of Certified Public Accountants (JICPA), in an integrated manner.

II. Effective date and other concerns

1. This Standard is effective for the audits of financial statements for the periods ending on or after March 31, 2014, except the third part of this Standard, “Audit firm’s quality control to address risks of fraud,” which is effective on or after October 1, 2013.

2. JICPA is requested to promptly revise ASCSs and a QCSCS that will be necessary to implement this Standard in practice, followed by consultation with the relevant parties in due process.

Background Information Regarding the Auditing Standards in Japan

Auditing standards generally accepted in Japan consist of the followings:

- Auditing Standards codified by the Business Accounting Council (BAC), an advisory body established within the Financial Services Agency (FSA);
  - Auditing Standard stipulates principles and key concepts about the financial statement audit, agreed among broad stakeholders.
  - Standard on Quality Control for Audits is required to be applied together with Auditing Standard.
  - BAC consists of practitioners as well as non-practitioners including academics, executives of major companies, investors, a representative from stock exchanges, and is observed by Ministry of Justice.
- Auditing Standards Committee Statements (ASCSs) and a Quality Control Standard Committee Statement (QCSCS) issued by the Japanese Institute of Certified Public Accountants (JICPA). (*)
  - BAC refers JICPA to develop detailed requirements to implement Auditing Standard codified by BAC in practice. These requirements, together with relevant application materials, are included in ASCSs and a QCSCS.
  - ASCSs and a QCSCS are developed based on Auditing Standard codified by BAC, and to converge with clarified International Standards of Auditing (ISA) and International Standard on Quality Control 1 (ISQC 1) issued by the International Auditing and Assurance Standards Board (IAASB)

(*)

- In October 2006, JICPA issued ASCS No. 35 *The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements*, which was developed to converge with ISA 240.
- In December 2011, JICPA issued QCSCS 1 and ASCSs with the same numbers as used in the clarified ISQC 1 and ISAs, including ASCS 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, which were redrafted based on clarified ISA 240. Those QCSCS and ASCSs are effective for the periods beginning on or after April 1, 2012.
- Based on the Standard to Address Risks of Fraud in an Audit which is currently proposed to the public, relevant QCSC 1 and ASCSs, including ASCS 240, will be revised.

(Exposure Draft) Standard to Address Risks of Fraud in an Audit (tentative name)

I. Emphasis on Professional Skepticism

1. The auditor shall maintain professional skepticism throughout the audit, bearing in mind risks of material misstatements due to fraud (hereinafter simply refer to as the “risks of fraud”) at all times, notwithstanding the auditor’s past experience of the integrity of management and others within the entity.
2. The auditor shall exercise professional skepticism in assessing risks of fraud, taking into account the characteristics of fraud.
3. The auditor shall exercise professional skepticism in performing audit procedures to address the identified risks of fraud.
4. The auditor shall exercise professional skepticism in evaluating the audit evidence obtained so as not to overlook any circumstances that indicate the possibility of a material misstatement due to fraud
5. The auditor shall exercise increased professional skepticism in determining whether there is any suspicion of material misstatement due to fraud and in performing the audit procedures to address such suspicion.

II. Conducting Audit to Address Risks of Fraud

1. Obtaining an understanding of the instances of fraud in the entity and the industry in which the entity operates

   The auditor shall obtain an understanding of the typical instances of fraud which have been made public and general and industry-specific business practices that are likely to be used for fraud, in order to appropriately assess risks of fraud, as part of obtaining an understanding of the entity and its environment, including the industry in which the entity operates.

2. Inquiries related to risks of fraud

   The auditor shall make inquiries of management, those charged with governance and others within the entity as appropriate regarding the facts and knowledge that they have in relation to the risks of fraud.

The auditor shall also make inquiries of management regarding its views on the factors and types of fraud that could occur in the entity, the measures against fraud, and other matters related to fraud. The auditor shall use the information obtained from such inquiries in the risk assessment.

(*) Japanese companies either have “Audit & Supervisory Board” or “Audit Committee” depending on the corporate structure. In this standard, “those charged with governance” covers “Audit & Supervisory Board Member” as well as “Audit Committee Member”.

3. Considerations of fraud risk factors in developing an audit plan

The auditor shall evaluate whether the information obtained indicates that one or more fraud risk factors are present and take such information into account in identifying and assessing the risks of fraud at the financial statement level as well as at the assertion level for class of transactions, account balances, and disclosures in developing an audit plan. The auditor shall develop an audit plan concerning the overall responses and the further audit procedures to address the assessed risks of fraud.

Examples of fraud risk factors are presented in Appendix 1, however, the auditor shall remain alert to the possibility that additional or different risk factors other than those in Appendix 1 may exist.

4. Discussions and sharing of information among the engagement team

The engagement partner and other key engagement team members shall discuss how and where the financial statements may be susceptible to material misstatement due to fraud, and also share their insights and information among them.

The engagement partner shall direct engagement team members to bring significant accounting and auditing issues arising during the audit, such as unusual transactions that raise questions about the economic rationale, to the attention of the engagement partner and more experienced engagement team members.

5. Audit procedures to address risks of fraud

The auditor shall obtain audit evidence, that is more relevant or reliable or more in quantity, for the assertion related to the identified risk of fraud than that for other assertions in which no risk of fraud is identified.

6. Incorporation of an element of unpredictability

The auditor shall incorporate an element of unpredictability in the selection of the nature, timing and extent of audit procedures to be performed to address the identified and assessed risk of fraud at the financial statement level.

7. External confirmation procedures to address risks of fraud

When the auditor uses a positive confirmation request to address assessed risks of fraud but the confirming party fails to respond or does not fully respond to such a positive confirmation request, the auditor shall not easily determine to move to an alternative procedure.

When the auditor performs an alternative procedure, the auditor shall determine whether the auditor is able to obtain relevant and reliable audit evidence for the assertion through the alternative procedure. If the auditor has no choice but to perform an alternative procedure and uses as the audit evidence the information only that was prepared by the entity or its affiliates, the auditor shall determine the reliability of such information in a more cautious manner.

8. Evaluating the sufficiency and appropriateness of audit evidence

The auditor shall determine whether sufficient appropriate audit evidence has been obtained for the assertion related to the risk of fraud based on the audit procedures performed and the audit evidence obtained. If the auditor has determined that sufficient appropriate audit evidence has not been obtained, the auditor shall perform additional audit procedures.

9. Performing audit procedures if inconsistency in audit evidence or other specific conditions are identified

If the conditions identified during the audit cause the auditor to believe that a document may not be authentic, that terms in a document have been modified or that audit evidence obtained from one source is inconsistent with that obtained from another, the auditor shall determine what modifications or additions to audit procedures are necessary (e.g. confirming directly with a third party or using the work of an expert).

10. Circumstances that indicate the possibility of a material misstatement due to fraud

If the auditor identifies any circumstances that indicate the possibility of a material misstatement due to fraud during the audit, the auditor shall make inquiries of and ask for explanations from management and perform additional audit procedures in order to determine whether there is a suspicion of a material misstatement due to fraud.

Appendix 2 contains examples of circumstances that indicate the possibility of a material misstatement due to fraud, however, the auditor shall remain alert to the possibility that additional or different circumstances may exist.

11. Suspicion of a material misstatement due to fraud

When the auditor has determined the management's explanations, together with the audit evidence obtained relevant thereto, are not considered reasonable in relation to certain circumstance that indicates the possibility of a material misstatement due to fraud, the auditor shall treat it as a suspicion of a material misstatement due to fraud.

In addition, if the auditor is unable to obtain sufficient appropriate audit evidence related to the assessed risk of fraud, even after performing the additional audit procedures that the auditor determined necessary as a result of performing the audit procedure originally designed in response to the assessed risk of fraud, the auditor shall treat it as a suspicion of a material misstatement due to fraud.

When the auditor has concluded not to treat as a suspicion of a material misstatement due to fraud, the auditor shall include in the audit documentation the conclusion and the rationale for that conclusion.

12. Modification of the audit plan when the auditor has determined a suspicion of a material misstatement due to fraud exists

When the auditor has determined that any suspicion of a material misstatement due to fraud exists during the audit after the original audit plan developed, the auditor shall modify the audit plan to include audit procedures that are specifically responsive to the types of possible fraud, including sufficient investigation on such a suspicion, in order to obtain sufficient appropriate audit evidence in relation to the suspicion.

13. Performing audit procedures when the auditor determines a suspicion of a material misstatement due to fraud exists

The auditor shall perform the audit procedures in accordance with the modified audit plan in order to obtain sufficient appropriate audit evidence for the assertion related to the suspicion of material misstatement due to fraud.

14. Using the work of an expert

The auditor shall determine whether the skill and knowledge of an expert is needed to perform assessments of risks of fraud, perform audit procedures, or evaluate audit results, according to the nature and significance of the risks of fraud.

15. Engagement quality control review to address risks of fraud

An engagement quality control review shall be conducted in a timely manner at appropriate stages during the audit for significant judgments made and conclusions reached to address the risks of fraud in compliance with the policies and procedures of the audit firm.

16. Engagement quality control review when the auditor determines a suspicion of material misstatement due to fraud exists

When the auditor determines that a suspicion of material misstatement due to fraud exists, the auditor shall not express an opinion until the engagement quality control review has been completed by an appropriate engagement quality control reviewer in compliance with the policies and procedures of the audit firm in regard to the auditor’s responses to the suspicion of material misstatement due to fraud.

17. Communication with those charged with governance

The auditor shall communicate with those charged with governance, which includes appropriate discussion with those charged with governance according to the nature and significance of the risks of fraud, at each stage during the audit.

When the auditor has determined that a suspicion of a material misstatement due to fraud exists, the auditor shall communicate the suspicion to those charged with governance as soon as practicable and discuss with them the nature, timing and extent of audit procedures necessary to complete the audit.

18. Reponses to suspicion of fraud involving management

If the auditor suspects fraud involving management, the auditor shall discuss with those charged with governance such a suspicion, and request management to take appropriate actions such as remedial actions on the issues. The auditor shall also evaluate the effect of the fraud on the financial statements.

19. Audit documentation

When the auditor has determined that a suspicion of a material misstatement due to fraud exists, the auditor shall include in the audit documentation the nature of the suspicion, the audit procedures performed and the results thereof, the conclusion reached, and the significant professional judgments made in reaching those conclusions.

III. Audit Firm’s Quality Control to Address Risks of Fraud

1. Quality control to address risks of fraud

The audit firm shall establish appropriate quality control policies and procedures taking into consideration the risks of fraud and appoint the person responsible for quality control to address risks of fraud.

2. Considerations of risks of fraud in the acceptance and continuance of audit engagement

The audit firm shall establish policies and procedures for the acceptance and continuance of audit engagement, which include the evaluation of risks relating to the acceptance and continuance of the audit engagement considering the risks of fraud as well as the review of such evaluation by the appropriate person outside the engagement team

3. Education and training concerning fraud

The audit firm shall establish policies and procedures for education and training to provide appropriate opportunities for the audit firm personnel to receive education and training concerning fraud, including training seminars within or outside the audit firm, so that personnel can gain knowledge on the instances of frauds, to perform the audit work, and develop capability.

4. Supervision and review to address risks of fraud

The audit firm shall establish policies and procedures for supervision and review of the audit work in order to properly address the risks of fraud, and shall implement them appropriately.

5. Establishment of policies and procedures to deal with the information related to risks of fraud, provided from within or outside the audit firm

The audit firm shall establish policies and procedures designed to appropriately deal with the information provided from within or outside the audit firm, which require that the audit firm receives the information, the audit firm communicates the information to the relevant engagement team, and the engagement team reports to the appropriate person outside the engagement team how the engagement team addressed the information during the course of the audit.

6. Consultation when the auditor determines a suspicion of a material misstatement due to fraud exists

The audit firm shall establish policies and procedures for consultation so that the members of the engagement team undertakes consultation with others at the appropriate level within or outside the audit firm (e.g. appropriate resources of the audit firm, who have relevant technical expertise and experience), as necessary, when the auditor has identified a circumstance that indicates the possibility of a material misstatement due to fraud or the auditor has determined that a suspicion of a material misstatement due to fraud exists

7. Engagement quality control review when the auditor has determined that a suspicion of a material misstatement due to fraud exists

The audit firm shall establish policies and procedures requiring an engagement quality control review to be conducted as to whether the modified audit plan and audit procedures are appropriate and whether the sufficient appropriate audit evidence has been obtained when the auditor has determined a suspicion of material misstatement due to fraud exists

The audit firm shall appoint the qualified engagement quality control reviewer (including a team made up of qualified individuals) with sufficient and appropriate experience, authority and other qualifications that is responding to the relevant suspicion.

(*) The engagement quality control review stipulated on this paragraph may be different from the engagement quality control review under the circumstances where no suspicion of material misstatement due to fraud has been identified, in terms of the scope of the review, as well as the experience and authority of the reviewer.

8. Communication between the predecessor and the successor where there have been a change of engagement partners within the audit firm

The audit firm shall establish policies and procedures for quality control of engagement performance requiring significant matters arising from the audit, including the risks of fraud, be appropriately communicated between the predecessor and the successor where there have been a change of engagement partners within the audit firm.

9. Communication between the predecessor and the successor auditors where there have been a change of auditors

The audit firm shall establish policies and procedures for communication with the successor auditor requiring the auditor communicate significant matters arising from the audit, including the risks of fraud, to the successor auditor and accept the request from the successor auditor to review the relevant working papers where there have been a change of auditors.

The audit firm also shall establish policies and procedures for communication with the predecessor auditor requiring the auditor make inquiries of the predecessor auditor as to the reason for the change of auditors as well as significant matters arising from the audit including how the risks of fraud have been addressed.

In addition, the audit firm shall establish policies and procedures for communication between the predecessor and the successor auditors requiring the engagement team report the result of the communication to the appropriate person outside the engagement team.

10. Monitoring as to how the risks of fraud have been addressed in the audit

The audit firm shall ascertain whether the following matters have been conducted in conformity with the policies and procedures of the audit firm, through the monitoring of the system of quality control to address the risks of fraud:

- Acceptance and continuance of audit engagement
- Education and training concerning fraud
- Engagement performance (including supervision and review, dealing with information provided from within and outside the audit firm, consultations, engagement quality control review and communication between the predecessor and the successor where there have been a change of engagement partners within the audit firm)
- Communication between the predecessor and the successor auditors

Appendix 1

Examples of Fraud Risk Factors

In performing a risk assessment, the auditor shall examine the typical fraud risk factors as exemplified below and determine whether they are applicable, in order to identify the risk of fraud.

Risk Factors Relating to Misstatements Arising from Fraudulent Financial Reporting

1. Incentives/Pressures

(1) Financial stability or profitability is threatened by economic, industry or entity operating conditions, such as (or as indicated by):

(e.g.)

* Recurring negative cash flows from operations or an inability to generate cash flows from operations while reporting earnings and earnings growth.
* High vulnerability to rapid changes, such as changes in technology, product obsolescence, or interest rates.

(2) Excessive pressure exists for management to meet the requirements or expectations of third parties due to the following:

(e.g.)

* Profitability or trend level expectations of investment analysts, institutional investors, significant creditors, or other external parties (particularly expectations that are unduly aggressive or unrealistic), including expectations created by management in, for example, overly optimistic press releases or annual report messages.
* The entity could violate exchange listing requirements or debt repayment or other debt covenant requirements.

(3) Information available indicates that the personal financial situation of management or those charged with governance is threatened by the entity's financial performance arising from the following:

(e.g.)

* Significant financial interests in the entity.

(4) There is excessive pressure on management (including management of subsidiaries), operating personnel, or other employees, etc., to meet financial targets (including those established by his/her superiors), including sales or

profitability incentive goals.

2. Opportunities

(1) The nature of the industry or the entity's operations provides opportunities to engage in fraudulent financial reporting that can arise from the following:

(e.g.)

* Significant related-party transactions not in the ordinary course of business or with related entities not audited or audited by another firm.
* Significant, unusual, or highly complex transactions, especially those close to period end that pose difficult "substance over form" questions.
* Formation of a special purpose entity for which there appears to be no clear business justification
* The entity operates in the industry where transactions could be initiated by the contract yet to be signed or sealed, or transactions are initiated or modified with oral negotiations between the representatives, before the purchase orders and order receipts by formal document.

(2) The monitoring of management is not effective as a result of the following:

(e.g.)

* Domination of management by a single person or small group (in a non owner managed business) without compensating controls.

(3) There is a complex or unstable organizational structure, as evidenced by the following:

(e.g.)

* Overly complex organizational structure involving unusual legal entities or managerial lines of authority.

(4) Internal control components are deficient as a result of the following :

(e.g.)

* Accounting and information systems are not functioning effectively.

3. Attitudes/Rationalizations

(e.g.)

* Communication, implementation, support or enforcement of the entity's values or ethical standards by management, or the communication of inappropriate values or ethical standards, that are not effective.
* The relationship between management and the current or predecessor auditor is strained, as exhibited by the following:

- Frequent disputes with the current or predecessor auditor on accounting, auditing, or reporting matters.
- Unusual delay in or failure of providing requested document or information necessary for audits.
- Restrictions on the auditor that inappropriately limit access to people or information, contact with suppliers or customers, or the ability to communicate effectively with those charged with governance.

Appendix 2

Examples of Circumstances that Indicate the Possibility of a Material Misstatement Due to Fraud

If the auditor identifies any circumstances that indicate the possibility of a material misstatement due to fraud, as exemplified below, during the audit, the auditor shall make inquiries of and ask for explanations from management and perform additional audit procedures in order to determine whether there is a suspicion of a material misstatement due to fraud in accordance with Part II, 10 of this standard.

1. Information in Relation to Fraud

* Information which has been provided to the entity through the whistle-blowing system and disclosed to the auditor contains information which is deemed to have a material effect on the financial statements.
* Information related to the possibility of fraud was provided to the auditor, from employees, counterparties or others
(including information received through the whistle-blower channel of the audit firm)

2. Unusual Transactions, etc. To Be Considered

(1) Circumstances that indicate the possibility of improper revenue recognition

* Significant transactions that are outside the normal course of business of the entity, significant unusual transactions in light of the auditor's understanding of the entity and the environment surrounding the industry in which it operates, or significant transactions, in which the entity is involved, for which the business rationale appears unclear.

(2) Circumstances that indicate the possibility of off-balance transactions such as fictitious cash disbursement and reimbursement.

* Acquisition of significant assets or business, significant new investments or significant expenses which are not directly related to the entity's business activities or for which the business rationale appears unclear.

(3) Others

* Loan agreement (receivable or payable) or guarantee provided or accepted, for which the business rationale appears unclear, with related parties or any parties (including individuals) whose relationship with the entity remains unclear.

3. Circumstances that Indicate the Possibility of Alteration, Forgery or Concealment of Evidence

* Documents that appear to be altered or forged.
* Inconsistent evidence in the important records, etc. or missing important documents to be used as evidence in relation to significant transactions.
* Unavailability of important documents or availability of important documents as a draft only in relation to significant transactions without reasonable grounds.

4. Circumstances that Indicate the Possibility of Inappropriate Accounting Adjustment

* Significant transactions that are not recorded in a complete or timely manner until near the balance sheet date or are improperly recorded as to the amount, accounting period, or classification.
* Unsupported or unauthorized balances or transactions (by evidence).
* Last-minute unusual adjustments made near the balance sheet date that would significantly affect the financial results.
* Disagreement among the figures, which are expected to be in agreement, in the vouchers, books of account, or accounting records (such as general ledger, subsidiary ledger, or account detail) in relation to significant transactions without reasonable explanations.
* Change in significant accounting policies without reasonable grounds.
* Frequent changes in significant accounting estimates that do not appear to result from changed circumstances.

5. Results of Confirmation

* Significant discrepancies between the entity's records and confirmation replies without reasonable grounds.
* Repeated failures of confirmation replies to be returned from certain specific customers directly to the auditor without reasonable grounds.

6. Management's Responses to Audit

* Entity’s denial or request of change, for the auditor’s access to records, facilities, certain employees, customers, vendors, or others from whom audit evidence might be sought, without reasonable grounds.
* Entity’s request for the auditor to change the confirming party or refusal to send a confirmation letter to certain confirming party without reasonable grounds, or existence of any confirming party for which the entity takes extremely longer to prepare the confirmation letter compared with other confirming parties.

7. Others

* Entity’s use of an expert, whose capability or objectivity are strongly doubted, to transactions which have a significant effect on the financial statements.
* Failure of the entity to provide the auditor with sufficient information regarding a significant investee or counterparty, or custodian of significant assets.