

Going Concern

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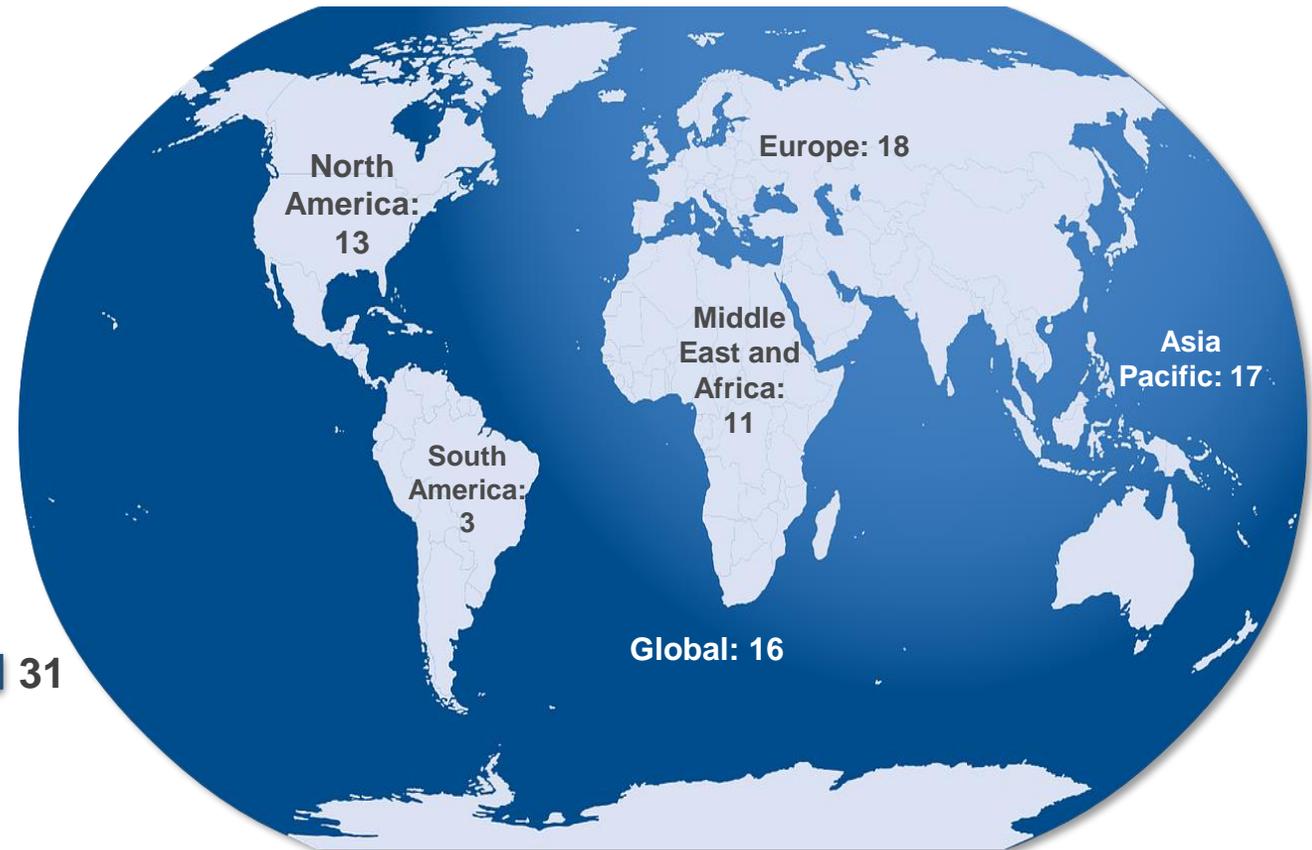
IAASB Meeting

March 18-21, 2024

ED-570: Feedback Overview

Overview of Responses to ED-570

Respondents by Type



Total responses: 78

Overarching Themes from the Responses

Public Interest Issues	Enhanced Auditor's Judgments and Work Related to Going Concern	Scalability	Professional Skepticism	Definition of Material Uncertainty (Related to Going Concern)
Risk Identification and Assessment	Timeline Over which the Going Concern Assessment is Made	Evaluating Management's Assessment of Going Concern	Concepts from ISA 540 (Revised) for Method, Assumptions and Data	Management's Plan for Future Actions
Communication with Those Charged with Governance (TCWG)	Communication with Appropriate External Parties	Explicit Statements About Going Concern in the Auditor's Report	Enhanced Communication in the Auditor's Report for Listed Entities	Clarity of the Implications to the Auditor's Report

Feedback for Key Themes

Public Interest Issues

Support for the public interest issues and views that:

- ▶ Coordinated actions from all stakeholders in the financial reporting ecosystem are necessary to establish trust and narrow the expectation gap
- ▶ Improvements are needed to the financial reporting framework for going concern, particularly for management's disclosures and calls for action from IASB

Enhanced Auditor's Judgments and Work Related to Going Concern

Broad support for the enhancements to the 'performance' aspects in ED-570. However, mixed views whether the 'reporting' aspects would achieve the desired outcomes given:

- ▶ The inherent limitations about future events or conditions that cannot be eliminated
- ▶ Concerns that the proposals, while enhancing transparency, would not narrow the expectation gap

Scalability

Support for the scalability guidance and views that clarity is needed for the:

- ▶ Required auditor's work effort when there are no going concern risks identified
- ▶ Audit evidence required when management's assessment process is less structured
- ▶ Specific considerations and context relevant to the public sector

Feedback for Key Themes (cont.)

Professional Skepticism

Support for the enhancements made to ED-570 for professional skepticism

Suggestions for:

- ▶ Incorporating further references to professional skepticism
- ▶ Enhancing the guidance and examples

Definition of Material Uncertainty (Related to Going Concern)

Broad support, including to align terminology in auditing and accounting standards

Suggestions for:

- ▶ Elevating the phrase “may cast significant doubt” to the main body of the standard
- ▶ Reconsidering the “auditor’s professional judgment” and “disclosures” in the definition

Risk Identification and Assessment

Support for the enhancements, but mixed views about the level of detail included from ISA 315 (Revised 2019).

Encouragement to:

- ▶ Provide clarity that it is management’s primary responsibility to identify events or conditions
- ▶ Avoid creating a perception that the auditor is responsible to identify all events or conditions
- ▶ Include further scalability guidance

Feedback for Key Themes (cont.)

Timeline Over which the Going Concern Assessment is Made

Broad recognition of the public interest benefit when going concern assessments include more relevant and current information, however:

- ▶ Concern that the IAASB is stepping out of its remit by imposing accounting requirements
- ▶ Mixed views about the practicality and effectiveness of the flexibility provided

Evaluating Management's Assessment of Going Concern

Recognition that the proposed approach is more robust compared to extant, however seen as:

- ▶ Inconsistent with the concept of risk-based audit
- ▶ Not scalable enough
- ▶ More sensible to apply only for audits of listed entities or public interest entities (PIEs)

Concepts from ISA 540 (Revised) for Method, Assumptions and Data

Broad support for introducing concepts from ISA 540 (Revised). Encouragement to consider whether a focus on the method, assumptions and data:

- ▶ May risk overlooking a critical event or condition or distract from the evaluation of other significant judgments
- ▶ Should address more prominently significant assumptions and judgements made by management

Feedback for Key Themes (cont.)

Management's Plans for Future Actions

Broad support and suggestions for:

- ▶ A stronger requirement to evaluate the ability and/or intent of third or related parties
- ▶ Relegating management's intent to the application material
- ▶ Further guidance to address practical issues when evaluating ability and intent

Communication with TCWG

Broad support and encouragement for:

- ▶ Recognizing "timeliness" in the requirement
- ▶ Aligning the wording with the required statements in the auditor's report
- ▶ Providing more comprehensive examples and guidance

Communication with Appropriate External Parties

Broad recognition of the public interest benefit for the auditor to communicate significant going concern matters with appropriate external authorities. Views that the requirement:

- ▶ Should be strengthened to require communication unless prohibited by law or regulation
- ▶ Does not add value, given it is conditional on obligations established by law or regulation

Feedback for Key Themes (cont.)

Explicit Statements About Going Concern in the Auditor's Report

Mixed views, with majority support from Monitoring Group and Regulators and Audit Oversight Authorities stakeholders' constituencies.

Concerns about the:

- ▶ Unintended consequence of widening the expectation gap
- ▶ Misalignment between management's and the auditor's responsibilities
- ▶ Risk of becoming a boilerplate disclosure that is overlooked by intended users

Enhanced Communication in the Auditor's Report for Listed Entities

Broad support to provide a description when there is a material uncertainty. For "close calls":

- ▶ Encouragement for using the KAM mechanism to provide the enhanced communication
- ▶ Clarity needed for the threshold for "close call" situations given that not all events or conditions require significant judgments

Clarity of the Implications to the Auditor's Report

- ▶ Broad support for the clarity of the implications for the auditor's report.
- ▶ For applicability, encouragement to consider extension to PIEs in coordination with Track 2 of the IAASB's Listed entity and PIE project

Other Topics from the Feedback

- Encouragement to:
 - Strengthen the written representation requirements
 - Consider providing specific documentation requirements
 - Address inconsistencies with ISA 560, *Subsequent Events*
 - Enhance the guidance when evaluating and concluding based on the audit evidence obtained
- Views that consideration is needed for public sector considerations, special purpose frameworks and review engagements
- For the proposed effective date:
 - Support for coordinating effective dates with other IAASB projects (Fraud, Listed entity and PIE)
 - Views that 24-months is a more reasonable implementation period

Way Forward

- Ongoing dialogue and engagement with others in the financial reporting ecosystem
- Coordination with other IAASB task forces, consultation groups and IESBA

Q2 – Q3 2024

- Consideration of feedback and development of final pronouncement

Q4 2024

- IAASB expected approval of final pronouncement (December 2024)

Discussion

Board's reflections on the
feedback



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