

Going Concern – Question 13

13. This question relates to the implications for the auditor’s report for audits of financial statements of all entities, i.e., to communicate in a separate section in the auditor’s report, under the heading “Going Concern” or “Material Uncertainty Related to Going Concern”, explicit statements about the auditor’s conclusions on the appropriateness of management’s use of the going concern basis of accounting and on whether a material uncertainty has been identified.

Do you support the requirements and application material that facilitate enhanced transparency about the auditor’s responsibilities and work relating to going concern, and do they provide useful information for intended users of the audited financial statements? Do the proposals enable greater consistency and comparability across auditor’s reports globally?

Q13 - 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)

Enhancing transparency with respect to the auditor’s responsibilities

The IAIS supports the explicit inclusion of a new paragraph in the auditor’s report with the title “Going Concern” or “Material uncertainty related to Going Concern” for all entities as this offers transparency to all users of the financial statements that the auditors have fulfilled their responsibilities in accordance with ISA 570. Explicit inclusion of a going concern paragraph may help ensure less use of “boilerplate” wording in the auditor’s report.

In addition, this new paragraph aligns with the description in ISA 700 “Forming an Opinion and Reporting on Financial Statements” leading to enhanced communication and reporting requirements, thereby reducing the expectations gap between the auditors and management.

International Forum of Independent Audit Regulators (IFIAR)

We strongly support the introduction of a more robust assessment of going concern as proposed by ED-ISA 570. In particular, we support:

The auditor’s explicit statements about the auditor’s responsibilities and work related to going concern in the auditor’s report, including whether the auditor concluded that management’s use of the going concern basis of accounting is appropriate and, where appropriate, that the auditor did not identify a material uncertainty.

2. Regulators and Audit Oversight Authorities

Botswana Accountancy Oversight Authority (BAOA)

Yes, we support the requirement to communicate in a separate section in the auditor's report explicit statements about the auditor's conclusions on the appropriateness of management's use of the going concern basis of accounting and on whether material uncertainty has been identified as this is consistent with the Board's objective to enhance transparency and accountability with respect to the auditor's responsibilities and work related to going concern. The disclosure would communicate to the users the extent of work performed by the auditor on management's assessment of going concern and therefore, reduces the expectation gap of the entity and the auditor on going concern. Some jurisdictions around the world have already introduced similar requirements like the Financial Reporting Council in the UK and this new requirement will enable greater consistency and comparability across auditors reports globally.

Financial Reporting Council (FRC)

YES, we strongly support the auditor's explicit statements about the auditor's responsibilities and work related to going concern in the auditor's report, including whether the auditor concluded that management's use of the going concern basis of accounting is appropriate and, where appropriate, that the auditor did not identify a material uncertainty. The FRC introduced similar positive statements by the auditor on going concern into ISA (UK) 570 in 2019.

We also support that the auditor's conclusions about, and work related to, going concern should be addressed in a separate section in the auditor's report. Going concern is a fundamental principle in the preparation of the financial statements and therefore it is not in the public interest for users to have to navigate through the various sections of the auditor's report in order to access relevant commentary about going concern matters. One of the findings from research commissioned by the FRC into the current state of auditor reporting within the UK was that the detailed reporting on going concern was often fragmented between different sections of the auditor's report. We are therefore of the belief that the proposals in ED-ISA 570 will enable greater consistency and comparability across auditor's reports both within a jurisdiction and globally.

3. Jurisdictional and National Auditing Standard Setters

Japanese Institute of Certified Public Accountants (JICPA)

Yes. We support the requirements and application material that facilitate enhanced transparency about the auditor's responsibilities and work relating to going concern. We agree that the proposals provide useful information for intended users of the audited financial statements and enable greater consistency and comparability across auditor's reports globally.

4. Accounting Firms

Mo Chartered Accountants (MCA)

Yes, we support the separate reporting of going concern for all entities under the heading going concern, similar to the current "audit opinion" section of the audit report. In here it can be mentioned in relation to whether the auditor believes that the going concern assumption is appropriate or its not and explain. Going concern is more useful than simply reporting on historical financial information. By making it mandatory for all audits uniformity in reporting will be achieved enhancing comparability, consistency and usefulness.

5. Public Sector Organizations

UK National Audit Office (UKNAO)

The requirements and application material included in paragraphs 33 to 37 of ED-570 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 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 are therefore supportive of these proposals as they should help to facilitate greater consistency and comparability across auditor's reports globally.

6. Member Bodies and Other Professional Organizations

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

In summary, we feel that the proposed standard;

appropriately enhances reporting on going concern matters for all entities (see our response to Question 13),

We support the requirements and application material facilitating enhanced reporting for all entities.

The research literature does not clearly answer the question on the usefulness of going concern information in that it is difficult to disentangle the effects of auditor reporting on going concern from other contemporaneous information reported on at the same time (e.g., Myers et al. 2018). Research reporting on the information content of auditor reporting on going concern uncertainty, therefore, needs to be interpreted with caution and with reference to interrelationships across the entire financial reporting ecosystem. That said, we support the requirements and application material facilitating enhanced reporting.

With reference to the extant requirements, in the absence of a stated material uncertainty related to going concern, users are left to infer the auditor's evaluation of the appropriateness of management's use of the going concern basis of accounting. It would not be appropriate to assume that in such a situation users perceived the auditor's assessment of management's use of the going concern basis is appropriate (e.g., Shafer 1976; Srivastava and Liu 2003; Srivastava 2011). By clearly stating, irrespective of whether or not there is a material uncertainty, that the auditor has concluded that management's use of the going concern basis is appropriate, the enhanced reporting minimises any potential confusion by leaving no doubt as to the outcome of the auditor's evaluation. We believe that this is useful information for intended users of the audited financial information.

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.

Federation of Accounting Professions of Thailand (FAPT)

Yes, we support. The proposed standard will encourage greater consistency and comparability.

Institute of Certified Public Accountants of Uganda (ICPAU)

We support the requirements and application material that facilitate enhanced transparency about the auditor's responsibilities and work relating to going concern. We also support the disclosure of the auditor's conclusions about, and work related to going concern be addressed in a separate section of the auditor's report. We believe this will enhance transparency about going concern.

Institute of Chartered Accountants of Sri Lanka (ICASL)

We support the new requirements for the auditor's report. We believe that they will enhance transparency and comparability across auditor's reports globally. They will also provide useful information for intended users of the audited financial statements.

Instituto de Auditoria Independente do Brasil (IBRACON)

Yes, we support the requirements and application material.

Q13 - Agree with comments

1. Monitoring Group

International Organization of Securities Commissions (IOSCO)

Reporting requirements (see question 13): We support the Board's objective to enhance transparency and consistency in auditor reporting. However, we believe the Board's proposed, explicit statements may imply to some that an opinion on a specific matter in the audit is being expressed in addition to an opinion on the financial statements taken as a whole. We have included an alternative approach for the Board's consideration.

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

We support the Board's objective to enhance transparency and consistency in reporting with respect to the auditor's responsibilities and work related to going concern. However, we believe the Board's proposed explicit statements about the auditor's conclusions on the appropriateness of management's use of the going concern basis of accounting and on whether a material uncertainty has been identified may imply to some that the auditor is expressing an opinion on a specific matter in the audit in addition to the opinion on the financial statements taken as a whole. ISA 200.5 states: "As the basis for the auditor's opinion, ISAs require the auditor to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error." Furthermore, ISA 701.A47 and ED 570.A75 caution against "discrete opinions on separate elements of the financial statements." As a result, we recommend the Board reconsider the proposed statement in the auditor's report. The Board should consider the following alternative language for paragraph 33. (a) that leverages the concepts within ISAs 700 and 701[text deleted and added]:

Paragraph 33. (a) State that the auditor:

In the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, 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, the auditor 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.

Illustrative report:

Going Concern

In the context of our audit of the financial statements as a whole, and in forming our opinion thereon, we have concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

2. Regulators and Audit Oversight Authorities

Canadian Securities Administrators Chief Accountants Committee (CAC)

We support the IAASB's objective to address stakeholder demands for enhanced transparency and consistency with respect to the auditor's responsibilities and work related to going concern within the auditor's report. We also support the additional auditor's report disclosure required for listed entities in "close call" situations because it provides clarity and transparency about how the auditor evaluated management's assessment of the entity's ability to continue as a going concern when events or conditions are identified by management that may cast significant doubt on the entity's ability to continue as a going concern.

We think the enhanced disclosure will improve the overall quality of financial reporting and provide decision useful information to investors. However, we recommend that the Board reconsider the wording of the proposed explicit statements (paragraphs 33(a) and 34(a)) within the auditor's report about the appropriateness of management's use of the going concern basis of accounting to ensure that such statements do not imply or suggest that the auditor is expressing an opinion on a specific matter, in addition to its opinion on the financial statements as a whole.

Independent Regulatory Board for Auditors (IRBA)

We support the requirements and application material that facilitate enhanced transparency about the auditor's responsibilities and work relating to going concern. The proposals in ED-570 provide useful information for intended users of the audited financial statements and enable greater consistency and comparability across auditor's reports globally.

In addition, we recommend that the information provided in the auditor's report regarding going concern should be reinforced by including a statement that the scope of an audit does not include assurance on the future viability of the audited entity or to the efficiency or effectiveness with which management has conducted the affairs of the audited entity. This will help stakeholders, including investors, better understand the role of the auditor in relation to going concern and, as a result, reduce the expectation gap.

Given the importance of paragraphs 33(a), 34(a)–(c) and 34(e), we suggest that the placement thereof in the auditor's report be prescribed by ED-570. We suggest that the standard should prescribe that the "Going Concern" or "Material Uncertainty Related to Going Concern" paragraphs be placed after the Basis for Opinion paragraph but before the paragraph dealing with Key Audit Matters (where applicable).

We further suggest that the heading of the separate section in the auditor's report, as required by paragraph 33 of ED-570, be "Going Concern Basis of Accounting" and "Material Uncertainty Related to the Going Concern Basis of Accounting" instead of the current proposals of "Going Concern" and "Material Uncertainty Related to Going Concern" respectively, as the former are better descriptions, for the purposes of the user's understanding of the auditor's report.

National Association of State Boards of Accountancy (NASBA)

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.

Transparency

In Paragraph 33(a), the Exposure Draft includes a new requirement to enhance transparency in the auditor’s report whereby the auditor’s conclusions about going concern are explicitly communicated: “We have concluded that management’s use of the going concern basis of accounting in the preparation of the financial statement is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern.” The Exposure Draft further explains that the report could be expanded to address the fact that there are risks to the business that may have a material negative impact on the business, if one or more were to occur in the future.

NASBA is supportive of the change in approach to going concern in the Exposure Draft, in the interest of transparency. Nevertheless, NASBA is concerned that a reader could be misled on the extent of assurance that the auditor is providing as to going concern, especially when more prominence is given to this topic in

the auditor's report as compared to other items. We are also concerned about the unintended impression that the focus on going concern may have on the public as to the capabilities of auditors to see into the future. NASBA recommends that, in addition to the proposed requirement, tempering language that explains the risks associated with going concern be included.

3. Jurisdictional and National Auditing Standard Setters

Australian Auditing and Assurance Standards Board (AUASB)

Implications for the Auditor's Report

We encourage the IAASB to consider if it is necessary to remove the auditor's responsibilities for going concern in the "Auditor's Responsibilities for the Audit of the Financial Report" section in the auditor's report to avoid duplicating information proposed in the Going Concern paragraph.

Enhanced Transparency in the Auditor's Report

The AUASB supports the IAASB's objective of enhancing transparency with respect to the auditor's responsibilities and work related to going concern, where necessary. We acknowledge that the proposal to include explicit statements around going concern in all auditor's reports is responsive to preliminary stakeholder feedback that going concern matters are relevant to audits of all entities, regardless of size or complexity.

Our stakeholders have expressed concern that this paragraph may be misinterpreted as a separate opinion on going concern. We recommend that the wording for the auditor's report be amended to make it clear that the statement on going concern is made in the context of the audit of the financial statements as a whole (see our response to Question 13 in Attachment 1).

While the AUASB supports the IAASB's objective to enhance transparency and consistency in reporting with respect to the auditor's responsibilities and work related to going concern, our stakeholders have raised concerns that the proposals may result in the following unintended consequences:

the auditor disclosing information in relation to going concern which management and those charged with governance are not required to disclose.

imply that the auditor is expressing an opinion on a specific matter in the audit in addition to the opinion on the financial statements taken as a whole (particularly since its placement is likely to be directly below the auditor's opinion).

impose additional litigation risk in the event that the entity subsequently fails, as the auditor is explicitly stating that they have not identified a material uncertainty.

users may not identify where there are issues in relation to going concern if the auditor's report always includes a section headed "going concern", particularly given the length of many auditor's reports.

The proposed explicit statement about the auditor's conclusions on the appropriateness of management's use of the going concern basis of accounting and on whether a material uncertainty has been identified is consistent with the auditor's responsibilities which is currently in the auditor's report. On balance the AUASB is supportive of requiring the auditor to include a going concern paragraph in all auditor's reports.

However, we consider the following alternative language for paragraph 33 in ED-570 more appropriate as this is consistent with ISA 701.A47 and ED-570.A75 in cautioning against the inclusion or suggestion of discrete opinions on separate elements of the financial statements, and leverages concepts in ISA 701.11 [text deleted and added]:

‘Paragraph 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: (Ref: Para. A67–A68)

State that the auditor (Ref: Para. A69-A70):

In forming their opinion on the financial statements as a whole, 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, the auditor has not identified any factors which indicate a material uncertainty related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern exists; and

The auditor’s conclusion is based on audit evidence up to the date of the auditor’s report. Future events or conditions may cause the entity to cease to continue as a going concern.’

We also believe that the heading of the section of the auditor’s report on going concern should clearly indicate where there are issues in relation to going concern to assist users of the financial statements.

Given the IAASB’s intention to include going concern matters in one place in the auditor’s report, the IAASB may wish to consider relocating management’s responsibilities in relation to going concern from the “Responsibilities of Management for the Financial Report” section of the auditor’s report to the going concern section.

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

We are not against such requirement, but we consider that it should be mirrored by a similar requirement imposed to the entity to disclose basis for going concern assumption.

Accounting Standard Setters should develop requirements to enhance quality of the reporting of the Management assessment of the Going concern assumption.

More illustrations should be included in the application material.

Public Accountants and Auditors Board Zimbabwe (PAAB)

PAAB supports the proposals as we believe that they enable greater consistency and comparability across auditor’s reports globally. Care will need to be given to ensure that appropriate clear wording is used to avoid a perception that a discrete opinion is being provided for going concern of the entity.

4. Accounting Firms

BDO International (BDO)

Yes, we support the requirements and application material and in our view the proposals are likely to lead to improved consistency and comparability across different jurisdictions.

In addition, we propose the IAASB moves the requirement in paragraph 33(b)(i), which is to include a reference to the related disclosures(s), if any, in the financial statements, to the requirement in paragraph 33(a). We believe to include this reference is appropriate for all entities, not only listed entities, as it will provide useful information for intended users of the audited financial statements.

Crowe Global (CROWE)

We agree with the proposed approach. It is an attempt to address the stakeholder desire for more information about going concern and is consistent with how expectations about transparency have evolved since the issue of the extant ISA 570. There are concerns about the length and complexity of audit reports for non-listed entities. This is a broader issue for addressing in the next review of ISA 700.

Deloitte Touche Tohmatsu Limited (DTTL)

Positive statement that “the use of the going concern basis of accounting is appropriate and the auditor has not identified a material uncertainty” (paragraph 33(a) in the proposed standard and question 13 in the “Request for Comments”)

We support further transparency in the auditor’s report as it relates to the auditor’s conclusions related to going concern. However, we believe that it is also necessary to be transparent that the auditor’s conclusion is not a guarantee of the entity’s ability to continue as a going concern, because the auditor’s conclusion is based on audit evidence obtained as of the date of our report and future events or conditions may negatively affect the entity’s ability to continue as a going concern.

Recommendations:

We recommend moving the last two sentences of the auditor’s responsibility related to going concern from the “Auditor’s Responsibilities for the Audit of the Financial Statement” section of the auditor’s report to the new section on going concern (or the “material uncertainty related to going concern” section when applicable). We believe this change will provide the important and necessary context for the auditor’s conclusion, by clarifying that the absence of a material uncertainty related to going concern is not a guarantee about the entity’s ability to continue as a going concern, and reminding the reader that the auditor’s conclusion is based on audit evidence obtained as of the date of the auditor’s report.

We recommend that Illustrations 1 and 2 in the ED be updated to include the following revisions (see also Appendix 3 for recommended consequential amendments to paragraphs 33 and 34, as well as other illustrations in the proposed standard):

Going Concern

Based on the audit evidence obtained, Wwe have concluded that management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the audit evidence obtained, and 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. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.

Underlined or struck through = recommended change

Bold underlined = recommended addition taken from existing wording in the Auditor’s Responsibility section of the report (note conforming amendments to ISA 700.39(b)(iv) may also be necessary)

We recommend changes be made to the requirement so that the new section in the report on going concern also includes current content from the “Auditor’s Responsibilities” section of the report stating the fact that the auditor’s conclusion is based on audit evidence obtained as of the date of the report and that future events or conditions could have a negative effect on the entity’s ability to continue as a going concern. See more details about our concerns as well as our recommendations in the Significant Concerns section of the cover note of this letter.

Ernst & Young Global Limited (EY)

As stated in our response to Q13, we continue to have concerns about requiring the auditor to make explicit statements in the auditor's report when the equivalent conclusions are not required to be explicitly stated by management in the financial statement disclosures. Fundamentally, if management is not required to make explicit statements regarding the entity's ability to continue as a going concern under the applicable financial reporting framework, we question whether it is appropriate for the auditor to do so. However, if the statements are to be added, we believe additional explanatory wording (related to the auditor's inherent limitations to predict future effects of events or conditions) accompanying these statements is needed to avoid any potential misunderstanding by users.

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.

In general, we continue to have concerns about requiring the auditor to make explicit statements in the auditor's report when the equivalent conclusions are not also required to be explicitly stated by management in the financial statement disclosures. Fundamentally, if management is not required to make explicit statements regarding the entity's ability to continue as a going concern under the applicable financial reporting framework, we question whether it is appropriate for the auditor to do so.

However, we acknowledge that the two explicit statements within the new requirement in paragraph 33(a) of ED-570 address matters that are implicit in management's preparation of the financial statements (i.e., management's preparation of financial statements in accordance with the going concern basis of accounting implies that management has determined that basis is appropriate; and the lack of disclosure of a material uncertainty related to going concern implies that management has not identified such a material uncertainty). We also acknowledge that the "Auditor's Responsibility for the Audit of the Financial Statements" section of the auditor's report includes responsibilities related to going concern that are consistent with the explicit statements proposed. For these reasons, we generally support the inclusion of the two explicit statements for audits of all entities whereby the auditor's conclusions about going concern are explicitly communicated in a separate section on Going Concern in the auditor's report. However, we believe additional explanatory wording accompanying these statements is needed to avoid any potential misunderstanding by users, which could lead to widening of the expectation gap.

To address our concerns, and to make it clear that the auditor's responsibility regarding the conclusion as to whether a material uncertainty exists has inherent limitations, we believe that explanatory wording similar to that in paragraph 7 of ED-570 should also be required to be included in the Going Concern section of the auditor's report for all entities, as follows:

Nevertheless, the auditor cannot predict future events or conditions. Accordingly, the absence of a reference in our auditor's report to an identified material uncertainty related to events or conditions that may cast

significant doubt on the entity's ability to continue as a going concern cannot be viewed as a guarantee as to the entity's future ability to continue as a going concern.

Adding this language also creates greater alignment with the statement required to be included in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of the auditor's report in accordance with ISA 700 (Revised), Forming and Opinion and Reporting on Financial Statements paragraph 39 (b)(iv) that "future events or conditions may cause an entity to cease to continue as a going concern".

As an alternate to the suggestion above, and to reduce repetition, the IAASB could consider accumulating all of the statements related to going concern in the auditor's report (i.e., management's responsibilities, the auditor's responsibilities and the auditor's conclusions) to be presented collectively in the Going Concern section of the report.

Finally, we agree that standardizing the statements in the auditor's report that apply to all entities will enable greater consistency and comparability across auditor's reports globally.

PKF International Limited (PKF)

Overall, we support the requirements and application material in ED-570 in respect of transparency within the auditor's report. However, while we hope that the proposals ensure greater consistency and comparability across auditor's reports globally we are concerned that there could be wide variations in the extent of information disclosed by auditor's of listed entities regarding how they have evaluated management's assessment of the entity's ability to continue as a going concern. We propose that that the IAASB may want to consider providing examples or issuing more guidance in this respect.

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 support the proposed new auditor conclusions on the appropriateness of management's use of the going concern basis of accounting and on whether a material uncertainty has been identified. These conclusions are already existing practice in several jurisdictions and therefore the proposals will enhance consistency and comparability globally.

Based on the proposed introduction of a going concern section in all auditor's reports, we believe that the IAASB should consider the cohesiveness of the "story" on going concern within the auditor's report. As currently proposed, reference to responsibilities and conclusions with respect to going concern will be included in three different sections of the auditor's report: the new Going Concern section, management's responsibility section, and auditor's responsibility section. To enhance clarity and understandability for users of the auditor's report, we recommend consolidating the respective responsibilities and conclusions within the Going Concern section.

5. Public Sector Organizations

Office of the Auditor General of Canada (OAGC)

Yes, we support the requirements and application material that facilitate enhanced transparency about the auditor's responsibilities and work relating to going concern, and we agree they provide useful information for intended users of the audited financial statements.

However, we believe the new requirements and application materials added could be improved to align with requirements in ISA 710 - The Auditor's Responsibilities Relating to Other Information and communicate that the auditor's communication on management's use of the going concern basis of accounting is not a separate opinion within the auditor's report. This serves to enhance transparency about the auditor's responsibilities and work relating to going concern, while also maintaining greater consistency with other sections in the auditor's report.

Yes, the proposals will enable greater consistency and comparability across auditor's reports globally, however, this is dependent on jurisdictions, who have already implemented changes to their national equivalent going concern standards, adopting the revised standard.

6. Member Bodies and Other Professional Organizations

Accountancy Europe (AE)

In this sense, we welcome the IAASB's proposals enhancing auditors':

communication in the auditor's report and in general

Yes, we support the requirement for explicit statements in the auditor's report in cases where management's explicit statement on going concern is required by the reporting framework. When this is not the case, the auditor should ask management to make explicit statements so that the auditor can report their conclusion accordingly. We believe that management disclosure on the basis of their going concern assumption should be mandatory even when no material uncertainty is identified. This will be in the public interest and requires a change in reporting standards. Such disclosure should include a summary of the rationale for how and why management reached their conclusions to support the going concern assumption.

In addition, the wording proposed to be included in the auditor's report pursuant to paragraph 33 (a) (ii) that the auditor, "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" could be (mis)understood as implying that the auditor had sought to identify material uncertainties that management had not identified or disclosed. We therefore urge the IAASB to clarify the wording so as to replace "identified" with "become aware of" in the auditor's report. This would serve to avoid potential misunderstanding and an expectation gap.

Botswana Institute of Chartered Accountants (BICA)

We support the Board's objective to enhance transparency and consistency in reporting with respect to the auditor's responsibilities and work related to going concern. However, it will be more useful if the auditor's report includes how they evaluated management's assessment of going concern regardless of whether there is a material uncertainty or not or if the company is listed or not.

Chamber of Auditors of the Czech Republic (CA CR)

Yes

But, at the same time, we strongly suggest adding the following requirement to ED par. 33a (and to relevant examples of audit reports): "State that the auditor does not guarantee that the entity is going concern." Since this important aspect of the auditor's role is clearly articulated in the revised standards, we find it equally important to communicate it to the readers of the auditor's report in order to close the potential expectation

gap. A similar statement is included in the section on the auditor's responsibilities in ISA 700 but for the readers it is too far from going concern section and could be easily overlooked,

Colombia's National Institute of Public Accountants (INCP)

Yes, we support the requirements. However, we consider that there must be a balance between the responsibility of management and the responsibility of the auditor. We believe that IAS 1 - Presentation of financial statements, should be strengthened to assess a going concern with a clear framework for the auditor to assess it. In addition, a strong disclosure of events or conditions that have been identified by management that may cast significant doubt on the entity's ability to continue as a going concern should be required, even if these do not lead to material uncertainty. Otherwise, this task would be more difficult to perform since the reference framework used by management may result in a subjective assessment.

European Federation of Accountants and Auditors for SMEs (EFEAA)

The proposals may also create additional unnecessary work and auditor's report disclosure for all audits, even those where there are minimal risks around going concern or material uncertainties. We wonder whether a more risk-based approach should be applied whereby such additional work and disclosures need only be undertaken if the facts and circumstances lead the auditor, applying their professional judgment, to deem them necessary. The smallest entities that are subject to audits may also struggle to provide some of the information the revisions envision the auditor to have access to as part of their consideration of the appropriateness of management's assessment of going concern, especially where management does not believe there are going concern related issues. We elaborate on these concerns and others in our responses to the questions in the ED below.

We support the proposal in principle.

We believe the requirement in Paragraph 33 (a) to have this commentary in auditor's reports for financial statements where there are no material uncertainties or going concern issues may be problematic. We suggest the requirement be limited to specific cases where, in the judgement of the auditor, such a disclosure may be helpful based upon the facts and circumstances present.

We suggest the potential impact on the proposed ISA for Audits of Financial Statements of Less Complex Entities standard (ISA for LCEs) be considered if the proposal is approved. We understand the IAASB will only consider potential consequential amendments once the changes to ISA 570 (Revised 202X) have been finalized. Stakeholders would likely expect changes to be considered as this could potentially create a barrier to the implementation of the ISA for LCEs standard in some jurisdictions as regulators may view this as a factor in any decision on adoption.

Institute of Chartered Accountants of Scotland (ICAS)

We are broadly supportive of these proposed requirements and application material. They are largely aligned with extant requirements in the UK, and therefore in general, we believe that they do provide useful information for intended users of the audited financial statements and do enable greater consistency and comparability across auditors' reports globally.

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 welcome that most of the proposed revisions align to those already made by the Financial Reporting Council (FRC) in its extant UK version of ISA 570 (Revised September 2019, updated May 2022). However, we do have concerns over the IAASB's proposal on "close call" situations which is set out in paragraph 33(b) of the ED.

Instituto Mexicano de Contadores Publicos (IMCP)

We consider that the requirements and application materials enhance transparency about the auditor's responsibilities and work relating to the evaluation of the going concern.

We agree with the fact that requirements provide useful information for the users of audited financial statements given that these require using language appropriate to the circumstances and avoiding the use of generic terms that may cause lack of transparency in the auditor's report.

We consider that the proposal will globally allow for greater consistency and comparability of audit reports.

On the other hand, we consider important to add in the paragraph related to the going concern in the auditor's report that there are inherent limitations on the auditor's responsibility to detect events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

Malaysian Institute of Accountants (MIA)

The reporting requirements are consistent with the existing practice in several jurisdictions. We support further transparency in the auditor's report about the work undertaken in an audit when such additional disclosure objectives of being both meaningful and enhancing users' understanding of the scope and extent of the auditor's work. We believe that the information for intended users of the audited financial statements will be useful and that the proposal will enable greater consistency and comparability across auditor's reports globally.

For the avoidance of misperception by readers of the auditor's report and to assist them to better understand the auditor's report, there is a need to enhance the existing description of the auditor's work on going concern under the section on "Auditor's Responsibilities for the Audit of the Financial Statements" in the auditor's report, by including a caveat using the wording in ED570.7 as reproduced below.

"...The auditor cannot predict...future events or conditions. Accordingly, the absence of a reference to an identified material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in an auditor's report cannot be viewed as a guarantee as to the entity's ability to continue as a going concern."

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.

With respect to having a separate conclusion on going concern, some members of the AASB have the following alternative views:

Some members of the AASB have the concern that the proposed enhanced communication in the auditor's report on going concern gives a perception of giving an opinion within an opinion. There should be clarity in the proposed standard and in the auditor's report if the Going Concern section forms part of the opinion.

Some members of the AASB are of the view that as an alternative to having an explicit conclusion which may be misconstrued by the reader, the auditor can begin by stating that the management has performed a going concern assessment and has identified that the going concern basis of accounting in the preparation of the financial statements is appropriate, followed by the auditor concurring with management's assessment.

Pan-African Federation of Accountants (PAFA)

We support the requirements and application material that facilitate enhanced transparency about the auditor's responsibilities and work relating to going concern. The proposals in ED-570 provide useful information for intended users of the audited financial statements and enable greater consistency and comparability across auditor's reports globally.

Furthermore, we recommend that the information provided in the auditor's report regarding going concern should be reinforced by including a statement that the scope of an audit does not include assurance on the future viability of the audited entity or to the efficiency or effectiveness with which management has conducted the affairs of the audited entity. This will help stakeholders, including investors, to better understand what the role of the auditor is in relation to going concern and, as a result, reduce the expectation gap.

Saudi Organization for Chartered and Professional Accountants (SOCPA)

We support the requirements and application material that were proposed in ED-570 to facilitate enhanced transparency about the auditor's responsibilities and work relating to the going concern. We believe that more transparency can be achieved by making the discussion about the auditor's role in assessing the entity's ability to continue as a going concern more explicit (easily located by the use of headings) and more detailed, covering the matters assessed and the work conducted to make the assessment. The drafting of the enhanced requirements and application material in ED-570 about the auditor's responsibilities for an entity's going concern matters has been rendered more balanced by the cross reference made in A68 in ED-570 to ISA 700. Similarly, this balanced view (reference to the management's and the auditor's responsibilities regarding going concern matters) should also be present in the proposed separate section ("Going Concern" or "Material Uncertainty Related to Going Concern") in the audit report. For instance, it would be beneficial to supplement such explicit statements in the separate section with a statement clarifying that assuring the future viability of the audited entity is outside the scope of the audit. This additional information will assist stakeholders in understanding the specific role of the auditor in relation to the concept of going concern.

Although the enhanced requirements and application material in ED-570 increase transparency, the requirement to include, regardless of whether a material uncertainty exists or not, a separate section focusing on certain disclosures about the auditor's conclusion and basis of conclusion in relation to going concern matters could be revised. We believe that when no events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the requirement included in ISA 700 to report about the management's and the auditor's responsibilities regarding going concern matters would be sufficient to convey the transparent message without having to expand the audit report and "expectation gap" by having a separate section, which would not add to the users of the audit report as much as it may expand the perception of the auditor's role and responsibility. In contrast, we strongly support the enhanced approach proposed in ED-570 when events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, whether the auditor concludes, based on the audit evidence obtained, that a material uncertainty exists or not. In these

circumstances, an additional explicit explanation to be included in a separate section add value to the user of the audit report. The existence of events or conditions indicating the probable existence of material uncertainty should be sufficiently communicated to the user of the audit report along with the auditor's opinion.

Additionally, we appreciate how the enhanced approach in ED-570 requires the auditor to provide a more comprehensive view of the going concern matters, including describing how the auditor evaluated the management assessment of the entity's ability to continue as a going concern. However, we express our concern about the possible negative impact of such an enhanced approach on the length and complexity of the audit report since the extent of the details to be provided in the audit report is only dependent on the auditor's professional judgment (e.g., A75). It is noteworthy that the auditing literature has not yet obtained concrete evidence showing that the expanded audit report (since it has been embraced in auditing standards) has met its promise of positively influencing audit quality and the quality of financial reporting. Furthermore, the "balance" that the auditor is supposed to strike in the audit report, based on the enhanced approach in ED-570 when describing the auditor's conclusion and the basis of that conclusion, without inappropriately obscuring a material uncertainty, could be challenging, contributing to an "interpretive gap". Furthermore, the inclusion of different audit report examples that cover various circumstances related to going concern matters in the appendices of ED-570 significantly adds to the understanding of the implication of the enhanced approach on the audit report.

South African Institute of Chartered Accountants (SAICA)

We support the proposals in paragraph 33(a) and 34 but suggest the following:

Given the importance of these paragraphs, we suggest that the placement thereof in the auditor's report should be prescribed by the standard. We suggest that the standard should prescribe the "Going Concern" or "Material Uncertainty Related to Going Concern" paragraphs to be placed after the Basis for Opinion paragraph but before the paragraph dealing with Key Audit Matters (where applicable).

The "Going Concern" heading should be amended to reflect "Going Concern Basis of Accounting" to be more descriptive of the content of the paragraph to enhance users' understanding thereof; and

The prescribed wording of these paragraphs should contain context around the fact that the auditor's assessment is done at a point in time and that such an assessment is inherently dependent on the future which is impossible to predict with any level of certainty: The scope of an audit does not include assurance on the future viability of the audited entity.

Regarding circumstances where the auditor concluded that the use of the going concern basis of accounting is appropriate and that no material uncertainty exists: There may be circumstances where the auditor may want to elaborate in the auditor's report on the evidence considered in reaching the auditor's conclusion regarding the identification of a material uncertainty. We therefore suggest that application material relating to paragraph 33(a)(ii) should indicate that the auditor is permitted to provide a bespoke description of the evidence that the auditor considered in reaching the auditor's conclusion. This should however not be required of the auditor in all circumstances.

The requirement in paragraph 34(d) is similar to a rule of the South African auditing standard-setter/regulator which will become effective in 2025 and will thus enhance consistency between rules affecting registered auditors in South Africa and the International Standards on Auditing.

We have concerns regarding the proposals in paragraph 33(b)(ii). We are of the view that users of the auditor's report may equate "close call" scenarios to a scenario where the auditor concluded that a material

uncertainty exists, i.e. that the similarity in the “look and feel” of the disclosures in the two scenarios would result in a material uncertainty conclusion not being instantly recognisable.

We also have a concern that disclosures required of the auditor in a close call scenario may not be commensurate with the disclosure that is required of management in the financial statements. Using IFRS Accounting Standards as an example, management would only be required to comply with the overarching disclosure requirements of IAS 1 regarding a close call scenario. Where applicable, the following disclosure in the financial statements is required by IAS 1:

Sources of estimation uncertainty (paragraphs 125–133); and

Significant judgements (paragraph 122).

The absence of detailed disclosure of management’s assessment of the going concern assumption in the financial statements may put the auditor in a difficult position in describing their assessment in the auditor’s report, which is exacerbated by the proposed standard’s caution of not providing original information about the entity in the auditor’s report.

We propose 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.

Comments on the illustrative auditor’s reports in the Appendix:

Illustration 2 – The reference to “the political and economic uncertainties faced by the Company...” may be understood 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 paragraph.

If the requirement in paragraph 33(b)(ii) is retained, we suggest that the following introductory sentence should be added to the illustrative examples of close call scenarios on listed entities to provide context to the reader of the auditor’s report:

“We set out below our evaluation of management’s assessment of the entity’s ability to continue as a going concern:”, which would precede “[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).]”

We suggest a similar proposal to (b) above in the illustrative auditor’s reports where the auditor concluded that there was material uncertainty regarding a listed entity.

It may be useful to practitioners if the IAASB staff provided non-authoritative guidance on the level of detail to go into when having to describe how the auditor evaluated management’s assessment of the entity’s ability to continue as a going concern.

8. Individuals and Others

Altat Noor Ali Chartered Accountants (ANA)

Substitute ‘material uncertainty relating to the going concern’ with ‘Critical Observation/Note on Continuity of Entity’ R13

Yes.

We feel that we must consciously try prioritize public interest and reduce the expectation gap by substituting 'material uncertainty related to going concern' with 'Critical Observation/Note on Continuity of (the name of Entity)'.

We find the term is difficult to understand by a user of financial statement.

Kazuhiro Yoshii (KY)

I Agree. In particular, 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.

Q13 - 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.

Introduction

Since the release of the IAASB's Discussion Paper in September 2020, the ASB has been very interested in the direction the IAASB is moving related to going concern because of the ASB's commitment to converge its standards with those of the IAASB. Accordingly, we appreciate the opportunity to comment on the IAASB's proposed standard.

To assist the IAASB and its desire to address evolving public expectations, we are pleased to share the results of financial statement user and preparer surveys and interviews we performed in 2022 regarding the auditor's report and transparency related to going concern. The focus of the ASB's outreach was on whether potentially expanded disclosure about going concern in the auditor's report would influence users of the report. We surveyed and interviewed a broad set of financial statement users and preparers (including those charged with governance) to obtain their views about transparency in the auditor's report in general and going concern matters more specifically. We developed and structured our survey questions and interview protocol in ways to avoid potential demand effects. The results of our outreach have informed our views and recommendations throughout this letter.

A full report of our outreach is in Appendix B. Below is a summary of the key takeaways:

Although survey respondents noted that auditors have a role in communicating going concern information, 83% of them believe that information related to going concern should initially be provided by management.

The majority of interview participants do not believe additional information about going concern is needed in the auditor's report.

There is no consensus among survey respondents as to whether close call information should be included in the auditor's report. More specifically, 40% do not believe such information should be included, 34% believe it should, and 26% were unsure.

Notably, we did not find that respondents' views were dependent on an entity's status as an issuer or non-issuer.

Finally, in Appendix A to this letter, we provide our responses to the IAASB's Request for Specific Comments. The key comments and recommendations we have for the IAASB are summarized immediately below.

While the IAASB has discussed its rationale for including explicit conclusion statements about going concern in the auditor's report as noted in the Explanatory Memorandum (beginning with paragraph 68), we believe an exception-based reporting model is more appropriate and is in the best interest of users. That is, the auditor's report should primarily convey going concern risks in situations in which a material uncertainty related to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern has been identified.

Other mechanisms, such as an emphasis of matter paragraph available under ISA 706, Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report (ISA 706), continues to be a viable option for the auditor to convey going concern uncertainties such as "close calls". Our view is informed by our outreach findings that indicated that a majority of interview participants do not believe additional information about going concern is needed in the auditor's report. In fact, consistent with our outreach findings, we believe that financial statement users may become desensitized to mandatory going concern reporting, and more ambiguity, rather than clarity, may be created if a going concern section were included in every auditor's report irrespective of whether going concern uncertainties have been identified. The risk of diminished effectiveness from overused content in the auditor's report has been previously acknowledged by the IAASB.

We are also very concerned that users may take a greater level of comfort (that is, they may perceive that the auditor may be conveying a greater level of assurance than what the auditor is required to obtain) if the auditor is required to state conclusions about the auditor's going concern assessment when no events or conditions have been identified and no material uncertainty exists, as proposed in paragraph 33. The proposed requirement for the auditor to state their conclusion that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate overshadows the critical and inherent limitations of the auditor's responsibilities when designing, performing, and reporting on the overall audit. We also believe the disclosure of going concern as proposed would give undue prominence to one financial statement assertion over the other assertions considered in the audit of financial statements as a whole and likely be viewed as a "piecemeal opinion". Collectively, we believe these factors could increase stakeholder misconceptions related to the auditor's responsibilities.

Also, we believe the absence of auditor reporting requirements in extant ISA 570 does not preclude an auditor from also providing further transparency in the auditor's report in a "close call" situation through an ISA 701 key audit matters model (as acknowledged in paragraph 80 of the Explanatory Memorandum).

We reiterate that changes to the auditor's report concerning going concern should be contemplated in the context of the cumulative and combined effect of changes to the auditor's report regarding going concern, fraud, and the recently approved revisions to ISA 700 related to public interest entities. However, if the IAASB moves forward, in consideration of the specific proposal noted in paragraphs 33 and 33(a) we recommend the changes below:

We believe any final reporting requirements associated with paragraphs 33 and 33(a) should not include having a separate heading of "Going Concern" when the use of the going concern basis of accounting is appropriate and no material uncertainty exists.

We also believe that for the auditor's report to communicate valuable information, the IAASB should move the relevant statements of management's responsibility and the auditor's responsibility related to going concern to a new section that immediately precedes the relationship of the audit evidence obtained and the reporting proposed in paragraph 33(a)(i) and (ii).

While some view the requirement in paragraph 33(a)(i) and (ii) to express a conclusion that can precede and stand apart from management and auditor "responsibility" information that is otherwise communicated later on in the auditor's report, we believe arranging such information as we have recommended would better serve to reduce the potential for stakeholder misconceptions and put in context how stakeholders should form their own views about the entity's going concern considerations.

We support the inclusion of the statement "based on the audit evidence obtained", however, we believe it should lead the proposed reporting in both paragraphs 33(a)(i) and (ii).

Consistent with our earlier timeline-related views and recommendations, we also believe it is necessary to include a description of the period to which the auditor's conclusion about the entity's ability to continue as a going concern relates (that is, for at least twelve months from the date of approval of the financial statements).

From these recommendations, we propose replacing paragraph 33 as follows and we have introduced a new paragraph, 33A, to represent other changes noted above. Corresponding changes to referenced application material would also be required.

33. If the auditor concludes that the going concern basis of accounting is appropriate and no material uncertainty exists, the auditor shall include in a separate section in the auditor's report statements that describe that

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The auditor's responsibility to conclude on the appropriateness of management's use of the going concern basis of accounting when forming an opinion on the financial statements and obtaining reasonable assurance on the financial statements as a whole.

33A. The auditor shall state that: (Ref: Para. A67–A68)

(a) Based on the audit evidence obtained: (Ref: Para. A69–A70)

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

(ii) The auditor 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 at least twelve months from the date of approval of the financial statements).

Austrian Chamber of Tax Advisors and Public Accountants (KSW)

We do not agree with the proposal in ED-ISA 570.33 that the auditor shall include a separate section in the auditor's report with the heading "Going Concern" and state as proposed in ED-ISA 570.33 (a) (I) and (ii) without any reference to a disclosure in the notes for the financial statements.

We therefore propose a regulation in line with the current regulation in ISA 570.22 with respect to the existence of a material uncertainty where the auditor refers to management's assessment of going concern.

We do not support to communicate in any case in a separate section in the auditor's report an explicit statement about the auditor's conclusions on the appropriateness of management's use of going concern basis of accounting.

The true and fair view concept requires an overall auditor's statement on the annual financial statements. A detailed statement on an individual assertion, which is not even explicitly stated in the financial statements contradicts this concept.

It should also be stated (see para 8) in the extended opinion that the statement of the auditor is no going concern guarantee. We refer to ISA 570.7 last sentence, that the auditor's report related to a material uncertainty is not a going concern guarantee and suggest to clearly state this in the opinion.

If the auditor's report will be extended, we refer to para 5 and recommend consolidating the respective responsibilities and conclusions within one Going Concern section.

Canadian Auditing and Assurance Standards Board (AASB)

We do not support the proposed auditor reporting on going concern. We recognize the IAASB's efforts in attempting to enhance transparency of the auditor's work relating to going concern. However, when considering the public interest, we believe that the benefits of the proposed requirements do not outweigh the concerns.

Paragraph 71 of the IAASB's Explanatory Memorandum sets out the overarching principles in developing the proposed auditor reporting requirements, which include:

Focusing on enhancements that would be most relevant for users of audited financial statements, increasing transparency about going concern matters in a concise and understandable manner.

Proposing changes that would align with the requirements in the applicable financial reporting framework addressing management's disclosures for going concern.

In our view, the auditor's conclusion that "management's use of the going concern basis of accounting is appropriate and the statement that, based on the audit evidence obtained, the auditor has not identified any material uncertainty" required by paragraphs 33(a) and 34(a) do not meet the above objectives.

Concerns:

Enhancements do not increase transparency in a concise and understandable manner

We undertook outreach on this transparency statement, which included engagement with financial statement users. When shown the proposed auditor's statements required by paragraphs 33(a) and 34(a), some comments from financial statement users suggested they believe that the proposed statements in the auditor's report mean that the auditors are "doing more to prevent corporate failures" or that the auditor is "simply providing assurance" on the entity's ability to continue as a going concern.

Like the financial statement users we consulted, many others also view the auditor's statements required by paragraphs 33(a) and 34(a) as auditor's assurance on the entity's ability to continue as a going concern. This view is likely due to:

The statement that "we have concluded that management's use of the going concern basis of accounting is appropriate" is misunderstood as the auditor's conclusion that the entity will be a going concern. This misunderstanding reinforces the false impression that the primary responsibility for assessing the entity's ability to continue as a going concern lies with the auditor. Further, many also do not understand that the use of the going concern basis of accounting simply means that management does not intend to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

The statement "we have not identified a material uncertainty" is a limited assurance engagement expression. It is not appropriate for the auditor to express such a statement when no assurance is intended.

For the reasons above, we are concerned that paragraphs 33(a) and 34(a) would exacerbate the expectations gap.

Enhancements are not relevant to users of audited financial statements

Setting aside the issue of exacerbating the expectations gap, as the required auditor's statements required by paragraphs 33(a) and 34(a) becomes expected, we believe that the statements would provide little or no information value. This is consistent with various academic studies which suggest that standardized wording have little or no information value. Our outreach with financial statement users confirms these findings. They indicated that they only look for modifications to the auditor's opinion and indications of material uncertainty relating to going concern. Therefore, to meet the objective of enhancing the auditor's report in a manner that is relevant to financial statement users, auditor reporting on going concern matters should only be required in scenarios outside of what would be expected (i.e., the event of a "close call" or when there is a material uncertainty relating to going concern).

Enhancements do not align with certain financial reporting framework requirements

Some public sector accounting frameworks, including those in Canada, may consider a public sector entity to be a going concern even if the entity transfers its assets, liabilities and responsibilities to a recipient and the entity discontinues its operations and ceases to exist as part of a restructuring transaction. While not stated as explicitly, we understand that the International Public Sector Accounting Standard (IPSAS) 14, Events After the Reporting Date, may also be interpreted in a similar fashion. In such circumstances, the proposed statements in the auditor's report would appear to be misleading.

Suggest: For the reasons set out above, we recommend that proposed paragraphs 33(a) and 34(a) be removed.

Hong Kong Institute of Certified Public Accountants (HKICPA)

However, we have concerns relating to the change in the commencement date of the twelve-month period of management's assessment of going concern, as well as the proposed explicit statements in the auditor's report to conclude on management's appropriateness of the use of the going concern basis of accounting.

These proposals will create misalignment between the responsibilities of the preparers and auditors, leading to practical difficulties and unintended consequences. We have provided detailed explanations of our views on these matters in our responses to Q7 and Q13 in the attachment. We urge the IAASB to conduct further research and consider all potential consequences before moving forward with the proposals. Moreover, we believe that the IAASB should continue to collaborate with accounting standards setters, including the IASB, and other bodies that set the framework for financial reporting, and encourage them to include the equivalent requirement as preparers' responsibilities in their preparation of financial statements.

The nature and extent of information provided by the auditor is intended to be balanced in the context of the responsibilities of the respective parties. Accordingly, our stakeholders have expressed significant concerns and feel uneasy about providing an explicit conclusion on the entity's appropriate use of the going concern basis of accounting without relating it to the corresponding assumptions or rationale used by management and disclosed in the financial statements. Without doubt, management has the primary responsibility to determine the appropriateness of an entity's use of the going concern basis of accounting, whereas auditors would provide their perspective and make the corresponding conclusion. Therefore, auditors should not be the original source to provide the conclusion on an entity's appropriate use of the going concern basis of accounting. This issue also relates to the underlying financial reporting disclosure requirements, which may require clarification or additional guidance from the accounting standard setters to achieve the desired enhancements for financial reporting and auditor's reporting. We therefore encourage the IAASB to collaborate with the accounting standard setters such as the IASB to put forward a requirement for preparers to provide an explicit explanation of the rationale for their going concern conclusion. This would help clarify the use of the going concern assumption to users of financial statements and the auditor's report.

Under the extant ISAs, an unmodified auditor's opinion would implicitly cover the auditor's conclusion that the entity's use of the going concern basis of accounting is appropriate. Unless preparers provide disclosures explaining their use of the going concern basis of accounting, the new statements proposed in paragraph 33(a) in the auditor's report alone may not be helpful to users of the financial statements, especially when there is no material uncertainty or significant doubt about the entity's ability to continue as a going concern. This is because users may not understand the criteria used by management on which the auditor's conclusion is based.

In addition to the above, we have concerns that the proposed statements could create confusion and unintended consequences in practice for the following reasons:

The proposed structure of the auditor's report, which places the auditor's opinion on the financial statements and the going concern conclusion in close proximity, could create confusion and misunderstanding among users of the financial statements. It may give the impression that the auditor is providing a specific opinion on the entity's ability to continue as a going concern, when in fact the going concern conclusion is a separate assessment on the entity's use of going concern basis of accounting. The presentation could lead users to over-rely on the auditor's conclusion and potentially misinterpret the nature and extent of the auditor's responsibilities to an entity's going concern.

The use of positive statements could be misinterpreted by users of the financial statements as auditors' assurance that the entity will continue as a going concern. However, this is not the intention of the auditor and is impossible to establish in practice. This could create unintended consequences and increase the risk (e.g., potential litigations) for auditors, and could potentially widen the expectation gap between auditors and users of the financial statements as users may rely on the statements as an assurance of the entity's future prospects.

If separate going concern statements are included in the auditor's report, stakeholders may call for additional separate statements on other matters, which could potentially detract from the overall objective of an audit to express an assurance opinion on the financial statements as a whole. Going concern is only one of many elements in the preparation of financial statements, and while it is important, it is not the only consideration that users of the financial statements should take into account.

Furthermore, we have concerns regarding the proposed reporting illustrated in Appendix 3 to Appendix 6 of ED-570, when the auditor concludes that management's use of the going concern basis of accounting is appropriate, but reports that a material uncertainty exists:

Extract from Appendix 3 of ED-570

Material Uncertainty Related to Going Concern

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... 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.

Our opinion is not modified in respect of this matter.

We consider the proposed reporting may be confusing to users without in-depth knowledge of ED-570 and relevant technical terminology. For instance, users may equate the statement regarding the appropriate use of the going concern basis of accounting to indicating a certainty that the entity will continue in the foreseeable future. Also, they may be confused between the conclusion statement in the first sentence, and the material uncertainty reported in the last sentence. This confusion is partly due to the lack of disclosure on management's explanation for their going concern rationale, plans for future actions to address the material uncertainty and conclusion for using the going concern basis of accounting, as we pointed out in our responses above. Therefore, we urge the IAASB to revisit the proposed wordings to mitigate the potential confusion in practice, taking into account that preparers are not required to disclose the rationale for their use of going concern basis of accounting even if a material uncertainty exists.

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

That being said, we also have some concerns with the requirements and guidance in the draft. In summary, we have concerns with the following major issues:

The proposed statements by auditors in the auditor's report when the use of the going concern basis of accounting in preparing the financial statements is appropriate or when there is no material uncertainty suffer from a number of technical and tactical/strategic weaknesses. Many, though not all, of these weaknesses can be dealt with by redesigning the proposed statements.

We support some, but do not support all, of the requirements and application material that facilitate enhanced transparency about the auditor's responsibilities and work relating to going concern. In particular, we do not agree with the requirements as proposed in paragraphs 33 (a), 34 (a), and 35 (c) (i). All of these requirements relate to the statements of the auditor in the auditor's report that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate or that the auditor 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.

There are five main reasons as to why we disagree with the inclusion of these statements as proposed in the auditor's report.

First, audits of financial statements are attestation engagements – that is, in accordance with ISAE 3000 (Revised) and the International Framework for Assurance Engagements, assurance engagements in which a party (in this case management) other than the practitioner (in the case the auditor) measures or evaluates the underlying subject matter (the financial transactions, other events, and conditions) against the criteria (the financial reporting framework). The party other than the practitioner (management) then presents the resulting subject matter information (the financial statements). While attestation engagements permit practitioners to present the subject matter information in their reports, the subject matter information (the financial statements) remain the responsibility of management. It is the responsibility of management to make assertions in the financial statements and about the financial statements – that is, to provide original information about the entity, unless such information relates to modifications of opinion, in which case auditors provide original information about the financial statements. It is true that when management prepares the financial statements using the going concern basis of accounting and does not disclose a material uncertainty, management is implicitly asserting that it has concluded that the use of the going concern basis of accounting is appropriate and that no material uncertainty exists. It is also true that auditors do conclude on the appropriateness of management's implicit assertions. Nevertheless, making implicit management assertions in the financial statements explicit through the auditor's report as proposed crosses the line in providing explicit original entity information and on the provision of individual conclusions on particular implicit management assertions on the financial statements. It appears to us that the failure of financial reporting frameworks to require such statements of management in the financial statements has led to the draft again becoming the intended "repair shop" for supposedly deficient financial reporting standards.

Second, we believe that having auditors make these statements as proposed will lead to the perception among users that auditors have a greater responsibility for considering going concern than management, even though management has the responsibility to make an assessment regarding going concern in the first instance. We note that when the going concern basis of accounting is appropriate and there is no material uncertainty or, for listed entities, no "close call", the financial statements will contain no information at all about going concern matters. This was one reason why the auditor's report contains a description of management and auditor responsibilities regarding going concern. By having auditors include the noted statements as proposed in the auditor's report without having commensurate statements in the financial statements, it leaves the impression with users that auditors have a greater responsibility for going concern matters than management does. If such statements were to be made in the auditor's report, they would need to be made in such a way as to not disturb the balance between management and auditor responsibilities.

Third, by making these statements as proposed, auditors are, for the first time, including in the auditor's report specific conclusions to particular assertions in the financial statements, which will be interpreted by users as "piecemeal opinions" on the financial statements. It has always been a central tenet of the ISAs that auditors provide an opinion on the financial statements as a whole – not on particular assertions in the financial statements. If such statements ought to be made in the auditor's report, then they need to be made in such a way so as to not leave the impression that they are piecemeal opinions on assertions in the financial statements.

Fourth, we believe that by requiring the statements as proposed, the IAASB is engaging in a major tactical mistake by not providing any incentive in its proposed statements to encourage management to make its

own commensurate statements in the financial statements. With the auditor statements as proposed, management in the vast majority of entities will be only too happy to have auditors make such statements without management needing to, since it directs users focus on going concern issues to auditors rather than to management. If such statements were to be made in the auditor's report, they ought to be designed in such a way so as to encourage management to make their own statements in the financial statements.

Fifth, we believe that including such statements as proposed would be a major strategic mistake in the relationship between the IAASB and financial reporting standard setters. By including the statements as proposed, the IAASB would be eliminating any incentive to financial reporting standard setters to address the issue of going concern in the work plans for the foreseeable future, even though, as mentioned in our response to Question 7, it would very much be in the public interest for financial reporting standard setters to do so. Since the provision of original information in the auditor's report outside of modifications of opinion conflicts with legal confidentiality requirements in some jurisdictions, this could lead to long-term carve outs from the ISAs and therefore to increased fragmentation of auditor reporting internationally.

The design of the statements to be made in the auditor's report when management does not make commensurate statements in the financial statements cannot directly address any prohibitions on auditors providing original information about the entity or the issue of attestation vs. direct engagements. However, the design of the statements can address ensuring that the statements: 1. do not cause users to believe that auditors have a greater responsibility for going concern than management, 2. are not construed by users as "piecemeal opinions", 3. provide an incentive for management to provide commensurate statements in the financial statements, and 4. provide an incentive for financial reporting standard setters to address going concern in the future work plans. In our view, the statements required of the auditor in the auditor's report can be designed to address these issues as follows, recognizing that the related requirements would need to be reverse engineered to lead to such statements:

When management makes no assertions regarding going concern in the financial statements (for the case in which the going concern basis of accounting is appropriate and there is no material uncertainty):

"When management prepares the financial statements using the going concern basis of accounting, as is the case in these financial statements, management is implicitly asserting that it has concluded that its use of the going concern basis of accounting is appropriate. Since [the financial reporting framework] does not require an explicit statement by management in the financial statements that management has concluded that its use of the going concern basis of accounting is appropriate, management has declined to include such an explicit statement in the financial statements. We concur with management's implicit conclusion that its use of the going concern basis of accounting in preparing the financial statements is appropriate."

"When the financial statements do not refer to a material uncertainty related to events or conditions, that individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern, as is the case in these financial statements, management is implicitly asserting that no such material uncertainty exists. Since [the financial reporting framework] does not require an explicit statement by management in the financial statements that management has not identified such a material uncertainty, management has declined to include such an explicit statement in the financial statements. Based upon the audit evidence obtained, we concur with management's implicit assertion that no such material uncertainty has been identified."

When management makes assertions regarding going concern in the financial statements (for the case in which the going concern basis of accounting is appropriate and there is no material uncertainty):

"We refer to Note X in the financial statements, in which management states that it has concluded that its use of the going concern basis of accounting in preparing the financial statements is appropriate and that management has not identified a material uncertainty related to events or conditions, that individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern. We concur with management's statement that it has concluded that its use of the going concern basis of accounting in preparing the financial statements is appropriate and, based upon the audit evidence obtained, with management's statement that no such material uncertainty has been identified."

We believe that writing the statement in the auditor's report in this way – and in particular, to distinguish between cases in which management makes commensurate statements in the financial statements and when it does not – will address some of our concerns with respect to the proposed statements in the draft.

New Zealand Auditing and Assurance Standards Board (NZAuASB)

We support the IAASB's intent to enhance transparency about going concern through inclusion of a separate section in the auditor's report. Our user/investor stakeholders indicated that more information on going concern, whether provided by management or auditor, would be beneficial.

However, most stakeholders expressed concerns that the proposal may have the impact of widening the gap between what a user expects and what the audit delivers. Including a going concern paragraph in all auditor's reports:

When there are no issues, is unnecessary because the auditor's opinion addresses this implicitly.

May undermine the information value of the auditor's report when there are going concern issues to highlight.

May have an unintended consequence that readers do not notice signals where there are matters to highlight relating to the use of the going concern basis of preparation.

Does not align with disclosures made by management in all instances. Current financial reporting standards do not require an explicit statement by management or those charged with governance about going concern.

While we support the IAASB's efforts to enhance transparency in the auditor's report we do not consider the benefits of the proposed reporting requirements outweigh the concerns raised. To address these concerns, we encourage the IAASB to continue discussions with the IASB and the IPSASB to ensure that a holistic approach is taken so that an appropriate balance between management, those charged with governance and auditor responsibilities is maintained.

We also note that in describing the auditor's responsibility for going concern, the auditor's responsibility section of the auditor's report includes statements that,

The auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report.

Future events or conditions may cause the entity to cease to continue as a going concern.

These statements are useful to remind users of the limitations of the auditor's conclusion on going concern. This is particularly important when the auditor's responsibilities section is included by reference in the auditor's report.

We recommend that the IAASB move these statements from the auditor's responsibilities section of the auditor's report and require the above statements to be included in the going concern paragraph required by paragraph 33.

Royal Dutch Institute of Chartered Accountants (NBA)

We reemphasize our viewpoint that the primary role of an auditor is to express an opinion on information published by the entity. We therefore are not supportive of explicit statements by auditors on going concern, especially when management is not making explicit statements about its assessment of going concern.

As you may be aware, the NBA has introduced mandatory reporting requirements for auditors on the audit approach with respect to going concern. We would be pleased to share our experiences, both on the process and on the monitoring of the reporting by auditors with you.

4. Accounting Firms

Assirevi

We agree that the communication on going concern in a separate section of the auditor's report would facilitate an understanding of the matter by the users of financial statements and the auditor's report. We wonder, however, whether the sentence on going concern included in the "Auditor's responsibilities for the audit of the financial statements" section (paragraph 39 (b)(iv) of ISA 700) should be appropriately supplemented to reflect the changes proposed by ED-570, for example, to include that set out in paragraph 33 (b).

However, we do have concerns about the "Going concern" section with respect to the requirements of paragraph 33 (a).

Specifically, we feel that the auditor's conclusion that management's use of the going concern basis of accounting in the preparation of financial statements is appropriate (paragraph 33 (a) (i)) does not improve transparency. Actually, we believe that this conclusion could erroneously be taken as a "piecemeal opinion" that does not contribute to better clarifying the auditor's responsibilities and generates the risk that the expectation gap could widen. In addition, inclusion of this statement in all those circumstances in which the going concern basis of accounting is appropriate and when there are no material uncertainties related to going concern diminishes the importance of this matter, making it part of a standard (and potentially boilerplate) text of an auditor's report.

With respect to paragraph 33 (a) (ii), neither the IFRS nor the Italian GAAP require management to include statements or information when there is no evidence of material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. Moreover, when events or conditions that may cast significant doubt on the entity's ability to continue as a going concern exist (i.e. "close call" situations), certain standards, including for example the Italian GAAP, do not require the inclusion of specific disclosures about going concern in the financial statements apart from a general statement confirming that management has prepared the financial statements assuming the entity's ability to continue as a going concern. These two accounting frameworks only require specific disclosures to be made when there is material uncertainty. The requirements of ED-570 about the "Going concern" section would require the auditor in both cases to provide information in their report that has not been disclosed by management in the financial statements.

Therefore, we propose that solely the requirements set out in paragraph 33 (b) be maintained and that the requirements under paragraph 33 (a) be deferred until the IAASB coordinates its approach with the relevant accounting standard setters.

For the same reasons, we propose that the auditor's statement on the appropriate use of the going concern basis of accounting be eliminated from paragraphs 34 and 35 as well (specifically, paragraph 34 (a) and paragraph 35 (c) (i)).

CohnReznick LLP (CHR)

We do not support the requirements. See our response to question number 2 above.

REPORTING REQUIREMENTS

However, we do not agree with the inclusion of explicit statements that the auditor did not identify a material uncertainty. We believe such an inclusion is neither necessary nor appropriate and may not be in the public interest as the reporting requirements may be perceived as assurance on the solvency of an entity. The bulk of financial reporting and the audit thereon is based on historical information, i.e., events that have occurred.

We encourage the IAASB to engage in further dialogue with the International Accounting Standards Board (IASB) and other national accounting standards setters (e.g., FASB) about the need for enhanced reporting requirements on going concern. In this regard, we note that neither IASB nor FASB require management to make an affirmative statement regarding an entity not having 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. We believe it is inappropriate for the auditor to make such a statement, particularly when management is not yet required to do so.

Going concern is forward looking and by indicating the auditor has not identified a material uncertainty, the auditor can be viewed as giving assurance as to solvency. Such is not in the public interest and will create a moral hazard for investors who may no longer consider it incumbent upon them to evaluate the entity's solvency. Further, the expansion of the audit report with further auditor discussion, beyond basic responsibilities and the overall opinion, may erode the importance of management's financial statements themselves and create a hazard for investors by implicitly implying the auditor's report has all relevant information.

Crowe LLP (CROWE LLP)

Transparency

We value the importance of transparency and providing relevant information to financial statement users to support their understanding and decision-making ability. We believe that some aspects of the Proposal include mandatory reporting that may not be understandable to financial statement users and could have an unintended consequence of widening the "auditor expectation gap." For example, the requirement to include a "Going Concern" section in every auditor's report when a material uncertainty has not been identified could have an unintended consequence of obscuring the importance of reporting when more significant going concern matters have been identified by the auditor (such as a material uncertainty). In addition, the required auditor statement on the appropriateness of the use of the going concern basis of accounting in the financial statements could be misunderstood by financial statement users as a positive affirmation or opinion on the viability of the entity to continue as a going concern.

A: No. We do not believe that the requirements in paragraph 33(a) of the Proposed Standard, for the auditor to provide explicit statements about the auditor's conclusions on the appropriateness of management's use of the going concern basis of accounting and on whether a material uncertainty has been identified, provide useful and understandable information for financial statement users.

As stated above in our General Observations, we believe that the proposed requirement to always include a Going Concern section in the report could have an unintended consequence of obscuring the importance of reporting when more significant going concern matters have been identified by the auditor (such as a material uncertainty). We also note that, under accounting principles generally accepted in the United States of America, management is not required to disclose the appropriateness of the use of the going concern

basis of accounting nor disclose that no material uncertainty has been identified. Therefore, the proposed required auditor statements on the appropriateness of the use of the going concern basis of accounting in the financial statements and the lack of an identified material uncertainty go beyond the disclosures required by management. Further, and more concerning, these statements could be misunderstood by financial statement users as a positive affirmation or opinion on the viability of the entity to continue as a going concern (which is not part of the auditor's objectives or responsibility), thus potentially widening the "auditor expectation gap." Finally, the proposed required auditor statement on the appropriateness of the use of the going concern basis of accounting in the financial statements could be particularly confusing to a reader, when the auditor also discloses that events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern.

If the proposed requirements in paragraph 33(a) are retained, we recommend some modifications. First of all, the required section heading "Going Concern" may create confusion or misconception about what the auditor is actually disclosing in this section of the report. To prevent the expansion of the auditor expectation gap, a section heading such as "Going Concern Basis of Accounting" may be clearer. Second, we recommend the inclusion of the words "Based on the audit evidence obtained" in proposed paragraph 33(a)(i), similar to what is included in proposed paragraph 33(a)(ii). This may reduce the risk of the user interpreting the auditor disclosure about the appropriateness of the going concern basis of accounting as the auditor providing assurance about the entity's ability to continue as a going concern.

We also note that, based on the proposal, every auditor's report (when no material uncertainty has been identified) will discuss going concern in three different sections of the report. First, as part of Responsibilities of Management and Those Charged with Governance for the Financial Statements; second, as part of Auditor's Responsibilities for the Audit of the Financial Statements; and third, within the new Going Concern section. This could be confusing to a user of the financial statements. As another alternative to consider, the new required Going Concern section could include a discussion of management's responsibility related to going concern (including management's determination that the going concern basis of accounting is appropriate), the auditor's responsibility related to going concern (including a statement that management's use of the going concern basis of accounting is appropriate and that the auditor has not identified a material uncertainty). In order to address the concern we expressed above related to a possible interpretation of the auditor's statement as assurance on the viability of the entity to continue as a going concern, we again recommend the inclusion of the words "based on the audit evidence obtained," in the discussion of the auditor's responsibilities. With this proposal, the extant going concern statements in the sections of the report on management's and auditor's responsibilities could be removed.

Grant Thornton International Limited (GT)

We do not support the proposals related to the disclosure of going concern matters in the auditor's report. Our principal concern lies in the requirement for the auditor to include a conclusion, in a Going concern section of the auditor's report, that the going concern basis of accounting is appropriate. We are of the view that this statement is unnecessary and may actually have the adverse consequence of widening the expectations gap regarding the auditor's responsibilities relating to going concern for the following reasons:

The auditor is already required to provide an opinion on the financial statements as a whole. This includes the appropriateness of the preparation of the financial statements on the going concern basis of accounting. If the going concern basis of accounting was determined to be inappropriate, this would be reflected in that opinion.

The statement may be viewed by users of the financial statements as a guarantee that the entity will continue as a going concern. The auditor is not in a position to be able to predict what will happen in the future, the auditor can only make an evaluation based on evidence available at the time of the assessment. Further, as no time period is specified, there is the potential for this to be interpreted as a guarantee that exists into perpetuity.

The statement is likely to become a standard disclosure that users will expect to be included in the auditor's report and this increases the potential for this section of the auditor's report to be overlooked in circumstances when there is something to report that requires users' attention.

It adds additional length to an already long and growing auditor's report, reducing the likelihood that users will read the entire report and increasing the potential for other important information to be overlooked.

Further, we note that ISA 700 (Revised) already requires the auditor's responsibilities to be disclosed in the auditor's report, including the specific responsibilities related to going concern.

KPMG International Limited (KPMG)

From a broader perspective, we highlight that the requirements and guidance set out in ED-570 are generally more prescriptive and comprehensive than the requirements and guidance relating to management's going concern assessment and related financial statement disclosures set out in certain financial reporting frameworks (e.g. IFRS Accounting Standards) are for preparers. We consider that certain proposed enhancements to ED-570, such as new requirements to provide greater transparency to users regarding considerations in respect of going concern in the auditor's report, appear to be, in part, in response to the lack of requirements/guidance in certain financial reporting frameworks. We have commented previously, e.g. in our response to the IAASB Discussion Paper (DP), *Fraud And Going Concern In An Audit Of Financial Statements: Exploring the Differences Between Public Perceptions About the Role of the Auditor and the Auditor's Responsibilities in a Financial Statements Audit* regarding the need for complementary changes to requirements to balance the roles and responsibilities of others, as well as auditors, in the financial reporting ecosystem, to ensure that these are substantially aligned and able fully to function in concert in the public interest. We recognise that the introduction of legal/ regulatory/ corporate governance code requirements will take place on a jurisdiction by jurisdiction basis, with this evolution occurring at a different pace across different jurisdictions, and we believe it is important for the IAASB to continue its efforts to reach out to and work closely with other bodies, including financial reporting standard-setters, such as the IASB, as well as national standard-setters, bodies responsible for establishing legal and regulatory, and corporate governance, frameworks/requirements, on a global basis, in exploring this area to develop appropriate solutions. We acknowledge that such outreach and collaboration on a global basis will likely be challenging, but we consider it important in order to drive the necessary improvements and improve public confidence in the global capital markets.

Furthermore, whilst we consider that the proposed enhancements to ISA 570 will be helpful in responding to certain stakeholder concerns, in terms of the broader public interest considerations, the wider issue remains that an entity's ability to continue as a 'going concern' (as a broader concept than envisaged by auditing and financial reporting standards, being a basis of preparation of the financial statements) is an area that stakeholders most want information and clarity about, i.e. whether an entity is likely to continue operating, and the resilience of the entity's business model in this regard, over the longer term.

Accordingly, we suggest the IAASB encourage other relevant bodies to explore the possibility of an approach under which further information could be provided by management, e.g. in the front section of the annual report, about potential events/ conditions and related risks beyond the period of management's

assessment of going concern, looking at the longer-term, including business plans and risks more widely. Such information would not form part of the binary conclusion as to whether the going concern basis of preparation is or is not appropriate but could provide important information to investors about the business model, key risks/ uncertainties and their implications for the resilience of that model in the longer-term. We suggest that the IAASB, together with other relevant bodies, explore the possibility of developing a framework for such resilience/ viability measures, for reporting on by the entity. We consider that such discussions would be very much aligned with other recent initiatives and dialogue in respect of interconnected standard-setting for corporate reporting, with increasing recognition by many independent standard-setting bodies, regulators, preparers, practitioners and other stakeholders that reporting on historical financial information alone may not be sufficient to provide a holistic view of a company's performance. There is increasing demand for a longer-term, future-oriented view across a wider range of aspects of a company's performance, including non-financial information elements, the impacts of these different aspects and their interdependency with financial reporting.

In connection with the above, there is increased stakeholder focus on the risks of climate change, environmental damage and societal issues, which have a close relationship with longer terms aspects of 'going concern' considerations, and such matters are in the spotlight more than ever. As a result, we expect greater demand for reporting by companies that addresses their impacts and initiatives in relation to these overarching global concerns as a core feature impacting their market value.

However, we have concerns with certain proposed changes, which we describe below, along with our recommendations:

We have significant concerns with respect to the proposal to require the auditor to report their conclusion as to the appropriateness of management's use of the going concern basis of accounting and related statement regarding not having identified material uncertainties in the auditor's report, when the use of the going concern basis of accounting is appropriate and no material uncertainty exists. Our first concern is that the separate conclusion and related statement on matters related to going concern is piecemeal in nature and potentially undermines the importance of the auditor's opinion, which is intended to provide a clear, and binary, conclusion to users on the financial statements as a whole. We believe that the proposed conclusion and related statement on one specific aspect of the financial statements is not helpful and may undermine the intended primacy of the auditor's opinion, which may cause confusion to users. Additionally, we consider that the conclusion and related statement are not aligned with the fundamental principle of auditor's reports to report matters "by exception." Therefore, we are concerned that the inclusion of such conclusions and related statements could unnecessarily clutter the report and potentially desensitise users to information related to going concern matters in the auditor's report more generally, which would not be in the public interest. Furthermore, we believe that the inclusion of the conclusion and related statement may suggest a disproportionate emphasis on going concern over other aspects of the financial statement audit.

Related to this, we also have a concern that increased disclosure of this nature in the auditor's report may potentially widen the "expectation gap" and create a perception that disproportionate responsibility rests with the auditor with respect to the going concern assessment, given that the auditor would be required to express an explicit conclusion in the auditor's report when management may not have made an explicit assertion in the financial statements in this respect, and there may be little or no disclosure in the financial statements when the use of the going concern basis is appropriate; that conclusion did not require significant judgment, and no material uncertainty exists. Consequently, we are not supportive of the proposed requirements in paragraph 33(a). (Please see our response to Question 13 for further details)

We have significant concerns with respect to the proposal to require the auditor to report their conclusion as to the appropriateness of management's use of the going concern basis of accounting and related statement regarding not having identified material uncertainties in the auditor's report, when the use of the going concern basis of accounting is appropriate and no material uncertainty exists. Our first concern is that the separate conclusion and related statement on matters related to going concern is piecemeal in nature and potentially undermines the importance of the auditor's opinion, which is intended to provide a clear, and binary, conclusion to users on the financial statements as a whole. We believe that the proposed conclusion and related statement on one specific aspect of the financial statements is not helpful and may undermine the intended primacy of the auditor's opinion, which may cause confusion to users. Additionally, we consider that the conclusion and related statement are not aligned with the fundamental principle of auditor's reports to report matters "by exception." Therefore, we are concerned that the inclusion of such conclusions and related statements could unnecessarily clutter the report and potentially desensitise users to information related to going concern matters in the auditor's report more generally, which would not be in the public interest. Furthermore, we believe that the inclusion of the conclusion and related statement may suggest a disproportionate emphasis on going concern over other aspects of the financial statement audit.

Related to this, we also have a concern that increased disclosure of this nature in the auditor's report may potentially widen the "expectation gap" and create a perception that disproportionate responsibility rests with the auditor with respect to the going concern assessment, given that the auditor would be required to express an explicit conclusion in the auditor's report when management may not have made an explicit assertion in the financial statements in this respect, and there may be little or no disclosure in the financial statements when the use of the going concern basis is appropriate; that conclusion did not require significant judgment, and no material uncertainty exists. Consequently, we are not supportive of the proposed requirements in paragraph 33(a).

We also highlight that management and TCWG have primary responsibility for the going concern assessment, in particular, because management/ TCWG are best placed to make assessments of going concern as a result of their detailed knowledge of the business, including future plans. Consequently, we recommend that the IAASB continue to work with financial reporting standard setters, e.g., the IASB, and other bodies to explore this, including considering, in particular, enhancing disclosure requirements related to going concern to provide users with relevant information, and to draw aspects of this together better in the financial statements to 'tell the story' for stakeholders in a more cohesive manner.

We consider that much of the 'expectation gap' resides in a lack of user understanding as to what 'going concern' means and the fact that it relates to a basis of preparation, with a low threshold in terms of an entity being considered to be a 'going concern' as well as the fact that it is a point in time assessment, and subject to change based on events or conditions, which may evolve rapidly. One potential solution to address this would be for financial reporting standard setters to introduce requirements into financial reporting standards for financial statements to state explicitly in the basis of preparation note why the going concern basis of preparation is used, and require disclosures regarding the assessment of the entity's ability to continue as a going concern. This would avoid the need for the auditor's report to introduce new information about going concern, as it would instead provide commentary about how the auditor evaluated management's assessment if this is considered to be a 'key audit matter' – with such information now to be included within the Going Concern section of the auditor's report. Such disclosures by management could include their significant assumptions and judgements regarding their going concern assessment, so that the users are able to assess the reasonableness of these assumptions. We recognise that these would be primarily actions for financial reporting standard-setters, such as the IASB, and we suggest that the IAASB liaise closely with such standard-setters.

Mazars (MZ)

Our response to question 13 should be read in conjunction with our response to questions 14 and 15.

Overall, we appreciate the intent of the proposals that facilitate enhanced transparency in reporting about the auditor's responsibilities and work relating to going concern. However, we do not support the implications of paragraph 33(a) of ED-570 in the following circumstances:

Paragraph 33(a) requires disclosures about the auditor's responsibilities in circumstances where the auditor has concluded that the going concern basis of accounting is appropriate and no material uncertainty exists. We are of the view that such disclosures may be confusing in circumstances where events and conditions related to going concern were identified but assessed to not represent a material uncertainty, in view of, for example, adequate disclosures about these events or conditions in the financial statements (e.g., "close call" situation).

The proposed requirements in paragraph 33(a) may have unintended consequence of diluting the importance of disclosures in the auditor's report regarding management's responsibility to make an assessment of the entity's ability to continue as a going concern. Moreover, as currently drafted, the disclosure in the auditor's report may cause undue reliance by the user of the financial statement about the entity's ability to continue as a going concern.

MNP LLP (MNP)

We do not support the requirements and application material intended to facilitate enhanced transparency about the auditor's responsibility and work relating to going concern. We do not believe it would always provide useful information for the intended users of the audited financial statements.

In our opinion, adding a separate section to communicate "going concern" basis of accounting on the auditor's report for all entities can be problematic such that it dilutes the importance of the going concern for those entities that do have a material uncertainty as users may become desensitized to seeing going concern language and may not pay attention in situations that indicate a going concern issue.

In addition, having a separate auditor's conclusion on going concern matters individually introduces the concept of "a piecemeal audit opinion". If the audit report includes conclusions on "an" audit standard, stakeholders may expect conclusions on other individual standards as well. We believe the slope is very slippery here.

We recognize the efforts in attempting to enhance transparency of the auditor's work relating to going concern, however, we believe that there is little or no benefit to these proposed requirements.

Nexia Australia Pty Ltd (NAPL)

We disagree on the inclusion of explicit statements concerning the auditor's conclusions on the appropriateness of management's use of the going concern basis of accounting, as outlined in paragraphs 75-78.

The auditor's fundamental obligation is to adhere to all relevant Auditing Standards to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial report is prepared, in all material respects, in accordance with an applicable financial reporting framework.

As described in ISA 200, ISA 700, and ISA 701 the auditor does not explicitly opine on a singular element of the financial statements. We are concerned that mandating the explicit expression of a conclusion on an

individual element of the financial statements will create an expectation gap that users will interpret as the auditor guaranteeing that the entity will not enter administration or bankruptcy within twelve months from the date of the auditor's report and will also set a precedent for the inclusion of explicit opinions on other elements of the financial report in the future.

In our opinion, there is the potential for the rationale described in paragraph 78(a) of the ED to be extended by the IAASB to other individual elements of the financial statements, such as significant business combinations or transactions, as well as other management and governance responsibilities described in ISA 200, for example significant accounting estimates, management judgments, or the entity's internal control environment.

We disagree with any proposition that extends the auditor's conclusions on the financial statements beyond its obligations described in ISA 200 to individual elements of the financial report or matters solely the responsibility of management.

The auditor will, as part of their duties, form an opinion on the appropriateness of the going concern basis of preparation of the financial report and communicate any material uncertainties or disagreements with management in the same way as other elements of the financial statements. We perceive no compelling reason to alter the existing reporting requirements.

If the Boards intend to pursue this proposal, then we recommend that the IAASB request the IASB to amend IAS 1 Presentation of Financial Statements to require those charged with governance of the entity (who have ultimate responsibility for the preparation of the financial statements) to provide an identical written conclusion to accompany the financial report.

RSM International Limited (RSM)

In our attached response to the specific questions posed in ED-570, we make several suggestions with the aim of enhancing the drafting and clarifying certain requirements, such as the commencement date of management's assessment of going concern and certain transparency requirements.

We do not support the requirement to 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 as described in paragraphs 33(a)(i), 34(a) and 35(c)(i) due to the following concerns:

We support enhanced transparency regarding going concern in the auditor's report. However, in situations where the auditor has concluded that the going concern basis is appropriate, we believe that the explicit statements described in paragraphs 33(a)(i), 34(a) and 35(c)(i) have the potential to dilute the importance of other information provided in the auditor's report.

For example, when a material uncertainty exists, extant ISA 700 (Revised), Forming an Opinion and Reporting on the Financial Statements, requires the auditor to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the opinion. As such, the lack of inclusion of such a statement drawing attention to the related disclosures in the financial statements or modification to the auditor's report in relation to going concern is meant to convey that the auditor concluded that management's use of the going concern basis of accounting is appropriate.

Many financial reporting frameworks require disclosure of the basis of accounting used when they are not prepared on the going concern basis of accounting and/or when a material uncertainty in the entity's ability to continue as a going concern exists. Thus, the opinion on the financial statements inherently includes a conclusion about the going concern basis based on what is disclosed in the financial statements, and we

believe it is not necessary to include such a statement in the auditor's report as well when there is no issue with the disclosure.

In addition, we encourage the IAASB work with accounting standard setters, such as the International Accounting Standards Board, in order to include the disclosures and information on going concern that are requested by stakeholders in the various financial reporting frameworks. This would reinforce the primary responsibility of assessing and disclosing information on going concern on management and those charged with governance while at the same time bringing those disclosures directly covered by the auditor's opinion.

Stating that the auditor concluded that management's use of the going concern basis of accounting is appropriate could be interpreted as an opinion within an opinion. In other words, the opinion would include an opinion on the financial statements as well as an opinion on the appropriateness of the use of the going concern basis.

If the board believes it is in the public interest to require in the auditor's report a statement that the auditor has concluded management's use of the going concern basis of accounting is appropriate, we recommend including a requirement similar to paragraph 11(b) of ISA 701, Communicating Key Audit Matters in the Independent Auditor's Report, that says, in effect, that the auditor's report shall state that the assessment of going concern was addressed in the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, and the auditor does not provide a separate opinion on these matters.

Except for the statement described in the paragraphs above, we support the requirements and application material that facilitate enhanced transparency about the auditor's responsibilities and work relating to going concern, and we believe they provide useful information for intended users of the audited financial statements.

In addition, we believe the proposals enable greater consistency and comparability across auditor's reports globally.

5. Public Sector Organizations

Office of the Auditor General New Zealand (OAGNZ)

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

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

The audit report should not contain information:

about the entity that has not otherwise been made publicly available by the entity (i.e., original information);

to substitute for disclosures that are required by the financial reporting framework, or to achieve fair presentation; and

that relates to immaterial misstatements; matters that were not significant during the audit; matters that are not fundamental to the users' understanding of the financial statements; or matters that are irrelevant to the users' understanding of the audit / auditor's responsibilities / auditor's report.

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

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

The heading 'going concern' should be amended to align with the responsibilities or requirements of the auditor. The auditor's responsibility is only to evaluate management's assessment of going concern in order to ascertain whether management used an appropriate basis of accounting in preparing the financial statements. We therefore recommend amending the heading to 'Management's use of the going concern basis of accounting', or similar.

The positive conclusion statement in paragraph 33(a)(i) should be amended. The positive conclusion gives the impression that the auditor is providing a separate opinion on going concern which does not align with the principle of providing an opinion on the financial statements as a whole.

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

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

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

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

Office of the Auditor General of Manitoba (OAGM)

We do not support a separate section in the auditor's report related to going concern or an explicit statement in the auditor's report about the auditor's conclusions on the appropriateness of management's use of the going concern basis of accounting and on whether a material uncertainty has been identified.

Generally, going concern is not a significant issue for public sector entities. Therefore, requiring this additional information in the auditor's report is not likely to add value to the users.

We do see a potential risk that this information may cause confusion as our auditor's report is on historical information, while the going concern conclusion is on future information. Additionally, it adds a conclusion within a conclusion (our overall opinion), which may also cause confusion as to why this part of our auditing standards needs to be highlighted.

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)

No, the proposed changes do not enable greater consistency and comparability. The proposed changes to the auditor's report could create unrealistic expectations of what the auditor has evaluated as part of evaluating going concern. Users of the financial statements could perceive that auditors are providing a greater level of assurance on an agency's ability to continue as a going concern than is actually being provided. The purpose of the auditor's report is to report on historical financial information, and not forward-looking financial information. The proposed changes also result in various aspects in the auditor's report being treated inconsistently (i.e., conclusions provided on some aspects of the audit, but not others).

6. Member Bodies and Other Professional Organizations

ASEAN Federation of Accountants (AFA)

Explicit statements about the auditor's conclusions on the appropriateness of management's use of the going concern basis of accounting and on whether a material uncertainty has been identified [Q13]

We support the Board's objective to enhance transparency and consistency in auditor reporting. However, we believe that in principle, the auditor expresses a single opinion on the financial statements as a whole. Inclusion of such explicit statements may be perceived as a separate opinion issued on going concern, which is uncharacteristic of the auditor's reporting. This may imply that the auditor is expressing an opinion on a specific matter in the audit in addition to the opinion on the financial statements taken as a whole.

Any expansion in the auditor's disclosure on going concern should be preceded by an expansion of the reporting responsibilities for directors and management. Otherwise, it would appear that the auditor has a greater role and responsibility than directors and management in this respect. Also, there needs to be adequate acknowledgement that the going concern of an entity is dependent on the actions (or inactions) of management and directors, rather than the auditor's assessment, which is inherently limited.

The inclusion of such explicit statements may be viewed as the auditor affirming that no material uncertainty relating to going concern exists. However, a going concern assessment is forward-looking and subject to inherent limitations. The conditions existing at the time of the assessment may change unpredictably in the future, potentially giving rise to going concern issues at a later point in time. Hence, there are concerns raised that it would be onerous for the auditor to include such explicit statements in the auditor's report. In the event of corporate failures arising from circumstances not within the entity's control, there are concerns over legal consequences that may result from the inclusion of such statements.

The Board also need to consider the possibility of financial statement users placing excessive reliance on the binary conclusions presented in the explicit statements, without thoroughly reading the accompanying information and related disclosures. This can lead to users overlooking important "warning signals" embedded in the auditor's report or financial statements. As a result, the expectation gap on the auditor's reporting responsibilities in relation to going concern may be further widened. Instead of binary statements from the auditor about the existence or non-existence of material uncertainty relating to going concern, providing more comprehensive disclosures on going concern in the financial statements from management's perspective can be more value adding and relevant to users. In this regard, the IAASB should consider working with the IASB on key relevant disclosures. We believe that this will result in better

communication to financial statement users on the risks associated with an entity's ability to continue as a going concern, and the complexity of such assessments.

The Board should consider removing the words "if any" in paragraph 33(b)(i) of ED ISA 570 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.

California Society of CPA (CALCPA)

No, we do not support the requirements that facilitate enhanced transparency about the auditor's responsibilities and work relating to going concern because this opens up greater issues for potential litigation.

Center for Audit Quality (CAQ)

KAMs Are a Better Approach to Increase Transparency Through the Auditor's Reporting Requirements

Increased transparency should be primarily driven by management's disclosures in the financial statements with respect to the basis of accounting used to prepare the financial statements as well as its going concern assessment. In certain circumstances, such as when there is a "close call" situation where significant judgment is involved in the determination that identified events or conditions do not result in a material uncertainty, it likely would be appropriate to also include disclosure in the auditor's report through the inclusion of a Key Audit Matter (KAM) in accordance with the guidance in ISA 701 Communicating Key Audit Matters in the Independent Auditor's Report (for listed entities).

We do not agree with the proposed requirements related to the addition of the new "Going Concern" section in the auditor's report for all audits. The requirements as currently proposed could have the unintended consequence of making the auditor's role and the purpose of a financial statement audit less clear, as the inclusion of this section may be misinterpreted as a guarantee by the auditor that the audited entity will continue as a going concern. Additionally, it is unclear whether the addition of the auditor's conclusion that management's use of the going concern basis of accounting is appropriate in the auditor's report, (as required by paragraph 33(a)(i)), provides useful information to financial statement users. It is rare that the use of the going concern basis of accounting is not appropriate, even when there is a material uncertainty.

While we appreciate the IAASB's desire to explore additional transparency for users of audited financial statements about the auditor's responsibilities and work relating to going concern, we do not support the requirements in paragraph 33(a).

We are concerned that the requirements as currently proposed could have the unintended consequence of diluting the impact or prominence of situations when there is a material uncertainty about an entity's ability to continue as a going concern. This could cause distraction or confusion for financial statement users. It is rare that the use of the going concern basis of accounting is not appropriate, even when there is a material uncertainty. Therefore, we think including an explanatory paragraph in the auditor's report only when events or conditions indicate that a material uncertainty exists that may cast significant doubt of the entity's ability to continue as a going concern brings prominence to the matter for the benefit of the financial statement user.

Additionally, the proposed requirements in paragraph 33(a) will result in going concern being discussed in multiple locations within the auditor's report which may also contribute to confusion for financial statement

users. Finally, the inclusion of the auditor's conclusion may be misinterpreted as a guarantee by the auditor that the audited entity will continue as a going concern.

In order to determine if the inclusion of the Going Concern section in the auditor's report will add beneficial transparency for financial statement users, we encourage the IAASB to conduct outreach with financial statement users and to monitor the impact in jurisdictions that have already implemented such changes to the auditor's report.

We also have concerns about the requirements of paragraph 34. The inclusion of the auditor's conclusion that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate but that events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern could lead to confusion for financial statement users.

Although we are generally opposed to the requirements in paragraph 33(a) and related paragraphs, should the requirement remain in the final standard following the IAASB's outreach, we offer the following recommendations, which we believe may reduce the risk of causing confusion for financial statement users.

First, we recommend that the new "Going Concern" section of the auditor's report also include the discussion of management's responsibility related to going concern from the "Responsibilities of Management and Those Charged with Governance for the Financial Statements" section. We also recommend that discussion from the "Auditor's Responsibilities for the Audit of the Financial Statements" section related to going concern be moved to the "Going Concern" section to clarify that the absence of 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 not a guarantee about the entity's ability to continue as a going concern.

We recommend Illustration 1 be updated to include the following revisions (additions are marked as underlined):

Going Concern

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Based on the audit evidence obtained, we have concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the audit evidence obtained, and 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 for a period of twelve months from the date of approval of the financial statements. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

We also recommend conforming updates to paragraph 33 to require the information described above in the "Going Concern" section of the auditor's report. We believe that the proposed updates would eliminate the need for discussion of going concern within the "Responsibilities of Management and Those Charged with Governance for the Financial Statements" and the "Auditor's Responsibilities for the Audit of the Financial Statements" sections of the auditor's report, which would streamline the discussion and clearly articulate the roles of management and the external auditor as it relates to going concern in one location in the auditor's report.

Finally, outreach and education for financial statement users is important regarding the changes to the auditor's report, including the inherent limitations associated with the going concern assessment.

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

Our stakeholders have identified concerns with several aspects of the proposed requirements for additional information in relation to going concern being added to the auditor's report as follows.

Inclusion of a statement in relation to going concern in the auditor's report where there is no issue

Stakeholders expressed concerns that making a strong positive statement on going concern within the auditor's report where there are no issues identified, may be interpreted as a separate opinion. Auditors do not provide piecemeal conclusions but only report on the financial statements as a whole. This raises liability concerns questioning how professional indemnity insurers will react. This could also increase the use of disclaimer of opinions which will impair the value of financial reporting to the market.

We also have concerns that when there is a statement about going concern in all auditor's reports, users are likely to become accustomed to this content and, over time, will stop paying the necessary attention to going concern information in the auditor's report. This means they are more likely to miss when there was an actual issue reported. The IAASB should also take into consideration that making such changes will result in making the auditor's report longer and whether the information provided does actually provide meaningful information for users.

We also note that the auditor's responsibilities section of the auditor's report already refers to going concern when there are no issues. Therefore, it might be more suitable to modify this wording within the auditor's responsibilities section rather than include an entirely new section in the auditor's report.

Inclusion of a statement in relation to going concern where events or conditions exist but there is no material uncertainty

We have concerns that it is potentially confusing to use the same heading and, other than drawing attention to the disclosures, identical wording to the statement made where no events or conditions exist. This may only exacerbate the issues of dilution of the informational value of the statements discussed above. The IAASB should consider whether a different heading, or other differentiation, would be appropriate in these circumstances.

Inclusion of a statement where a material uncertainty related to going concern (MURGC) exists

Proposed para 32 in ED-570 is the same as para 19 in extant ISA 570 and essentially require the auditor to request management make disclosures that are not explicitly required by IAS 1. This shifts the responsibility from management towards the auditor and is not appropriate. As discussed in our opening comments and our response to Q7, it is not the IAASB's remit to set disclosure requirements for management, and this puts auditors in a difficult situation. The auditing standards should not be misaligned with the accounting standards.

As noted in our general comments, in our view the IAASB cannot narrow the expectation gap alone, others within the financial reporting ecosystem also need to make changes to help address this issue. In order for the auditor to be in a position to conclude on the appropriateness of management's use of the going concern basis of accounting and whether a material uncertainty has been identified, management should be making equivalent disclosures in the financial statements.

In our thought leadership report, there was strong support from our stakeholders for considering the disclosure of a spectrum of going concern risks to supplement the current binary approach to determining whether disclosure of material uncertainty on going concern is required. This is where the role of management and those charged with governance comes in, however, there is a need for the financial reporting framework to address this.

Furthermore, our stakeholders noted that there is a need for more financial statement disclosures on management's assessment that the use of the going concern assumption is appropriate in the financial statements. They suggested that this could include both qualitative and quantitative information for the next 12 months. If such changes were to be introduced in financial reporting frameworks, then auditors would be in a better position to conclude on the disclosures.

We therefore suggest that the IAASB continues to engage with the IASB and encourages it to revise the going concern requirements of the IASs and the International Financial Reporting Standards. If these revisions are not undertaken by the IASB then, para 32 should be limited, as in para 31, to the auditor evaluating whether the disclosures made by management are in accordance with the applicable financial reporting framework requirements.

Transparency in the auditor's report

Our stakeholders have identified concerns with several aspects of the proposed requirements for additional information in relation to going concern being added to the auditor's report as follows.

Inclusion of a statement in relation to going concern in the auditor's report where there is no issue:

Making a strong positive statement on going concern within the auditor's report where there are no issues identified, may be interpreted as a separate opinion.

Raises liability concerns questioning how professional indemnity insurers will react.

Could also increase the use of disclaimer of opinions which will impair the value of financial reporting to the market.

When there is such a statement about going concern in all auditor's reports, users are likely to become accustomed to this content and, over time, will stop paying the necessary attention to going concern information in the auditor's report.

Inclusion of a statement in relation to going concern where events or conditions exist but there is no material uncertainty:

It is confusing to use the same heading and, other than drawing attention to the disclosures, identical wording to the statement made where no events or conditions exist. This may only exacerbate the issues of dilution of the informational value of the statements discussed above. The IAASB should consider whether a different heading, or other differentiation, would be appropriate in these circumstances.

Inclusion of a statement where a material uncertainty related to going concern (MURGC) exists:

Proposed para 32 in ED-570 is the same as para 19 in extant ISA 570 and essentially requires the auditor to request management to make disclosures that are not explicitly required by IAS 1. The auditing standards cannot impose disclosure requirements on management, so this puts auditors in a difficult situation.

As noted above, in our view the IAASB cannot narrow the expectation gap alone, others within the financial reporting ecosystem also need to make changes to help address this issue. In order for the auditor to be in a position to conclude on the appropriateness of management's use of the going concern basis of

accounting and whether a material uncertainty has been identified, management should be making equivalent disclosures in the financial statements.

We elaborate further on this in our responses to Q13 and Q14.

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

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.

There is need to highlight that if, on one hand, the change proposed in ED-570 allows a certain consistency and comparability among the auditor’s reports, on the other hand, it can be misunderstood by the reader who could be worried finding a paragraph on going concern in the auditor’s report.

Moreover, also when going concern is not under discussion, the auditor could still be required to carry out some audit activities to comply with the provisions of the specific paragraph on going concern.

Finally, we want to point out that the opinion on going concern basis of accounting is already included in the opinion stating that the financial statements as a whole give a true and fair view.

CPA Australia (CPAA)

We are of the view that these proposals will enhance audit quality and the consistency of practice through further clarity and better alignment with other ISAs.

However, we recommend enhancements to transparency in the auditor’s report should only be pursued if there are adequate improvements to the applicable financial reporting framework on management’s going concern assessment and related disclosures. Each participant of the financial reporting ecosystem plays a unique and essential role that contributes towards high-quality financial reporting, as articulated in the 2020 IAASB Discussion Paper on Fraud and Going Concern in an Audit of Financial Statements (IAASB 2020 DP). Therefore, it will take a collaborative effort from all participants of the financial reporting ecosystem to bring about meaningful change and improve financial reporting transparency around going concern.

This need for a holistic approach to addressing going concern disclosures is supported by recent CPA Australia-funded academic research on the topic of Going Concern Exposure Draft included as Attachment 2 to this letter. This research aims to understand how investors may respond to proposed changes in going concern reporting in the auditor’s report and how they might respond to additional disclosures around going concern by management. The research finds that participants are indifferent to the proposed additional transparency disclosures in auditor’s report. In contrast, participants pay more attention to management disclosures regarding going concern and reacted strongly to it. We have also discussed these findings further in our detailed responses in Attachment 1 to this letter.

For the reasons stated above, we are not supportive of the blanket disclosure about going concern in the auditor’s report, particularly when there are no going concern issues. However, if the IAASB is to go ahead with the proposed transparency disclosures in the auditor’s report without the corresponding enhancement to the reporting requirements, we strongly encourage the IAASB to implement an education and awareness program for the wider public regarding the responsibilities of different parties in relation to going concern, in particular the respective responsibilities of management and the auditor, to manage the potential widening of the audit expectation gap that may arise as a result of these proposed amendments.

Whilst advocacy efforts with the International Accounting Standards Board (IASB) continue for an internationally consistent long-term solution across both financial reporting and audit, in the short term, in

Australia, we have recommended the Australian Accounting Standards Board (AASB) develops disclosures similar to those developed by the New Zealand Accounting Standards Board, to complement the requirements in IAS 1.

Our detailed responses to the questions raised in the consultation paper are provided in Attachment 1 to this letter.

We are not supportive of the blanket disclosure about going concern in the auditor's report.

In many audits, going concern would likely not be an issue. Therefore, a blanket disclosure about going concern in the auditor's report is likely to undermine its information value and may cause unintended consequences, including readers not noting disclosures that signal a concern with the going concern assessment. We are of the view that exception-based reporting is more appropriate, that is the inclusion of going concern disclosures in the auditor's report only when an issue related to going concern has been identified.

The ED-570 proposes the same heading, 'Going Concern' for both the 'clean' and 'close-call' situations. If the IAASB is to proceed with the inclusion of the blanket disclosure for all audit reports containing an unmodified opinion when no events or conditions that may cast significant doubt ('clean' audit report), we recommend that the IAASB revise the heading to better distinguish a 'clean' audit report from a 'close-call' audit report.

IFAC SMP Advisory Group (SMPAG)

The standard will also create additional work and auditor's report disclosure for all audits, irrespective of the risks around going concern or material uncertainties. The SMPAG would have liked to see a more risk-based approach applied where such additional work and disclosures were only undertaken if the facts and circumstances lead the auditor – using professional judgment – to deem them necessary. Many of the smallest entities who are subject to audits may also struggle to produce and provide some of the information the revisions envision the auditor to have access to as part of their consideration of the appropriateness of management's assessment of going concern, especially if management does not believe there are going concern related issues.

The SMPAG believes the requirement in Paragraph 33 (a) to have this commentary in auditor's reports for financial statements where there are no material uncertainties or going concern issues is problematic. The requirement should be limited to specific cases where such a disclosure may be helpful based upon the facts and circumstances present.

If the audit opinion is unmodified and there are no issues raised in relation to going concern, adding this type of targeted disclosure in one area raises a question as to why other equally important areas where there are no issues should not be discussed in a similar way. As such, this may open the auditor's report for other future revisions which will add little value, especially considering the proposed wording of such commentary reflects only negative assurance and will likely include boilerplate language. The added emphasis the separate section will create may also imply that additional work has been done in this area, so may mistakenly create an expectation that positive assurance is being provided in relation to going concern per se, whereas the auditor's opinion relates to the financial statements taken as a whole and does not constitute an opinion on piecemeal or isolated aspects. Perhaps a resolution to this would be to also require emphasis of management's responsibilities in relation to going concern, or to better explain the threshold considered by management in conducting a going concern assessment. While these would add length to the auditor's report, they would also help to reduce the expectation gap.

The requirements and application material in this area may also increase the expectation gap in other ways too. If the auditor is required to conclude that management's use of the going concern basis is appropriate as required by Para 33(a)(i), this may be interpreted by users as the auditor confirming that the entity is a going concern. The reference to the auditor not having identified material uncertainties in Para 33(a)(ii) is also problematic and may compound lack of clarity between the role of the auditor and management. The wording could more explicitly reflect that it is the auditor's job to check management have done a reasonable job in identifying material uncertainties rather than directly identifying these from the audit evidence obtained. We have discussed this issue further in our response to question 16, as we have identified a related problem with paragraph 11 which refers to the application of ISA 315 (Revised 2019) requirements.

If the proposal is approved, the potential impact on the proposed ISA for Audits of Financial Statements of Less Complex Entities standard (ISA for LCEs) must also be considered. We understand the IAASB will only consider potential consequential amendments once the changes to ISA 570 (Revised 202X) have been finalized. Stakeholders would likely expect changes to be considered as this could potentially create a barrier to the implementation of the ISA for LCEs standard in some jurisdictions as regulators may view this as a factor in any decision on adoption.

Institute of Chartered Accountants in England and Wales (ICAEW)

However, we note that the proposal in paragraph 33(b) relating to situations where events and conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, but where the auditor concludes that no material uncertainty exists, goes beyond current UK requirements. We have a number of concerns with this proposal as it is currently drafted (see our response to question 13 for further details). There is a lack of clarity in the proposals as to what may constitute an event or condition that is sufficient to refer to in the audit report but not reaching the level of a material uncertainty. In our view, the inclusion of additional material in the audit report in relation to events and conditions that do not reach the level of a material uncertainty will create additional complexity, carries an increased risk of unintended consequences, and could lead to potential confusion for readers. We suggest that such events and conditions are better dealt with under the existing requirements for Key Audit Matters.

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 Singapore Chartered Accountants (ISCA)

While audit reports can be referred to by users to give an indication of an entity's ability to continue as a going concern, the survival of a business is dependent on the actions of its management and directors. As such, new and enhanced requirements imposed on auditors need to be balanced vis-à-vis the responsibilities borne by management and directors who drive the operations and strategy of the business. We have highlighted this as part of our response to Question 13.

While some users of financial statements are supportive of the inclusion of explicit statements by the auditors, the proposed approach to include explicit statements by the auditors may not be the best way to communicate matters related to going concern. We highlight the issues below.

Explicit statements wrongly perceived as piecemeal opinion

One of the fundamental principles of audit is that the auditor only expresses a single audit opinion on the financial statements as a whole. The auditor does not give multiple audit opinions. However, when such explicit statements are included, they may be wrongly perceived as a separate opinion issued on going concern, which is not what an auditor would ordinarily report. This would further widen the audit expectation gap.

Since going concern is an underlying concept in the preparation of financial statements, some carry the view that the absence of additional disclosures by the auditor should already be sufficient to indicate that the auditor is satisfied with management's use of the going concern basis of accounting.

Lack of expansion of management and directors' responsibilities

It is important to recognise that a robust corporate reporting eco-system is a collective responsibility shared among its multiple stakeholders and should not be overly dependent on auditors. Any proposed change must reflect this.

With this in mind, any expansion in the auditor's disclosure on going concern should be preceded by an expansion in the reporting responsibilities for directors and management. This is because the survival of an entity is primarily dependent on the actions of its directors and management. Otherwise, it would appear that the auditor has a greater role and responsibility than directors and management in this respect.

Currently, the requirement under IAS 1 is for management to disclose if significant judgement has been made in determining that there is no material uncertainty related to going concern. For easy call situations,

management is not required to provide further disclosures on going concern. If auditors are required to make explicit statements in the absence of management disclosures, it would appear that the reporting requirements are unbalanced.

Explicit statements may be viewed as assertions on going concern

The inclusion of such explicit statements may be viewed as the auditor affirming that no MUGC exists. However, a going concern assessment is forward-looking and subject to inherent limitations because the conditions existing at the time of the assessment may change unpredictably and drastically in the future, potentially giving rise to going concern issues at a later point in time. Hence, there are concerns raised that it would be onerous for the auditor to include such explicit statements in the auditor's report. In the event of corporate failures arising from circumstances not within the entity's control, there are concerns over legal consequences that may result from the inclusion of such statements. If explicit statements are to be added, additional explanatory wording relating to the auditor's inherent limitations to predict future effects of events or conditions is needed to avoid any misunderstanding by users.

Another concern is the possibility of financial statement users placing excessive reliance on the binary conclusions presented in the explicit statements, without thoroughly reading the accompanying information and related disclosures. This can lead to users overlooking important "warning signals" embedded in the auditor's report or financial statements. As a result, the expectation gap on the auditor's reporting responsibilities in relation to going concern will be further widened.

In our view, enhancing the level of disclosures by management on going concern would provide greater value to users, as elaborated in the next section.

Enhancing the level of disclosures by management

Instead of binary statements from the auditor about the existence or non-existence of MUGC, providing more comprehensive disclosures on going concern in the financial statements from management's perspective, especially for "close call" situations, will be more value adding and relevant to users.

Additional information that would be useful to users of financial statements include:

Sufficiency of working capital to satisfy the entity's present cash flow needs;

Assumptions used in the entity's assessment of its ability to operate as a going concern;

Sensitivity analysis on the entity's financials;

Plans put in place with regard to how the entity intends to fulfil its short-term obligations in the next twelve months; and

Whether the entity has renegotiated its facilities and/or been granted extension of time to meet its debt obligations. If so, disclose whether the entity has fulfilled or is able to meet its debt obligations.

In this regard, the IAASB should consider working closely with the IASB on key relevant disclosures. We believe that this will result in better communication to financial statement users on the risks associated with an entity's ability to continue as a going concern and the complexity of such assessments.

Guidance on when Emphasis of Matter should be utilised

Currently, the auditor can provide further transparency in the auditor's report through an Emphasis of Matter paragraph in accordance with ISA 706 (Revised) to draw attention to going concern disclosures in the

auditor's report. With the proposed new disclosures in the auditor's report, it would be helpful for the standard to clarify whether, when and how an emphasis of matter in relation to MUGC should be utilised.

Korean Institute of Certified Public Accountants (KICPA)

We disagree with the proposed requirement for the auditor to include the auditor's conclusions on the appropriateness of management's use of the going concern basis of accounting in a separate section in the auditor's report, under the heading "Going Concern", even when a material uncertainty does not exist.

There are concerns about including the auditor's explicit conclusions in a separate section under the heading "Going Concern", which may distort the information user's decision-making considering the significant knowledge gap related to going concern between the auditor and the information user. Even under the current reporting framework, the knowledge gap on the scope of audit of financial statements may mislead the information user to believe that the auditor's unqualified opinion guarantees the audited entity's ability to continue as a going concern. Such knowledge gap may become even deeper if the auditor provides explicit statements on the appropriateness of management's use of the going concern basis of accounting and on whether a material uncertainty has been identified. And the information user is more likely to be misled to believe that the auditor provides reasonable assurance about the entity's ability to continue as a going concern.

In this case, the information user may ignore the management's responsibility to assess the entity's ability to continue as a going concern and unreasonably hold the auditor accountable for any issue that may arise related to going concern.

The information user may not be able to clearly distinguish the concept of going concern from other similar concepts such as financial soundness or sustainability. As a result, they are more likely to misunderstand and to believe that the auditor's explicit statement guarantees the concerned entity's financial soundness or sustainability.

Under the extant ISAs, the auditor's responsibilities regarding the appropriateness of use of going concern assumption and material uncertainty related to ability to continue as a going concern are clearly described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of the auditor's report. This indicates that the transparency of the auditor's report and the auditor's responsibilities related to going concern are fully considered.

Malaysian Institute of Certified Public Accountants (MICPA)

Pursuant to Paragraph 33(a)(ii) of the ED-570, we find that the positive statement is onerous to the auditor. The auditor should begin by stating that management has performed a going concern assessment and has identified that the going concern basis of accounting in the preparation of financial statements is appropriate, followed by the auditor concurring with the management's assessment. In addition, the examples given do not provide any caveat or limitations to this statement. We are of the view that it is not appropriate for auditors to commit that "we have not identified a material uncertainty".

The proposed enhanced communication in the auditor's report on going concern gives a perception of an opinion within an opinion. The inclusion of the wordings "We have concluded" and "Based on the audit evidence obtained" appears to contradict the principle of ISA 701 Communicating Key Audit Matters in the Independent Auditor's Report where the auditor does not provide a separate opinion on key audit matters.

Furthermore, it is only fair if the management should first include an explicit statement to the effect in the financial statements. This will require the accounting standards to be changed or perhaps, the regulators to impose such a requirement.

Nordic Federation of Public Accountants (NRF)

In terms of the proposed disclosures in the audit report any additional information must be clear and meaningful for the intended users. From that perspective we do not believe that the value of disclosing when there are no material uncertainties identified outweighs the risks of creating confusion and new expectation gaps.

While we do support transparency it is important that any added information in the audit report is clear and meaningful for the intended users.

We understand that including a statement as proposed in paragraph 33 a) to some extent could be justified as only clarifying in writing the assessment an auditor already must do. It could also have the benefit of ensuring that the auditor gives sufficient attention to the going concern assessment when performing the audit.

Having said that we believe there are also some substantial concerns with the proposed statement. It could be confusing, especially for the intended users of financial statements of entities other than listed entities, in that it might be unclear how the statement is intended to be interpreted. There is a risk that the proposed statement might be perceived as the auditor confirming that the entity is a going concern. This is especially apparent in situations where the applicable reporting framework does not require management to provide an explicit statement on going concern. It could also give the impression that the auditor has greater responsibility for going concern assessments than management has.

The Malta Institute of Accountants (TMIA)

Including an explicit statement in the Audit Report without an equivalent statement made by the directors with respect to their assessment of the going concern basis, may imply a shift in perceived/assumed responsibility that may create additional legal exposure for auditors. Therefore, we do not feel that it is necessary to have an explicit statement on going concern for all entities (non-listed companies) where there is no material uncertainty.

We also take cognisance of the importance, that if the proposals are approved in their current form, including an explicit statement on Going Concern in the audit report should not come across as a guarantee to the users of the financial statements on such matter. Therefore, we propose that under the 'Auditor's responsibilities for the audit of the financial statements' section it is clarified that, in line with the wording in the ED-ISA 570 para 7, "the absence of any reference to a material uncertainty about the entity's ability to continue as a going concern in an auditor's report cannot be viewed as a guarantee as to the entity's ability to continue as a going concern."

8. Individuals and Others

Colin Semotiuk (CS)

The proposed amendments do not create greater consistency across auditor's reports. Similar to the introduction of an Other Information section to the auditor's report, the proposed amendments will create less consistency across auditor's reports. To illustrate, ISA 720 now includes seven different illustrations solely for other information. If we combine the number of illustrations of ED-570, six, to the number of illustrations in ISA-720, ED-570 would create 42 possible combinations within the standards, or create more inconsistency across auditor's reports and likely increase confusion for the user(s).

Furthermore, to expand on the issue noted in question 1, by moving going concern to its own heading "Going Concern" or "Material Uncertainty Related to Going Concern", placing this section below "Basis for

Opinion” and above “Other Information”, removing the communication from “Auditor’s Responsibilities for the Audit of the Financial Statements” and removing the communication “However, future events or conditions may cause the Entity to cease to continue as a going concern” gives the user the impression (incorrectly) that the auditor has audited whether the entity is a going concern in combination with their audit of the financial statements, widens the expectation gap, and creates litigation risk to the auditor. Therefore we recommend that going concern not be given a separate section within the auditor’s report and the wording “However, future events or conditions may cause the Entity to cease to continue as a going concern” be maintained in each illustration of ED-570.

Q13 - 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.

Q13 - No specific comments

2. Regulators and Audit Oversight Authorities

Committee of European Auditing Oversight Bodies (CEAOB)

Irish Auditing and Accounting Supervisory Authority (IAASA)

6. Member Bodies and Other Professional Organizations

National Board of Accountants and Auditors of Tanzania (NBAA)