

Going Concern – Question 5

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

Q05 - 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.

2. Regulators and Audit Oversight Authorities**Botswana Accountancy Oversight Authority (BAOA)**

Yes, we support the definition of Material Uncertainty (Related to Going Concern) as set out in paragraph 10 of the Exposure draft. The definition is clear and is aligned to terminologies used in other financial reporting frameworks. We also support the application material to the definition clarifying, the phrase, “may cast significant doubt” as set out in paragraph A5. The clarification would be useful because it requires an assessment of the individual or collective magnitude of identified events or conditions to conclude that the circumstance “may cast significant doubt” and elaborates on the circumstance in which this phrase is used.

3. Jurisdictional and National Auditing Standard Setters**Japanese Institute of Certified Public Accountants (JICPA)**

Yes. We support the definition of Material Uncertainty (Related to Going Concern) including the application material to the definition clarifying the phrase “may cast significant doubt”.

Public Accountants and Auditors Board Zimbabwe (PAAB)

The PAAB agrees with the proposed definition of material uncertainty as well as the definition clarifying the phrase “may cast significant doubt.” The definitions can impact the scope of work that the auditors will perform, and an alignment with financial reporting frameworks reduces the understanding gap between preparers and auditors. It is therefore important to clarify the phrase “may cast significant doubt”.

4. Accounting Firms**Mazars (MZ)**

We support the definition of Material Uncertainty (Related to Going Concern).

MNP LLP (MNP)

Yes, we support the definition of material uncertainty.

RSM International Limited (RSM)

Yes, we support the definition of Material Uncertainty (Related to Going Concern) and the application material to the definition clarifying the phrase “may cast significant doubt.”

5. Public Sector Organizations

Office of the Auditor General of Canada (OAGC)

Yes, we support the definition of Material Uncertainty (Related to Going Concern), including the application material to the definition clarifying the phrase “may cast significant doubt”.

Provincial Auditor Saskatchewan (PAS)

Yes, the definition provides sufficient clarity.

UK National Audit Office (UKNAO)

We are supportive of the proposed definition of Material Uncertainty (Related to Going Concern) as set out with paragraph 10 of ED-570. It is helpful that this definition links to concepts such as the magnitude of potential impact and likelihood of occurrence which are present in ISA 315 – Identifying and Assessing the Risk of Material Misstatement. This will help auditors interpret this definition using concepts that are already well understood. We can also see that this definition could drive more consistency in the identification of material uncertainties in relation to going concern by auditors.

The current specific guidance required for the UK public sector context and issued as guidance under the UK auditing standards, is consistent with the application material related to the definition of a material uncertainty on going concern in the ED-570.

6. Member Bodies and Other Professional Organizations

Botswana Institute of Chartered Accountants (BICA)

We are supportive of the proposed definition of Material Uncertainty (Related to Going Concern) as it enables clarity and conciseness, by enhancing the standard’s understandability and facilitates consistency in practice by minimizing the likelihood of varying interpretations that could occur.

- The approach avoids unnecessary substantial changes in aligning terminology used throughout the proposed standard, including for the objective stated in paragraph 9(b) of ED570, as well as other conforming and consequential amendments to other ISAs.
- The inclusion of the clarifying phrase in brackets is consistent with the approach undertaken for other definitions in the ISAs, in particular in ISA 500 for defining the terms “Appropriateness (of audit evidence)” and “Sufficiency (of audit evidence).”

To clarify the phrase “may cast significant doubt,” the IAASB has included application material in ED-570. This clarification is important because it reflects the threshold for the magnitude of identified events or conditions makes it impossible for the entity to meet its obligations and continue operations in the foreseeable future unless remedial actions are taken. This aligns with the use of the phrase in IAS 1 and the Financial Accounting Standards Board (FASB) definition for “Substantial Doubt about an Entity’s Ability to Continue as a Going Concern.”

Chamber of Auditors of the Czech Republic (CA CR)

Yes.

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

Yes, we support the definition of Materiality Uncertainty and the application material clarifying the phrase 'may cast significant doubt'. The term "material uncertainty" is applied inconsistently within the proposed standard, representing both a result of events or conditions and a factor that triggers those events and conditions. Our stakeholders highlighted the need for clarification and consistency around material uncertainty in our thought leadership report and, therefore, we believe that having a definition would support this.

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.

Colombia's National Institute of Public Accountants (INCP)

Yes. The definition of material uncertainty gives greater clarity and is consistent with that used in other accounting and auditing standards or frameworks. We appreciate that the definition clarifies the phrase "may cast significant doubt." We also appreciate the provision of guidelines for use as a threshold to assess the magnitude of the impact of events or conditions that cast doubt.

Federation of Accounting Professions of Thailand (FAPT)

Yes.

Institute of Chartered Accountants of Sri Lanka (ICASL)

We support the definition of Material Uncertainty (Related to Going Concern) in the Exposure Draft. The definition is clear and concise, and it provides a good framework for auditors to assess whether there are any material uncertainties that may cast significant doubt on an entity's ability to continue as a going concern.

The application material provides helpful guidance on how to interpret the phrase and how to assess whether there is a material uncertainty. Specifically, the application material clarifies that the phrase "may cast significant doubt" does not mean that the entity is definitely going to fail. Rather, it means that there is a realistic possibility that the entity may not be able to continue as a going concern.

Instituto Mexicano de Contadores Publicos (IMCP)

We agree with the definition of Material Uncertainty (related to going concern) and the application material to this definition clarifying the phrase "may cast significant doubt," in addition to the statements in paragraphs 19 to 24 of the "explanatory memorandum" of the ED, given that the concepts of "the magnitude of its potential impact and likelihood of occurrence" (of the events or conditions) are established in paragraph 10 of the proposed standard as the basis to guide the auditor's judgment, clarifying in paragraph A5 of the application material that the significant doubt occurs when the magnitude, individually or

collectively, of such events or conditions is such that the entity will be unable to meet its obligations and continue its operations for the foreseeable future, unless remedial actions are taken to mitigate the effects...

The definition has components that provide direction to understand what a material uncertainty that may cast significant doubt (related to going concern) is, together with the necessary application of the auditor's judgment, and which allow to guide the auditor's work to comply with the objectives provided in paragraph 9 of the standard.

Korean Institute of Certified Public Accountants (KICPA)

The term "Material Uncertainty (related to going concern)" is used across the proposed standard. Therefore, we support the relocation of the proposed definition to the Definition section in the standard and the relevant application material that further clarifies the phrase "may cast significant doubt".

Malaysian Institute of Certified Public Accountants (MICPA)

We support the proposed definition of Material Uncertainty (Related to Going Concern) and its explanation in the application material as it clarifies the key concepts and other related terminologies.

National Board of Accountants and Auditors of Tanzania (NBAA)

Yes, we you support the definition of Material Uncertainty and the related application material.

The Malta Institute of Accountants (TMIA)

We note that the definition of Material Uncertainty was, in essence, already included in the extant ISA 570R, and is not a 'new' definition. However, the repositioning of the definition in a separate section at the beginning of the document enhances clarity and importance of understanding the term. The clarification with respect to the phrase 'may cast significant doubt' is clear, concise and helpful to the reader.

In fact, the Malta Institute of Accountants (MIA) welcomes the definition of the term "material uncertainty (related to going concern)" and in providing clarity for other terminology used in the standard such as the phrase "may cast significant doubt".

8. Individuals and Others

Altat Noor Ali Chartered Accountants (ANA)

Yes, as in Para 10 of the proposed ED.

Q05 - Agree with comments

1. Monitoring Group

International Association of Insurance Supervisors (IAIS)

The IAIS supports the proposed definition of Material Uncertainty (Related to Going Concern) as set out in para 10.

However, given that the new definition relies on the auditor's professional judgement, the IAIS suggests introducing greater clarity on the basis required to form that professional judgement.

In addition, the IAIS believes that the application material in A5 is very useful in clarifying the meaning of "may cast significant doubt", which is a key concept arising from the new definition of Material Uncertainty (Related to Going Concern). Consequently, the IAASB should consider adding some of the application material in A5 to the definition in the standard itself.

International Forum of Independent Audit Regulators (IFIAR)

Definition of material uncertainty

IFIAR welcomes the introduction of a definition for “Material Uncertainty (Related to Going Concern)”. Whilst we understand that the International Standards on Auditing (ISAs) are intended to be framework neutral, the IAASB’s work to consider and align the definitions and terminology may serve to promote greater understanding and consistency across jurisdictions.

However, we encourage the IAASB to remove the phrase “in the auditor’s professional judgement” from the definition, so that, in the appropriate context, it can apply to both management and auditor. This would not affect the auditor’s responsibilities to “conclude whether, in the auditor’s professional judgment, a material uncertainty exists...” as this is clearly set out in paragraph 30.

International Organization of Securities Commissions (IOSCO)

Yes, we are supportive of the proposed definition of Material Uncertainty (Related to Going Concern) and the clarification of the phrase “may cast significant doubt.” We believe a clear understanding of the phrase “may cast significant doubt” is critical to the consistent execution of the requirements. Further, due to the importance of this understanding, we recommend elevating the definition of significant doubt from the application material to paragraph 10.

2. Regulators and Audit Oversight Authorities

Committee of European Auditing Oversight Bodies (CEAOB)

Definition of material uncertainty (related to going concern)

The IAASB proposes to define a “Material Uncertainty (Related to Going Concern)” as “An 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 where the magnitude of its potential impact and likelihood of occurrence is such that, in the auditor’s professional judgment, appropriate disclosure of the nature and implications of the uncertainty is necessary for: (a) In the case of a fair presentation financial reporting framework, the fair presentation of the financial statements, or (b) In the case of a compliance framework, the financial statements not to be misleading.”

The CEAOB supports the proposal to clarify what a material uncertainty is in the ED to allow for further consistency in audit approaches. Since the ED phrasing implies that the auditor is the one who determines, through their professional judgement, what is, or is not, a material uncertainty, the CEAOB asks that the ED further specifies on which basis this judgement shall be made.

The application material in paragraph A5 should be added to the definition to clarify the meaning of “may cast significant doubt”. This concept is too important to be relegated to the application material only.

Financial Reporting Council (FRC)

YES, the FRC supports the clarification of the phrase “may cast significant doubt” and the introduction of a definition of “Material Uncertainty (Related to Going Concern)”. The FRC introduced a similar definition for material uncertainty when we revised ISA (UK) 570 in 2019 to promote greater understanding and consistency across audits.

However, we encourage the IAASB to remove the phrase “in the auditor’s professional judgement” from the definition in order to recognise that management may identify a material uncertainty in making its

assessment of going concern. This would not affect the auditor's responsibilities to "conclude whether, in the auditor's professional judgment, a material uncertainty exists..." as this is clearly set out in paragraph 30.

Independent Regulatory Board for Auditors (IRBA)

In South Africa, the use of International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), are a requirement of the Companies Act 71 of 2008. Flowing from this, the IFRS use the term "material uncertainty" and, as a result, we support the introduction of a definition for "Material Uncertainty (Related to Going Concern)". While we understand that the ISAs are meant to be framework-neutral, the IAASB's work to consider and align the definitions and terminology may promote greater understanding and consistency across jurisdictions.

To ensure that the Material Uncertainty definition is applicable to both the auditor and the management of the entity, we recommend that the IAASB considers defining it as follows: "An uncertainty related to events or conditions that, individually or collectively, the magnitude of its potential impact and likelihood of occurrence is such that it may cast significant doubt on the entity's ability to continue as a going concern". Where the aforementioned material uncertainty definition has been met as outlined in paragraph 30 of ED-570, the auditor must then be required to perform procedures on the financial statements, to ensure that any appropriate disclosure of the nature and implications of the uncertainty is made by the management of the entity, to achieve fair presentation in the case of a fair presentation framework or for the financial statements not to be misleading in the case of a compliance framework.

For auditors to consistently apply the concept of material uncertainty, our recommendation is that the application material in the second sentence of paragraph A5 that describes "may cast significant doubt" be rather moved to the requirements section of the standard and that the IAASB also consider defining or clarifying what is meant by "foreseeable future" as used therein.

Irish Auditing and Accounting Supervisory Authority (IAASA)

Definition of material uncertainty (related to going concern)

The ED defines a "Material Uncertainty (Related to Going Concern)" as "An 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 where the magnitude of its potential impact and likelihood of occurrence is such that, in the auditor's professional judgment, appropriate disclosure of the nature and implications of the uncertainty is necessary for: (a) In the case of a fair presentation financial reporting framework, the fair presentation of the financial statements, or (b) In the case of a compliance framework, the financial statements not to be misleading."

IAASA supports the proposal to clarify what a material uncertainty is in the ED to allow for further consistency in audit approaches. Since the ED phrasing implies that the auditor is the one who determines, through their professional judgement, what is, or is not, a material uncertainty, the IAASB should specify the basis on which this judgement shall be made.

The application material in paragraph A5 should be added to the definition to clarify the meaning of "may cast significant doubt". This concept is too important to be in the application material only.

3. Jurisdictional and National Auditing Standard Setters

Australian Auditing and Assurance Standards Board (AUASB)

The AUASB considers a clear understanding of the term “Material Uncertainty (Related to Going Concern)” and the phrase “may cast significant doubt” to be critically important to enable auditors to form their conclusions and enable the consistent execution of the requirements in ED-570. Whilst we are supportive of the IAASB’s proposal to explicitly define “Material Uncertainty (Related to Going Concern)” we consider that the definition in ED-570 and/or related requirements should be revised with regard to the following:

Material from paragraph A5 should be included in a definition of the phrase “may cast significant doubt” or another requirement paragraph. The phrase is key to the definition and identification of a Material Uncertainty (Related to Going Concern) and paragraph A5 provides useful material for auditors in assessing whether identified events or conditions may cast significant doubt.

The proposed definition should not refer to disclosures. The auditor’s conclusion as to whether a material uncertainty exists precedes the auditor’s consideration of the existence and adequacy of management’s disclosures.

The proposed definition should explicitly include the auditor’s evaluation of management’s plans and future actions which is important in how the auditor concludes whether a material uncertainty exists. Paragraph A51 of ED-570 states that when events or conditions are identified that may cast significant doubt on the entity’s ability to continue as a going concern, the auditor’s conclusion on whether a material uncertainty exists is dependent on the auditor’s evaluation of management’s plans and future actions.

The matters in the second and third bullet points could be addressed by amending the definition of “Material Uncertainty (related to going concern) in paragraph 10 as follows [text deleted and added]:

‘Paragraph 10. For the purposes of the ISAs, the following term has the meaning attributed below:

Material Uncertainty (Related to Going Concern)—An uncertainty related to about the entity’s ability to continue as a going concern arising from events or conditions that, individually or collectively, may cast significant doubt on the entity’s ability to continue as a going concern, and in the auditor’s professional judgement management’s plans for future actions are not sufficient to mitigate the magnitude of its potential impact and likelihood of occurrence to an acceptable level. is such that, in the auditor’s professional judgment, appropriate disclosure of the nature and implications of the uncertainty is necessary for: (Ref: Para. A4–A5)

In the case of a fair presentation financial reporting framework, the fair presentation of the financial statements, or

In the case of a compliance framework, the financial statements not to be misleading.’

The AUASB also considers that it would be beneficial for the term “material uncertainties” to be defined in IAS 1 and aligned with the definition in ED-570.

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

We support the definition of Material Uncertainty, but we believe that the Paragraph A5 could be developed with more examples and illustrations, and especially with more refined examples than just the classic example of running short of cash and having to dispose of certain assets.

Furthermore, for educational purposes, the definition of going concern should be added to the Definition section (and therefore to the glossary). As such, we suggest moving (or repeating) the first sentence of paragraph 2 to the Definition section, so we have a definition of that principle as well included in the Glossary.

Hong Kong Institute of Certified Public Accountants (HKICPA)

We support the IAASB's decision to define the concept "Material Uncertainty (Related to Going Concern)" as it enhances understanding and drives consistency in practice. However, we note that the proposed definition does not define or describe the concept of "going concern".

Going concern is a fundamental assumption in the preparation of financial statements and an accounting concept. While different financial reporting frameworks may use different terminologies to describe going concern, the underlying principles would be aligned. To facilitate understanding, we suggest that the IAASB develop application materials providing guidance on the concept of "going concern", similar to how paragraphs A4 and A5 of ED-570 provide guidance to the terms "material uncertainty" and "may cast significant doubt".

According to paragraph A5 of ED-570, "may cast significant doubt is used in circumstances... that the entity will be unable to meet its obligations and continue its operations for the foreseeable future unless management takes remedial actions to mitigate the effects of these events or conditions." From our reading, the phrase "takes remedial actions" implies actions to be taken in the future and involves auditors evaluating management's plans for future actions. Although paragraph A5 provides examples, ED-570 does not define the term "remedial action" nor provide context as to the timing of the "remedial action". To improve clarity and ensure coherence of the standard, we suggest replacing "unless management takes remedial actions" in paragraph A5 with "unless management makes plans for future actions". This would be consistent with the drafting and concept in paragraph 26.

We also recommend linking paragraph A5 with the requirements in paragraph 26 to emphasize the importance of evaluating management's plans for future actions in determining whether there is significant doubt about the entity's ability to continue as a going concern. This would provide useful clarification to the determination of "may cast significant doubt" and enhance the coherence of the standard.

Royal Dutch Institute of Chartered Accountants (NBA)

While we are generally supportive of the definition of Material Uncertainty, we would expect the application material to explain why both the magnitude and likelihood should be such that disclosure would be necessary, or whether it would be possible that either the magnitude or the likelihood alone could already be sufficient to come to a material uncertainty. We therefore propose that the related application material (paragraphs A5 and A6) covers both the magnitude and likelihood. We observe that likelihood is currently not addressed in the application material.

4. Accounting Firms

Assirevi

ED-570 defines material uncertainty as the 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". In addition, paragraph A5 defines "may cast significant doubt" as when "the individual or collective magnitude of identified events or conditions is such that the entity will be unable to meet its obligations and continue its operations for the foreseeable future unless management takes remedial actions to mitigate the effects of these events or conditions". Based on the above, the definition of Material Uncertainty would appear to

exclude the uncertainties related to remedial actions that management introduces to remedy such events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern. It is our experience that the outcome of remedial actions taken by management is also often uncertain. Therefore, we believe that the definition should include those aspects, which would be consistent with the guidance provided in paragraphs A47-A51.

BDO International (BDO)

Yes, we support the definition of Material Uncertainty (Related to Going Concern), though believe it could be clarified as follows:

“An uncertainty about the entity's ability to continue as a going concern, arising from related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern. A material uncertainty (related to going concern) exists when the magnitude of the potential impact of identified events and conditions and its likelihood of occurrence is such that, in the auditor's professional judgment, appropriate disclosure of the nature and implications of the uncertainty is necessary for...”

We would further recommend that the IAASB provides additional examples in the application material, as we foresee that the auditor may be challenged when applying the definition in practice as well as the documentation thereof.

One specific area that would benefit from additional IAASB examples in the application material are those instances when both the magnitude of the potential impact of identified events and conditions and the likelihood of occurrence of their consequences need to be considered, such that there is a material uncertainty related to going concern. Specifically, the application material should illustrate the interplay between the magnitude of their potential impact and the likelihood of occurrence, and not only refer to magnitude of identified events or conditions.

We furthermore support the application material clarifying the phrase “may cast significant doubt”. However, since this was one of the specific areas highlighted in Appendix 1 of the Explanatory Memorandum to ED-570 as one of the proposed actions in the IAASB's project proposal, we suggest that the following sentence be moved to the requirements of the standard, as opposed to the application material: “For the purposes of this ISA”, the phrase “may cast significant doubt” is used in circumstances when the individual or collective magnitude and likelihood of identified events or conditions is such that the entity will be unable to meet its obligations and continue its operations for the foreseeable future unless management takes remedial actions to mitigate the effects of these events or conditions.”

Item 3 - we would encourage a review of how the term ‘material uncertainty’ is used throughout the standard, as there appears to be inconsistencies in usage. For example, it is used:

to describe what is in effect significant remaining doubt about the entity's ability to continue as a going concern (i.e., a conclusion which allows the auditor to highlight that there remains a material uncertainty about whether or not the entity is a going concern);

to describe to the consequence on the entity of the existence of events and conditions that may cast significant doubt about the entity's ability to continue as a going concern, when these are either unmitigated or uncertain to be mitigated;

to describe the degree of uncertainty about the outcome of identified events and conditions that exist at the assessment date, such that they could result in the entity not being a going concern; or

to describe the cause of the existence of significant doubt about the entity's ability to continue as a going concern (e.g., paragraph 34 (c)).

Crowe Global (CROWE)

There are concerns about the meaning and application of definitions used in the standard and their interpretation in different applicable accounting frameworks. Further guidance on application and meaning can be given in the implementation guidance, and the IAASB must support national standard setters with their adoption and interpretation of the requirements.

We support the definition of “material uncertainty (relating to uncertainty)”. The application material attempts to address the definition in relation to applicable accounting frameworks. ED-570 does use terms that are also used in IAS 1, but these terms are necessarily used in other applicable accounting frameworks, and this is causing concerns about understanding, application, and liability. The application material must be seen as being a start in supporting the understanding of the definition and the IAASB will need to engage with national standard setters as they adopt the standard to help with application with that jurisdiction's applicable accounting framework. The implementation material is a location for further commentary to elaborate upon the meaning of the terms.

Deloitte Touche Tohmatsu Limited (DTTL)

We support the inclusion of a definition of Material Uncertainty (Related to Going Concern), including the application material clarifying the phrase “may cast significant doubt” within the auditing standard. We believe it is also important for IFRS Accounting Standards to include a definition of Material Uncertainty (instead of a description currently provided in IAS 1, paragraph 25) as well as guidance on when material uncertainties “may cast significant doubt” in a manner that aligns with the definition and application guidance included in this proposed standard so that it is clear that the terms in the auditing and accounting standards mean the same thing. Please see the Significant Concerns section of the cover note of this letter for our recommendation for an IASB project on going concern matters.

Ernst & Young Global Limited (EY)

Our other substantive concerns with ED-570 include:

We believe the new description of the phrase “may cast significant doubt” may unintentionally narrow the scope of events and conditions the auditor is required to identify to only those that the auditor is certain will require remedial actions. (Refer to our response to Q5).

We support the definition of “Material Uncertainty (Related to Going Concern)” in ED-570.

However, we have concerns with the new application material in paragraph A5 of ED-570 that describes the phrase “may cast significant doubt” used in the definition of Material Uncertainty (Related to Going Concern). The explanation implies that the auditor needs to make a definitive determination about whether the entity will be unable to meet its obligations and continue its operations, and only when the auditor is certain that the entity will not be able to meet its obligations (without taking remedial actions) that the threshold of “may cast significant doubt” is reached. As a result, we have concerns that this new description of the phrase “may cast significant doubt” may have unintended consequences of inappropriately narrowing the scope of events and conditions the auditor is required to identify to only those that the auditor is certain will occur and therefore require remedial actions.

Acknowledging that the events and conditions that lead to a material uncertainty are often not certain to happen, but could happen, we suggest revising the wording in paragraph A5 of ED-570 as follows:

For the purposes of this ISA, the phrase “may cast significant doubt” is used in circumstances when the individual or collective magnitude of identified events or conditions that have occurred or may occur, is such that the entity would will be unable to meet its obligations and continue its operations for the foreseeable future unless management takes remedial actions to mitigate the effects of these events or conditions.

In addition, we suggest that the IAASB consider adding application material to facilitate the auditor’s determination of when the entity “would be unable” to continue its operations as we believe that application material is necessary to help guide the auditor through this evaluation. In particular, we believe that how the auditor considers likelihood of the identified events and conditions occurring is important to this evaluation, and that considering whether there is a “reasonable possibility” of occurrence is the appropriate threshold.

Grant Thornton International Limited (GT)

We are supportive of the introduction of a definition of material uncertainty (Related to Going Concern) in ED-570, along with the clarification of the phrase “may cast significant doubt” and find the related application material helpful. We have the following recommendations to provide clarity to the proposed definition and related application material:

Period of time – We are of the view that it would be beneficial to include the period of time for which the events or conditions are to be evaluated, either in the definition itself or in the application material associated with the definition. In this respect, we recommend that the IAASB consider an approach similar to that used in the American Institute of Certified Public Accountants (AICPA)’s auditing standard on going concern, AU-C 570, which limits the evaluation to a “reasonable period of time” and defines what is considered a reasonable period of time.

Remedial actions – Paragraph A5 includes examples of remedial actions that management might take to remediate a material uncertainty related to going concern. These examples are clearly not within the control of management, so there is a definite material uncertainty. It is less clear, however, if a material uncertainty would exist, if the actions available to management are within management’s control, for example, if management withdrew budgeted bonus payments or reduced the entity’s headcount. We would therefore recommend that this be clarified in the application material related to the proposed definition.

KPMG International Limited (KPMG)

We are supportive of the inclusion of a definition of material uncertainty related to going concern (MURGC) given that this term is pervasive to the standard and may be inconsistently understood/applied. We note that the definition is essentially repurposed from paragraph 18 of the extant standard and is not, in itself, new. However, we highlight that the definition has not been updated to take account of revisions to ED-570, including clarification of the fact that events and conditions are identified on a gross basis, with mitigating factors then considered in determining whether there is a MURGC. Accordingly, we recommend, that the definition explicitly make reference to management’s plans and their ability to mitigate the effects of events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern. Although the definition includes reference to the likelihood and magnitude of the potential impact of events or conditions, we do not believe this is sufficiently clear in terms of whether and how the impact of management’s plans is considered.

We also note, as we describe in our response to Question 10, that the ED lacks clarity in terms of providing guidance to auditors as to how to consider “feasibility” of management’s plans when, having evaluated management’s plans for future actions, there may be residual uncertainty, which may still rise to the level of a material uncertainty. We recommend that the IAASB develop guidance regarding the auditor’s

considerations in these circumstances, and we suggest that the definition of a MURGC be clearly linked to such guidance as such considerations are a critical feature in considering the magnitude and likelihood of the potential impact of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, and therefore in determining whether a MURGC exists.

Additionally, we highlight that the inclusion within the definition itself, of the need for the auditor to judge whether disclosure of the nature and implications of the uncertainty are necessary, in the context of the applicable financial reporting framework, is unclear. This may be interpreted to mean that judgements as to whether disclosures are necessary are a relevant consideration when the auditor is concluding whether a MURGC exists, which would be inconsistent with the body of the standard, which does not describe this as a "step" in determining whether there is a MURGC, or set out requirements or guidance in this area. We also believe the inclusion of reference to disclosures may result in confusion regarding the concept of an MURGC itself, i.e. the definition states that the matter is a MURGC if, in the auditor's professional judgment, appropriate disclosure is necessary for the financial statements to fairly present or not to be misleading. Rather, we believe that it is the existence of a MURGC that drives the need for disclosure, not the need for disclosure that gives rise to the existence of a MURGC. Accordingly, we recommend that reference to the need for disclosures be removed from the definition itself.

We note in our response to Question 6 that making judgments as to whether events or conditions, individually or collectively, may cast significant doubt on an entity's ability to continue as a going concern may require the exercise of significant judgement by both management, in making their assessment, and by the auditor, in evaluating management's assessment. We recommend, therefore, that the ED provide more guidance as to the factors to consider in making this evaluation, in particular, to recognise that this evaluation is made on a gross basis without considering mitigating factors. We suggest that such guidance focus on considerations relevant to assessing the potential likelihood and magnitude of the events and conditions when considering whether they may, individually or collectively, cast 'significant' doubt, in a similar way to the spectrum of inherent risk in ISA 315 (Revised). We recommend that the definition of a MURGC also be clearly linked to such guidance.

We also believe that there is scope for confusion around the concept of a MURGC, which may lead to inconsistency in practice, especially where financial reporting frameworks do not have a clear definition of the term and/or do not specify what information should be disclosed. Although the material added at A4-A5 helps to explain how the MURGC concept aligns with different financial reporting frameworks, including how different financial reporting frameworks may use different terminology, e.g., in respect of 'material uncertainty' or 'significant uncertainty', we believe there is still scope for confusion, although we recognise that it is not within the IAASB's remit to address this concern unilaterally. We therefore suggest that the IAASB continue to liaise closely with other standard setters, including the IASB, to encourage greater clarity within financial reporting frameworks themselves.

In connection with the above, although we welcome the application material at A5, which clarifies the phrase 'may cast significant' doubt and defines that as "when the individual or collective magnitude of identified events or conditions is such that the entity will be unable to meet its obligations and continue its operations for the foreseeable future unless management takes remedial actions to mitigate the effects of these events or conditions", we recommend that further guidance be explored regarding the extent to which, and how, mitigating factors are to be considered when concluding whether or not there is a MURGC, including significant assumptions and judgements about the feasibility of management's plans and the importance of assessing the extent to which such plans are within management's control. We suggest that the IAASB explore guidance in respect of considerations around the application of the concepts of 'feasible' and

‘mitigate’, for example, when there are multiple possible scenarios/outcomes and/or when considering whether the residual uncertainty rises to the level of a material uncertainty. Please see our response to Question 10 for further details.

We also recommend including a definition of a “close call” when events or conditions are identified that may cast significant doubt on the entity’s ability to continue as a going concern but it is determined, using significant judgement in reaching this conclusion, that there is not a MURGC. (Please refer to our response to Question 14).

We have a concern that the definition of a Material Uncertainty Related to Going Concern (MURGC) does not take account of the proposed changes to the standard, in particular, the clarification of the fact that events and conditions are identified on a gross basis, with mitigating factors then considered in determining whether there is a MURGC, and may not be consistent with the requirements/guidance set out in the standard. The reference to disclosures within the definition also introduces confusion into the concept of a MURGC. We recommend, in particular, that the definition be updated to make specific reference to the consideration of management’s plans and their ability to mitigate the effects of events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern, and to remove the reference to disclosures. (Please see our response to Question 5 for further details).

PKF International Limited (PKF)

In our view, the new definition of material uncertainty enhances the standards understandability and should help to support consistent application.

However, we would suggest that the definition of “may cast significant doubt”, described in paragraph A5 of the application material, should be promoted to the definitions section within the main body of ED-570.

We feel that this definition should have equal prominence to that of “material uncertainty” to ensure a clear understanding of and consistent application of the proposed standard.

PriceWaterhouseCoopers (PwC)

We believe that the concept of material uncertainty is not well-defined in applicable financial reporting frameworks, in particular in IAS 1. This lack of clarity can lead to different interpretations and views between auditors and management/those charged with governance, in particular, regarding the specificity of the financial statement disclosures expected in these circumstances. For example, significant judgements made by management when concluding that a material uncertainty does not exist (“close call” situations) may not be well disclosed.

While we agree with the proposed definition, we also recognise that clarifying the terminology for auditors alone will not narrow the knowledge/expectation gap in this area. In our view, greater transparency in management disclosures regarding longer-term viability and future prospects would provide users of financial statements with more timely and relevant information about the entity’s financial condition. By providing users with a comprehensive understanding of the entity’s prospects, they can apply their own judgement in making informed decisions based on more relevant and useful information.

Notwithstanding these limitations, we support the clarification of the phrase “may cast significant doubt” as it is an area that often causes confusion for engagement teams. Providing clear guidance on the interpretation and application of this phrase is helpful in seeking to promote consistent understanding and application.

5. Public Sector Organizations

Office of the Auditor General New Zealand (OAGNZ)

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

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

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

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

6. Member Bodies and Other Professional Organizations

Accountancy Europe (AE)

Yes, we are generally supportive of the definition and would like to note that in some cases, either the uncertainty's likelihood of occurrence or magnitude of its impact alone would lead the entity to provide appropriate disclosures. Relevant application material (A5) recognises this when describing the relationship between significant doubt and magnitude. However, it does not provide any guidance on how to consider likelihood which should also be explained.

California Society of CPA (CALCPA)

We are generally in agreement with the proposals that the Board is adopting under ISA 570. Below are our specific responses to the Proposed ISA.

What is considered foreseeable future related to going concern? We suggest the definition conforms to the IFRS wording as it relates to going concern.

Center for Audit Quality (CAQ)

We are generally supportive of the definition of Material Uncertainty (Related to Going Concern) and the phrase “may cast significant doubt.” As we discuss above, we encourage a focus on the scalability of ED-570, particularly with regards to various financial reporting frameworks used by management. Specifically, situations may arise where management uses different terminology in their financial statement disclosures (such as the terminology required by FASB ASU 2014-15) about going concern than the auditor uses in the auditor's report, which may cause confusion for financial statement users. While the application material clarifies how the term “material uncertainty” as used in ED-570 relates to terms used in other financial reporting frameworks, we believe that the application material should provide guidance for the auditor regarding aligning the terminology used in the auditor's report to the financial statements.

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

Yes, in general we support the definition of Material Uncertainty. The application material provides (para. A4-A5) a good support in relation to the magnitude of identified events or conditions and any remedial

actions, however they do not define the likelihood of the occurrence of the event that may cause a material uncertainty.

CPA Australia (CPAA)

Broadly, we are supportive of the proposed definition of material uncertainty (related to going concern). However, we are of the view that the definition can be improved by providing further clarity and distinction between the terms 'material uncertainty' and 'may cast significant doubt'. To address this, we suggest including in paragraph 10, the wording from the application material in paragraph A5. This will help explain the concept that, material uncertainty is the result of unresolved events or conditions that, individually or collectively, may cast significant doubt.

We are of the view that the definition of material uncertainty should not include the disclosure requirements. We also note that this term is not defined in the accounting standards. Therefore, imposing the proposed definition of accounting terms within auditing standards can be problematic. There is a risk that management may disagree with the auditor on what should be deemed as 'material uncertainty' as the term is currently undefined in accounting standards.

European Federation of Accountants and Auditors for SMEs (EFEAA)

We generally support the proposals.

We suggest, however, that the challenges in defining material uncertainties related to going concern are explored in the explanatory memorandum and / or application material to ED 570. In the absence of such discussion, the wording of paragraph 10 may imply material uncertainties are readily identifiable, which is often not the case in practice.

We also suggest that the phrasing of the actual definition be simplified and made more readily understood and translatable by use of shorter sentences.

Institute of Certified Public Accountants of Uganda (ICPAU)

As indicated in the survey results in Appendix II, we support the proposed definition of material uncertainty (related to going concern) especially since it is consistent with the related definition in the IFRS Accounting standards such as IAS 1- Presentation of Financial Statements. We are also supportive of the application material to the definition clarifying the phrase "may cast significant doubt". However, owing to its importance in the understanding of material uncertainty, we recommend that the definition of "may cast significant doubt" be elevated from the application material to paragraph 10.

Institute of Chartered Accountants of Scotland (ICAS)

We are broadly supportive of the proposed definition and the related application material. We do, however, question whether the words ".....in the auditor's professional judgment.." should be included in the definition. Removing these words from the definition would recognise that management might have identified the material uncertainty whilst undertaking their going concern assessment.

Institute of Singapore Chartered Accountants (ISCA)

The definition of Material Uncertainty (Related to Going Concern) ("MUGC") included in the ED is based on paragraph 18 of the extant standard. While we support the inclusion of a definition to drive consistent interpretation, it would be useful for the definition to take into account the proposed changes under paragraph A5 of the ED, in particular, the clarification that events and conditions are identified on a gross basis, before considering remedial actions in determining whether there is a MUGC. Specific reference

could be made in the definition to the consideration of management's plans and their ability to mitigate the effects of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

Application material under paragraph A5

The application material clarifies that the phrase "may cast significant doubt" is used in circumstances when the individual or collective magnitude of identified events or conditions is such that the entity will be unable to meet its obligations and continue its operations for the foreseeable future unless management takes remedial actions to mitigate the effects of these events or conditions.

We disagree with the use of the word "will" here, as the auditor may be unable to make a definitive conclusion in this respect. We suggest replacing the word "will" with "may".

We find the explanation that "may cast significant doubt" is used in circumstances before consideration of remedial actions to be useful. The example given provides guidance that remedial actions are outside the ordinary course of business, for example, early liquidation of assets or seeking additional funding beyond normal re-financing arrangements.

We suggest for additional guidance to be included on the application of the concepts of "feasibility" of management's plans and whether they "mitigate" the effects of events and conditions, for example, where there are multiple possible scenarios / outcomes.

Instituto de Auditoria Independente do Brasil (IBRACON)

Yes, we support the definition of Material Uncertainty (Related to Going Concern). However, additional examples in the application material may be needed to address the magnitude of potential impact and the likelihood of occurrence.

We also support the application material clarifying the phrase "may cast significant doubt".

Malaysian Institute of Accountants (MIA)

We acknowledge that the IAASB has included important guidance on additional definitions but this is embedded in the application material (particularly ED570.A4, A5) rather than the requirements and thus, would appear to carry less weight.

We support the definition of "Material Uncertainty (Related to Going Concern)".

However, the phrase "may cast significant doubt" used in ED570 seems to suggest that the auditor has to make a definitive determination about whether the entity will be unable to meet its obligations and continue its operations and only when the auditor is certain that the entity will not be able to meet its obligations that the threshold of "may cast significant doubt" is reached. The new definition of "may cast significant doubt" may have unintended consequences of improperly restricting the scope of events and conditions the auditor is required to identify to only those that the auditor is convinced will occur and therefore, require remedial actions.

Given that the events and conditions that lead to a material uncertainty are often judgmental and may not actually happen, but could potentially happen, further enhancement to the explanation on material uncertainty is required.

A suggestion on how this could be rephrased to avoid unintended consequences of restricting the scope of events and conditions:

“For the purpose of this ISA, the phrase “may cast significant doubt” is used in circumstances when the individual or collective magnitude of identified events or conditions that have occurred or may occur, is such that the entity would be unable to meet its obligations and continue its operations for the foreseeable future unless management takes remedial actions to mitigate the effects of these events or conditions.”

Further application material to facilitate the auditor's determination of when the entity “would be unable” to continue its operations is necessary to help guide the auditor through this evaluation.

Nordic Federation of Public Accountants (NRF)

We are generally supportive of the definition but refer to our response to Q16.

Paragraph 20 in the Explanatory Memorandum includes a footnote that refers to earlier proposals discussed within the IASB. In addition to referring to both magnitude and occurrence, those proposals also refer to the timing aspect. In our view the definition could be further clarified by including the timing aspect as well.

The entire definition is drafted as one long sentence. For translation reasons it would be helpful if the definition could be divided into shorter sentences.

Pan-African Federation of Accountants (PAFA)

PAFA Response

We support the definition for “Material Uncertainty (Related to Going Concern)” and the application material to the definition clarifying the phrase “may cast significant doubt”, however, our recommendation is that, for auditors to consistently apply the concept of material uncertainty, the application material in the second sentence of paragraph A5 that describes “may cast significant doubt” be moved to the requirements section of the standard and that the IAASB also consider defining or clarifying what is meant by “foreseeable future” as used therein.

Saudi Organization for Chartered and Professional Accountants (SOCPA)

We strongly support the proposal of a particular definition of “Material Uncertainty (Related to Concern)” term for the purposes of ISAs since this term is a cornerstone in understanding and applying the requirements and application material proposed in ED-570. We believe the introduction of a definition would encourage consistent and better understanding of the risk associated with going concern matters. At first, we were not fully convinced of the use of bracketing in the term; however, we found the reasons introduced for such a decision reasonable, specifically that the use of bracketing allows, when appropriate, the use of a short form of the phrase (only “material uncertainty”). On the other hand, we found the deliberations about the possible use or non-use of the term “material uncertainty” in the financial reporting framework introduced in A.4 appears unnecessarily long. We believe that A.4 can be concisely redrafted to convey one particular message: that the term “material uncertainty” may or may not be found in the financial reporting framework, however, this does not change the auditor’s responsibility to conclude whether such a material uncertainty exists.

Additionally, we support the proposal to define the phrase “may cast significant doubt” since it is essential in defining the term “Material Uncertainty (Related to Going Concern)”. However, in our point of view, that para. A.5 should be redrafted to be more concise in conveying the intended meaning, taking translation into consideration, a challenge which we will be addressed later. For example, it might be better to leverage certain explanations about remedial actions and their possible impact on the uncertainty introduced in other parts of ED-570 (e.g., A.47) instead of loading up para. A.5 with extensive information, which makes it challenging to easily find and understand the definition.

South African Institute of Chartered Accountants (SAICA)

Definition of material uncertainty

We support the inclusion of a definition of Material Uncertainty in the standard. We however have comments on the articulation of the definition and its interaction with other requirements in the proposed standard.

Extracts from the proposed standard – note that the bold text indicates our own emphasis:

Material uncertainty (Related to Going Concern) – An 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 where the magnitude of its potential impact and likelihood of occurrence is such that, in the auditor's professional judgment, appropriate disclosure of the nature and implications of the uncertainty is necessary for:

In the case of a fair presentation financial reporting framework, the fair presentation of the financial statements, or

In the case of a compliance framework, the financial statements not to be misleading.

A4: The applicable financial reporting framework may or may not explicitly use the term "material uncertainty" when describing the uncertainties that are required to be disclosed in the financial statements related to the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. ...

32. If the auditor concludes that management's use of the going concern basis of accounting is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether the financial statements:

Adequately disclose the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans for future actions to deal with these events or conditions; and

Disclose clearly that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business.

34. If adequate disclosure of a material uncertainty is made in the financial statements, the auditor shall express an unmodified opinion and the auditor's report shall include a separate section under the heading "Material Uncertainty Related to Going Concern" and

...

State that these 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;

...

The definition of "material uncertainty", read with paragraph A4, indicates that, where a material uncertainty related to going concern exists, a description, in the financial statements, of the nature and implications of the uncertainty(ies) related to the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, would be necessary in order for the financial statements to achieve fair presentation or for the financial statements not to be misleading, in the case of a compliance framework.

The disclosure required by paragraphs 32 and 34(c) however appears to focus on the events and conditions, rather than the uncertainties related to those events and conditions. Paragraph 32(b) requires a statement that there is material uncertainty, but does not require disclosure of the nature and implications of the uncertainty. The statement required by paragraph 34(c) appears to imply that the existence of the events and conditions (that have been disclosed in the financial statements) indicates that a material uncertainty exists, again without an apparent focus on the nature and implications of the uncertainty related to the events and conditions.

To facilitate application of the standard, we propose alignment of the above paragraphs.

‘May cast significant doubt’

We agree with the clarification of the term “may cast significant doubt” as articulated in paragraph A5 of the proposed standard. However, because of the importance of this concept, we propose that the second sentence of paragraph A5 “For purposes of this ISA, the phrase “may cast significant doubt” is used in circumstances when the individual or collective magnitude of identified events or conditions is such that the entity will be unable to meet its obligations and continue its operations for the foreseeable future unless management takes remedial actions to mitigate the effects of these events or conditions,” should be elevated to the main text of the standard and not only be included in the Application and Other Explanatory Material.

Auditors may also benefit from further clarification in the standard in the form of a definition of or guidance on how the auditor would determine or evaluate the “magnitude of its potential impact and likelihood of occurrence”. It may also be useful to explore how these concepts interplay with the disclosures on the nature and implications of uncertainties noted in paragraph 12 above, and whether the extent of remedial actions needed would impact the decision on whether a significant doubt exists. This could be addressed in application material to the standard.

In our experience, some auditors tend to consider both the magnitude and likelihood as ‘high’ in all cases.

8. Individuals and Others

Colin Semotiuk (CS)

Overall we support the definition of Material Uncertainty (Related to Going Concern), however we would propose the following edits:

ED-570.10 states, “An 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 . . .” The term “may” is too broad. We suggest the word be replaced with “is likely to” to be more specific or remove “may” from the sentence.

ED-570.A4 states, “The auditor is required by paragraph 30 to concluded whether such a material uncertainty exists regardless of whether or how the applicable financial reporting framework defines a “material uncertainty.” We disagree that an auditor should use a definition different than that of the applicable financial reporting framework. If the framework does not include a definition, than paragraph 10 should be used, however if the auditor is using a different definition than the framework, this indicates a significant flaw in ED-570 and could be interpreted as questioning the appropriateness of the financial reporting framework. As noted above, the primary purpose of a financial statement audit is to issue an independent auditor’s opinion on the financial statements, not an opinion on the going concern of the entity.

Q05 - Disagree

3. Jurisdictional and National Auditing Standard Setters

American Institute of Certified Public Accountants (AICPA)

We believe these terms should be defined by accounting standard setters (for example, IASB) so that management, the party responsible for preparing financial statements, understands the terms and the implications for the financial statements. While the IAASB stated in paragraph 20 of the Explanatory Memorandum that it does not believe the proposed material uncertainty definition will give rise to inconsistencies involving recognized financial reporting frameworks, we disagree and note that the term remains undefined in IFRS. In our view, the IASB should include a definition of this term in the accounting standards to provide a consistent definition among standard setters. The experience in the U.S. is when a “substantial doubt” related to going concern was defined in GAAP this reduced diversity in disclosures in the notes to the financial statements, fostered comparability, and it allowed the ASB to make changes in GAAS to strengthen the consistency of auditor procedures to assess going concern uncertainties.

Notwithstanding our primary concern, we do not have significant concerns in how the IAASB has defined a material uncertainty related to going concern nor in how the phrase “may cast significant doubt” is described in the application material. However, we believe the clarity of the material uncertainty definition can be enhanced by including the notion of an auditor’s assessment timeline. This is based on our interview findings which indicate that those participants who believe additional information about going concern should be included in the auditor’s report indicated a desire to have specificity about the length of the time-period evaluated by the auditor. As we further contend below (refer to our responses to Questions # 7, # 11, and # 13), including a description of the auditor’s assessment timeline is an important informational element for users because it serves to provide clarity of the period to which the auditor’s conclusion about the entity’s ability to continue as a going concern relates, and mitigates potential misconceptions.

Regarding the definition of material uncertainty in paragraph #10, we recommend the following (additions are marked as underlined and deletions are shown in strikethrough):

10. For purposes of the ISAs, the following term has the meaning attributed below:

Material Uncertainty (Related to Going Concern)—An 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 (for at least twelve months from the date of approval of the financial statements) where the magnitude of its potential impact and likelihood of occurrence is such that in the auditor’s professional judgment, appropriate disclosure of the nature and implications of the uncertainty is necessary for: (Ref: Para. A4–A5)

(a) In the case of a fair presentation financial reporting framework, the fair presentation of the financial statements, or

(b) In the case of a compliance framework, the financial statements not to be misleading.

Austrian Chamber of Tax Advisors and Public Accountants (KSW)

We support the clearer definition of the phrases “material uncertainty” and “significant doubt” but believe that the definitions are not finally discussed. In particular, we suggest that A4 and A5 make clearer reference to the concept of ISA 315 Revised that likelihood is of equal importance to magnitude.

We understand A4 and A5 to mean that “material uncertainty” covers the likelihood dimension and significant doubt covers the magnitude dimension. According to our understanding of ISA 315 revised, the likelihood and magnitude of a risk at the financial statement level should not be assessed in an explicit way

like at the assertion level, but since going concern affects all audit areas, we consider a similar assessment to be appropriate. In our opinion, therefore, the likelihood should be assessed in addition to the magnitude in the definition of “significant doubt”.

The concept of likelihood should also be described more consistently in the assessment of management's future plans (ISA 570.26), since a lower probability of the plans being realized leads to uncertainties that must be explicitly reflected in the financial statements. We do not feel that this connection to A5 has been made in the requirements. (see also comments on question 10)

Identical definitions of these phrases in applicable accounting standards are crucial. We are concerned that in the case of “framework may not define ...” (A4 and A5), an explicit management statement and so a basis for auditors under this ISA is not given.

Canadian Auditing and Assurance Standards Board (AASB)

We do not support the definition of Material Uncertainty (Related to Going Concern) as currently drafted.

Concern: The phrase “in the auditor’s professional judgment” is not appropriate. Material uncertainty is, first and foremost, an accounting concept. It is unclear why the auditor’s professional judgment (and not management’s professional judgment) should be highlighted in the definition.

Suggest: Amending the definition as follows:

Material Uncertainty (Related to Going Concern) — An 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 where the magnitude of its potential impact and likelihood of occurrence is such that, in the auditor’s professional judgment, appropriate disclosure of the nature and implications of the uncertainty is necessary for...

We do however support the proposed application material to clarify the phrase “may cast significant doubt”.

Special considerations for audits of public sector entities

Concern: There is no application material to acknowledge certain unique characteristics of public sector accounting standards such as the “going concern presumption”.

Suggest: We suggest application material linked to the definition of Material Uncertainty (Related to Going Concern) to state that:

Many public sector accounting frameworks presume governments to be going concerns because of their powers, rights and abilities and their capacity to issue debt and raise resources. In many public sector accounting frameworks, this going concern presumption can only be rebutted by persuasive evidence to the contrary. The going concern presumption may also apply to other public sector entities. The auditor’s procedures and reporting may need to be adapted as necessary when the going concern presumption applies.

Our responses to Q8 and Q13 highlight when the auditor’s procedures and reporting may need to be adapted when the going concern presumption applies.

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

We support having a definition of “Material Uncertainty (Related to Going Concern)” but note a number of issues with the definition as proposed that need remediation.

First, the definition does not align with the description of a material uncertainty as set forth in the requirement in paragraph 32 (b), which clarifies that a material uncertainty relates to the fact that the entity may be unable to realize its assets and discharge its liabilities in the normal course of business (see also the connection to the going concern basis of accounting in the last sentence of paragraph 2 – that is, the material uncertainty relates to whether or not the going concern basis of accounting is appropriate).

Second, a material uncertainty only exists when the uncertainty related to the identified events or conditions that cast significant doubt on whether the entity will meet its obligations and continue its operations for the foreseeable future (see paragraph A5) has not been effectively mitigated through remedial actions by management – that is, a material uncertainty exists after consideration of related mitigating factors included in management’s plans for future actions (in contrast to the identification of events or conditions before such consideration as set forth in paragraph A6). This also suggests that the application material in paragraph A5 clarifying the phrase “may cast significant doubt” also needs further clarification.

Third, we note that the use of the word “its” after “magnitude of” is unclear: to what does “its” refer? Based upon paragraph A5 (see the reference therein to “magnitude of identified events or conditions”), it seems to us that “its” ought to refer to the events or conditions (which would involve changing “its” to “their”), rather than to any of the previous nouns in the definition. In any case, it would be inappropriate to speak of the magnitude of the potential impact and likelihood of occurrence of an “uncertainty”. For these reasons, it seems to us that it is the “events or conditions” that have a magnitude of the potential impact and that have a likelihood of occurring, so we suggest replacing “its” with “the” and inserting the words “of the events or conditions” after the word “occurrence”. The word “is” thereafter also needs to be changed to “are”.

For these reasons, we believe that the definition of a “material uncertainty (related to going concern)” ought to be defined along the following lines:

“An 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, where the magnitude of the potential impact and likelihood of occurrence of the events or conditions are such that, after consideration of any related mitigating factors included in management’s plans for future actions, the entity may be unable to realize its assets and discharge its liabilities in the normal course of business, and therefore, in the auditor’s professional judgement, appropriate disclosure of the nature and implications of the uncertainty is necessary for:

- (a) in the case of a fair presentation framework, the fair presentation of the financial statements, or
- (b) in the case of a compliance framework, the financial statements not to be misleading.”

As noted above, the application material in paragraph A5 describing the meaning of “may cast significant doubt” needs to be clarified further that events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern relate to such events and conditions before consideration of any related mitigating factors included in management’s plans for future actions and prior to the assessment of the magnitude of the potential impact and likelihood of occurrence of the events or conditions. The former is implicit in the second sentence in the words “unless management takes remedial actions to mitigate the effects of these events or conditions”, but the clarification should be explicit to avoid doubts by adding a sentence immediately thereafter as follows:

“Consequently, the identification of events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern is before the assessment of the magnitude of the potential impact and likelihood of occurrence of the events or conditions and before consideration of any remedial actions management takes to mitigate the effects of these events or conditions”.

Overall, we believe that throughout the standard greater clarity is required as to when the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern are being considered before or after consideration of management's plans for future actions.

New Zealand Auditing and Assurance Standards Board (NZAuASB)

We agree with defining the term material uncertainty and clarifying the meaning of may cast significant doubt so that they are clear and understood, to promote consistency in practice.

We are concerned that there is a lack of consistency between the terminology and definitions used in the International Standards on Auditing and financial reporting standards. We encourage the IAASB to continue to engage with the IASB and IPSASB. Consistency in the meaning of terminology across both reporting and auditing standards will enhance consistent use and application by management, those charged with governance and the auditor.

We do not believe that the proposed definition of material uncertainty is sufficiently clear to meet the public interest characteristic of enhancing understandability and minimising the likelihood of differing interpretations.

We encourage the IAASB to further clarify the distinction between material uncertainty versus significant doubt. The definition of material uncertainty is premised on the basis of significant doubt but does not help the auditor distinguish between significant doubt and material uncertainty. The proposed definition should include the auditor's evaluation of management's plans and future actions as this is important in the auditor's conclusion about whether a material uncertainty exists.

The proposed definition should not refer to disclosures. The auditor's conclusion as to whether a material uncertainty exists precedes the auditor's consideration of the existence and adequacy of disclosures, therefore, we consider reference to disclosures in the definition to be inappropriate.

4. Accounting Firms

Mo Chartered Accountants (MCA)

Material uncertainty has long been a terminology used by auditors and we believe there is no real change from the extant version of the standard. 2 terms create a great degree of non-understandability viz "material" and "significant" when considering the long form definitions. 'Substantive' may be used in place of "material". Since the issue of going concern is a matter of judgement, subjective, uncertain and with a limited basis (in terms of consideration of future-looking expectations), is the continued use of "significant" relevant and appropriate?

6. Member Bodies and Other Professional Organizations

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

does not give greater clarity to the meaning of material uncertainty (related to going concern) (see our response to Question 5),

In summary, we feel that the proposed standard;

We commend the attempt to bring greater clarity to the meaning of Material Uncertainty (Related to Going Concern) but note that the proposed approach is unlikely to realise the clarity and consistency in interpretation that the IAASB hoped for. We recommend that the IAASB explore the potential for numerical expressions of probability as a means of providing clarity and facilitating consistency in interpretation of this important term.

By name, and by nature, material uncertainty (related to going concern) is meant to express uncertainty as to the entity's continued viability. On a probability distribution, it lies between certainty that the entity is a going concern and certainty that the entity is not a going concern. It is defined with reference to verbal probability terms (i.e., 'may' and 'doubt') and modifiers (i.e., 'material' and 'significant'). The modifiers suggests that the threshold is some distance from certainty to continue as a going concern, but beyond this, the auditor and other participants in the financial reporting ecosystem are given little guidance as to the intended threshold. The clarification of 'may cast significant doubt' in paragraph A5, unfortunately, does not help in that it does not speak to the intended indeterminacy of the relationship between the identified events or circumstances and the entity's ability to continue for the foreseeable future. That is, in paragraph A5, 'may' becomes 'will' in order to provide the supposed clarity, but in doing so, the indeterminacy is now removed. We believe that the current definition in paragraph 10 and clarification in paragraph A5 will not bring clarity to the meaning of material uncertainty.

Research on the meanings derived from verbal probability terms has long highlighted that there is inter-individual variability in how these terms are interpreted (e.g., Lichtenstein and Newman 1967). The recipients of information on uncertainty expressed by way of verbal probabilities may not, therefore, interpret the information as intended (e.g., Brun and Teigan 1988).

Variation in the interpretation of verbal probability terms is similarly evident in accountant and auditor populations (e.g., Harrison and Tomassini 1989; Reimers 1992; Amer et al. 1994) and amplified with the inevitable imprecision when translating these terms (e.g., Davidson and Chrisman 1994; Doupnik and Richter 2003) and cultural differences (Doupnik and Richter 2003; Doupnik and Riccio 2006). Furthermore, variation is evident across different participants in the financial reporting ecosystem (e.g., Seo and Thomson 2016).

Although related to the U.S. term 'substantial doubt', rather than 'significant doubt', research highlights that there is variation in the interpretation of going concern terminology across different participants in the financial reporting ecosystem (Ponemon and Raghunandan 1994; Bierstaker and DeZoort 2019). While we commend that IAASB on their efforts, and acknowledge the benefits, in providing clarity and encouraging consistency in the interpretation of material uncertainty, the research literature suggests that the current efforts will fall short of expectations. Moreover, the use of alternative verbal probability phrases is unlikely to be any more effective.

In order to improve clarity and consistency in the interpretation of the term material uncertainty (relating to going concern), we encourage the IAASB to consider supplementing the proposed definition with guidance using numerical expressions of probability (e.g., ** +/- **% probability that the entity will not be able to continue as a going concern). This may help auditors and others in the financial reporting ecosystem understand what the IAASB means by the term material uncertainty.

Although not tested in a going concern setting, research suggests that probability information is more clearly expressed and seen as being more credible when numerical probabilities are used (e.g., Collins and Mandel 2019). While some may be concerned that numerical probabilities could inadvertently increase invalid perceptions of precision, research in a national security decision making setting suggests that quantification does not increase perceptions of rigour and encourages further reflection by the recipient of the message (Friedman et al. 2017). Probability ranges rather than a precise point estimate could also help to illustrate the indeterminacy inherent in a material uncertainty, thereby assisting in the interpretation of this imprecise probability term.

We are not aware of research that investigates the use of numerical probabilities in a going concern setting and do not recommend adoption of numerical probabilities in the absence of research being undertaken (including research on whether the numerical probabilities should be included as part of the auditor's report and/or presented as guidance as to the interpretation of the term, and what the appropriate probability range should be). However, to the extent that the IAASB sees merit in clarifying the meaning of the term significant influence, and that the current approach is unlikely to realise this objective, the IAASB may wish to consider numerical probabilities as part of the solution.

IFAC SMP Advisory Group (SMPAG)

The SMPAG acknowledges the challenges in defining material uncertainties related to going concern and expected the explanatory memorandum or application material to ED ISA 570 (Revised) to explore these challenges. In the absence of such discussion, the wording of paragraph 10 may imply material uncertainties are readily identifiable, which is often not the case in practice. The reference to the auditor's professional judgment alone may also be problematic as there is an interplay with the professional judgment of management to consider. Furthermore, as this phrase is not uniformly defined in all accounting standards and ISA 570 is intended to be agnostic of the financial reporting framework, this may give rise to the imposition of the proposed definition of this auditing concept on the financial reporting framework. This may be ideologically and practically challenging.

The phrasing of the actual definition is also problematic, and points to a general issue at times with guidance in standards. The sentence that describes material uncertainty in paragraph 10 is 63 words in length. English users will find this phrasing challenging to understand as it mixes various considerations. Simultaneously, this mixing of concepts increases the difficulty level for translation of the standard to other languages. We recommend breaking the definition into smaller sentences to minimize interpretation issues when the revised standard is translated and implemented.

Q05 - No specific comments

2. Regulators and Audit Oversight Authorities

Canadian Securities Administrators Chief Accountants Committee (CAC)

National Association of State Boards of Accountancy (NASBA)

4. Accounting Firms

CohnReznick LLP (CHR)

Crowe LLP (CROWE LLP)

Nexia Australia Pty Ltd (NAPL)

5. Public Sector Organizations

Office of the Auditor General of Manitoba (OAGM)

6. Member Bodies and Other Professional Organizations

ASEAN Federation of Accountants (AFA)

Institute of Chartered Accountants in England and Wales (ICAEW)

7. Academics

RMIT University (RMU)

8. Individuals and Others

Kazuhiro Yoshii (KY)