

Going Concern – Question 14

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?

Q14 - Agree

1. Monitoring Group

Basel Committee on Banking Supervision (BCBS)

The Committee agrees with the proposed enhancements to the revised standard, including the time period for going-concern assessments, the definition of material uncertainty, the assessment requirements and disclosures about situations of significant doubt but no material uncertainty, and increased transparency in the auditor’s report. With respect to transparency in the auditor’s report, banks may fall within the definition of “public interest entities”, and therefore the Committee encourages the IAASB to consider extending the enhanced auditor reporting for listed entities to also include public interest entities (paragraph 33(b)).

International Association of Insurance Supervisors (IAIS)

However, it should be noted that some audit report requirements apply exclusively to listed entities (para 34 (d)). The IAIS believes that the scope of these specific provisions could be extended to public interest entities as defined by local jurisdictions, particularly for unlisted insurers.

The IAIS is of the view that the proposals included in the Exposure Draft address the public interest expectations for a more robust evaluation of management’s assessment of going concern and greater transparency on the auditor’s responsibilities and audit work related to going concern.

International Organization of Securities Commissions (IOSCO)

Listed entities – We observed the use of the term “listed entities” in ED 570 and recommend the Board consider the recently completed project of the International Ethics Standards Board for Accountants’ (IESBA) definition of “publicly traded entity” or “public interest entity” and consider whether the incremental requirements within ED 570 should apply to publicly traded entities or public interest entities as part of the IAASB’s Listed entity and Public interest entity – Track 2 project.

Other than our comments shared in Question #13 above, we are supportive of the requirements and application material that facilitate further enhanced transparency about the auditor’s responsibilities and work relating to going concern for publicly traded entities/public interest entities.

We also support enhanced transparency by strengthening communication with those charged with governance and auditor reporting requirements to investors to benefit the public interest.

2. Regulators and Audit Oversight Authorities

Canadian Securities Administrators Chief Accountants Committee (CAC)

Use of the term “listed entity”

ED-570 uses the term ‘listed entity’ to differentiate certain requirements in the standard. We note that the term ‘listed entity’ excludes several entities that are reporting issuers in Canada, most notably, there are approximately 3,400 investment funds subject to continuous disclosure requirements that are not listed or marketed under the regulations of a recognized exchange or equivalent body. As a result, this could lead to inconsistent application of the proposed amendments in our capital markets, primarily with respect to the wording of the auditor’s report.

To support a consistent application, we recommend that the IAASB consider aligning the timing of the final ISA 570 (Revised) with the IAASB’s ‘Listed Entity and PIE’ project to ensure that any decision to use the new ‘listed entity’ or ‘PIE’ definition in the final ISA 570 (Revised) is consistent and is reflected on initial application. This will allow local standard setters and securities regulators to make further scope decisions, and potential amendments to the requirements in their jurisdiction, at time of initial application based on complete information.

We support the IAASB’s effort to address public interest demands for enhanced transparency on going concern in the audit of financial statements. We believe the enhancements to extant ISA 570 (Revised) will promote consistent practices amongst auditors.

Committee of European Auditing Oversight Bodies (CEAOB)

Listed vs. public interest entities

The CEAOB notes that some requirements regarding the audit report are exclusively targeted at listed entities (paragraphs 33 (b) and 34 (d)). The CEAOB notes that the scope of applicability of those specific provisions could be further extended to public interest entities.

Irish Auditing and Accounting Supervisory Authority (IAASA)

Listed vs. public interest entities

Some requirements regarding the audit report relate to listed entities only (paragraphs 33 (b) and 34 (d)). The applicability of these provisions should be extended to public interest entities.

3. Jurisdictional and National Auditing Standard Setters

Japanese Institute of Certified Public Accountants (JICPA)

Yes. We support the requirements and application material. We do not believe that the requirements need to be extended to audits of financial statements of entities other than listed entities, since as described in paragraph 73 of the Explanatory Memorandum which explains proportionality, the need for the additional commentary is not likely to be high for entities other than listed entities.

New Zealand Auditing and Assurance Standards Board (NZAuASB)

We support the proposed requirement. Many of our stakeholders described this as “repackaging” of current requirements.

We do not support extending the proposals to also apply to audits of financial statements of entities other than listed entities at this time. We believe that application of this requirement should be consistent with the

application of the extant requirement in ISA 701. We recommend that this be further considered in the context of public interest entities (PIEs) as part of the IAASB's PIE track 2 project.

Public Accountants and Auditors Board Zimbabwe (PAAB)

The PAAB supports the requirements and application material that facilitate further enhanced transparency about the auditor's responsibilities and work relating to going concern but however suggests that this should not apply to audits of financial statements of entities other than listed entities. The current proposal supports the scalability objective of the board.

4. Accounting Firms

Crowe Global (CROWE)

We agree with the approach taken for reporting about going concern on the audits of listed entities. It addresses public interest expectations.

Mo Chartered Accountants (MCA)

The reporting burden may become onerous but the benefits and enhancement of public interest requirements far outweigh the reporting obligations, hence we believe that all audited financial statements should contain 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) albeit in an abridged form for non-listed entities. This is for purposes of comparability and uniformity across all reporting entities.

PKF International Limited (PKF)

We support the requirements and application material that facilitate further enhanced transparency about the auditor's responsibilities and work relating to going concern but as set out in our response to Question 13, we suggest that the IAASB provide examples to demonstrate the extent of the descriptions that could be provided by firms. At this point in time, we do not support the extension of this requirement to audits of financial statements of entities other than listed entities.

RSM International Limited (RSM)

Yes, we support the requirements and application material that facilitate further enhanced transparency about the auditor's responsibilities and work relating to going concern for audits of financial statements of listed entities.

We believe that these requirements and application material should not be extended to also apply to audits of financial statements of entities other than listed entities for reasons similar to those that do not require disclosure of key audit matters in the auditor's report for entities other than listed entities. Enhanced transparency and disclosure about the auditor's responsibilities and work related to going concern are generally more appropriate for listed entities but may not be necessary or serve a purpose for non-listed entities. We note in relation to non-listed entities there is generally greater communication between the auditor and the owners as these entities are often owner managed.

5. Public Sector Organizations

Office of the Auditor General of Canada (OAGC)

Yes, we support the requirements and application material that facilitate further enhanced transparency about the auditor's responsibilities and work relating to going concern.

Yes, we support these requirements be extended to also apply to audits of financial statements of entities other than listed entities. We believe this will improve consistency and enhance transparency of going concern reporting for audits of all entity types.

UK National Audit Office (UKNAO)

The additional requirements and application material included in paragraphs 33 to 37 of ED-570 for listed entities are broadly consistent with the reporting requirements on going concern introduced in the UK under the revised ISA (UK) 570 in 2019. Experience in the UK context has shown that they have been helpful for the users of the financial statements of listed entities in providing an enhanced understanding of the auditor's responsibilities and an understanding of the work performed by the auditor to consider going concern.

We would also consider that there are large entities of public interest which are not listed where these requirements may be beneficial. It may therefore be helpful to add application guidance material to encourage the auditor to include these disclosures within their auditor's report for other entities where this may be beneficial to the users of the financial statements.

6. Member Bodies and Other Professional Organizations

Botswana Institute of Chartered Accountants (BICA)

We are supportive of the requirements and application material that facilitate further enhanced transparency about the auditor's responsibilities and work relating to going concern for publicly traded entities/public interest entities.

California Society of CPA (CALCPA)

Yes; we support the requirement for the auditor to include a description of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern in the auditor's reports for listed entities. Should this be extended to also apply to audits of financial statements of entities other than listed entities? No; see response to Question 8, above.

Chartered Accountants Ireland (CAI)

We support steps to clarify and strengthen the process whereby auditors assess and report on the appropriateness of the use of the going concern basis of accounting. We consider that reassessment of the auditing standards in this area is in the public interest. The proposals will further align the standards internationally by reflecting requirements already in place in some jurisdictions including Ireland and the UK.

We have no comments on the proposed requirements.

European Federation of Accountants and Auditors for SMEs (EFEAA)

We generally support the proposals.

We do not believe this should be extended to audits of financial statements of entities other than listed entities. When an SMP auditor believes it is helpful to include additional descriptions of their work related to

specific, significant matters in certain circumstances (KAM) then they may do so. However, this should not be a requirement.

Federation of Accounting Professions of Thailand (FAPT)

Yes, we support the requirements and application material. However, we do not believe it should be extended to also apply to audit of financial statements of entities other than listed entities.

Institute of Chartered Accountants of Sri Lanka (ICASL)

We believe that the requirements and application material should be extended to audits of financial statements of entities other than listed entities. This is because all entities, regardless of their size or listing status, should be required to provide transparent information about their ability to continue as a going concern.

Therefore, we support the requirements and application material that facilitate further enhanced transparency about the auditor's responsibilities and work relating to going concern. It would be beneficial for both auditors and users of financial statements.

For auditors, it would provide them with a clear framework for carrying out their work and reporting on their findings. This would help to ensure that they are meeting their professional responsibilities and that their reports are accurate and informative.

For users of financial statements, it would provide them with a better understanding of the auditor's work and the factors that they consider when assessing an entity's ability to continue as a going concern. This would help them to make more informed investment decisions.

Institute of Singapore Chartered Accountants (ISCA)

We are supportive of the new requirements, which would standardise the auditor's communication in a "close call" situation.

To provide more transparency to users of financial statements, the IAASB should consider working with the IASB on key relevant disclosures as elaborated in the response to Question 13 under Enhancing the level of disclosures by management. The auditors would then be able to further supplement such disclosures by describing the procedures performed over those disclosures.

Instituto de Auditoria Independente do Brasil (IBRACON)

We support the requirements and application material for listed entities only, as this transparency is important for different stakeholders. Extending to audits of financial statements of entities other than listed entities can generate confusion because the lack of agreement on the definition of public interest entities (and interplay with listed entity concept).

Instituto Mexicano de Contadores Publicos (IMCP)

We agree with the fact that it should only apply to listed entities.

Nordic Federation of Public Accountants (NRF)

We support the specific requirement in paragraph 33 (b) that relates to listed entities.

In terms of extending the scope to also apply to audits of financial statements of entities other than listed entities, we believe that matter should rather be dealt with holistically within the Listed Entity and Public Interest Entity (PIE) project.

South African Institute of Chartered Accountants (SAICA)

We support these requirements applying to listed entities.

We are supportive of a consideration of extending these requirements to audits of financial statements of entities other than listed entities, for example to public interest entities (PIEs) as defined in the applicable code of ethics, as part of the IAASB's project on PIEs.

We however do not support these requirements applying to non-PIE entities.

8. Individuals and Others

Altaf Noor Ali Chartered Accountants (ANA)

Extend the requirement to all audits irrespective of size or form of ownership. R14

Yes.

We would like to see the requirement extended to each audit.

Kazuhiro Yoshii (KY)

I support amendments to paragraphs 33, 34 and A69-A79 of the Exposure Draft.

I understand that paragraph 33(b) requires disclosure equivalent to KAM in the category of "going concern " in the auditor's report, even if it is not KAM. If there are events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, for example, if there is a conflict with financial covenants, for users of financial statements, such as equity or bond investors and creditors, such situation can directly affect the recoverability of their investments and loans. Therefore, they cannot help but take great interest in such information, even if it is not KAM.

When the auditor concludes that the management's use of the going concern basis of accounting in the preparation of financial statements is appropriate, the evaluation process by the auditor that reaches that conclusion is extremely important for users of financial statements to understand the validity of the conclusions.

In the case of Paragraph 34, the current ISA 570 does not require the description of "how the auditor considered management's assessment" in the auditor's report. It is unbalanced not to be obligated to report when there is material uncertainty, even though the situation is more serious. Therefore, Therefore, I am in favor of requiring this description in auditor's report.

Not only listed entities but also entities with many fund contributors, such as unlisted financial institutions, should be covered. For example, it is conceivable to target PIE.

Q14 - Agree with comments

1. Monitoring Group

International Forum of Independent Audit Regulators (IFIAR)

Implications for the auditor's reports

IFIAR welcomes the introduction of a description of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern in the auditor's reports for listed entities.

However, we recommend that the IAASB also consider expanding this requirement to include public interest entities.

The IAASB should also consider whether the proposed conditionality in paragraph 33(b) to only include a description of the auditor's evaluation when events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern should be removed. Instead, IFIAR suggests that this description should be included for all listed entities (and public interest entities) to provide transparency for those entities in the public interest.

2. Regulators and Audit Oversight Authorities

Botswana Accountancy Oversight Authority (BAOA)

Yes, it is prudent for the auditor to disclose procedures performed when events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern. However, we would like to encourage the IAASB to consider making this requirement applicable to "public interest entities" instead of just "listed entities" and they should do away with the conditional/judgemental aspect in the application guidance of whether to include it for other entities other than listed entities.

Financial Reporting Council (FRC)

YES, we support the requirement for the auditor to include a description of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern in the auditor's reports for listed entities.

However, as a result of our outreach on ED-ISA 570, we have some concerns that because of the way paragraph 33(b) is constructed it is mistakenly being associated with the evaluation required by paragraph 31 of ED-ISA 570 and the potential provision of original information by the auditor in the auditor's report. Whilst we recognise that paragraph 33(b) has moved on significantly from earlier drafts, we are of the view that simplifying this requirement further so that it applies to all listed entities would bring greater clarity and transparency.

For example, in the UK, we require all listed entities, public interest entities, other entities that report on how they have applied the UK Corporate Governance Code and certain other large private and quoted companies to include an explanation of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern. We also require such explanation to include, where relevant, key observations arising with respect to that evaluation.

In respect of paragraph 33(b), we would therefore encourage the IAASB to:

Extend the requirement to additional entities such as public interest entities to provide increased transparency in the public interest.

Remove the conditional aspect of the requirement which requires the explanation only in instances where "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", so that for all listed entities the auditor is required to include an explanation.

Independent Regulatory Board for Auditors (IRBA)

We are supportive of the requirements and application material that facilitate further enhanced transparency about the auditor's responsibilities and work relating to going concern for audits of financial statements of listed entities.

However, we recommend that the IAASB consider expanding the requirements in paragraphs 33(b) and 34(d) to extend to or include public interest entities (PIEs) or for laws and regulations to specify certain categories of PIEs, to provide transparency for those entities in the public interest.

We also recommend that the disclosure in the auditor's report required by paragraph 33(b)(ii) should not be required of the auditor until such time as management is required by the applicable financial reporting standards (e.g. IFRS Accounting Standards) to disclose an equivalent level of detail of their assessment in the financial statements. This is to ensure that the auditor does not provide original information about the entity in the auditor's report.

We suggest that the reference to “the political and economic uncertainties faced by the Company...” in Illustration 2 of the Appendix may be misunderstood to imply that most listed entities would be in a close call scenario as listed entities generally face economic and political uncertainties. This may result in the inclusion of this paragraph in auditor's reports as a matter of course, which is not our understanding of the intention of the proposals. We suggest that “political and economic” should be deleted from the illustrative auditor's report.

National Association of State Boards of Accountancy (NASBA)

In furtherance of that objective, NASBA supports the IAASB in this initiative. We commend the IAASB for the due diligence in considering the recent standard-setting action in certain jurisdictions as it relates to going concern. NASBA offers the following comments.

Going Concern Basis of Accounting

The Exposure Draft includes new requirements in Paragraph 34 when a material uncertainty related to going concern exists. The requirement is illustrated as follows:

“We have concluded that managements' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. However, 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 a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.”

The going concern basis of accounting is the standard. In the case of a report that includes the comment, “that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern”, the reader might reasonably question why the auditor is also stating that the use of the going concern basis is appropriate.

To avoid confusion, NASBA recommends that if there is a comment on the ability of the entity to continue as a going concern in the report, the first sentence, “We have concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate”, should be omitted from the report. As an alternative, a final sentence which parallels reporting under United States standards should be added. The added sentence would read: “Our report has not been modified with respect to this matter.”

Basis for Disclaimer of Opinion

The Exposure Draft includes a conforming amendment to Paragraph 19 of ISA 705 (Revised) that includes providing a statement in the Basis for Disclaimer of Opinion that the auditor is unable to conclude on the

appropriateness of management's use of the going concern basis of accounting and whether a material uncertainty exists.

Inclusion of that statement would be appropriate if going concern is the only issue. However, disclaimers of opinion are made for other reasons and such reasons should be only the ones stated in the auditor's report. In such cases, the reference to the inability to conclude on the use of the going concern basis of accounting should not be made. The focus should be on the other factors that preclude the auditors from reporting.

3. Jurisdictional and National Auditing Standard Setters

Australian Auditing and Assurance Standards Board (AUASB)

Disclosing Events or Conditions in the Auditor's Report

Whilst we received mixed feedback on the implications for the auditor's report when events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, on balance the AUASB is supportive. However, the Accounting Standards do not include a specific requirement to disclose events or conditions that cast significant doubt on the entity's ability to continue as a going concern unless management's conclusions involve significant judgement and the disclosure requirements in paragraph 122 of IAS 1 apply. Stakeholders expressed concerns that this will increase the instances of auditors disclosing more about going concern than management is required to disclose. If the entity has not disclosed this information and the auditor concludes that the financial statements are not materially misstated the auditor should alert users to the events or conditions in the auditor's report. We encourage the IAASB to provide application material to explain when the auditor should qualify their opinion or report under paragraph 33. The IAASB should also provide an example auditor's report where there are no disclosures in the financial statements and the auditor has disclosed events or conditions in the auditor's report.

The AUASB considers that paragraph 33 should apply to all audits of financial statements, given the importance of alerting users to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern. If this requirement is not extended beyond listed entities, then the standard should explicitly encourage voluntary application.

Disclosing how the Auditor Evaluated Management's Assessment

We heard mixed views as to whether the auditor should describe how they evaluated management's assessment. Those who were not supportive expressed concern that this may not be well understood by users, would unnecessarily lengthen the auditor's report and management is not required to disclose the basis for their assessment. However, on balance the AUASB is supportive of including procedures for consistency with Key Audit Matter reporting.

We also encourage the IAASB to provide application material on when the auditor should qualify their opinion or report under paragraph 33 for an audit of financial statements of a listed entity (see our response to Question 14 in Attachment 1).

Canadian Auditing and Assurance Standards Board (AASB)

The description of the auditor's evaluation of management's assessment should be placed in the Key Audit Matters (KAM) section

Concern: The IAASB indicated in the Explanatory Memo that placing the description of the auditor's evaluation of management's assessment in the going concern section would promote global comparability and consistency by placing the discussion of all going concern matters in a separate section. However, it is important that the placement not be considered in isolation from other key areas of the audit.

First, moving the description of how the auditor addressed going concern matters from the KAM section to a separate Going Concern section would, inadvertently, decrease comparability and consistency within the audit report itself. The placement would no longer be consistent with how the auditor has addressed other key areas of the audit such as fraud risks.

Second, results of our outreach indicate that many find the description of the auditor's evaluation of management's assessment to be "contradictory" to the proposed auditor's statements required by paragraphs 33(a) and 34(a). Placing the proposed auditor's statements together with the description of the auditor's evaluation of management's assessment causes confusion about the auditor's message – it is unclear as to whether there is a going concern issue.

Most importantly, including auditor commentary in a separate Going Concern section when there is no material uncertainty relating to going concern would dilute the warning signal when there is a material uncertainty relating to going concern. The statement that there is a material uncertainty should stand on its own without further descriptions of how the auditor evaluated management's going concern assessment.

Suggest: We suggest that the requirements in proposed paragraphs 33(b) and 34(d) and related application material be placed in ISA 701, Communicating Key Audit Matters in the Independent Auditor's Report, through a consequential amendment.

Auditor's considerations when drafting descriptions of how the auditor evaluated management's going concern assessment and examples of such descriptions and when providing supplemental information in the auditor's report

Concerns:

Para. 33(b)(ii) and 34(d) require a description of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern. In the case of a close call or when a material uncertainty is identified, the description of how the auditor evaluated management's going concern assessment may diminish the "warning signal" intended by para. 33(b)(i) and para. 34(b) and (c). For example, if the description includes wording that appears to provide assurance on certain outcomes of management's plans, financial statement users may misinterpret the auditor's procedures included in the description as mitigating the going concern risk.

An example of such wording may be: "In evaluating management's assessment, we are satisfied with management's plan to obtain alternative funding."

Para. A72 discusses circumstances when the auditor may wish to supplement the information required by para. 33(b). Similar to the issue discussed directly above, there is a risk that the supplemental information may be seen as endorsing management's future plans or wording that appears to provide assurance on certain outcomes of those plans.

Suggest: We recommend the IAASB consider:

Adding an application paragraph on the auditor's considerations when describing how the auditor evaluated management's going concern assessment or when providing supplemental information. The considerations may include avoiding wording that may be seen as endorsing management's future plans or wording that appears to provide assurance on certain outcomes of those plans; and

Replacing the references to [Description of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern in accordance with ISA 570 (Revised 202X)] in the illustrative auditor's reports with examples of such descriptions. As indicated above, the examples should be worded in

a manner that do not diminish the attention drawn to the close call or material uncertainty. Further, to avoid examples from becoming “boilerplate”, the IAASB may wish to develop a few examples to demonstrate that there is no “standard wording” for such descriptions.

Application of the differential requirements and application material to other entities

We agree that proportionality is appropriately considered in limiting the differential requirements and application material to listed entities for now. Looking forward, we note that the IAASB is working on a project to consider the definition of Public Interest Entities (PIEs) and the application of the existing differential requirements for listed entities to PIEs. We will consider the applicability of these differential requirements in the context of PIEs as the PIE Track 2 project progresses.

We generally agree with the proposed auditor reporting requirements applicable to audits of listed entities. In particular, we support requiring the auditor’s report to communicate “close calls” (i.e., events or conditions have been identified but the auditor concluded that there is no MURGC).

While various academic studies indicate that the current auditor reporting on going concern has informational value, a 2009 study found that reporting only when a material uncertainty has been identified, predicted only approximately 37% of corporate failures. We believe that “close calls”, which are expected to be communicated earlier than MURGC, would be informative.

However, we have a few suggestions on the proposed reporting requirements and application material.

Compagnie Nationale des Commissaires aux Comptes and Conseil National de l’Ordre des Experts-Comptables (CNCC & CNOEC)

We encourage the IAASB to consider the pros and cons of extending the scope to PIEs as part of the second phase of the PIE project.

Indeed, listed entities are required to communicate externally any event that may influence their share price, and therefore most probably when events or conditions have been identified that may cast significant doubt on the entity’s ability to continue as a going concern, these events and conditions will have been communicated to the market, so the auditor will not be in a position of including in the audit report information that has not been disclosed by the entity.

For non-listed PIE, information about events or conditions that have been identified that may cast significant doubt on the entity’s ability to continue as a going concern may not have been disclosed publicly by the entity, so the auditor could be required to communicate an information that management has not communicated, and that may relate to a situation that does not anymore exist at the date of the audit report.

Hong Kong Institute of Certified Public Accountants (HKICPA)

Paragraph 15 of extant ISA 701 states that “...a material uncertainty related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern in accordance with HKSA 570 (Revised), are by their nature key audit matters.” Similarly, paragraph A41 of extant ISA 701 refers to the possible inclusion of a key audit matter relating to going concern related matters, when a material uncertainty does not exist.

Therefore, we are supportive to requiring auditors of listed entities to describe how they evaluated management’s assessment of going concern when there is identified material uncertainty, or significant doubt (but no material uncertainty exists), for alignment with the disclosure requirements of key audit matters in ISA 701.

However, to ensure coherence of the ISAs, we suggest that the IAASB revisit the drafting of paragraphs 33(b)(ii) and 34(d) of ED-570, which requires auditors to “Describe how the auditor evaluated management’s assessment of the entity’s ability to continue as a going concern” in the auditor’s report, against that of paragraph 13(b) of ISA 701, which requires auditors to describe “How the (key audit) matter was addressed in the audit”.

Additionally, it would be helpful if the IAASB could provide example descriptions for inclusion in the auditor’s report, illustrating the application of guidance in paragraphs A73 to A77 of ED-570.

Under ISA 701, auditors of listed entities are required to disclose key audit matters in their reports, while auditors of other entities may do so on a voluntary basis. Therefore, we believe that the requirement to describe the auditor’s evaluation of management’s assessment of going concern when there is material uncertainty or significant doubt should only apply to listed entities, without extending it to other entities. This would also ensure the scalability of the standard. However, in the context of ED-570, we suggest that the IAASB could consider adopting a similar approach as paragraph 5 of ISA 701 for auditors of other entities to disclose their evaluation when they decide to do so.

Royal Dutch Institute of Chartered Accountants (NBA)

We suggest that the requirement to report on the auditor’s evaluation of management assessment, which deals with the work of the auditor, should be required for all statutory audit, not only for audits of listed entities. This is because there are many large entities for which such information would be meaningful to stakeholders.

4. Accounting Firms

Assirevi

We would like to reiterate our comments on the changes to the auditor’s report as set out in our response to question 13 above, and confirm our agreement with the inclusion of the changes proposed by ED-570 with respect to the audit of listed entities and, especially, those set out in paragraphs 33 (b) and 34 (d). In such circumstances, the content of ED-570 is consistent with the IFRS (IAS 1) and enables the users of financial statements to have a better understanding of how the auditor evaluated management’s assessment of going concern. In addition, ED-570 is consistent with the requirements of ISA 701 on key audit matters.

In our opinion, the changes should solely be applicable to the audit of listed entities as the requirement is consistent with that for the scalability of auditing standards and the proportionality of an auditor’s work. As currently envisaged in paragraph A71, we support that the auditor also may decide that providing the information required by paragraph 33(b) for an entity other than a listed entity would be appropriate to enhance transparency for intended users of financial statements.

With respect to paragraph 35 (c), it is unclear why, in the case of inadequate disclosure about the Material Uncertainty Related to Going Concern for a listed entity, the “Material Uncertainty Related to Going Concern” section should not describe “how the auditor evaluated management’s assessment of the entity’s ability to continue as a going concern”, as established for the cases in paragraph 33 (b) and paragraph 34 (d). This may perhaps be due to the fact that the auditor does not wish to provide original information not disclosed by management. However, in these circumstances, the specific section entitled “Basis for a qualified or adverse opinion” should, in our view, include a description of the material uncertainties not disclosed by management. If there is another reason for omitting the above description, the guidelines should include additional guidance to support the auditor in applying the standard.

Lastly, it is not clear why the requirement in paragraph 34 (e) is not also included in paragraph 33 (b).

BDO International (BDO)

We support the requirements and application material for listed entities, however at this time we do not propose the proposed requirements to be extended to also apply to audits of financial statements of entities other than listed entities. We believe the application material in paragraph A71 provides an option to practitioners which is sufficient.

At some future time when there is global agreement on the definition of public interest entities (and the associated interaction with the listed entity concept), the IAASB should revisit and reconsider any consequential impact, including which requirements within the body of professional standards may need to be extended from listed to public interest entities.

In addition, as noted in paragraphs 33 and 34 in ED-570, there are specific reporting requirements for listed entities. The IAASB may want to reconsider why the reporting requirement noted for listed entities in paragraph 34 (d) is not also required for paragraph 35:

In paragraph 34, no modification to the opinion is proposed: the auditor concludes that the use of the going concern basis of accounting is appropriate, even though there is a material uncertainty about the entity's ability to continue as a going concern, and that the disclosure about the material uncertainty is appropriate.

Here, the auditor is required to describe how the auditor evaluated management's assessment of a listed entity's ability to continue as a going concern.

In paragraph 35, a qualified or adverse opinion is expressed, and the auditor concludes that the use of the going concern basis of accounting is appropriate, even though the disclosure of the material uncertainty is not adequately made in the financial statements.

Here, there is currently no requirement for the auditor of a listed entity in these circumstances to describe how the auditor evaluated management's assessment of the entity's ability to continue as a going concern.

We recommend including the requirement of paragraph 34 (d) in paragraph 35 as well, so that in an audit of financial statements of a listed entity, the auditor's report should describe how the auditor evaluated management's assessment of the entity's ability to continue as a going concern when there is a material uncertainty related to going concern.

Ernst & Young Global Limited (EY)

Finally, as stated in our response to Q4, while we agree that for intended users of audited financial statements of listed entities there is a public interest benefit in providing more informational content about the auditor's work and inclusion of additional commentary about the auditor's evaluation of management's assessment of the entity's ability to continue as a going concern in the auditor's report, we feel strongly that the reporting requirements for the auditor need to be more closely tied to the reporting requirements of management, consistent with our comments above. We see a significant risk of unintended consequences, including widening the expectation gap, should auditor reporting requirements be expanded in a manner that would put the auditor in the position of disclosing information about the entity's viability that is not required to be included in the financial statements. Therefore, we suggest that there is an opportunity for greater alignment between auditor and management responsibilities by using the requirements of ISA 701, Key Audit Matters as the foundation for the auditor reporting requirements in these circumstances.

We agree that for intended users of audited financial statements of listed entities there is a public interest benefit in providing more informational content about the auditor's work and inclusion of additional commentary about the auditor's evaluation of management's assessment of the entity's ability to continue

as a going concern in the auditor's report. However, we feel strongly that the reporting requirements for the auditor need to be more closely aligned to the reporting requirements of management, consistent with our overarching view expressed in our response to Q2 and as further explained below.

We continue to believe that the accounting standards are in need of enhancement. If users desire more information than what we support in our response below about an entity's ability to continue as a going concern for listed entities or for all entities, enhancements are first needed to the disclosure requirements for the financial statements. Increasing management's disclosure responsibilities will also provide appropriate context for the auditor to further increase transparency about the work performed to evaluate events or conditions that may cast significant doubt on an entity's ability to continue as a going concern.

When a material uncertainty exists (listed entities)

When a material uncertainty exists, we support the inclusion of a description in the auditor's report of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern. In this circumstance, we believe the proposed requirement for the auditor to include more informational content in the auditor's report is aligned with management's responsibilities under applicable accounting frameworks to disclose material uncertainties related to events or conditions that may cast significant doubt about the entity's ability to continue as a going concern.

When no material uncertainty exists (listed entities)

We agree that users are seeking more information about the auditor's work in relation to 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, but no material uncertainty exists. However, we believe that addressing this requires consideration of the disclosure requirements of the applicable accounting framework that address this circumstance.

We see a significant risk of unintended consequences, including widening of the expectation gap, should auditor reporting requirements be expanded in a manner that would put the auditor in the position of disclosing information about the entity's viability that is not required to be included in the financial statements. In other words, when the auditor has evaluated the disclosures in the financial statements about the events or conditions that may cast significant doubt to be adequate in view of the requirements of the applicable financial reporting framework (in accordance with paragraph 31 of ED-570), the auditor should not be required to disclose information about the entity's ability to continue as a going concern that is not included in management's disclosures. Further, the auditor should not be placed in the position of referring in the auditor's report to information related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern that is disclosed in the financial statements but is not described in the context of its relevance to management's going concern assessment.

As stated in paragraph 83 of the Explanatory Memorandum to ED-570, we acknowledge and agree with the IAASB's consideration of the agenda decision of the IFRS Interpretations Committee and the IFRS Foundation education material that clarify and address the going concern disclosure requirements in IAS 1 in developing the application material for ED-570. We note that these materials highlight (emphasis added) "that if, after considering planned mitigating actions, management's conclusion that there are no material uncertainties involves significant judgement, then the disclosure requirements in paragraph 122 of IFRS IAS 1, Presentation of Financial Statements (IAS 1) would apply to the judgements made in concluding that no material uncertainties remain...".

Therefore, when management's conclusion that a material uncertainty does not exist represents a significant judgment, the disclosures within IFRS financial statements should include a description of the judgments made in the context of management's going concern assessment. When management's conclusion does not represent a significant judgment, the events and conditions identified are not required to be disclosed in the context of management's going concern assessment. Instead, such events and conditions are subject to disclosure requirements that apply based on their nature (e.g., disclosures related to debt, capital management, uncertain estimates, contingent liabilities).

When management is not required to disclose events and conditions in the context of their applicability to their going concern assessment, we strongly believe the auditor's disclosure of such events and conditions in the Going Concern section of the auditor's report is a form of original information. We acknowledge that the ISAs are not written in the context of IFRS but believe this is a relevant example to illustrate the strong possibility of the auditor's disclosures in the auditor's report including information that is appropriately not disclosed, or not disclosed in the context of going concern, in the financial statements.

We believe that misalignment between management's disclosures and the auditor's disclosures in the auditor's report will cause increased misunderstanding among users of the auditor's report (i.e., widening of the expectation gap). Because of the risk of widening the expectation gap, we agree with the new application guidance that was added to ED-570 to draw attention that it is appropriate for the auditor to seek to avoid providing original information about the entity in the auditor's report when describing how the auditor evaluated management's assessment about going concern (see paragraphs A76–A77 of ED-570). However, we don't believe this application material is enough to effectively remove the risk of the auditor being in a position of providing original information given the proposed requirements in ED-570.

To remove the risk of providing original information and our related concerns expressed above, we believe the IAASB should revise the reporting requirements to achieve greater alignment between auditor and management responsibilities by using the requirements of ISA 701, Key Audit Matters, as the foundation for the auditor reporting requirements in these circumstances.

Due to the close alignment with IAS 1 paragraph 122, we agree with the concept in the new application material that was added in paragraph A62 of ED-570 that clarifies that, in view of the requirements of the applicable financial reporting framework, "significant management judgment" is an appropriate threshold to apply when determining if disclosure(s) should be made about events and conditions that may cast significant doubt on the entity's ability to continue as a going concern.

Areas of significant management judgment are often areas of significant auditor judgment as evidenced by paragraph 9 of ISA 701, Communicating Key Audit Matters in the Independent Auditor's Report, which requires that (emphasis added):

The auditor shall determine, from the matters communicated with those charged with governance, those matters that required significant auditor attention in performing the audit. In making this determination, the auditor shall take into account the following: (Ref: Para. A9–A18) ...

Significant auditor judgments relating to areas in the financial statements that involved significant management judgment, including accounting estimates that are subject to a high degree of estimation uncertainty. (Ref: Para. A23–A24) ...

In summary, we believe that the IAASB should revise the requirement in ED-570 paragraph 33(b), and the related application material, to align the auditor's reporting requirements for situations when, for an audit of financial statements of a listed entity, 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, to require additional information in the auditor's report only in situations when the auditor has applied significant auditor judgment in making that conclusion.

Other than listed entities

We do not support extending this requirement to also apply to audits of financial statements of entities other than listed entities. We agree with the IAASB (as stated in paragraph 73 of the Explanatory Memorandum to ED-570) that intended users of financial statements of entities other than listed entities may have access to this type of information through direct interaction with management and those charged with governance, thereby obviating the need for the additional commentary in the auditor's report. Regardless, because reporting key audit matters is currently not required for other than listed entities, we don't believe expanded reporting on going concern to other than listed entities should be required at this time. (However, if the expansion of key audit matters to other than listed entities is considered in the future, then the expansion of reporting on going concern could also be considered).

KPMG International Limited (KPMG)

Subject to our response to Question 13 and our concerns regarding the changes in the reporting section of the standard, we are supportive of the inclusion of the requirements, and related application material, in respect of listed entities, at paragraph 33(b) and paragraph 34, for the auditor to include a reference to the related disclosures in the financial statements, and to describe how the auditor evaluated management's assessment of the entity's ability to continue as a going concern. We believe these requirements would appropriately align this standard with financial reporting standards such as IAS 1; would be clearer for users of financial statements (because the information would be included as an explicit statement, and under the heading of Going Concern or MURGC) and would include greater transparency by requiring an explanation as to how the auditor evaluated management's assessment, which would align with the extent of information that would be communicated for a Key Audit Matter (KAM).

In connection with this, we note that the requirements at 33(b) and 34(d) for the auditor to describe how they evaluated management's assessment of the entity's ability to continue as a going concern are applicable for listed entities only. We recommend that the IAASB consider extending these requirements to be applicable in circumstances when ISA 701 is applicable, i.e. when the auditor otherwise decides to communicate KAMs in the auditor's report or when the auditor is required by law or regulation to communicate KAMs in the auditor's report, so that the concepts are aligned.

We note that paragraph 33(b), in referring to when "events or conditions have been identified that may cast significant doubt... but based on the audit evidence obtained the auditor concludes that no material uncertainty exists" is unclear as to whether this requirement is intended to apply in all circumstances where there are such events or conditions and it is determined that no MURGC exists, or only in a "close call" scenario. We do not consider this that it would be appropriate to include this additional information when this is not a "close call" scenario, as we believe this could result in the auditor introducing new information in the auditor's report that is not included in the financial statements. Additionally, this would require the auditor to provide more detailed information about their going concern evaluation when the auditor has not needed to exercise significant judgement in determining that there is no MURGC, which would appear to be disproportionate in the circumstances and would go beyond the concept of a Key Audit Matter. Further, such information likely would clutter the auditor's report, which could obscure information that is more important, and, over time, we believe that such information would trend towards being "boilerplate" and may therefore

desensitise users of auditor's reports to this section of the report more generally, which would not be in the public interest.

We do not believe that it was the IAASB's intention for this requirement to apply in all circumstances where there are events or conditions and we therefore recommend that the ED clarify that this requirement is applicable only in a close call scenario, and also include a definition of a close call within the standard. (Please also refer to our response to Question 5).

MNP LLP (MNP)

Further as noted in our response to question 2 we believe that when there is no material uncertainty or close call, that including this information in the audit report would add no value and dilute the audit report even for listed entities.

We generally support the proposed auditor reporting requirement applicable to audits of listed entities, but we believe that these requirements discussed in paragraph 33(b) should be included in ISA 701 as Key Audit Matters.

PriceWaterhouseCoopers (PwC)

Enhanced transparency in auditor reporting

We support the proposed two new auditor conclusions addressing management's use of the going concern basis of accounting and whether any material uncertainties have been identified. We also support further transparency in the auditor's report about the auditor's conclusions and, for audits of listed entities, the work undertaken in an audit when additional disclosure achieves the objectives of being both meaningful and enhancing users' understanding of the scope and extent of the auditor's work.

With respect to the proposed enhanced disclosure for audits of listed entities of circumstances when events or conditions exist that may cast significant doubt on an entity's ability to continue as a going concern, but the auditor concludes there is no material uncertainty (so called "close call" situations), we support in principle the call for more "early warning" for users, but caution that this needs to be addressed carefully to avoid users misunderstanding what this additional reporting by the auditor is signifying, and to avoid further blurring the responsibilities of management and the auditor – management is responsible for reporting significant judgements they have made in making their going concern assessment.

The IAASB's illustrative disclosure in such close call situations closely resembles the disclosure required in the circumstances of a material uncertainty, with the only difference being that, in a close call situation, the auditor states that "we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern" and the opposite being true when the auditor concludes there is a material uncertainty.

We are concerned that, without any additional contextual language, referring within the proposed going concern section of the report to the disclosures in the financial statements describing events or conditions may be perceived as conflicting with the statement that the auditor has not identified a material uncertainty related to events or conditions. At a minimum, there is a risk of user confusion about how these circumstances differ from those of a material uncertainty and how this close call disclosure is to be interpreted compared to a material uncertainty disclosure.

We believe that a clearer distinction between a close call and a material uncertainty situation is best achieved by utilising the existing Key Audit Matter reporting requirements. In such cases, the auditor would still describe the events or conditions giving rise to a close call in a Key Audit Matter and describe how the

auditor addressed the matter. There is therefore the same level of information provided to users. However, utilising this section of the report retains the significance of the “Material Uncertainty” section of the auditor’s report, such that when a Material Uncertainty section is included, this is a clear and prominent warning to users of the financial statements of a situation that they need to carefully consider. We further address this matter in our response to question 14 in the appendix to this letter.

For entities other than listed entities, when KAM are not required to be included in the auditor’s report, providing additional guidance to highlight the availability of using an emphasis of matter paragraph in the auditor’s report to draw attention to disclosures in the financial statements that are considered fundamental to users’ understanding (in circumstances when events or conditions were identified but ultimately no material uncertainty was deemed to exist) may be a useful reminder.

We agree with the proposed requirement to describe how the auditor evaluated management’s assessment when a material uncertainty section is included in the auditor’s report for an audit of a listed entity. This addresses the perceived information gap between a material uncertainty and matters that are addressed in the Key Audit Matters (KAM) section of the report.

With respect to the proposed enhanced disclosure for audits of listed entities of circumstances when events or conditions exist that may cast significant doubt on an entity’s ability to continue as a going concern, but the auditor concludes there is no material uncertainty (so called “close call” situations), we support in principle the call for more “early warning” for users, but caution that this needs to be addressed carefully to avoid users misunderstanding what this additional reporting by the auditor is signifying, and to avoid further blurring the responsibilities of management and the auditor – management is responsible for reporting significant judgements they have made in making their going concern assessment.

The IAASB’s illustrative disclosure in such close call situations closely resembles the disclosure required in the circumstances of a material uncertainty, with the only difference being that, in a close call situation, the auditor states that “we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern” and the opposite being true when the auditor concludes there is a material uncertainty.

We are concerned that, without any additional contextual language, referring within the proposed going concern section of the report to the disclosures in the financial statements describing events or conditions may be perceived as conflicting with the statement that the auditor has not identified a material uncertainty related to events or conditions. At a minimum, there is a risk of user confusion about how these circumstances differ from those of a material uncertainty and how this close call disclosure is to be interpreted compared to a material uncertainty disclosure.

We believe that a clearer distinction between a close call and a material uncertainty situation is best achieved by utilising the existing KAM reporting requirements. In such cases, the auditor would still describe the events or conditions giving rise to a close call in a key audit matter and describe how the auditor addressed the matter. There is therefore the same level of information provided to users. However, utilising this section of the report retains the significance of the “Material Uncertainty” section of the auditor’s report, such that when a Material Uncertainty section is included, this is a clear and prominent warning to users of the financial statements of a situation that they need to carefully consider.

When the KAM section includes a close call going concern matter, the going concern section of the auditor’s report could include a sentence immediately following the required conclusions that draws attention to this key audit matter, for example, stating that in forming their conclusions the auditor had consideration of the going concern matter described in the KAM section. In doing so, the users of the report would be guided to

the relevant information but without the potential unintended consequence that reporting events or conditions in the going concern section is perceived as a de facto material uncertainty.

As of the date of this response, we also believe that the above proposal would provide consistency with how significant fraud-related risks, when the auditor concludes that there is no actual or suspected fraud, would be addressed in the auditor's report – that is, by inclusion of a fraud-related key audit matter. This would reinforce the concept that matters of most significance in the audit that do not rise to the level that triggers a specific additional reporting responsibility (material uncertainty or modified opinion) are all addressed in the key audit matters section of the report. We believe that is a sensible position that users of the auditor's report will better understand.

We acknowledge the IAASB's objective of enhancing transparency. However, we believe that effectively presenting the subtle distinction between these two scenarios (material uncertainty versus events or conditions but no material uncertainty) in the same section of the auditor's report is challenging. If the current proposals are retained in preference to utilising the KAM section, we recommend the inclusion of additional contextual language within the proposed new going concern section that seeks to better distinguish the required reporting for audits of listed entities when events or conditions exist but the auditor concludes there is no material uncertainty to seek to minimise the risk of misinterpretation.

6. Member Bodies and Other Professional Organizations

Accountancy Europe (AE)

Please see our response to question 13.

We also would like to note the fact that the IAASB's Listed Entity and Public Interest Entity (PIE) project has not been finalised yet. At this point in time, it does not seem to be the best course of action to revise ISA requirements specific to listed entities.

Accounting and Finance Association of Australia and New Zealand (AFAANZ)

In summary, we feel that the proposed standard;

should extend the enhanced requirements for the Auditor's Report to speak to auditor's responsibilities and work performed to all entities (not just listed entities), and to all circumstances (not just when events or conditions have been identified) (see our response to Question 14),

We make the point that it is management's responsibility to assess and report on the appropriateness of the going concern basis of preparation. For example, IAS1 requires management to make an assessment of an entity's ability to continue as a going concern. Current requirements in IAS1 are not fully aligned with proposed (and extant) auditing standard requirements in that reporting standards are less specific on going concern disclosures (Bradbury et al. 2022). We do not believe that it is the place for auditing standards to be the vehicle through which to improve corporate reporting in this critical area.

We highlight that New Zealand made amendments to their accounting standards in 2020 to align accounting and auditing practices. In this regard, Groose et al. (2022) highlight the benefits of alignment and reinforces concerns raised by auditors that management's lack of preparation for financial reporting disclosure surrounding the going concern assumption leads to increased audit effort and delays in financial statement preparation (Geiger et al. 2019).

We support the requirements and application material that facilitate further enhanced disclosures in the Auditor's Report about the auditor's responsibilities and work related to going concern, but note that the benefits of the enhanced requirements extend beyond increased transparency to improved audit quality.

With this in mind, we believe that the requirements should be extended to all entities. In addition, we encourage the IAASB to consider extending the requirements to all circumstances and not just when events or conditions have been identified.

The proposed requirements in paragraph 33(b)(ii) and paragraph 34(d) are similar to reporting of going concern Key Audit Matters as required by extant ISA701 and research on Key Audit Matters informs assessments of the appropriateness of the proposed enhancements to auditor reporting on going concern. In particular, research speaks to at least two dimensions of the proposed enhanced auditor reporting; the potential increased information content and transparency, and the broader impact on audit quality.

Research on the decision usefulness of reporting Key Audit Matters is mixed (see Gold and Heilman 2019 and Minutti-Meza 2021 for reviews) and does not consistently demonstrate benefits to the users of the Auditor's Report of increased transparency. Extant requirements, however, allow for the disclosure of a level of uncertainty that is removed in the proposed standard. That is, auditors can presently speak to 'close calls' as a Key Audit Matter and research (Mattocks 2023) highlights that users are able to distinguish going concern implications across a material uncertainty versus a Key Audit Matter close call. Similarly, Wright and Wright (2014) find that explanations of the auditor's judgment processes in 'close-call' going concern uncertainties is useful information to investors. This gradation is somewhat lost in the proposed standard with reporting on going concern required in all circumstances (making it more difficult to identify when there was a 'close call').

Practically, however, we note research highlighting that going concern issues are rarely raised as a Key Audit Matter (e.g., Kend and Nguyen 2020; Grosse et al. 2022; Camacho-Minano et al. 2023). We, therefore, believe it to be in the public interest to require the auditor to report on the work done in order to assess going concern.

Moreover, we note research highlighting that Key Audit Matter reporting is associated with improved financial reporting quality (e.g., Reid et al 2019; Burke et al. 2023; Zeng et al. 2021). The reporting of Key Audit Matters, however, may detract from the quality of auditor judgments in that they may be perceived as providing a licence for doing less work (e.g., Vinson et al. 2019; Asbahr and Ruhnke 2019; Ratzinger-Sakel and Theis 2019).

A long tradition of research on auditor justification and accountability highlights that the auditor having to explain/justify their judgments leads to increased effort and often (but not always) improved judgment performance (e.g., Peecher 1996; Kennedy 1993; Koonce et al 1995; Agoglia et al. 2003). Although the research is mixed on the auditor behavioural consequences of reporting Key Audit Matters (or Critical Audit Matters), and therefore the likely impact on auditor judgment of reporting how the auditor addressed going concern, we believe that the required positive statements as to the auditor's conclusions about the appropriateness of the going concern basis of accounting will encourage the quality enhancing effects of disclosing what was done to evaluate management's assessment, thereby increasing the effectiveness of the enhanced requirements for auditors to evaluate management's assessment in all circumstances. In addition, this improvement in underlying audit quality is likely to be accompanied by a similar increase in perceptions of increased auditor credibility and audit quality by users of the auditor's report (Moroney et al. 2021; Carver et al. 2023).

Recognizing the potential benefits beyond increased transparency, we encourage the IAASB to consider expanding the scope of paragraph 33(b) such that it is not limited to circumstances when events or conditions that may cast significant doubt on the entity's ability to continue as a going concern have been identified. That is, extend the requirement to all circumstances. Mindful of the benefits for auditor judgment

of reporting how the auditor evaluated management's assessment, we believe that extending the requirement to all circumstances makes the realisation of the benefits from the enhanced approach requiring the auditor to design and perform audit procedures to evaluate management's assessment of going concern in all circumstances more likely (see our response to Question 8). In addition, the absence of disclosure may lead to lower user perceptions of auditor credibility and audit quality (Carver et al 2023) than should otherwise be the case.

We also encourage the IAASB to consider extending the requirements of paragraph 33(b) and paragraph 34(d) to all entities, and not just listed entities. We note above the likely benefits of the provisions of paragraph 33(b) and paragraph 34(d) and believe it to be in the public interest for such benefits to also be realised in audits of non-listed entities. While it is understood that the benefits of increased transparency are more evident in listed entities, the benefits of improved audit practices are applicable and important across all entities. In this regard, we note in our response to Question 3 the importance of going concern assessments (and the opportunity to improve the quality of those assessments) in smaller and/or less complex entities.

We wish to again reinforce the respective responsibilities of management and the auditor in assessing going concern. It remains the case that management are responsible for and reporting on an assessment of the entity's ability to continue as a going concern. We do not believe that it is in the public interest for improved disclosures to be driven through the Auditor's Report.

Chamber of Auditors of the Czech Republic (CA CR)

We agree that the auditor should describe his/her response if a significant risk related to going concern is identified. We support the requirement to 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).

However, we are not convinced that the placement of such information within the going concern section is ideal (despite it may seem logical at first look). We believe that the current concept of describing auditor's procedures for key audit areas in separate KAM section is well established in practice. We propose to include use such a section also for describing how the auditor evaluated management's assessment of going concern (where required). The going concern section may include a reference to relevant KAM if considered necessary.

Additional note: We understand the intention to have all matters regarding going concern in one place in the audit report. But we would like to stress that this concept is not fully applied in the proposed ED either as the auditor's responsibilities related to going concern are still included separately in the section Auditor's responsibilities.

Colombia's National Institute of Public Accountants (INCP)

In this regard, we consider that this matter can be included as a key audit topic in cases where there is significant uncertainty for a listed entity or as a highlighted paragraph for non-listed entities. This is in order to focus the financial information user on the relevant matters of the audit.

Institute of Certified Public Accountants of Uganda (ICPAU)

We are supportive of the requirements and application material that facilitate further enhanced transparency about the auditor's responsibilities and work relating to going concern during audits of entities other than listed entities. However, we recommend that Section 33 (b) be amended to ensure all auditors of listed

entities provide a description of management's assessment of going concern irrespective of whether or not a material uncertainty related to going concern exists.

Institute of Chartered Accountants in England and Wales (ICAEW)

Revisions to ISA (UK) 570 made by the FRC in 2019 require UK auditors to include positive statements on going concern within the audit report. The most significant change to the UK standard that would be required by the IAASB's proposals relates to the proposed paragraph 33(b) requirement for listed entities regarding "close call" situations - situations where events or conditions have been identified which may cast significant doubt on an entity's going concern status, but the auditor concludes that no material uncertainty exists. In these situations, the auditor would refer to the related disclosures, if any, in the financial statements, and describe how the auditor evaluated management's assessment of the entity's ability to continue as a going concern.

"Close calls" such as these may currently be referred to as Key Audit Matters if the auditor considers them to be sufficiently significant to the audit of the financial statements. The proposal would introduce a further level of information about going concern within the audit report, which has the potential to confuse readers of the financial statements. In our view, the transparency objective in relation to going concern would be more effectively served through the introduction of better-quality reporting via KAMs.

However, to be effective, improved transparency about considerations the auditor has made and the work performed must be supported by greater transparency in management disclosures in the financial statements. Currently, management is not required to make any explicit disclosures regarding the use of the going concern basis of accounting, or their going concern assessment. The proposal for auditors to disclose events and conditions relating to going concern, even where these do not reach the threshold of a material uncertainty, does not therefore seem proportionate.

Given existing KAM requirements, and that the proposal would not involve auditors providing original information, but rather highlighting the disclosures (if any) already made by management, this requirement could have the opposite effect to what is intended. Rather than improving transparency, the proposal could create confusion for readers of the financial statements who may not understand the different types of going concern matters that might be described in an audit report. If the relevant information is already disclosed in the financial statements, including additional disclosure in the audit report may be of limited value, especially where events or conditions have not reached the level of a material uncertainty and are considered of less significance to readers. If a "close call" material uncertainty is not considered significant enough to have already been disclosed as a KAM under existing requirements, we question the value of requiring it to be disclosed in the going concern section of the audit report. Readers may interpret the disclosures as meaning that the entity is in financial distress when, in fact, no material uncertainty exists.

These concerns are particularly significant within the banking and financial services sector. Recent high-profile banking failures, facilitated by customers being able to withdraw funds instantly via internet banking, have occurred at great speed. Directly drawing readers' attention to events or conditions that may cast a significant doubt on going concern could precipitate a sudden loss of confidence in a financial institution, even where this is unwarranted as the events or conditions disclosed are not considered to reach the level of a material uncertainty. While there is clear value in disclosing significant events or conditions that a reader of the financial statements should know about, this should be proportionate so as not to cause unnecessary concern.

There is a lack of clarity within the proposal regarding what would constitute events and conditions that may cast a significant doubt on the entity's ability to continue as a going concern, but do not reach the level of a

material uncertainty. A material uncertainty paragraph within an audit report already uses heavily qualified language, given that there is a fundamental uncertainty regarding whether the events or conditions identified will prevent the entity from continuing as a going concern. It is not clear what kinds of events or conditions would qualify as “close calls” requiring disclosure in the audit report, while not reaching the level of a material uncertainty. For example, it is not clear whether these are intended to include events or conditions whose impact is not expected to be significant enough to cause the entity to fail, or events or conditions with a lower likelihood of occurring. It is also unclear whether these should include events or conditions that could have indicated a material uncertainty, but have since been resolved – for example, where the auditor has identified potential issues with meeting a covenant, but the covenant is renegotiated before the financial statements are approved. Uncertainty regarding the minimum level of events or conditions intended to be caught by this requirement will lead to inconsistency in interpretation and application by auditors in the absence of detailed guidance, as there is a range of situations where events or conditions exist. As a bare minimum, we recommend that the IAASB provide a list of factors to be taken into account when determining whether there are events and conditions that may cast a significant doubt on the entity’s ability to continue as a going concern, but do not reach the level of a material uncertainty.

The lack of clarity around the thresholds to be used in making this determination and the resulting increase in auditor judgment to be used in applying the requirement may have unintended consequences. These could include increased challenge to auditors from management, who could put pressure on auditors to downgrade a material uncertainty to a “close call”. While auditors must remain independent and be prepared to robustly challenge management’s assessment, the lack of guidance regarding the factors to be considered could make it challenging for auditors to reach an appropriate conclusion, resulting in a risk that they may inappropriately assess events and conditions as not reaching the level of a material uncertainty. There is also a risk that management will be less willing to disclose the risk factors relating to going concern that they have identified themselves internally to their auditors.

Overall, while we can see that there is a clear public interest in increasing transparency regarding the considerations made over going concern in the audit report, and note that all required disclosures regarding events and conditions that may cast doubt on an entity’s ability to continue as a going concern should already have been made by management, there are also a number of valid concerns relating to the possibility of significant adverse consequences which may outweigh the potential benefits. On balance, we do not believe that it is necessary or desirable to add an additional layer of complexity, potential confusion for readers and an increased risk of unintended consequences via the introduction of the proposed requirements in paragraph 33(b). We suggest that where such events and conditions are identified, they should more appropriately be included as KAMs within the audit report.

Institute of Chartered Accountants of Scotland (ICAS)

However, please note our response to question 14 where we do highlight a particular concern which we believe should be addressed by the IAASB prior to finalising the revised standard. This relates to situations where events or conditions have been identified which may cast significant doubt on an entity’s going concern status, but the auditor concludes that no material uncertainty exists. It is proposed that the auditor would refer to the related disclosure(s), if any, in the financial statements; and describe how they evaluated management’s assessment of the entity’s ability to continue as a going concern.

We are not convinced that the proposed approach is an improvement on the current UK approach. Please refer to our response to question 14 for more detail in this regard.

We do have concerns over the proposed requirements in paragraph 33(b) of the proposed revised standard in respect of “close call” situations. There is a risk the proposed revisions would introduce a further potential layer of disclosure on going concern within the auditor’s report that may not be matched by equivalent disclosures in the financial statements. For such disclosures to properly improve transparency they would need to be accompanied by appropriate related disclosures made by management. This again emphasises the need for dialogue between the IAASB and accounting standard setters such as the IASB with a view to enhancing the current level of going concern disclosures which are required of preparers.

We therefore believe that the IAASB should reconsider its proposed approach in this regard and consider adopting the current UK approach i.e. for audits of all listed entities where use of the going concern concept is deemed appropriate by the auditor, regardless of whether there is a close call situation, the auditor should be required to provide an explanation of how they evaluated management’s assessment of the entity’s ability to continue as a going concern and, where relevant, key observations arising with respect to that evaluation.

With respect to extending this proposed requirement, we believe that it could be extended to include all public interest entities.

Malaysian Institute of Accountants (MIA)

Yes. The reporting requirements are consistent with existing practice in several jurisdictions and are reasonable. From a methodology perspective, if the proposals are approved in their current form, consideration will need to be given to developing further guidance to support effective descriptions of how the auditor evaluated management’s assessment to avoid generic boilerplate reporting.

Whilst we believe that the application of this standard may be extended to entities other than listed entities is possible, this needs to be aligned with the requirements of the local law or regulatory, or auditing framework. Otherwise, we agree with the IAASB to promote voluntary application for entities other than listed entities as we can envisage circumstances when there are non-listed entities for which voluntary reporting on “material uncertainty related to going concern section’ may be appropriate to enhance transparency for intended users of financial statements in the auditor’s report (including those that may be of significant public interest such as banks, insurance companies, and pension funds).

In addition, the IAASB should consider removing the words “if any” in ED570.33(b)(i) to address a possible situation where 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. If no disclosure is made on this matter in the financial statements, the auditor would be unable to make any reference to the consideration and judgement made by management in the auditor’s report.

Pan-African Federation of Accountants (PAFA)

PAFA supports the requirements and application material that facilitate further enhanced transparency about the auditor’s responsibilities and work relating to going concern for audits of financial statements of listed entities. However, we recommend that the IAASB expands the requirements in paragraphs 33(b) and 34(d) to extend to or include public interest entities (PIEs) or for laws and regulations to specify certain categories of PIEs, to provide transparency for those entities in the public interest.

We also recommend that the disclosure in the auditor’s report required by paragraph 33(b)(ii) should not be required of the auditor until such time as management is required by the applicable financial reporting standards (e.g. IFRS Accounting Standards) to disclose an equivalent level of detail of their assessment in

the financial statements. This is to ensure that the auditor does not provide original information about the entity in the auditor's report.

Saudi Organization for Chartered and Professional Accountants (SOCPA)

As we explained in our answer to the previous question, we support the requirements and application material that facilitate further enhanced transparency about the auditor's responsibilities and work relating to going concern. However, we think that the requirement to describe how the auditor evaluated management's assessment regarding 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 should be restricted to listed entities. At the same time, we are in favor of encouraging auditors of non-listed entities to include, on a voluntary basis (as a preferred practice), in the audit report a reference to the related disclosures, if any, in the financial statements and a description of how the auditor evaluated the management's assessment regarding going concern matters.

Q14 - Disagree

3. Jurisdictional and National Auditing Standard Setters

American Institute of Certified Public Accountants (AICPA)

Also, as informed by our outreach, we generally believe the "exception-based going concern reporting model" in extant ISA 570 remains preferential over the proposed changes to the auditor's report in paragraph 33 of the Exposure Draft.

Like our response to Question # 13, absent a continuation of the exception-based reporting model in extant ISA 570, we encourage the IAASB to use an ISA 701 key audit matters model for listed entities for "close call" situations rather than pursue what's been proposed in paragraph 33(b). We are aware that the Center for Audit Quality in its response to the proposal in paragraph 33(b) has offered a similar recommendation and we support that position.

However, in consideration of the specific proposed requirement in paragraph 33(b), we believe that paragraph 33(b) should not be extended to audits of the financial statements of entities other than listed entities.

Austrian Chamber of Tax Advisors and Public Accountants (KSW)

We refer to our comments to question 13.

Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW)

We support the direction of the requirement and application material that 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), because this description essentially involves transposing the requirement for KAM for going concern matters. However, greater clarity is required about when such reporting in the auditor's report is required, which, in our view should only be when the magnitude of the potential impact and likelihood of occurrence of the events or conditions are such that, before consideration of any related mitigating factors included in management's plans for future actions, the entity may be unable to realize its assets and discharge its liabilities in the normal course of business. In this case (and only in this case), the auditor ought to be required to evaluate management's plans for future actions (see our response to Question 10). With the exception of paragraph 34 (d), in other cases, no such description needs to be included in the auditor's report because the matter would not be akin to a KAM, since the matter would

not have required significant auditor attention. For this reason, the requirement in paragraph 33 (b) ought read as follows:

“For an audit of financial statements of a listed entity, if events or conditions have been identified that may cast doubt on the entity’s ability to continue as a going concern and the magnitude of their potential impact and likelihood of occurrence are such that, before consideration of any related mitigating factors included in management’s plans for future actions, the entity may be unable to realize its assets and discharge its liabilities in the normal course of business, but based on the audit evidence obtained, the auditor concludes that no material uncertainty exists: ...”.

Based upon our response to Question 13, we do not believe it to be appropriate for auditors to “disclaim” conclusions on the appropriateness of management’s use of the going concern basis of accounting and on whether a material uncertainty exists because doing so furthers the impression of users that these conclusions are “piecemeal opinions”. A disclaimer of opinion as currently set forth in ISA 705 ought to suffice. For this reason, we believe that the requirement proposed for paragraph 19(b) in ISA 705 and the corresponding statement in the report in Illustration 5 of that standard ought to be deleted.

The proposed changes to the example auditors’ reports in the Appendix and in the conforming amendments would need to be adjusted based upon our comments to the draft.

4. Accounting Firms

CohnReznick LLP (CHR)

We do not support the requirements and application material that require the auditor of a listed entity to describe how the auditor evaluated management’s assessment of the entity’s ability to continue as a going concern (ED-540.34 and A73-A77). We believe the requirement and application to have KAM-like wording in the audit report will have a negative effect on the public interest for multiple reasons including:

We believe the focus of many users may be on the entity’s disclosure of going concern and management’s plans to mitigate the material uncertainty, not what the auditor did to conclude about whether a material uncertainty exists.

We believe extensive disclosure of the auditor’s efforts would be distracting, adding potentially excessive length to the auditor’s report, potentially confusing users.

We believe the preparation of KAM-like wording would add time to engagements without a commensurate benefit.

As such, we do not support the above-mentioned requirements and application material for audits of listed entities or of entities other than listed entities.

Crowe LLP (CROWE LLP)

A: No. As stated above in our General Observations, we do not believe that the requirement in paragraph 33(b)(ii) of the Proposed Standard, for the auditor to describe how the auditor evaluated management’s assessment of the entity’s ability to continue as a going concern (when the auditor has concluded that no material uncertainty exists), is sufficiently scalable to the auditor’s risk assessment related to going concern.

In addition, we believe such disclosure may not be understandable by a financial statement user in all cases, when the auditor has concluded that no material uncertainty exists. In these cases, there can be a wide range of scenarios. For example, for one entity, it may be fairly straightforward to evaluate the identified events and conditions and conclude that there is no material uncertainty. For another entity, this

evaluation and conclusion may require significant auditor effort and judgment. For the auditor, these situations may be completely different in terms of the related risk assessment and extent of auditor judgment applied and further audit procedures performed. However, a user might not be able to discern these differences simply based on the auditor's description of their evaluation or understand the significance of the described audit procedures. We note that existing standards ISA 701 (key audit matters) and ISA 706 (Revised) (emphasis of matter) provide guidance on how an auditor may share additional information in the auditor's report, related to their going concern assessment. We believe that rather than requiring the report disclosure proposed in paragraph 33(b)(ii) in all cases, a better alternative is to allow the auditor to include additional information related to going concern in the report in accordance with ISA 701 or 706 when, in the auditor's judgment, additional information related to going concern would be useful and relevant to financial statement users.

Further, in order to describe the auditor's going concern evaluation, the auditor may be in a position of disclosing original information that has not been disclosed by the entity. We recommend that additional transparency in this area should be driven by management's financial statement disclosures. This also applies to the requirement in paragraph 34(d) in the Proposed Standard that requires the auditor to describe how they evaluated management's assessment of the entity's ability to continue as a going concern when a material uncertainty has been identified.

For these reasons, we do not believe that the proposed requirement to 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 and when a material uncertainty exists) enhances transparency in the auditor's report in a way that is understandable and meaningful to financial statement users.

Finally, we believe that these proposed requirements should not be extended to also apply to audits of financial statements of entities other than listed entities.

The requirement (for audits of listed entities) to describe how the auditor evaluated management's assessment of going concern, specifically when a material uncertainty has not been identified by the auditor, is not sufficiently scalable to the auditor's risk assessment related to going concern. We believe this disclosure may not be understandable by a user in all cases. We believe that more useful and understandable information could be provided when, in the auditor's judgment, the going concern assessment involved significant judgment, driving disclosure in the report (for example, as a key audit matter). Further, in order to describe the auditor's going concern evaluation (whether or not a material uncertainty has been identified), the auditor may be in a position of disclosing original information that has not been disclosed by the entity. We recommend that additional transparency in this area should be driven first by management's financial statement disclosures. Please see our specific responses to Questions 13 and 14.

Transparency

Deloitte Touche Tohmatsu Limited (DTTL)

SIGNIFICANT CONCERNS:

Description of "close calls" in the auditor's report when "events or conditions have been identified," even when no material uncertainty exists (paragraph 33(b) in the proposed standard and question 14 in the "Request for Comments")

The proposed standard requires that, in the auditor's report for listed entities, the auditor include a description of how they evaluated management's assessment "when events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but the auditor concludes that no material uncertainty exists," i.e., including in situations when it did not require significant judgment on the part of the auditor to make that conclusion. We do not support the requirement to expand auditor reporting to include "close call" situations that did not require significant auditor attention and were not of most significance in the audit.

First, while we understand that the intention is to provide transparency to users of the financial statements, we are concerned that this requirement could result in potentially confusing users instead of helping them. There can be a range of circumstances where "events or conditions exist" (e.g., those where it is simple to eliminate significant doubt such as through obtaining a debt covenant waiver) versus others where more significant judgment was necessary to make the determination that "events or conditions identified did not result in material uncertainty." Requiring the same auditor reporting for what could be a broad range of circumstances is likely to result in user misunderstanding of the significance of an event or condition.

There may also be unduly adverse consequences for the entities being audited. For example, the description in the auditor's report may resemble a negative emphasis of matter or other matter paragraph and users may misinterpret the information to mean that the entity is in financial distress, when in fact, no material uncertainty exists. This could lead to a negative effect on management's ability to carry out its plans and future actions (e.g., the inclusion of such language could affect management's ability to obtain necessary funding going forward).

In addition, it is not clear if the term "event or condition" is referring to "any events or conditions that may have been identified throughout the year" or just to "an event or condition that exists as of the date of approval of the financial statements." This distinction is meaningful, for example, when an event or condition is identified during the audit, but the event or condition is fully resolved prior to the date the financial statements are approved. Based on one interpretation of the new requirement, the auditor would nevertheless be required to add additional language to the auditor's report to comply with paragraph 33(b) – because an event or condition was identified during the year. Another interpretation would be that because the condition or event did not exist as of the date of approval of the financial statements, the requirement in paragraph 33(b) does not apply. We believe this lack of clarity could lead to inconsistent application of the requirement and confusion for auditors and users of the financial statements.

Recommendations:

Paragraph 80(a) of the Explanatory Memo accompanying the proposed standard describes that, even without the proposed requirements in paragraph 33(b) of this ED, the auditor can use ISA 701 to provide further transparency in a "close call situation." We believe that the key audit matter (KAM) requirements in ISA 701 offer the appropriate framework for the auditor to provide the desired transparency to users as it relates to the auditor's evaluation of going concern when events or conditions have been identified, but do not result in the existence of a material uncertainty, and when such evaluation requires significant auditor attention and is a matter of most significance in the audit. Increased transparency via a KAM is a mechanism that is well-understood by users. The use of KAMs for going concern matters could be enhanced by including guidance in the proposed standard indicating how the auditing of the existence of events or conditions when no material uncertainty exists could meet the definition of a KAM. This would enable communication in the auditor's report, when appropriate, instead of unnecessarily requiring communications about events or conditions which did not necessitate application of significant judgement to conclude that they did not result in a material uncertainty.

The IAASB's Fraud Task Force has proposed utilizing the existing KAM mechanism for providing increased transparency on fraud matters; we believe a similar approach could be taken for going concern, including providing additional application material in the proposed standard that highlights going concern matters as ones which are likely to meet the definition of a KAM. We believe consistency between the two standards would provide a helpful baseline for users when comparing audit reports, given that the same parameters would be considered by the auditor when reporting on both going concern and fraud.

Accordingly, we recommend deleting paragraph 33(b) and part of paragraph A1 of the proposed standard and instead including requirements similar to that being proposed by the IAASB's Fraud Task Force, as suggested below. The IAASB could also develop application material similar to that included by the Fraud Task Force. In the report illustration 2 (events or conditions have been identified but no material uncertainty exists), the sentence "[Description of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern in accordance with ISA 570 (Revised 202x).]" would also be removed.

Implications for the Auditor's Report

Use of Going Concern Basis of Accounting Is Appropriate – No Material Uncertainty Exists

33. If the auditor concludes that the going concern basis of accounting is appropriate and no material uncertainty exists, the auditor shall include a separate section in the auditor's report with the heading "Going Concern", and:

(a) State that the auditor:

Concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and

Based on the audit evidence obtained, has not identified a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

For an audit of financial statements of a listed entity, if 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:

Include a reference to the related disclosure(s), if any, in the financial statements; and

Describe how the auditor evaluated management's assessment of the entity's ability to continue as a going concern.

33A. When ISA 701 applies, the auditor shall determine whether any going concern related matters communicated with those charged with governance required significant auditor attention in performing the audit. This includes the identification of, and audit response to, events or conditions that may cast significant doubt on the entity's ability to continue as a going concern but that did not result in a material uncertainty. The auditor shall determine whether any such matters were of most significance in the audit of the financial statements of the current period and therefore are key audit matters.

A1. ISA 701 deals with the auditor's responsibility to communicate key audit matters in the auditor's report. That ISA acknowledges that, when ISA 701 applies, a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern is, by its nature, a key audit matter. However, in such circumstances, the implications for the auditor's report are in accordance with this ISA. In addition, for audits of financial statements of listed entities, if 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, this ISA requires the auditor to disclose under the heading of "Going Concern" within the auditor's report how the auditor evaluated management's assessment of the entity's ability to continue as a going concern.

We do not support the requirement in paragraph 33 when no material uncertainty exists as we believe it will result in confusion to users because of the broad range of circumstances that may require additional reporting. We believe that the KAM mechanism is more appropriate for additional reporting in situations involving significant judgment (i.e., those requiring significant auditor attention and that were of most significance to the audit) to determine that identified events or conditions do not result in a material uncertainty. See more details about our concerns as well as our recommendations in the Significant Concerns section of the cover note of this letter.

If the IAASB retains this requirement (even modified as we have suggested), we do not support extending it to also apply to audits of financial statements of entities other than listed entities.

Grant Thornton International Limited (GT)

We support increased transparency regarding going concern matters, however, we have concerns with the proposals in ED-570 as follows:

Close call situations

In situations where events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, after considering management plans to deal with these events or conditions, management and the auditor conclude that no material uncertainty exists (close call situations), the proposals require disclosures in the section entitled 'Going concern'. Under the proposals in ED-570, this section will also be used to make certain positive statements about the going concern basis of accounting. We are of the view that the dual use of this section under a generic heading may cause confusion and may lead to the disclosures being misinterpreted or overlooked. Further, if the financial reporting framework does not require the entity to make disclosures in the financial statements regarding the close call, this requirement could potentially result in the auditor being in the inappropriate position of disclosing original information.

Disclosures about the auditor's work related to going concern

ED-570 includes a proposed requirement for the auditor to include a description of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern. We are concerned that such disclosures may effectively provide a roadmap of how fraud could be committed. Further, we question how meaningful this information is to users of the financial statements in understanding the extent and sufficiency of the work performed by the auditor in forming an opinion on the financial statements.

Mazars (MZ)

Paragraph 33(b) of ED-570 applies to listed entities and requires additional disclosures in the auditor's report in all circumstances, including a reference to the related disclosure(s), if any, about going concern in the financial statements and a description of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern.

Where events and conditions related to going concern were identified but assessed to not represent a material uncertainty (e.g., "close call" situation), we are concerned about how the users of financial

statements may interpret the proposed disclosures. In particular, the interpretation of such disclosures may lead to unintended or undue concerns about the relevant events or conditions that have been assessed as not giving rise to a material uncertainty. For example, we are concerned about circumstances where such disclosures may attract unwarranted attention and/or responses by the users of the financial statements, which may:

Have an impact on the entity's share price; or

In the case of financial institutions, customers of a bank may withdraw their deposits over fears about the bank's solvency, based on events disclosed but which didn't give rise to a material uncertainty.

Further, as also acknowledged by the proposed application material of ED-570, the requirement could lead auditors in certain situations to provide original information in the auditor's report if management has not disclosed such information in the financial statements. The proposed application material further explains that "in circumstances when such information is determined to be necessary by the auditor, the auditor may encourage management or those charged with governance to disclose additional information, rather than providing original information in the auditor's report." The proposed guidance further emphasizes the distorted consequences of proposals in ED-570 that are deemed to inform or drive disclosures in the financial statements, as opposed to the applicable financial reporting framework that rightfully governs the financial statements.

Given our concerns expressed, we do not support paragraph 33(b) in circumstances where the auditor concluded that no material uncertainty exists. Note, however, we acknowledge there may be circumstances where the auditor, in exercising professional judgment, concludes that such disclosures in the auditor's report are appropriate, e.g., as a key audit matter in accordance with the requirements of ISA 701 (Revised) or an emphasis of matter in accordance with ISA 706 (Revised).

Nexia Australia Pty Ltd (NAPL)

We disagree with the proposal (and an attempt to extend the disclosures beyond listed entities) for the reasons set out at Question 13 and as follows.

Paragraph 25 of IAS 1 requires management to make an assessment of an entity's ability to continue as a going concern and to make disclosure of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. Paragraph 122 of IAS 1 requires disclosure of the judgements, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Notwithstanding that conditions or events may exist, management may conclude that no material uncertainty exists regarding going concern. In this situation, it is possible that management would make no disclosures of their assessment in the financial statements – a scenario that the IAASB acknowledges can occur in paragraph 33(b)(i) of the ED.

Nevertheless, paragraph 33 of the ED mandates disclosures where the auditor identifies events or conditions 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.

We disagree with a proposal that mandates disclosure of how the auditor evaluated management's assessment of going concern without also mandating that management disclose the basis for their assessment within the financial statements.

5. Public Sector Organizations

Office of the Auditor General New Zealand (OAGNZ)

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.

Office of the Auditor General of Manitoba (OAGM)

We feel that current auditing standards provide sufficient information regarding going concern in the auditor's report. Additionally, as needed, there are other ways to provide additional information about going concern in the auditor's report, such as using Key Audit Matters, Emphasis of Matters, or Other Matters.

Provincial Auditor Saskatchewan (PAS)

See response to Question 13 for our concerns about the proposed changes to the auditor's report. The additional requirements for the auditor's report of audits of listed entities would not eliminate these concerns; therefore, they would not facilitate further enhanced transparency.

6. Member Bodies and Other Professional Organizations

Center for Audit Quality (CAQ)

As we discuss in our response to Question 13, we appreciate the IAASB's desire to explore how to provide more transparency about the results of the auditor's work related to going concern. This transparency may be particularly important in close call situations when events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, but no material uncertainty exists. However, we do not support the requirements in paragraph 33(b) as proposed.

First, we believe that transparency about situations when events or conditions have been identified should be primarily driven by management's disclosures about going concern within the financial statements. However, such information may not be required to be disclosed under the applicable financial reporting framework. Therefore, the requirement as proposed could lead auditors in certain situations to provide original information in the auditor's report if management has not disclosed such information in the financial statements.

Paragraph A77 in the application material acknowledges that the auditor should seek to avoid inappropriately providing original information about the entity in the description of how the auditor evaluated

management's assessment of the entity's ability to continue as a going concern. In circumstances when such information is determined to be necessary by the auditor, the auditor may encourage management or those charged with governance to disclose additional information, rather than providing original information in the auditor's report. We believe that this guidance in the application material further emphasizes that greater transparency regarding close call situations needs to be driven from the financial reporting framework, rather than auditing standards.

We think a better approach to disclosure would be for the auditor to use professional judgment to determine whether to include audit matters related to going concern in the auditor's report as a KAM (in accordance with the framework set forth in ISA 701 (Revised)). It would be most impactful for financial statements users if this information is disclosed in the auditor's report when there is significant judgment involved in determining that identified events or conditions do not result in a material uncertainty, as opposed to the requirement in paragraph 33(b), which may unnecessarily raise concern in the auditor's report. We therefore recommend that paragraph 33(b) be updated to reference ISA 701 (Revised) to remind auditors that close call situations may be determined to be a KAM, rather than requiring disclosure in all circumstances where events and conditions have been identified. We also think that it is important for the auditor to continue to have the option to use an Emphasis of Matter paragraph as a tool to draw attention to the disclosures of those events and conditions or other matters related to management's assessment of the entity's ability to continue as a going concern if they judged it necessary.

If paragraph 33(b) remains as proposed in the final standard, we encourage the IAASB to provide a more robust illustrative example highlighting what the disclosure would look like. Additionally, it is unclear if paragraph 33(b) refers to events and conditions that are present at the date of approval of the financial statements or any events and conditions that may have been identified and resolved during the period. As the auditor is required to perform risk assessment procedures around going concern, an event or condition could be identified at any time during the year. However, events and conditions may arise and then be resolved within the year, such that they are not present at the date of approval of the financial statements. It is unclear based on the wording of paragraph 33(b) if such situations are intended to be included in the scope. We believe that this could lead to inconsistent application of the requirements and believe that further guidance is necessary if the requirement remains in the final standard.

Finally, we do not believe that paragraph 33(b) should be extended to apply to audits of financial statements of entities other than listed entities.

Chartered Accountants Australia and New Zealand (CA ANZ) and the Association of Chartered Certified Accountants (ACCA)

For the reasons noted in our response to Q13, we would support the requirements and application material that facilitate further enhanced transparency provided that management makes equivalent statements about how they have assessed going concern and addressed any material uncertainties. In this way, the requirement will not also need to be differentiated between listed and non-listed entities but rather the auditor would only have to evaluate whether the disclosures comply with the financial reporting requirements. We do not support the requirement for auditors to disclose the nature of procedures used as this would potentially increase the auditor's risk and is also likely to quickly become boilerplate and not useful to users.

Consiglio Nazionale dei Dottori Commercialisti e Degli Esperti Contabili (CNDCEC)

Even for PIEs, we confirm what stated at point 13.

Moreover, we deem that the addition of a “Going Concern” specific paragraph, even when no material uncertainties exist, could be misleading for the users of financial statements since it would focus their attention on an aspect that, by its nature, is comprised in the opinion on the financial statements.

CPA Australia (CPAA)

We are not supportive of the additional requirements to disclose in the auditor’s report, how the auditor evaluated management’s assessment of the entity’s ability to continue as a going concern.

We acknowledge that there have been calls for more transparency in the auditor’s report with respect to the auditor’s responsibilities and work related to going concern in the feedback received for the 2020 IAASB DP. However, an auditor’s opinion in respect of going concern is expressed in accordance with an applicable financial reporting framework. Currently, the auditor’s conclusion on the company’s status as a going concern is made with reference to the relevant disclosures in the financial statements. Without changes to the current financial reporting requirements for more explicit requirements around management’s going concern assessment and accompanying disclosures in the financial statements, we believe the IAASB’s efforts could bring about an imbalance that may result in unintended consequences, including further widening the expectation gap affecting the audit profession.

We appreciate IAASB can only focus on specific standard-setting actions within its remit. However, we are sceptical that the proposal to enhance the transparency in the auditor’s report alone without the corresponding disclosures in the financial statements, will achieve IAASB’s objectives that support the public interest.

The academic research we have provided on this topic (Attachment 2) shows there is no significant difference in investors’ responses when presented with the auditor’s report for a listed entity with Material Uncertainty Related to Going Concern (MURGC) in the proposed new format as shown in Illustration 4 of ED-570, compared to Illustration 1 in extant ISA 570. This suggests that the proposed new enhanced transparency does not impact investor responses. In contrast, when additional going concern disclosure made by management is included in the notes to the financial statements, investors reacted to the management’s disclosures and changed their views on:

The likelihood of the entity remaining in operation, returning to profit, and paying off its debts

How risky or attractive is the entity as an investment

Whether they have received fair warning of the risk of going concern.

IFAC SMP Advisory Group (SMPAG)

The SMPAG do not believe this should be extended to audits of financial statements of entities other than listed entities. An SMP auditor may believe it is helpful to include additional descriptions of their work related to specific, significant matters in certain circumstances (KAM) and there is nothing preventing that course of action, but it would be inappropriate to create this as a default requirement (see points raised in response to Q13). Furthermore, given the IAASB’s Listed Entity and Public Interest Entity project, there is potential for forthcoming changes in relation to the categorization of entities, which may bear on the applicability of the ISA 570 proposals.

Korean Institute of Certified Public Accountants (KICPA)

The KICPA agrees with the proposed requirement to describe the above when a material uncertainty exists. There is a need to describe how the auditor responds to a material uncertainty because the material uncertainty is considered to be a KAM in all circumstances.

However, careful consideration is needed to require additional description when no material uncertainty related to going concern exists, after having identified events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (i.e., "close call" situations), for reasons listed below;

- Some close call situations may not be a KAM as they don't require significant auditor attention from the auditor depending on the nature of such situation.
- For the auditor to make a meaningful description of evaluation procedures conducted in close call situations, the entity should appropriately disclose such situation to allow the information user to gain a full understanding of such situation. However, in some countries, there is no explicit requirement for disclosure of close call situations under the applicable financial reporting framework, or entities may not be keen on disclosing information about such situations, or the auditor may face limitations in convincing the entity to disclose such from the perspective of fair disclosure. Therefore, as a pre-condition for the auditor to describe such in the auditor's report, the entity should be explicitly required to disclose close call situations under the financial reporting framework and others.
- The information user faces difficulties in clearly determining whether or not a material uncertainty related to going concern exists, after having identified events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. In this circumstance, highlighting the close call situation in the auditor's report may be interpreted as signaling a risk equivalent to a material uncertainty, distorting the information user's decision-making. As a pre-condition to prevent such distortion of decision making, the entity should fully disclose close call situations.

As an alternative, the KICPA proposes describing relevant details in a section under the heading "Going Concern" "when a close call situation is considered to be a KAM as set forth by ISA 701".

Malaysian Institute of Certified Public Accountants (MICPA)

Please refer to our response to Question 13.

The Malta Institute of Accountants (TMIA)

The enhanced requirements promote transparency about the auditor's responsibilities and work performed relating to going concern, particularly for listed entities where the auditor is now required to detail procedures performed in respect the evaluation of management's assessment (similar to a KAM). However, as already mentioned above, the proposed ED-570 is not making a distinction between the requirements imposed on the auditor where there is a material uncertainty and "close-call" situations (work performed by the auditor will need to be disclosed in both cases). In "close-call" situations the conclusion that there is no material uncertainty is already included in the FS disclosures (prepared by the client) which have been audited and on which the auditor is opining.

Also refer to concern raised on "guarantee" mentioned in Q13, above.

8. Individuals and Others

Colin Semotiuk (CS)

As a matter of principle we disagree with having differential requirements for listed entities. All stakeholders in organizations matter, especially when the entity may fail. For example, the stakeholders in a not-for-profit that is providing food and shelter should have the same, or perhaps substantially more, concern regarding whether an entity will continue, than investors in penny-stock listed entities.

Q14 - Neither agree nor disagree

7. Academics

RMIT University (RMU)

In our first experiment, we compared investor responses when an audit report that is unqualified and unmodified is in the current format or in the new format. Investors responded about the same on most questions asked (detailed in the report) but interestingly, reported that they had fairer warning when told the company had subsequently closed down, when they had received an audit report in the new format compared to those that received the audit report in the current format. A greater concern is how investors will read/take note of close calls under the same “Going Concern” heading (i.e., when there are events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern, but do not give rise to a material uncertainty) in the future after becoming accustomed to reading a GC paragraph that says everything is fine. That is, there is a risk that when seeing the heading Going Concern, they will not read on, assuming that it is the usual boilerplate disclosure.

In our second experiment, we compared investor responses when an audit report included a MURGC in the current or the proposed format (i.e., including a description of how the auditor evaluated management’s assessment). We also varied whether management included no commentary in their notes on the issue of focus in the MURGC. Investors either received no management commentary, commentary that uses soft language or commentary that uses strong language. We find that when comparing the two MURGC formats, investors respond much the same way. That means that changing the way MURGC is reported won’t change investor views on the questions asked in our experiment (listed on page 6).

We find that management commentary on the issue discussed in the MURGC does make a difference. When management include some commentary, investors perceive the likelihood the company will remain in operation, return to profit and pay off its debts is lower than when no commentary is included. They also perceive that their investment in the company is riskier and less attractive when commentary is included. This means that investors take note when management include commentary on issues that place their investment at risk of no longer remaining a GC.

We find that the tone (soft versus strong) used in the management commentary impacts how investors feel about the reliability of that information, with investors perceiving that management are more reliable when the commentary is strongly worded than when it is softly worded.

Finally, we included a version of the audit report with a significant doubt disclosure (i.e., when there are events or conditions that may cast significant doubt on the entity’s ability to remain a going concern but does not give rise to a material uncertainty). Prior research conducted by one of our PhD students showed that investors respond very differently when presented with the same GC information in a MURGC versus a Key Audit Matter (KAM), suggesting that they appropriately differentiate between the two disclosures. As the new significant doubt disclosure replaces the use of KAMs to report on GC issues investigated by the auditor, but not warranting inclusion in a MURGC, we were interested to see whether there is a significant difference in the way investors respond to a MURGC and to much the same information included as a significant doubt disclosure. We find no difference in the way investors responded to the questions asked when the GC disclosure was included in a MURGC or as a significant doubt, using the proposed new format. This means that investors appear to no longer be able to distinguish between what it means when an auditor decides to disclose an issue as a MURGC or to use a disclosure indicative of a less serious issue.

Q14 - No specific comments

6. Member Bodies and Other Professional Organizations

ASEAN Federation of Accountants (AFA)

National Board of Accountants and Auditors of Tanzania (NBAA)