OFFICE OF THE AUDITOR-GENERAL
Te Mana Arotake

100 Molesworth Street, Thorndon 6011
PO Box 3928, Wellington 6140, New Zealand

Telephone: +64 4 917 1500
Email: enquiry@oag.parliament.nz
Website: www.oag.parliament.nz

24 August 2023

Tom Seidenstein
Chair
International Auditing and Assurance Standards Board
529 Fifth Avenue
New York
10017

Submitted online to: "Submit a Comment"

Dear Tom

Exposure Draft: *Proposed ISA 570 (Revised 202X), Going Concern*

We appreciate the opportunity to comment on the International Auditing and Assurance Standards Board's (IAASB's) Exposure Draft: *Proposed ISA 570 (Revised 202X), Going Concern* (ED-570).

Overall, we support the intention of the IAASB to be more transparent with users of the financial statements about the auditor's responsibilities and work in relation to the going concern basis of accounting. We also agree with requiring specific risk assessment procedures that link to ISA 315 (Revised 2019), and requiring more rigorous procedures to challenge management's assumptions and judgements in making their assessment of the entity's ability to continue as a going concern.

However, we do not support the inclusion of a separate section on "Going Concern" in all audit reports, nor the additional description of work performed for audits of listed entities.

Management should describe the basis of accounting applied in preparing the financial statements and why that basis is appropriate. We expect management to disclose events or conditions when there is a material uncertainty or a 'close call' together with the steps that management plans to take or has undertaken, to support the appropriateness of the going concern basis of accounting.

The auditor should not include additional information in the audit report that led them to conclude that management's use of the going concern basis of accounting is appropriate, because that information is required to be disclosed by management of the entity.

Our response to the specific questions asked are attached to this letter.

If you have any questions about our submission, please contact Miranda Biggins (Director, Audit Operations – Audit Quality Group) at Miranda.Biggins@oag.parliament.nz.

Yours sincerely

Todd Beardsworth
Assistant Auditor-General – Audit Quality

Responses to the specific questions

Overall Questions

1. Do you agree that the proposals in ED-570 are responsive to the public interest, considering the qualitative standard-setting characteristics and project objectives that support the public interest as set out in Appendix 1?

Relevance, and Clarity and conciseness, including overall understandability – Qualitative standard-setting characteristic

The most significant changes that are being proposed in ED-570, are in direct response to stakeholder needs. However, in the paragraphs below we described areas where the introductory material could be improved.

ED-570 would benefit from a discussion about the relative roles and responsibilities of the main parties with an interest in whether an entity is a going concern (management and those charged with governance of the entity; investors, regulators and other stakeholders; and the auditor).

We recommend that the following context be considered in the introductory paragraphs to reduce the 'expectation gap':

- Management and those charged with governance have the primary responsibility for the entity's ability to continue as a going concern. The role of those charged with governance has not been described in ED-570.
- The responsibilities of investors, regulators and other stakeholders have not been described in ED-570. We understand that the ISAs cannot impose requirements on other parties, but this context could further clarify that the auditor does not carry the primary responsibility for assessing whether an entity is a going concern.
- The auditor is determining the appropriateness of the financial statements being prepared on the going concern basis of accounting. The scope of this work is narrow or limited to evaluating management's assessment of the entity's ability to continue its operations for the12-month period starting from the date of approval of the financial statements. The scope and limitations could be further explained in paragraphs 6 and 7 of ED-570.

Coherence – Qualitative standard-setting characteristic

The proposed changes appropriately build on the foundational standards, in particular ISA 315 (Revised 2019) and ISA 540, except where we comment otherwise. See our response to question 16.

2. Do you believe that the proposals in ED-570, considered collectively, will enhance and strengthen the auditor's judgments and work relating to going concern in an audit of financial statements, including enhancing transparency through communicating and reporting about the auditor's responsibilities and work?

Yes, but we do not fully support the proposed auditor reporting requirements. See our responses to questions 13, 14, and 16.

3. Do you believe the proposed standard is scalable to entities of different sizes and complexities, recognizing that general purpose financial statements are prepared using the going concern basis of accounting and that going concern matters are relevant to all entities?

Yes.

4. Do the requirements and application material of ED-570 appropriately reinforce the auditor's application of professional skepticism in relation to going concern.

Yes, particularly the requirements in paragraph 29 and 30.

Specific Questions

5. Do you support the definition of Material Uncertainty (Related to Going Concern)? In particular, do you support the application material to the definition clarifying the phrase “may cast significant doubt”?

Yes, we support the definition as the wording has been lifted from the requirement in paragraph 18 of the extant ISA 570. It is consistent with financial reporting frameworks applicable in New Zealand, and aligns with the objective of ED-570, which has not changed from the extant ISA 570.

The definition describes that ‘materiality’ of the uncertainty is considered based on the “magnitude and likelihood” of the uncertainty occuring. This is appropriate because an event or condition could have a large impact but the remedial action taken by the entity diminishes that impact.

We would still expect disclosure of an event or condition that could have a large impact, but we don’t consider there to be a material uncertainty when appropriate remedial action has been taken. The remedial action should also be disclosed to provide the user with a complete picture.

It is not clear whether the application material related to the phrase “may cast significant doubt” aligns with our understanding as described above or the definition in paragraph 10 of ED-570. Clarity should be provided on whether a material uncertainty exists purely based on magnitude (which is how paragraph A5 of ED-570 reads), or whether it is the combination of magnitude and likelihood that results in a material uncertainty.

6. Does ED-570 appropriately build on the foundational requirements in ISA 315 (Revised 2019) in addressing risk assessment procedures and related activities, to support a more robust identification by the auditor of events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern?

Yes, we agree that the requirements of the extant standard have been enhanced. Paragraphs 12, 14, and 15 of ED-570 appropriately build on ISA 315 (Revised 2019).

7. Do you support the change in the commencement date of the twelve-month period of management’s assessment of going concern, from the date of the financial statements (in extant ISA 570 (Revised)) to the date of approval of the financial statements (as proposed in paragraph 21 of ED-570)? When responding consider the flexibility provided in paragraphs 22 and A43–A44 of ED-570 in circumstances where management is unwilling to make or extend its assessment. If you are not supportive of the proposal(s), what alternative(s) would you suggest (please describe why you believe such alternative(s) would be more appropriate and practicable)?

Yes, we support this requirement as we currently apply a 12 month period from the date of signing our audit reports.

8. Do you support the enhanced approach in ED-570 that requires the auditor to design and perform audit procedures to evaluate management’s assessment of going concern in all circumstances and irrespective of whether events or conditions have been identified that may cast significant doubt on the entity’s ability to continue as a going concern?

Yes, we support the requirement to evaluate management’s assessment in all circumstances.

We also agree that management should be asked to make an assessment if they have not done so, or extend an assessment it if the period of the assessment does not cover 12 months.

9. Does ED-570 appropriately incorporate the concepts introduced from ISA 540 (Revised) for the auditor’s evaluation of the method, assumptions, and data used in management’s assessment of going concern?

Yes, we agree that the relevant information about methods, assumptions and data have been introduced into ED-570 for evaluating management’s assessment.

10. Do you support the enhanced requirements and application material, as part of evaluating management's plans for future actions, for the auditor to evaluate whether management has the intent and ability to carry out specific courses of action, as well as to evaluate the intent and ability of third parties or related parties, including the entity's owner-manager, to maintain or provide the necessary financial support?

Yes, we support this requirement. It aligns with considerations we apply in the public sector when financial support is sought from other government entities.

11. Will the enhanced requirements and application material to communicate with TCWG encourage early transparent dialogue among the auditor, management and TCWG, and result in enhanced two-way communication with TCWG about matters related to going concern?

We do not have a view on this question.

12. Do you support the new requirement and application material for the auditor to report to an appropriate authority outside of the entity where law, regulation or relevant ethical requirements require or establish responsibilities for such reporting?

Yes, we support the requirement and application material. It aligns with our expectations of public sector auditors to notify the Auditor-General of conditions that may cast significant doubt over the public entity's ability to continue as a going concern. Early notification enables more timely interventions with those charged with governance of the public entity and other relevant parties.

13. **This question relates to the implications for the auditor's report for audits of financial statements of all entities**, i.e., to communicate in a separate section in the auditor's report, under the heading "Going Concern" or "Material Uncertainty Related to Going Concern", explicit statements about the auditor's conclusions on the appropriateness of management's use of the going concern basis of accounting and on whether a material uncertainty has been identified. Do you support the requirements and application material that facilitate enhanced transparency about the auditor's responsibilities and work relating to going concern, and do they provide useful information for intended users of the audited financial statements? Do the proposals enable greater consistency and comparability across auditor's reports globally?

No, we do not support the requirements to include information about the entity's use of the going concern basis of accounting when there is no material uncertainty related to going concern, or when there has not been a 'close call' over the appropriateness of using the going concern basis of accounting.

The auditor's opinion that states "the financial statements present fairly… in accordance with the applicable financial reporting framework" and the description of the responsibilities for auditing the financial statements, provide sufficient transparency that the auditor evaluated management's assessment and is of the view that the appropriate basis of accounting has been used. The audit report should not imply that the auditor is giving assurance on 'going concern' or 'material uncertainties related to going concern'.

The audit report should not contain information:

- about the entity that has not otherwise been made publicly available by the entity (i.e., original information);
- to substitute for disclosures that are required by the financial reporting framework, or to achieve fair presentation; and
- that relates to immaterial misstatements; matters that were not significant during the audit; matters that are not fundamental to the users' understanding of the financial statements; or matters that are irrelevant to the users' understanding of the audit / auditor's responsibilities / auditor's report.

  (Paragraph A79 mentions that the identification of a material uncertainty is important to intended users' understanding of the financial statements. It could therefore be argued that uncertainties that are not material are not important to the users' understanding.)

If this requirement is retained, we have the following comments:

- The heading 'going concern' should be amended to align with the responsibilities or requirements of the auditor. The auditor's responsibility is only to evaluate management's assessment of going concern in order to ascertain whether management used an appropriate basis of accounting in preparing the financial statements. We therefore recommend amending the heading to 'Management's use of the going concern basis of accounting', or similar.
- The positive conclusion statement in paragraph 33(a)(i) should be amended. The positive conclusion gives the impression that the auditor is providing a separate opinion on going concern which does not align with the principle of providing an opinion on the financial statements as a whole.

  "Management used the going concern basis of accounting in the preparation of the financial statements. We have ~~concluded that~~ evaluated management's assessment of the Company's ability to continue as a going concern for the twelve-month period starting from the date of approval of the financial statements to conclude whether this basis ~~use of the going concern basis of accounting in the preparation of the financial statements~~ is appropriate. Based on the audit evidence obtained, we have not identified ~~a material uncertainty related to~~ events or conditions that may cast significant doubt on the appropriateness of the use of the ~~Company's ability to continue as a~~ going concern basis of accounting."

14. **This question relates to the additional implications for the auditor's report for audits of financial statements of listed entities**, i.e., to also describe how the auditor evaluated management's assessment of going concern when events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern (both when no material uncertainty exists or when a material uncertainty exists). Do you support the requirements and application material that facilitate further enhanced transparency about the auditor's responsibilities and work relating to going concern? Should this be extended to also apply to audits of financial statements of entities other than listed entities?

No, we do not support the inclusion of information about the entity's use of the going concern basis of accounting when there is no material uncertainty related to going concern or when there has not been a 'close call' over the appropriateness of using the going concern basis of accounting.

The additional information required for the audit report of a listed entity is similar to the requirements for describing a Key Audit Matter (KAM).

We therefore agree that it would be appropriate for an audit of a listed entity to include the required information in a separate section of the audit report with an appropriate heading (see proposal under question 13), but only in the following circumstances:

- when a material uncertainty related to going concern has been identified; or
- when an uncertainty has been identified and it was a 'close call' determining whether it was material.

Because we do not support this requirement for listed entities and the information is similar to that of a KAM, we do not support extending the requirement for other entities. To include information similar to a KAM in an audit report requires more senior auditor time, which will increase audit fees for other entities unnecessarily with limited benefit to the users of those financial statements.

15. Is it clear that ED-570 addresses all implications for the auditor's report relating to the auditor's required conclusions and related communications about going concern (i.e., auditor reporting is in accordance with ED-570 and not in accordance with ISA 701 or any other ISA)? This includes when a material uncertainty related to going concern exists or when, for audits of financial statements of listed entities, events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained, the auditor concludes that no material uncertainty exists.

No, we are of the view that it could be stated more explicitly in the 'Scope' section of ED-570, similar to ISA 701 and ISA 706.

16. Are there any other matters you would like to raise in relation to ED-570? If so, please clearly indicate the requirement(s) or application material, or the theme or topic, to which your comment(s) relate.

We have the following comments on paragraph 28:

The explanatory memorandum describes that the requirement in paragraph 28 is intended to work with and apply in the context of the requirements in ISA 560.

This requirement does not align with ISA 560 and inappropriately imposes a higher expectation for the auditor to consider whether any additional information has become available after the date of the auditor's report but before the financial statements have been published.

In terms of ISA 560 the auditor has no obligation to perform any audit procedures after the date of the auditor's report. The auditor only has to respond if a fact becomes known to the auditor and that fact has a significant effect on the financial statements. ISA 560 describes the significance as something that would have caused the auditor to amend the auditor's report, had it been known prior to the date of signing the audit report.

We have the following comments on the reporting requirements of the standard:

We support the reporting requirement in paragraph 34 that is applicable when a material uncertainty has been identified and management appropriately disclosed the matter. However, we recommend that a standardised heading be used, similar to that proposed in our response under question 13 above.

We do not support the reporting requirement in paragraph 35 that is applicable when a material uncertainty has been identified but management has not appropriately disclosed the matter. We recommend that the separate section on going concern be excluded when the opinion is modified (for any type of modification) on a going concern related matter. The basis for modified opinion should describe that management appropriately used the going concern basis of accounting but did not appropriately disclose the material uncertainties identified.

In addition, it would be helpful if the application material could describe the considerations of the auditor to conclude on whether the opinion should be adverse rather than qualified. It is unclear under which circumstances a material uncertainty that has not been approapriately disclosed would be material and pervasive rather than just material.

If this requirement is retained we strongly recommend that the separate section on going concern should be excluded for an adverse opinion.This will align with the requirement in paragraph 37(b).

We agree with the requirements in paragraphs 36 and 37, to exclude the separate section on going concern when the auditor expresses an adverse (use of going concern basis of accounting is inappropriate) or disclaimer (unable to obtain sufficient appropriate audit evidence to conclude) of opinion.

We recommend that the information in paragraphs 5, 6 and 7 should be considered to clarify the responsibilities sections of management and the auditor in the audit report.

We have the following comments on the illustrative examples:

Illustrative examples 2 and 4: it would be useful if the IAASB could provide example wording for describing how the auditor did the evaluation of management's assessment. This does not have to be part of the standard and could be non-authoritative IAASB staff guidance.

We recommend that illustrative example 3 be amended as follows:

> "Management used the going concern basis of accounting in the preparation of the financial statements. We ~~have concluded that~~ evaluated managements' assessment of the Company's ability to continue as a going concern for the twelve-month period starting from the date of approval of the financial statements to conclude whether this basis ~~use of the going concern basis of accounting in the preparation of the financial statements is appropriate~~ is appropriate. ~~However, we~~
>
> We draw attention to Note X in the financial statements, which ~~indicates that the Company incurred a net loss of ZZZ during the year ended December 31, 20X1 and, as of that date, the Company's current liabilities exceeded its total assets by YYY. As stated in Note X, these events or conditions, along with other matters as set forth in Note X, indicate that~~ outlines the existence of a material uncertainty ~~exists~~ related to going concern and management's [plans for future actions / actions undertaken] to mitigate the

effects that the uncertainty could have ~~that may cast significant doubt~~ on the appropriateness of the use of the ~~Company's ability to continue as a~~ going concern basis of accounting.

Our opinion is not modified in respect of this matter."

We do not support illustrative example 6 and recommend its deletion.

We recommend that an illustrative example of an adverse opinion be included in the scenario where the entity had inappropriately used the going concern basis of accounting.

We have the following concluding comment:

ED-570 would benefit from a decision tree that guides the auditor through its requirements.

Request for General Comments

17. The IAASB is also seeking comments on the matters set out below:

(a) Translations—Recognizing that many respondents may intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED-570.

We do not have a view on this question.

(b) Effective Date—Given the need for national due process and translation, as applicable, and the need to coordinate effective dates with the fraud project, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods beginning approximately 18 months after approval of the final standard. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISA.

We support an 18-month implementation period.