

## Going Concern – Question 16

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

### 1 - Q16 - Other matters

#### 1. Monitoring Group

##### International Association of Insurance Supervisors (IAIS)

Consideration of whether to update ISA 720 “Auditor Responsibilities Relating to Other Information” with the finalisation of ISA 570 is important, as this clarifies the auditor’s responsibilities.

Linking to ISA 330 “Auditor’s Responses to Assessed Risks” ensures that consistent, appropriate responses are provided by auditors when facing the risks of material misstatement as a result of going concern risks.

##### International Forum of Independent Audit Regulators (IFIAR)

Evaluating the audit evidence obtained and concluding

IFIAR urges the IAASB to include additional application material to assist auditor’s in determining whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern (paragraph 30). In particular, we suggest that language encouraging auditors to consider significant doubt in terms of a spectrum rather than a specific point to be breached should be introduced.

Documentation

We encourage the IAASB to incorporate specific documentation requirements into ED-ISA 570 which clarify the application of ISA 230 to the auditor’s work on going concern.

Outreach

Given the importance of going concern in an audit of financial statements and that ED-ISA 570 will have a potential impact on preparers as well as auditors, we encourage the IAASB to continue to seek balanced feedback from as wide a range of stakeholders as possible.

Written representations<sup>1</sup>

Given the fundamental importance of going concern in the preparation of the financial statements, we urge the IAASB to strengthen the written representations provided by management by including an additional requirement (alongside paragraph 38) for the auditor to request management, and, where appropriate, those charged with governance to provide written representations that all identified events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern have been disclosed to the auditor and included as part of management’s assessment of going concern.

##### International Organization of Securities Commissions (IOSCO)

Paragraph A48 – With regards to the prospective financial information, given the significant amount of judgment associated with auditing prospective financial information, we recommend the Board elevate these

<sup>1</sup> Written representations related comments included in this document already presented in June 2024

procedures to the requirements. We also recommend the Board link to the requirements in paragraph 19 regarding testing methods, assumptions and data.

We recommend the Board add a procedure to consider consistency with other information involving management's plans for future actions.

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

References to financial reporting frameworks – We believe the auditor's responsibility related to going concern should be accounting framework neutral and references to any particular framework, for example references to International Financial Reporting Standards, may give rise to inconsistencies in the auditor's interpretation of the requirements as it could be interpreted as the auditor's responsibility being different depending on the applicable financial reporting framework.

Audit evidence – We encourage the Board to align any proposed requirements within ED 570, including paragraphs 29-30 and the associated application paragraphs, to the finalized ISA 500 (Revised), Audit Evidence.

Paragraph 7 – “...cannot be viewed as a guarantee as to absolute assurance on [text deleted and added] the entity's ability to continue as a going concern.” We recommend this update to more closely align with the terminology used in ISA 200. We believe the reference to ISA 200 (reference #47) should be paragraphs A45 and A51, not A53-54.

Paragraph 14 – “...the auditor shall determine whether the audit evidence obtained from risk assessment procedures and related activities[text deleted] indicates the existence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern that management has not previously identified or disclosed to the auditor.” We recommend this requirement not only be limited to audit evidence obtained from risk assessment procedures and related activities, but audit evidence obtained more broadly.

Paragraph 19 – We believe the requirements in paragraph 19 should apply when evaluating management's assessment and when evaluating management's plans for future action when events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern. We, therefore, recommend the Board clarify the requirements apply to both evaluations.

Paragraph 25 – We recommend including a requirement, or reference to paragraph 15, to also consider whether there are any control implications when the auditor identifies events or conditions that may cast significant doubt on the entity's ability to continue as a going concern that management has not previously identified or disclosed to the auditor.

Written Representations – We recommend the Board also include a requirement to obtain written representation when events and conditions have not been identified that may cast significant doubt on the entity's ability to continue as a going concern.

## **2. Regulators and Audit Oversight Authorities**

### **Canadian Securities Administrators Chief Accountants Committee (CAC)**

Collaboration with the IASB

We encourage the IAASB to continue its efforts to solicit feedback from relevant stakeholder groups to ensure the proposed amendments remain fit for purpose in the current and future business environment. In particular, the IAASB should continue to liaise and collaborate with the International Accounting Standards Board (IASB) to address topics of mutual interest and overlapping concepts. As communicated previously, we continue to be of the view that any changes to the auditing standards should be considered in tandem with the relevant responsibilities of issuers in the applicable financial reporting framework. For example, we note the current requirements of the financial reporting framework state the following:

IAS 1 Presentation of financial statements defines the going concern assessment period as ‘a period that should be at least, but is not limited to, 12 months from the end of the reporting period’ and;

IAS 10 Events after the reporting period (paragraph 14) states that management should have to perform an assessment on going concern after the reporting period up to the date when the financial statements are authorized for issue.

Although these current requirements are not inconsistent with ED-570, we encourage the IAASB to continue its dialogue with the IASB regarding this matter and whether further convergence, additional guidance or revisions to the standards may be necessary to address any consequences of potential diversity in assessment periods. As another example, we refer the IAASB back to the auditor’s requirements for “close call” going concern situations that we previously identified in our comment letter in response to the IAASB’s Discussion Paper on Fraud and Going Concern in an audit of financial statements.

#### Use of the term “listed entity”

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

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

#### Scalability

We acknowledge the IAASB has made positive steps towards addressing scalability throughout the proposed amendments. Application material in paragraph A13 of ED-570 indicates that the nature and extent of the auditor’s risk assessment procedures are likely to be more extensive for entities with a complex structure and business activities in contrast to smaller or less complex entities. While we agree that the auditor’s risk assessment procedures may be less complex for smaller entities, we think that application material paragraph A13 of ED-570 could be subject to the misinterpretation that less work is required for smaller entities, which are the entities that will generally have a greater likelihood of material uncertainties that cast doubt on the ability to continue as a going concern. We think the terms ‘nature and extent’ may be too broad in this context causing this misinterpretation. We encourage the IAASB to reconsider certain examples provided throughout the application guidance to ensure that this message is not cast.

### Committee of European Auditing Oversight Bodies (CEAOB)

Paragraph 30 – The CEAOB reiterates the concern expressed in its comment letter on ISA 500 ED issued in April 2023. It is unclear in the same vein, and also in this ED on ISA 570s whether the auditor is required to consider all information, including information that does not meet the definition of ‘audit evidence’.

Paragraph A63 should be elevated in the requirements. Indeed, the requirements of paragraph 31 shall also include situation where additional disclosures are necessary to achieve the fair presentation. Concrete example of such situation should also be presented in the application material.

Paragraph A77 deserves to be elevated in the requirements. Indeed, when information is determined to be necessary by the auditor, the auditor should be required to encourage management or those charged with governance to disclose such additional information. The term “may encourage” is a too low level.

#### Written representation

The CEAOB also recommended the introduction of provisions to incentivize management to confirm the appropriateness of their assessment to the auditor. Therefore, the CEAOB supports the provisions for a written confirmation request (in case of events or conditions that may cast significant doubt on going concern) introduced in paragraph 38. However the written representations could be further enhanced by including confirmation from management that all identified events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern have been considered in its assessment and disclosed to the auditor.

### Financial Reporting Council (FRC)

We would encourage the IAASB to consider the following:

Written representations—Given the fundamental importance of going concern in the preparation of the financial statements, we urge the IAASB to strengthen the written representations provided by management by including an additional requirement (alongside paragraph 38) for the auditor to request management, and, where appropriate, those charged with governance to provide written representations that all identified events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern have been disclosed to the auditor and included as part of management’s assessment of going concern.

Documentation—We encourage the IAASB to incorporate specific documentation requirements into ED-ISA 570 which clarify the application of ISA 230 to the auditor’s work on going concern.

### Independent Regulatory Board for Auditors (IRBA)

The lack of preparation of sufficient audit documentation remains a key inspection finding in South Africa. Therefore consistent application and documentation of the requirements of the standards, including ED-570, will also support internal and external monitoring functions. We expand on these points further in our comments that follow.

#### EDITORIAL COMMENTS

The editorial changes recommended below are denoted as strike through for deletions and underlined for insertions.

ED-570 Paragraph Number	Recommended Editorial Changes to ED-570	Comment
Contents Page	Adequacy of Disclosures	Not applicable.

A45      Revise the assessment of the risks of material misstatement and modify planned audit procedures in accordance with ISA 315 (Revised 2019).<sup>2525</sup> The footnote reference in the first sentence of the first bullet point should be in superscript.

The IRBA recommends that application material be added to the requirement in paragraph 16 of ED-570, to make it clear that where the auditor has requested management to perform an assessment of the entity's ability to continue as a going concern, in the circumstances where management refuses to do so, the auditor modifies the audit opinion. This could draw on the language used in paragraph 4 that even where there is no explicit requirement for management to make a specific assessment, the preparation of the financial statements using the going concern basis of accounting requires management to assess the entity's ability to continue as a going concern.

We suggest that the IAASB should consider including additional application material to paragraph 30 of ED-570, to assist auditors in determining whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. This will also enhance the consistent application of the requirement and the accompanying definition of "Material Uncertainty (Related to Going Concern)". A reference to paragraph A4 of ED-570 may also be relevant for paragraph 30.

Given the fundamental importance of going concern in the preparation of the financial statements, the IAASB may want to consider strengthening the written representations provided by management by including an additional requirement, alongside paragraph 38 of ED-570. This would require the auditor to request management and, where appropriate, TCWG to provide written representations that all identified events or conditions that may cast significant doubt on the entity's ability to continue as a going concern have been disclosed to the auditor and included as part of management's assessment of going concern.

We recommend that, in addition to ISA 230, Audit Documentation, the IAASB considers overarching documentation requirements in the requirements section of ED-570, such as the following:

Key elements of the auditor's understanding of the entity and its environment, including the entity's system of internal control related to going concern;

Indicators of possible management bias related to going concern, if any, and the auditor's evaluation of the implications for the audit;

Significant judgments relating to the auditor's determination of the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements;

Significant judgments relating to the auditor's determination of whether or not a material uncertainty related to going concern exists; and

Significant judgments relating to the auditor's determination of the appropriateness of management's disclosures in the financial statements.

The IAASB may also want to consider moving paragraph 13 and placing it after paragraph 15 of ED-570, as that will provide a better logical flow of the requirements.

The relevance of paragraph A3 to paragraph 3 of ED-570 is not clear; as a result, we propose that the IAASB should delete A3.

### **Irish Auditing and Accounting Supervisory Authority (IAASA)**

Paragraph 30 – It is unclear whether the auditor is required to consider all information, including information that does not meet the definition of 'audit evidence'.

## Written representation

IAASA supports the provisions for a written confirmation request (in case of events or conditions that may cast significant doubt on going concern) introduced in paragraph 38. However the written representations could be further enhanced by including confirmation from management that all identified events or conditions that may cast significant doubt on the entity's ability to continue as a going concern have been considered in their assessment and disclosed to the auditor.

## 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.

## 3. Jurisdictional and National Auditing Standard Setters

### American Institute of Certified Public Accountants (AICPA)

#### Recommended Activities to Perform During On-going IAASB Deliberations

While we acknowledge that the resources of the IAASB are finite and that the IAASB is not currently expected to discuss publicly the consideration of comments from the Exposure Draft until March 2024, we nevertheless

believe the public interest concerns expressed by the IAASB necessitate ongoing action and information gathering. The following are activities we believe the IAASB should champion or lead that are critical to the success of the final revisions to extant ISA 570:

Foster a dialogue between the Monitoring Group and the IFRS Foundation Monitoring Board as responsible oversight bodies to urge immediate IASB action to address going concern public interest expectations. As described in the Project Proposal and the Explanatory Memorandum to the Exposure Draft, we recognize the intentional and serious efforts of the IAASB to engage with the IASB to address going concern accounting and reporting improvements needed in IAS 1. We observe those efforts, while direct and persistent, have not resulted in action by the IASB. Accordingly, we encourage the IAASB, those charged with governance over the International Foundation of Ethics and Audit, and leadership of the Public Interest Oversight Board to urge the Monitoring Group in its penultimate oversight capacity to interact directly with its IFRS Foundation Monitoring Board counterpart to call for immediate action by the IASB to address the issues we have highlighted and the going concern public interest imperatives not being addressed by the IASB.

Conduct user outreach aimed at obtaining evidence as to whether the knowledge and expectations gaps would narrow or increase because of the Exposure Draft. Notwithstanding the important feedback cited by the IAASB from the Discussion Paper and the Auditor's Report Post-Implementation Report, collecting additional user feedback during the life cycle of this project is prudent and necessary given the public interest significance, recent global instability and financial sector turmoil, and the potential ramifications for financial statement users and preparers, those charged with governance, and auditors.

Notably, in our recent outreach to financial statement users and preparers, views were divided on the question of whether an explicit statement such as that in the proposed ISA 570 (see paragraph 33a(i) and (ii)) should be included in the auditor's report. Comments from participants reflect the varied opinions on the proposed language. Some participants felt that the standard should take the opposite approach and only include language about going concern when there is a material uncertainty because going concern is the appropriate basis of accounting unless there are circumstances to the contrary. Several participants found the proposed wording to be confusing (for example, it is not clear what period is relevant to the statement that "management's use of the going concern basis of accounting is appropriate"), and some indicated that the proposed wording could be interpreted as providing more than reasonable assurance on going concern.

Should the IAASB decide it is necessary to update its pre-project proposal information gathering, we would be pleased to share our experiences with you and support your efforts.

Understand going concern developments from other national standard setters to learn if earlier efforts on similar changes are having intended results. Substantial revisions to auditor reporting requirements have recently been implemented internationally; however, the impact of these reforms is not widely known or understood. We believe that it is in the public interest for the IAASB to conduct further outreach (for example, understanding the impact of the going-related disclosures that have already been implemented in the United Kingdom and Netherlands) ahead of approving final changes to ISA 570.

Facilitate a program to encourage auditor field testing to determine their readiness to implement the requirements of the Exposure Draft and to assess the comprehension by those charged with governance and preparers of the proposed changes in the auditor's report. We believe the IAASB needs to seek input from key stakeholders beyond that received through comment letter responses on proposed standards, particularly when the objectives of a new or revised standard relates to expected behavioral changes designed to improve audit quality and when public interest needs are cited as an impetus for change. In consideration of going concern, this could be accomplished through pilot testing or earlier and more extensive field testing,

particularly the implications to the auditor's report. The benefits of such work can (1) raise awareness earlier among the stakeholders interested in auditor performance and/or performance reporting requirements, (2) identify whether proposed standard setting actions address the quality objectives and/or public interest needs of users and other stakeholders, (3) inform the adoption and implementation of reporting requirements, such as phased implementation for smaller and medium size audit firms that may benefit from such measures, (4) provide for more tailored and specific training upon final adoption of a new or revised standard, and (5) encourage wider acceptance and adoption of the Exposure Draft.

Create and publish a pro forma illustration of the auditor's report. We reiterate feedback previously shared that IAASB take action now to explain how cumulative and combined effect of changes to the auditor's report regarding going concern, fraud, the recently approved revisions to ISA 700 of public interest entities enhance the communicative value and relevance of the auditor's report and to develop a comprehensive pro forma illustration of the auditor's report reflecting the continuing revisions to the auditor's report from all active projects likely to amend the auditor's report. The value of "standing back" to see the collective impact of all proposed changes —before the various active projects are finalized or become effective — is that stakeholders can comprehend the full scope of the changes in requirements by seeing in one place the continuous evolution of auditor reporting and an integrated view of what the auditor's report of the future will comprise.

Coordinate actively with the Fraud Task Force. Currently, we have identified three key overlapping areas of auditor performance and reporting between the IAASB's fraud and going concern projects that merit the need for greater active coordination and potentially common outcomes given some shared project objectives or public interest concerns:

The inclusion, references and linkages of risk assessment requirements, professional skepticism guidance, and the impact of technology in each standalone standard,

The evaluation of management's analysis (for example, including whether management is required under professional standards, law, or regulation to prepare an analysis, and whether management has sufficient policies, procedures, and controls for an analysis to be performed), and

The implications for the auditor's report.

#### Other Matters – Documentation

We anticipate that more specific documentation-related guidance in the application material may be needed for auditors to perform under Exposure Draft paragraph 18, which would require that the auditor in designing and performing the audit procedures required by paragraph 17, shall do so in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory.

Additionally, consistent with our earlier auditor timeline-related views and recommendations, we encourage the IAASB to include the following adapted requirement from AU-C 570 as a new paragraph in the Exposure Draft (additions are marked as underlined). Corresponding application material would also be required.

38A. If the auditor believes, before consideration of management's plans pursuant to paragraph 16, that a material uncertainty exists related to events or conditions that may cast significant doubt about the entity's ability to continue as a going concern for at least twelve months from the date of approval of the financial statements, the auditor shall request the following written representations from management:

A description of management's plans that are intended to mitigate the adverse effects of conditions or events 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) and the probability that those plans can be effectively implemented.

That the financial statements disclose all the matters of which management is aware that are relevant to the entity's ability to continue as a going concern (for at least twelve months from the date of approval of the financial statements), including principal conditions or events and management's plans.

## Appendix B – Summary of Outreach on the Auditor's Report and Going Concern

### Overview

In the summer of 2022, the Auditing Standards Board (ASB) surveyed financial statement users and preparers in the United States (U.S.) to obtain their perspectives on the content of the auditor's report and transparency related to going concern in the auditor's report. The survey was distributed to multiple groups and 134 complete responses were collected. The ASB also conducted interviews with U.S.-based financial statement users and preparers in the fall of 2022 to obtain additional insights related to these matters. Twenty-six individuals were interviewed.

### Survey Summary

#### Respondent Demographics

Twenty-one percent of respondents are employed at a non-profit organization, while 18% work in financial services, 11% work in professional services, and the balance representing a variety of other industries. Forty-eight percent of respondents are either Controllers or CFOs at their company, while 4% are CEOs. On average, respondents have 30 years of professional experience, with about half having over thirty years of experience:

Respondents reported working for relatively smaller entities, with half reporting that their company's total assets are less than \$50 million. Further, most work for companies that primarily operate domestically and report less than 10% of revenues, on average, being generated from international operations.

Most respondents (78%) reported using the financial statements related to their own company as opposed to others, by either producing financial statement information (43%), or using that information to make operational, investment, or financial decisions on behalf of their company (35%). Meanwhile, 7% of respondents report primarily using another company's financial statements to make such decisions, while 5% report that they primarily produce information that is used in the preparation and audit of another company's financial statements. The remaining 10% of respondents reported that their role requires them to use financial statements in other ways, such as through education or compliance roles. In summary, the sample is comprised of 48% financial statement preparers and 52% financial statement users.

#### The Auditor's Report

Most respondents report engaging with the audit report, with 60% (81) either agreeing or strongly agreeing with the statement, "Whenever I evaluate an entity's financial statements, I carefully read the auditor's report." Most of these participants (75%) believe no changes are needed to the current version of the auditor's report. Of the 11% of respondents who do not read the report carefully, some referenced "boiler-plate jargon", "standard language" or not knowing of any companies without a clean opinion.

Most respondents (62%) strongly agree, agree, or somewhat agree with the statement that, "the content and length of the current version of the auditor's report is appropriate and no additional information is necessary." A not insignificant proportion, 17 %, do not believe additions to the report are needed because the current report is "too long."

## Going Concern Transparency

Survey respondents were also asked to report their views related to going concern matters. Most believe that the current version of the auditor's report contains information that is relevant in assessing the possibility that an entity will not continue, with 33% "somewhat agreeing" and 27% agreeing or strongly agreeing.

Respondents were also asked whether they believe that the current version of the auditor's report contains timely information that is useful in assessing the possibility that an entity will not continue. There was no consensus on the matter of timeliness. Forty-three percent agreed that the report is timely, 23% "neither agreed nor disagreed" and 34% disagreed. Of those who disagreed, 61% provided commentary suggesting that this was due to the time lag between year end and the issuance of the auditor's report. As one respondent stated, "by its nature, such information in an audit report will not be timely."

Respondents were asked whose responsibility it is to present information about an entity's ability to continue as a going concern. Overwhelmingly, 83% of respondents believe this information should at least come from the company's management. Almost half (46%) of those believe that the information should come from the independent auditor as well. Only 11% of respondents believe that going concern information should come solely from the auditor.

Respondents were presented with the following suggested new disclosure and asked whether it should be included in the auditor's report. More than half of respondents (54%) either agree or strongly agree that the following statement should be included:

"The auditor has obtained evidence to conclude that management's use of the going concern basis of accounting is appropriate, and the auditor has not identified any material uncertainties related to events or conditions that may cast doubt on the entity's ability to continue as a going concern."

The survey asked about "close calls," defined as situations in which the auditor initially has doubt about the entity's ability to continue as a going concern, but that concern is alleviated after speaking with management and evaluating their plans. When asked whether they want to receive information about close calls, about 34% agreed while 40% disagreed. The remaining 26% neither agreed nor disagreed.

Of the respondents who would like information about close calls (that is, 34% of all survey respondents), 48% prefer the information to be presented in both the auditor's report and management disclosures, while 36% believed this information should be solely in management disclosures. Sixteen percent (7 respondents) stated this information should come solely from the auditor.

Respondents were asked whether requiring auditors to include information about close calls in the auditor's report would encourage management to develop more effective plans to address the events or conditions that cast doubt on the entity's ability to continue as a going concern. About 12% neither agreed nor disagreed with this sentiment, and the remaining sample was split between "agree" and "disagree" with no clear consensus.

## Interviews Summary

### Participant Demographics

A total of 26 individuals were interviewed. Participants describe themselves as financial statement users (12), financial statement preparers (9), financial statement users/preparers (2), and financial statement users/other (3). Participants have an average of 28 years of professional experience.

Participants work in a variety of industries including financial services, food services, hospitality and travel, insurance, not-for-profit, power and utilities, professional services, technology and telecom and media.

## Interview Method

Greg Jenkins, an auditing research professor of accounting at Auburn University and ASB member, conducted all interviews and was joined by at least one member of the ASB or staff of the American Institute of Certified Public Accountants. All interviews were conducted via video conference and were recorded to ensure accurate transcription. The average duration of interviews was approximately one hour; however, some interviews lasted almost two hours.

Interviews began with broad, general questions about the auditor's report. Participants were asked to describe the extent to which they rely on and use the report; what information would be helpful in enhancing the report's usefulness; and whether there is unnecessary information in the report and are the length and content of the current auditor's report appropriate. Those who indicated that either the length or content is not appropriate were asked to describe the changes they believe are necessary. Finally, participants were asked if there are any issues about which there should be greater transparency in the auditor's report.

These general questions were followed with questions about transparency related to going concern in the auditor's report. Participants were asked whether the current version of the report is useful when there is substantial doubt about the entity's ability to continue as a going concern; what additional information, if any, they would like to have included in the report about the auditor's consideration of going concern; whether to include an explicit going concern disclosure in the report; and whether it would be useful if a report were to include a disclosure about "close calls" involving going concern.

## The Auditor's Report

Interview participants rely on the auditor's report in different ways. Twenty percent explained that they read the report closely and another 38% indicated that they view the audit as a compliance activity such that the auditor's report is not likely to provide incremental information. Finally, the remaining participants explained that they "skim" the report and focus on any report modifications or sections that contain non-standard language. Interviews also revealed that some participants conflate the auditor's report with the company's financial statements. More specifically, these participants failed to draw a distinction between the auditor's and management's responsibilities for a company's financial statement information.

A majority of participants expressed a desire for the auditor's report to include company specific insights such as more granularity on the auditor's findings and observations on higher risk areas and internal controls. In addition, participants explained that boilerplate language (for example, language that is applicable to every audit engagement) is not useful, and the auditor's report should be written in "plain English" and avoid the use of technical jargon. Participants also noted that the auditor's report should not be the source of original information, and that management should "go first" in providing necessary disclosures. Finally, approximately one-third of participants commented that the current version of the auditor's report is sufficient and no additional information is needed to enhance its usefulness.

With respect to the length and content of the auditor's report, 42% of participants believe the report is too long while 33% believe the report length and content are appropriate. Participants raised specific concerns about the use of boilerplate language and the absence of any specific insights about the company in the report. And again, participants expressed concerns related to the technical jargon included in the report and the need to use "plain English" whenever possible. Relatedly, some participants described the current report as being "too in the weeds" such that the report is not sufficiently understandable.

Participants were finally asked whether there are any issues about which there should be greater transparency in the auditor's report. The majority said there is no need for additional transparency about any specific matter;

however, others commented that the auditor's report should include more information about specified fraud risks, the auditor's findings from the audit, and areas of the audit on which the auditor encountered challenges. Importantly, there was no consensus on the additional matters for which transparency is needed.

#### Going Concern Transparency

Most participants believe the current version of the auditor's report provides useful information when there is a substantial doubt about an entity's ability to continue as a going concern. Nonetheless, 25% of participants do not believe the report provides useful information in such circumstances. Participants cited varying reasons the report is not useful including the time lag associated with the audit reports issuance, a lack of clarity regarding the definition of going concern, and the use of jargon (that is, the lack of "plain English") to explain going concern in the context of the company being reported on by the auditor.

The majority of interview participants do not believe additional information about going concern is needed in the auditor's report. Those participants who believe additional information should be included indicated a desire to have specificity about the length of the time period evaluated by the auditor as the current report describes the auditor's responsibility using the term "for a reasonable period of time" (see AU-C 700.36), more specific information about the cause(s) of substantial doubt, how the auditor responded to the substantial doubt, and more detailed information about management's plans.

Participants were divided equally on the question of whether an explicit statement such as that in the proposed ISA 570 (see paragraph 33a(i) and (ii)) should be included in the auditor's report. Comments from participants reflect the varied opinions on the proposed language. Some participants felt that the standard should take the opposite approach and only include language about going concern when there is a material uncertainty because going concern is the appropriate basis of accounting unless there are circumstances to the contrary. Several participants found the proposed wording to be confusing (for example, it is not clear what time-period is relevant to the statement that "management's use of the going concern basis of accounting is appropriate"), and some indicated that the proposed wording could be interpreted as providing more than reasonable assurance on going concern.

Finally, there was no consensus as to whether close call information should be included in the auditor's report. More specifically, 44% of participants do not believe such information should be included, 36% believe it should, and 20% is unsure. Participants expressed concern that including close call information could lead to false doubts about a company's ability to continue as a going concern, become a self-fulfilling prophecy, or lead to increased borrowing costs. Participants also commented that requiring auditors to include close calls information in their report could lead to tensions with management and that there should be no disclosure if doubt were alleviated. Some analogized the auditor's close call decision to other instances in which auditors evaluate evidence and ultimately decide that there is no misstatement. Participants also reiterated the view that unless management discloses close call information, the auditor's report should not be the original source of information. Finally, participants who believe close call information should be included in the auditor's report indicated that to be useful the auditor's report should describe the circumstances that led to the close call and how it was alleviated.

#### Australian Auditing and Assurance Standards Board (AUASB)

The AUASB would like to draw attention to the following matters that have been raised during our consultation process:

#### Financial Reporting Requirements

As detailed in our response to Question 1 above, in the absence of corresponding changes to the current financial reporting requirements for more robust requirements in respect of management's going concern assessment and accompanying disclosures in the financial statements, we express concern that the proposed changes to the auditor's report may unintentionally widen the expectation gap with respect to the auditor's responsibilities. We encourage the IAASB to continue its engagement with the IASB to provide more detailed reporting requirements in relation to going concern in the financial statements, as well as how to perform management's assessment as to the ability for the entity to continue as a going concern and whether a material uncertainty exists.

#### Objectives of the Auditor

The overall objectives in paragraph 9 of ED-570 are consistent with extant ISA 570. However, the AUASB consider that the proposals in ED-570 for the auditor to report additional information if there are events or conditions which may cast significant doubt as to the ability to continue as a going concern, results in an additional objective for the auditor to identify if such events or conditions exist.

#### Written Representations

We recommend revising paragraph 38, or including an additional requirement, to require the auditor to request written representations from management and, where appropriate, TCWG, in circumstances where events or conditions have not been identified that may cast significant doubt on the entity's ability to continue as a going concern. This should also include if management do not consider it necessary and therefore have not performed a detailed assessment of the entity's ability to continue as a going concern.

#### Review Engagements

We express concerns that the proposals in ED-570 further exacerbate the inconsistency between the auditor reporting requirements regarding going concern in an audit versus all review engagements, and in particular ISRE 2410. At a minimum we recommend the inclusion of prescriptive requirements in ED-570 or consequential amendments to ISRE 2410, to clearly establish to what extent the auditor is required to apply the requirements of the revised standard at a half year review.

#### Method, Assumptions and Data Used in Management's Assessment

We recommend that the IAASB should clarify that the requirements stipulated in paragraph 19 should apply both when evaluating management's assessment and when evaluating management's plans for future actions when events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern.

#### **Austrian Chamber of Tax Advisors and Public Accountants (KSW)**

As the IAASB states that the implementation of ED-ISA 570 is planned to be at the same date as the implementation of ED-ISA 240, we suggest that the approval process of ISA 570 should be synchronized with that of ISA 240, as we believe that similar issues will arise.

#### **Canadian Auditing and Assurance Standards Board (AASB)**

Para. A21 – Clarifying sentence: To enhance clarity, suggest redrafting 2nd bullet point as follows: "If alternative methods, assumptions or data, if any, that were considered by management..."

Para. A32 – Example of publicly available information may also serve as contradictory information: Para. A32 provides publicly available information from external sources as an example of corroborative information. Publicly available information may also serve as an example of contradictory information.

Para. A48 – Analytical procedures on prospective information need not be conditional: 2nd last bullet in para. A48 indicates that analytical procedures may be performed when prospective financial information is particularly significant. It is unclear why the condition “particularly significant” is needed for performing analytical procedures. Suggest simply stating: “If management prepared When prospective financial information is particularly significant to management's plans for future actions, performing analytical procedures by comparing...”

Para. A58 – Lack of change may also be an indicator of management bias: The second bullet in para. A58 provides an example of changes in the method or assumptions may be an indicator of management bias. It would be useful to add that lack of changes, when changes expected, may also be an indicator of management bias.

#### Significant Comments

Para. 28 may be misinterpreted as obligating the auditor to perform audit procedures after the date of the auditor's report in all cases

Concern: While we understand that para. 28 is derived from para. 16 of the extant ISA 570, the words “shall consider” in para. 28 is unclear and may be misinterpreted as requiring the auditor to perform audit procedures after the date of the auditor's report beyond what is required by para. 10 of ISA 560, Subsequent Events. ISA 560.10 states that “the auditor has no obligation to perform any audit procedures regarding the financial statements after the date of the auditor's report”, and only requires the auditor to take action “if, after the date of the auditor's report but before the date the financial statements are issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report.”

Suggest: We suggest redrafting para. 28 to achieve the intended auditor's responsibility in a manner that better aligns with ISA 560.10:

The auditor shall consider whether any If additional information has become available to the auditor after the date of the auditor's report but before the date the financial statements are issued that is related to management's assessment of the entity's ability to continue as a going concern that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report. If so, the auditor shall perform procedures in accordance with ISA 560.

Para. 32(a) may require disclosures not required by financial reporting frameworks

Concern: Para. 32(a) requires the auditor to 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.” Many financial reporting frameworks do not require disclosure of management's plans. We understand that this wording is carried forward from para. 19(a) of the existing ISA 570. However, results of our outreach indicate that, in such cases, para. 32(a) would, in effect, place a requirement on management to include disclosures that is otherwise not required by the financial reporting framework.

Suggest: We suggest redrafting para. 32(a) as follows: “... adequately disclose the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, to the extent required by the financial reporting framework, management's plans for future actions to deal with these events or conditions.”

## Management representation

Concern: ED-570 has many new requirements relating to the auditor's evaluation of management's going concern assessment. However, there are no corresponding requirements for the auditor to request management representations relating to their responsibilities to identify events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and to assess the entity's ability to continue as a going concern.

Suggest: To emphasize management's responsibilities and to support other audit evidence, the IAASB should consider requiring the auditor to request management to provide written representations that:

management has informed the auditor of all events or conditions that may cast significant doubt on the entity's ability to continue as a going concern of which they are aware; and

these events or conditions are included in management's assessment of the entity's ability to continue as a going concern.

## Conforming and consequential amendments – Going concern communications in comparative financial statements

Concern: Illustration 4 of ISA 710 deals with comparative financial statements. Since an audit opinion is expressed for each period for which financial statements are presented, there is a need to clarify whether a material uncertainty existed in the prior period (i.e., one could have existed in the prior period but no longer exists in the current period).

Suggest: Modifying the circumstances assumed as follows: "Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ISA 570 (Revised 202X) for both the current period financial statements and the prior period financial statements.

## Conforming and consequential amendments – Review engagements

Concern: Many of the proposed principles and concepts in ED-570 may also apply to review engagements. For example, the requirement for the auditor to request management to perform a going concern assessment in all cases because preparing the financial statements on a going concern basis and concluding that there is no material uncertainty are, first and foremost, management's responsibility. Further, the inconsistent treatment of going concern between audit and review engagements such as the period of going concern assessment may cause confusion among financial statement users (e.g., a bank may not understand the inconsistency in going concern assessment period when requesting an audit versus a review engagement).

Suggest: We therefore suggest that the IAASB consider a project to consider reflecting the key principles and concepts on going concern in its review engagement standard.

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

As a matter of clarity, we note the reference to "continuous monitoring" in paragraph A18, which suggests that the monitoring is in real time without breaks. We therefore suggest that the word "continuous" be replaced with "ongoing" or "continual".

Based upon our response to Question 13, we do not believe it to be appropriate for auditors to "disclaim" conclusions on the appropriateness of management's use of the going concern basis of accounting and on whether a material uncertainty exists because doing so furthers the impression of users that these conclusions are "piecemeal opinions". A disclaimer of opinion as currently set forth in ISA 705 ought to suffice. For this

reason, we believe that the requirement proposed for paragraph 19(b) in ISA 705 and the corresponding statement in the report in Illustration 5 of that standard ought to be deleted.

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

We are concerned with the conforming amendments proposed to Illustration 2 of ISA 805 with respect to the statement of cash receipts and disbursements, in particular changing the status of the cash basis of accounting to a special purpose framework. When drafting ISA 805 as part of the clarity project, the IAASB had deliberated at length as to the nature of the cash basis of accounting and concluded that the cash basis of accounting is a general purpose framework. One reason was the fact that some governments and governmental organizations still use the cash basis of accounting for general purpose financial statements. However, the main reason is that a vast number of micro entities or entities that are not required by law to apply double-entry accounting or accrual accounting (e.g., micro unincorporated associations, such as small clubs; property held jointly or in common, such as rental properties held by natural persons; micro partnerships, etc.) around the world use the cash basis of accounting, which is probably in terms of the sheer number of entities more prevalent than accrual accounting. Such statements are often provided to members, potential members, owners and potential owners, creditors (e.g., in the case of rental properties with a mortgage) and others, even if those statements are not publicly available. To claim that the cash basis of accounting is special purpose in these circumstances is somewhat disingenuous. It is true that such statements are less often subject to audit, but that is not the issue. For this reason, we recommend that the description in the box at the beginning of Illustration 2 revert to describing the cash basis of accounting as a general purpose framework. However, we do agree with the elimination of the description of management's and the auditor's responsibilities with respect to going concern, since this is not a reasonable proposition in relation cash basis financial statements. It may be helpful to include a phrase in the second sentence of paragraph 2 of ISA 570 to clarify that the cash basis of accounting is the one exception to general purpose financial statements being prepared using the going concern basis of accounting.

#### **Japanese Institute of Certified Public Accountants (JICPA)**

Comment on the wording of paragraph 24

Paragraph 24 states that with respect to information used in management's assessment, "the auditor shall consider whether management's assessment includes all relevant information of which the auditor is aware as a result of the audit." However, since the auditor may become aware of information not only as a result of the audit but also during the audit, we suggest that "as a result of the audit" be revised to "during the audit" or "as the auditor performs audit procedures" to avoid misunderstanding.

#### **New Zealand Auditing and Assurance Standards Board (NZAuASB)**

We bring to your attention the following editorial comments:

ISA 540, paragraph A75, ... events or conditions that may cast doubt on about the entity's ability to continue as a going concern.

ISA 705 (Revised), Illustration 1, the word "exist" appears to be inadvertently struck out.

#### **4. Accounting Firms**

##### **Assirevi**

We recommended that the second sentence of paragraph A83 of ED-570 specifies that reference to paragraph 19 of ISA 705 relates to cases when an auditor disclaims an opinion due to an inability to obtain



sufficient appropriate audit evidence. For example, the sentence could be modified as follows: “When the auditor disclaims an opinion due to an inability to obtain sufficient appropriate audit evidence, [...]”. This would make the sentence clearer.

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

#### **BDO International (BDO)**

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

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

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

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

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

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

We question why the written representation requirement in ED-570 paragraph 38 is not similar to ISA 540 paragraph 37, considering the work effort required by ED-570 paragraph 19. We recommend adding another requirement in paragraph 38:

“(d) Whether the methods, significant assumptions and the data used in the going concern assessment and the related disclosures, if required, are appropriate and in accordance with the applicable financial reporting framework.”

We would like to raise the following:

Item 1 - in the conforming and consequential amendments arising from the proposed ISA-570 (Revised 202x) section with regards to ISA 210 paragraph A24. The added second last bullet reads:

“The requirements for the auditor to describe 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 propose including in the sentence the following blue text:

“The requirements for the auditor to describe in the auditor’s report 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).”

This will ensure it is consistent with the wording in the last added bullet in that paragraph, regarding the communication of key audit matters in the auditor’s report.

Item 2 - with regards to the consideration of the impact of cybercrime on the ability of an entity to continue as a going concern, we request the IAASB provides application material on how the auditor may consider the impact of information technology failures or cyberthreats as a result of cybersecurity threats, on an entity’s ability to continue as a going concern. Globally, entities are threatened on an almost daily basis with cyberattacks, and thus an entity’s vulnerability to these attacks, and the potential impact of these threats on an entity’s ability to continue as a going concern assumption needs to be considered.

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)).

#### **CohnReznick LLP (CHR)**

#### **ADDENDUM 1**

##### **Financial Support by Third Parties or the Entity’s Owner-Manager**

.17 When management’s plans include financial support by third parties or the entity’s owner-manager (hereinafter referred to as “supporting parties”) and such support is necessary in supporting management’s assertions about the entity’s ability to continue as a going concern for a reasonable period of time, the auditor should obtain sufficient appropriate audit evidence about the following:

- a. The intent of such supporting parties to provide the necessary financial support, including written evidence of such intent, and (Ref: par. .A32–.A37)
- b. The ability of such supporting parties to provide the necessary financial support (Ref: par. .A24, .A38)

The failure to obtain the written evidence required by item (a) constitutes a lack of sufficient appropriate audit evidence regarding the intent of the supporting parties to provide financial support. Therefore, the auditor should conclude that management’s plans are insufficient to alleviate the determination that substantial doubt

exists about the entity's ability to continue as a going concern for a reasonable period of time. (Ref: par. .A32–.A34)

#### Financial Support by Third Parties or the Entity's Owner-Manager

##### Intent

##### Support Letters or Written Confirmations

.A32 The auditor's evaluation of the support letter (as further described in paragraph .A33) or written confirmation includes consideration of the terms and conditions of the commitment and may include, as applicable, considerations of the legality and enforceability of the commitments.

.A33 The intent of supporting parties to provide the necessary financial support may be evidenced by either of the following:

- a. Obtaining from management written evidence of a commitment from the supporting party to provide or maintain the necessary financial support (sometimes referred to as a "support letter").
- b. Confirming directly with the supporting parties (as described in paragraph .A35) the existence of commitments to provide or maintain the necessary financial support. Confirmation may be necessary if management only has oral evidence of such financial support.

.A34 When the financial support is provided by an owner-manager, the evidence regarding intent may be in the form of a support letter or a written representation.<sup>29</sup>

29 See section 580, Written Representations .

##### Obtaining Written Confirmations

.A35 If the auditor obtains a support letter as described in paragraph .A33a, the auditor may still request a written confirmation in accordance with section 505, External Confirmations , from the supporting parties regarding the contents of the support letter. For example, such written confirmation may be requested when, in the auditor's professional judgment, a written confirmation is necessary to determine the validity of the support letter as well as the accuracy and completeness of the related terms and conditions.

##### Illustration of the Third-Party Support Letter

.A36 The purpose of the support letter from supporting parties is to provide sufficient appropriate audit evidence about the supporting parties' intent to provide financial support to the entity. The support letter may also include additional material facts and circumstances that may be pertinent to the determination of whether substantial doubt exists about the entity's ability to continue as a going concern for a reasonable period of time. The following is an illustration of a support letter that may be requested from the supporting parties when the applicable financial reporting framework is FASB ASC. The illustrative wording also includes an assertion about the supporting party's ability to provide financial support, but such wording does not, by itself, provide sufficient appropriate audit evidence regarding ability.

(Supporting party name) will, and has the ability to, fully support the operating, investing, and financing activities of (entity name) through at least one year and a day beyond [insert date]<sup>30</sup> (the date the financial statements are issued or available for issuance, when applicable).

30 See paragraph .A37.

Depending on the facts and circumstances, this written support letter may be adapted, for example, by adding the following wording:

This also applies to any amounts that may ultimately be due to the Internal Revenue Service as a result of the recent judgment against (entity name) and also applies should (entity name's) debt not be refinanced when the debt becomes due in the next year.

.A37 In accordance with section 700, Forming an Opinion and Reporting on Financial Statements, or section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA, the auditor is required to date the auditor's report no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements.<sup>31</sup> Accordingly, in order to cover the assessment period required by the applicable financial reporting framework, the support letter or the written confirmation defines a specific date through which the supporting party intends to provide support. For example, for financial statements prepared in accordance with FASB ASC, the date would be a year and a day beyond the date that the financial statements are issued (or available to be issued, when applicable). Specifying a date in the support letter or written confirmation that is later than the expected date that the financial statements will be issued (or will be available to be issued, when applicable) may obviate the need to obtain updated information from the supporting parties. The period covered by the support letter or written confirmation may be shorter if there is another source of support that management intends to utilize in order to continue as a going concern through the assessment period. Such other support would be subjected to the same auditing procedures discussed in this section. [As amended, effective for audits of financial statements for periods ending on or after December 15, 2021, by SAS No. 136.]

31 Paragraph .43 of section 700, Forming an Opinion and Reporting on Financial Statements, or paragraphs .82 and .126 of section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA. [As amended, effective for audits of financial statements for periods ending on or after December 15, 2021, by SAS No. 136.]

#### Ability

.A38 With respect to the supporting party's ability to provide support, matters to which the auditor may give consideration include the following:

- a. Audit evidence of past support obtained from the supporting party when such support was needed.
- b. The solvency of the supporting party and the sufficiency of the evidence supporting the solvency assertion. The auditor may obtain financial statements of the supporting party audited by a reputable auditor as evidence of the ability of the supporting party to provide the needed support. If the financial statements have not been audited, the auditor may perform other procedures, such as obtaining bank statements and evidence regarding the valuation of assets held by the supporting party that may be used to provide the needed support. However, these procedures might not provide evidence regarding other claims on the pledged assets that would limit the ability of the supporting party to use the assets to provide the support to the reporting entity.
- c. The ability to provide the needed support in a timely manner for the reporting entity to meet its obligations.
- d. When the entity and supporting party are in different countries, the ability of the supporting party to transfer the necessary funds (or other financial support) to the entity. Factors such as trade embargos, financial transfer restrictions, and war may limit the ability to transfer the necessary financial support.

Given the nature of these matters, the auditor may consult with legal counsel, as appropriate.

We believe the IAASB should consider providing an option for reporting under ISA 805 (Revised) for the auditor to indicate that the audit did not include an evaluation of the Company's ability to continue as a going concern. Extant ISA 805.1 indicates that the 100-700 series applies to an audit of the financial statements and are to be adapted as necessary in the circumstances when applied to audits of other historical financial

information. Although there is certain guidance related to the consideration of going concern, such as ISA 805.A19, we believe it would be in the public interest to provide explicit guidance for situations when auditors audit a specific element, account or item of a financial statement. We believe confusion may exist among auditors and the public about the extent to which a material uncertainty regarding going concern has been considered, particularly when the auditor audits only a specific element, account or item of a financial statement.

We recommend that the IAASB consider requiring ISA 805 reports to include an explicit statement as to whether the auditor's work involved an evaluation of management's assessment of the entity's ability to continue as a going concern. In this regard, . A potential Other Matter paragraph may read as follows:

#### Other Matter

Because this schedule is not a complete set of financial statements, our audit did not include an evaluation of the Company's ability to continue as a going concern.

#### Deloitte Touche Tohmatsu Limited (DTTL)

Please see Appendices 2 and 3 to this comment letter for further comments.

#### Appendix 3 – Recommended Consequential Revisions Related to Auditor Reporting

We recommend the following revisions to the proposed standard to support the changes to the auditor's report that we describe in the Significant Concerns section of the cover note of this letter:

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

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

(a) State that the auditor, based on the audit evidence obtained:

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

(ii) Based on the audit evidence obtained, has 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.

(b) State that the auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report, but future events or conditions may cause the entity to cease to continue as a going concern.

(b) For an audit of financial statements of a listed entity, if events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained, the auditor concludes that no material uncertainty exists:

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

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

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

auditor shall determine whether any such matters were of most significance in the audit of the financial statements of the current period and therefore are key audit matters.

#### Use of Going Concern Basis of Accounting Is Appropriate – A Material Uncertainty Exists

##### Adequate Disclosure of a Material Uncertainty Is Made in the Financial Statements

If adequate disclosure about the 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 the auditor, based on the evidence obtained, concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate;

(b) State that the auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report, but future events or conditions may cause the entity to cease to continue as a going concern.

(b) (c) Include a reference to the related disclosure(s) in the financial statements;

(c) (d) 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;

(d) (e) For an audit of financial statements of a listed entity, describe how the auditor evaluated management's assessment of the entity's ability to continue as a going concern; and

(e) (f) State that the auditor's opinion is not modified in respect of the matter.

##### Adequate Disclosure of a Material Uncertainty Is Not Made in the Financial Statements

If adequate disclosure about the material uncertainty is not made in the financial statements, the auditor shall:

(a) Express a qualified opinion or adverse opinion, as appropriate, in accordance with ISA 705 (Revised);

(b) In the Basis for Qualified (Adverse) Opinion section of the auditor's report,:

(i) sState that a material uncertainty exists and that the financial statements do not adequately disclose this matter;

(c) Include in the auditor's report a separate section under the heading "Material Uncertainty Related to Going Concern" and:

(i) (ii) State that, notwithstanding the auditor's qualified (adverse) opinion, 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) Draw attention to the Basis for Qualified (Adverse) Opinion section of the auditor's report that states that a material uncertainty exists that has not been adequately disclosed in the financial statements.

(iii) State that the auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report, but future events or conditions may cause the entity to cease to continue as a going concern.

A68. The statements required by paragraphs 33–35 represent the minimum information that is to be presented in the auditor's report in each of the circumstances described. The auditor may provide additional information to supplement the required statements. The Appendix of ISA 700 (Revised) includes illustrative wording to be included in the auditor's report for all entities in relation to going concern to describe the respective responsibilities of those responsible for the financial statements and the auditor in relation to going concern.

In addition, we recommend the following edits to Illustrations 3-5 in the “Material Uncertainty Related to Going Concern” section):

#### Material Uncertainty Related to Going Concern

Based on the audit evidence obtained, we We have concluded that management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate...

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 the following edits to Illustration 6, based on our comments above that the “Material Uncertainty Related to Going Concern” section be removed from the auditor’s report when an adverse opinion is given that is related to a material uncertainty:

#### Basis for Adverse Opinion

The Company’s financing arrangements expired and the amount outstanding was payable on December 31, 20X1. The Company has been unable to conclude re-negotiations or obtain replacement financing. This situation indicates that a material uncertainty exists that may cast significant doubt on the Company’s ability to continue as a going concern. The financial statements do not adequately disclose this fact.

Notwithstanding our adverse opinion, we have concluded that management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our conclusion is 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 conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in [jurisdiction], and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

#### 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, as described in the Basis for Adverse Opinion section of our report, a material uncertainty exists that has not been disclosed in the financial statements.

#### Appendix 2 – Detailed Comments, including Editorial Comments

##### Paragraph A6

We recommend reinstating phrasing that indicated the list of examples of events or conditions in the application material did not automatically mean a material uncertainty existed, along with making other editorial changes, as follows:

A6. The auditor's identification of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern is before consideration of any related mitigating factors included in management's plans for future actions. The auditor considers such mitigating factors in accordance with paragraphs 26–27. Some events or conditions may not be cast significant doubt when considered individually, however when considered collectively with other events or conditions they may cast significant doubt on the entity's ability to continue as a going concern.

#### Examples:

The following events or conditions are examples of identified events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern. These examples are not all-inclusive, nor does the existence of one or more of the items always signify that a material uncertainty exists.

#### Paragraph 14

Paragraph 14 requires the auditor to determine whether "events or conditions" exist which "may cast significant doubt"; however, it does not describe what the auditor is required to do as a result – the latter is included in paragraph 25. We recommend combining paragraph 14 and 25 to link these related items together.

#### Paragraph A30

This paragraph states that "management not performing an appropriate assessment may be an indicator of a deficiency in internal controls." We believe it would be helpful to provide guidance as to when a detailed analysis would be helpful. See proposed edits as follows:

A30. It is not the auditor's responsibility to rectify a lack of analysis by management. In some circumstances, however, a lack of detailed analysis by management to support its assessment may not prevent the auditor from concluding whether management's use of the going concern basis of accounting is appropriate in the circumstances. For example, when the entity has profitable operations and there are no liquidity concerns, management may make its assessment without detailed analysis. However, in situations when, in the auditor's professional judgment, management has not performed an appropriate assessment (for example, when management has not performed a detailed analysis when a significant amount of judgment was necessary to support the assessment), this may be an indicator of a deficiency in internal control in accordance with ISA 265

#### Paragraph A68

We recommend the following edit to A68 as some of the illustrations in ISA 700 (Revised) are only for auditor's reports on listed entities:

A68. The statements required by paragraphs 33–35 represent the minimum information that is to be presented in the auditor's report in each of the circumstances described. The auditor may provide additional information to supplement the required statements. The Appendix of ISA 700 (Revised) includes illustrative wording to be included in the auditor's report for all entities in relation to going concern to describe the respective responsibilities of those responsible for the financial statements and the auditor in relation to going concern.

#### Heading above Paragraph A73

To correct references in the headings, we recommend the following edits:

Description of How the Auditor Evaluated Management's Assessment of Going Concern (Ref: Para. 3533(b)(ii), 3634(d))

#### Conforming Amendments – ISA 210

We recommend that the IAASB reconsider the placement of the two new bullets within paragraph A24 on the form and content of the audit engagement letter. Instead of placing them at the end of the bulleted list, we suggest after the bullet



“The form of any other communication of results of the audit engagement” so that they are in a more logical sequence as compared to the other bullets in this paragraph.

#### Conforming Amendments – ISA 230

We recommend either reverting to extant wording of the second bullet of paragraph A10, which is describing examples of circumstances in which it is appropriate to prepare audit documentation relating to the use of professional judgment, or providing another example as well, so that going concern is not the only subjective judgement presented.

#### Ernst & Young Global Limited (EY)

Our additional comments relating to ED-570 include:

We strongly suggest that the IAASB provide application material to paragraph 30 of ED-570 to explain the thought process the auditor should follow in concluding whether a material uncertainty exists, consistent with the IAASB’s decision to include additional guidance to help the auditor conclude on “event and conditions that may cast significant doubt” in paragraph A5. We note that there is some guidance in paragraph A62 explaining management’s considerations when deciding whether a material uncertainty exists, but we feel it is very important to include similar application guidance from the auditor’s perspective.

We noted that there are no specific documentation requirements in ED-570. While we acknowledge that the overarching documentation requirements in ISA 315 (Revised), ISA 500 and ISA 230 apply to the requirements in ED-570, we believe it’s important to clarify in ED-570 the auditor’s responsibilities to document:

The identified events and conditions that may cast significant doubt on the entity’s ability to continue as a going concern and the rationale for the significant judgments made in their identification (refer also to our response to Q6); and

The auditor’s significant judgments in concluding whether a material uncertainty exists related to events and conditions that may cast significant doubt on the entity’s ability to continue as a going concern.

As it relates to the example in paragraph A6 of ED-570 regarding a cyber-attack, we note that often entities experience attempts, or attacks, to gain unauthorized access to an entity’s IT systems and information in them that are not successful as a result of the entity’s cybersecurity measures. It is not until an attack is successful, or a cyber breach occurs, that the entity may experience operational or financial disruption. We suggest that the example be revised as follows:

Significant or sustained business interruption due to a successful cyber-attack (e.g., denial of access to information or inability to provide service).

We also note that while this example considers the operational implications of a successful cyber- attack, it is important for the auditor to consider the potential financial implications as well. We suggest that the bullet be expanded to consider the financial implications. For example, a successful cyber-attack may directly impact the financial position of the entity (e.g., due to a change in key financial ratios as a result of the theft of cash; pending litigation, contingent liabilities or fines and penalties resulting from the loss of personal data; or deterioration in the value of compromised assets such as intellectual property) or may indirectly impact the financial position of the entity (e.g., due to negative cash flows resulting from reputational damage or loss of customers).

We suggest the following revision to the first sentence of paragraph A9 of ED-570:

The risk assessment procedures and related activities assist the auditor in determining whether the existence of a material uncertainty management's use of the going concern basis of accounting is likely to be an important issue and its impact on planning the audit."

In our view, the risk of a material uncertainty existing is more likely to have a greater impact on the audit than the risk of the going concern basis of accounting being inappropriate. This suggested revision aligns with the auditor's responsibility, as defined in paragraph 6 of ED-570, "to conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern."

Paragraph A12 of ED-570 includes the following example:

Applying predictive models to assess an entity's financial condition or to understand the impact of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (e.g., models for bankruptcy prediction).

In our view, the auditor is unlikely to use predictive models when designing and performing risk assessment procedures. This example would be more appropriate as an example to paragraph A36 of ED-570 where the auditor considers and evaluates management's methods and assumptions. Additionally, we suggest the following revisions to the example:

Applying predictive models to assess evaluate an entity's financial condition or to understand the impact of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (e.g., models for bankruptcy prediction of bankruptcy or insolvency).

Illustration 2 of the Appendix to ED-570 includes the following example:

#### Going Concern

We draw attention to Note X in the financial statements, which describes the political and economic uncertainties faced by the Company and the range of mitigating actions that have been deployed to address the effects on the Company's business activities.

In our view, this example includes an unlikely scenario as political and economic uncertainties are more likely to be addressed in other information rather than financial statement disclosures and does not present a realistic example for which management may take mitigating actions. We believe the example should be revised to a more likely scenario, such as an upcoming material debt refinancing, to better describe the intended circumstance.

In the Conforming and Consequential Amendments Arising from Proposed ISA 570 (Revised 202X), we suggest the following revision to the penultimate bullet point in paragraph A24 of ISA 210, Agreeing the Terms of Audit Engagements:

... For an audit of financial statements of a listed entity, tThe requirements for the auditor to describe 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). [FN 8 omitted]

We also have the following editorial comments for the IAASB's consideration:

We suggest the following revision to the first sentence of paragraph 3 of ED-570:

Some financial reporting frameworks contain an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern, and include standards regarding matters to be considered..."

We suggest the following revision to paragraph 32(a) of ED-570:

...to continue as a going concern and management's plans for future actions to deal with address these events or conditions; and...

We suggest the following revision to paragraph 32(b) of ED-570:

...to continue as a going concern and, therefore, that it the entity may be unable to realize its assets and discharge its liabilities in the normal course of business.

#### **Grant Thornton International Limited (GT)**

We note that some stakeholders have expressed an increased interest in sustainability matters and their potential impact on an entity's financial condition and results of operations. While it might be rare for sustainability matters to lead to required going-concern disclosures in accordance with IAS 1, it is nevertheless important for companies and auditors to consider such risks in their respective going-concern evaluations. Therefore, it might be helpful to include, in the guidance for ED-570, a specific reference to sustainability risks along with other risks that should be considered.

#### **KPMG International Limited (KPMG)**

##### **Objectives of the Auditor**

We consider that certain proposed enhancements in 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 related to going concern disclosures in certain financial reporting frameworks. We believe that appropriate disclosures in the financial statements themselves, to 'tell the story' holistically regarding going concern, in a cohesive way, is critical to users of financial statements, and in the absence of changes, at a more granular level, to financial reporting standards in this area, we consider that the enhanced requirements placed on the auditor represent the mechanism to achieve this. Accordingly, and notwithstanding the concerns we raised previously 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 to balance the roles and responsibilities of others, as well as auditors, in the financial reporting ecosystem, we recommend that the auditor's objectives at paragraph 9 of the ED include an additional objective in respect of going concern disclosures, linked to considerations in respect of whether fair presentation of financial statements has been achieved. Setting out such an objective explicitly within the ED would be helpful for auditors in their discussions with management and TCWG.

##### **Going Concern and Special Purpose Frameworks**

As noted in ISA 800.A15, special purpose financial statements may or may not be prepared in accordance with a financial reporting framework for which the going concern basis of accounting is relevant (e.g., the going concern basis of accounting is not relevant for some financial statements prepared on a tax basis in particular jurisdictions). In the relatively rare scenarios where going concern is not relevant to the special purpose framework, it is unclear as to whether ISA 570 still applies and, if so, how the objectives at ISA 570.9(b) for the auditor to conclude, based on the evidence obtained, whether a MURGC exists, and ISA

570.9(c) to report in accordance with this ISA would be complied with. This question may be relevant, in particular, when the special purpose framework is a compliance framework.

For example, paragraph 35 applies when adequate disclosure of a material uncertainty is not made in the financial statements. That paragraph requires that if adequate disclosure about the material uncertainty is not made in the financial statements, the auditor shall express a qualified or adverse audit opinion and 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.

If the auditor concluded that the going concern basis of accounting is not relevant, the financial statements are prepared in accordance with the applicable financial reporting framework, and the non-disclosure of the material uncertainty is not misleading to the users of the financial statements, it is unclear whether this paragraph is then applicable or not. If the intent is that this paragraph is still applicable, we see this as problematic as the requirements require the auditor to express a qualified opinion or adverse opinion when the financial statements are prepared in accordance with the applicable financial reporting framework and the auditor has concluded that the non-disclosure of a material uncertainty is not misleading. In addition, paragraph 35(c)(i) requires the auditor to state in the report that the auditor concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate (even though the auditor has concluded this is not relevant).

We note that the conforming amendments to the ED propose to remove the description of both management's and the auditor's responsibilities in respect of going concern from the illustrative example reports in ISA 800 and ISA 805 where going concern is not relevant to the special purpose framework, suggesting that the IAASB does not consider that ISA 570.9(b) and (c) would be applicable in this situation. We recommend that the IAASB clarify whether the standard is expected to be applied when the going concern basis is not relevant to the basis of accounting and the existence of MURGC would not be relevant to the users of the financial statements and, if so, provide additional application material with respect to how to apply the standard in these scenarios.

#### **Nexia Australia Pty Ltd (NAPL)**

Auditors in Australia routinely utilise ASRE 2410 (the Australian equivalent of ISRE 2410) in the performance of disclosing entities' interim financial reports. Consequently, we recommend that the IAASB undertake a detailed assessment of ISRE 2410 should it proceed with the proposals in the ED.

#### **PriceWaterhouseCoopers (PwC)**

##### **Firm-level quality management**

A firm's system of quality management plays an important role in supporting engagement level quality. We suggest additional application material be included describing how appropriate firm-level quality management policies and procedures can be an important source of information in support the work performed by engagement teams in relation to considering risks relating to going concern and the design and performance of appropriate procedures to respond to assessed risks. For example, the firm's information system and communication component may be an important source of information for engagement leaders by providing a centralised repository of market, credit rating, and other information that may be indicative of going concern risks for a firm's portfolio of clients.

For entities other than listed entities, when KAM are not required to be included in the auditor's report, providing additional guidance to highlight the availability of using an emphasis of matter paragraph in the auditor's report to draw attention to disclosures in the financial statements that are considered fundamental

to users' understanding (in circumstances when events or conditions were identified but ultimately no material uncertainty was deemed to exist) may be a useful reminder.

### **RSM International Limited (RSM)**

We noted that paragraph 34 of ED-570 states that the auditor shall express an unmodified opinion when there is a material uncertainty made in the financial statements and adequate disclosure about the matter is made in the financial statements. Even though this is consistent with paragraph 22 of extant ISA 570 (Revised), we do not believe the statement, "shall express an unmodified opinion" is appropriate, since there could be issues other than going concern that may cause an auditor to express a modified opinion. We recommend one of the following:

Deleting the reference to the type of opinion entirely.

Changing "shall express an unmodified opinion" to "may express an unmodified opinion [assuming no other issues identified that would cause a modified opinion]."

Changing it to "express an unmodified opinion with respect to this matter."

## **5. Public Sector Organizations**

### **Office of the Auditor General New Zealand (OAGNZ)**

We have the following comments on paragraph 28:

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

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

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

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

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

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

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

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

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

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

We have the following comments on the illustrative examples:

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

We recommend that illustrative example 3 be amended as follows:

"Management used the going concern basis of accounting in the preparation of the financial statements. We have concluded that evaluated managements' assessment of the Company's ability to continue as a going concern for the twelve-month period starting from the date of approval of the financial statements to conclude whether this basis use of the going concern basis of accounting in the preparation of the financial statements is appropriate is appropriate. However, we

We draw attention to Note X in the financial statements, which indicates that the Company incurred a net loss of ZZZ during the year ended December 31, 20X1 and, as of that date, the Company's current liabilities exceeded its total assets by YYY. As stated in Note X, these events or conditions, along with other matters as set forth in Note X, indicate that outlines the existence of a material uncertainty exists related to going concern and management's [plans for future actions / actions undertaken] to mitigate the effects that the uncertainty could have that may cast significant doubt on the appropriateness of the use of the Company's ability to continue as a going concern basis of accounting.

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

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

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

We have the following concluding comment:

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

#### Office of the Auditor General of Canada (OAGC)

Yes, we have one further matter to raise. The Explanatory Memorandum of ED-570 states that the new requirement in paragraph 28 in ED-570 is "intended to work with and apply in the context of the requirements in ISA 560 relating to facts which become known to the auditor after the date of the auditor's report but before the financial statements are issued."

The proposed paragraph 28 in ED-ISA 570 does not explicitly state the timing of when the auditor shall "consider whether any additional information has become available" and differs from ISA 560 which states "a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report".

If the IAASB's intention is to be consistent with ISA 560, consider amending Paragraph 28 of ED-ISA 570 with the following improvements:

28 The auditor shall consider whether any facts have become known to the auditor after the date of the auditor's report but before the date the financial statements are issued that is related to management's assessment of the entity's ability to continue as a going concern. If so, the auditor shall perform procedures in accordance with ISA 560.

If it is not the IAASB's intention to be consistent with ISA 560 then additional guidance or explanatory information is needed to assist auditors in interpreting the requirement and procedures expected to be performed.

### UK National Audit Office (UKNAO)

#### Financial Sustainability in the public sector

Paragraph A66 has been included within ED-570 as relevant guidance for the public sector context. Given the financial reporting framework used in the UK public sector and other jurisdictions, we do not find this paragraph helpful as it may cause confusion between separate auditor responsibilities for going concern in the audit of the financial statements and for considering matters related to financial sustainability which are considered elsewhere within the audit mandate.

The assessment of going concern for most entities within the UK public sector is simple and based upon the continued provision of services and not financial sustainability. Consequently, the level of disclosure within public sector financial statements in the UK reflects this and is less extensive than you might expect for equivalent organisations (for example listed entities and public interest entities) operating in the private sector. We therefore do not consider this either to be helpful or applicable in the UK public sector context.

Furthermore, given that the definition of going concern given in the financial reporting framework for most UK public sector entities is not linked in any way to financial sustainability, we feel that it is unhelpful to include a reference to financial sustainability within the going concern standard where it is not directly relevant. There is a risk that this reference may lead to excess work and reporting of financial sustainability issues within the context of going concern where within the UK public sector the auditor has a separate statutory responsibility to report on financial sustainability matters.

General purpose financial statements where going concern is not a relevant concept.

The C&AG is appointed as auditor for a small number of general-purpose financial statements which are effectively funds or which relate to specific activity performed by government rather than a specific entity. The financial reporting framework for these financial statements is silent as to whether the concept of going concern applies to them or indeed whether they should be prepared on a going concern basis.

Given the context of these financial statements, the concept of going concern can seem abstract, irrelevant, and not helpful to the users of the financial statements and in practice, the only consideration of going concern is being undertaken by the auditor.

We therefore consider that it would be helpful to add a clarification to ED-570 that where a set of financial statements are prepared for a general purpose but do not relate specifically to the activities of an entity, then the work to be performed by an auditor to address going concern, does not need to apply all the elements of ISA 570.



## 6. Member Bodies and Other Professional Organizations

### Accountancy Europe (AE)

Within the consequential amendments, the illustrative examples (1 and 2) for ISA 800 include the wording about going concern as stipulated in ED 570, paragraph 33. The inclusion of this section in circumstances where ISA 800 is applicable should be conditional i.e., limited to cases where the special purpose statements are prepared under the going concern basis of accounting.

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

In summary, we feel that the proposed standard; does not cover limited assurance engagements.

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

In addition, while acknowledging that reasons have been put forward as to why review engagements are out of scope of this project, we note the importance of interim reporting on going concern (which is often subject to review rather than audit) and encourage the IAASB to revise ISRE2400 and ISRE2410 as a matter of urgency.

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

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

We further note the absence as part of this project of a consideration of going concern in limited assurance engagements (i.e., ISRE2400 and ISRE2410). Research reveals the importance of interim reporting of going concern (e.g., Grosse and Scott 2022; Wang 2022) and in many jurisdictions such reporting is the subject of review rather than audit. In particular, we are concerned with the potential confusion associated with different going concern reporting requirements across review and audit engagements. While we acknowledge the reasons put forward by the IAASB for not also considering ISRE2400 and ISRE2410, we nevertheless encourage the IAASB to consider as a matter of urgency revising ISRE2400 and ISRE2410 in line with the positive enhancements proposed in ED-570.

### ASEAN Federation of Accountants (AFA)

Other matters [Q16]

We would like to draw attention to paragraph 15 of ED ISA 570 where it states that based on the auditor's evaluation of each of the components of the entity's system of internal control, the auditor shall determine whether one or more control deficiencies in respect of management's assessment of going concern have



been identified. However, ED ISA 570 does not provide guidance on the implications and the procedures to be performed by the auditors in the case of the identification of control deficiencies. Expanding the application material on ED ISA 570 to address such control deficiencies may be helpful to provide clarity and consistency in the audit procedures.

### **Center for Audit Quality (CAQ)**

We have provided a comparison of the terminology used in certain auditing standards and financial reporting frameworks for general reference in the Appendix.

### **Chamber of Auditors of the Czech Republic (CA CR)**

We strictly disagree with the requirement in ED par. 28. The current wording of the par. 28 impose an obligation to the auditor to consider whether any additional information has become available to the auditor after the date of the auditor's report but before the date, the financial statements are issued that is related to management's assessment of the entity's ability to continue as a going concern. This is contradictory to ISA 560 par. 10 which says that the auditor has no obligation to perform any audit procedure regarding the financial statements after the date of the auditor's report. We do not see reason for such breakthrough the long-term established principles in ISA 560.

Also, the consideration of the auditor according to ED par. 28 should be documented, but it could be the case that the audit file is already archived based on the rules for archiving in ISQM 1 or the auditor even do not know when the financial statements are issued. For example, in the Czech Republic the financial statements are typically issued when approved by the general shareholders meeting which often happens with significant delay from the date of the report. Moreover, the management has no legal obligation to inform the auditor that the financial statements were issued. Implementing the new requirement as per ED par. 28 may therefore result in the need to archive the audit file prior to completing all procedures required by ISA and subsequently reopening and modifying such file. We find such outcome of the proposed ED illogical and inappropriate.

We propose to reword the ED par. 28 in line with ISA 560 (i.e. if after the date of the auditor's report but before the date the financial statements are issued a fact becomes known to the auditor....) and remove the strict requirement for the auditor's action.

In addition, within the consequential amendments of ISA 800, the illustrative examples (1 and 2) include the wording about going concern as stipulated in ED 570, paragraph 33. The inclusion of this section is applicable only if the special purpose statements are prepared under the going concern basis of accounting. We propose clarify this fact within the introduction of both examples (with reference to ISA 800 A15).

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

We find that the proposed revisions in ED-570 further signal the need for the IAASB to move forward with a revision of ISRE 2410 even if that is a narrow scope revision to update the standard to the clarity format and to address other issues and challenges identified (e.g., alignment with concepts and principles in other standards). The IAASB should also factor in that some National Standard Setters (NSS) have already revised their local equivalent standards such as the FRC in the UK, which recently revised ISRE (UK) 2410. In Australia and New Zealand the AUASB and NZAuASB are also considering further amendments to their local versions of ISRE 2410.

### **CPA Australia (CPAA)**

Attachment 2

Other minor areas that we have identified for clarification include:

The location of disclosure in the audit report for a 'close-call' situation. We suggest the IAASB include further clarification and specific examples to illustrate the appropriate use of the Key Audit Matter (KAM) and Emphasis of Matter (EOM) paragraphs in the audit report.

The ED-570 uses the terminology 'material uncertainty' whereas IAS 1 refers to 'material uncertainties'. We recommend the IAASB considers aligning the terminology with IAS 1.

Paragraph 10 of the ED-570 refers to 'appropriate disclosure of the nature and implications of the uncertainty'. We recommend the IAASB clarify the location of the 'appropriate disclosure' that is being referred to in paragraph 10, i.e., is it in the disclosures in the financial statements, or the disclosures in the auditor's report.

#### **IFAC SMP Advisory Group (SMPAG)**

Due to the breadth of factors that can impact going concern and the inherent uncertainty when making assessments of the future, this would appear to give more onerous responsibilities to the auditor, and ones that would be difficult to fulfil entirely. As we have identified in our response to question 13, the wording of paragraph 33(a)(ii) further compounds this issue with reference that implies the auditor should identify material uncertainties that cast doubts over going concern. Together, the wording of these paragraphs appears to extend the scope of responsibilities of the auditor in relation to going concern and place added onus on the auditor to identify material uncertainties. We would recommend the wording of these paragraphs is adjusted to emphasize the respective roles of management and the auditor making clear the responsibility for identifying material uncertainties or events and conditions that may give rise to going concern issues is the responsibility of management. The auditor's role is to check management have done a reasonable job in identifying material uncertainties rather than directly identifying these from the audit evidence obtained.

In several areas of our response, we have raised how the proposed revisions may serve to increase the expectations gap and increase confusion around the respective roles of auditor and those of management. Another problematic area that we have not been able to fully capture in our responses to the overall or specific questions relates to what might be perceived to be an expansion of the scope of the work the auditor is required to undertake. Paragraph 11 of the proposed revisions refers to the requirements of ISA 315 (Revised 2019), identifying that the auditor should perform risk assessment procedures to obtain audit evidence that provides an appropriate basis for the identification of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. Considering the issues that we have flagged due to the nature of going concern assessments being forward looking, this potentially goes beyond the requirements of ISA 315 (Revised 2019) which generally requires auditors to perform risk assessment procedures to identify the risks of material misstatement.

#### **Institute of Chartered Accountants of Sri Lanka (ICASL)**

The ED includes a number of new requirements and changes to existing requirements, which are intended to improve the auditor's assessment of an entity's ability to continue as a going concern. We believe that the ED could provide greater clarity on the distinction between a material uncertainty related to going concern and an event or condition that may cast significant doubt on the entity's ability to continue as a going concern.

#### **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.

Although ED570 describes the requirement on auditor's assessment on the period beyond the minimum period of going concern assessment, it will also be helpful to include more application guidance material on the relevant factors or circumstances that may warrant an auditor to request additional assessment to be made by management (including the look forward period that may be relevant for consideration, for example, the factors in determining a maximum window period).

We would like to draw attention to ED570.15 where it states that based on the auditor's evaluation of each of the components of the entity's system of internal control, the auditor shall determine whether one or more control deficiencies in respect of management's assessment of going concern have been identified. However, ED570 does not provide guidance on the implications and the procedures to be performed by the auditors in the case of the identification of control deficiencies. Expanding the application material on ED570.15 to address such control deficiencies may be helpful to provide clarity and consistency in the audit procedures.

We have the following comments on ED570.20:

To clarify the period to be covered to extend auditor's enquiries beyond management's assessment period.

To provide guidance on the extent of the enquiries itself given the Paragraph A40 mentions "the auditor does not have a responsibility to perform any other audit procedures to identify events or conditions that may cast significant doubt on the entity's ability to continue as a going concern beyond the period assessed by management, which, as required by paragraph 21, would be at least twelve months from the date of approval of the financial statements."

We have the following comments on ED570.32(b):

Regarding going concern, there is no requirement under paragraphs 25 and 26 of IAS 1 Presentation of Financial Statements, to consider that the entity "may be unable to realize its assets and discharge its liabilities in the normal course of business." Therefore, it may not be appropriate to add this requirement in this ISA.

To include guidance on implications to the auditor reporting if the preparer disagrees to include this statement in the financial statements.

We would like to also suggest adding application material to ED570.30 on the thought process the auditors should follow in concluding whether material uncertainty exists, consistent with the IAASB's decision. In addition, there should be guidance on the extent of documentation expected of the auditors particularly on events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

We have the following comments on ED570.36:

The ED-570 is not clear on whether the auditor is allowed to disclaim an opinion on the financial statements because of going concern alone. The sentence refers to a disclaimer of opinion, which may not necessarily be related to going concern. Further clarity in this area will be helpful.

To include an illustrative report of a disclaimer of opinion due to multiple uncertainties involving the financial statements as a whole.

Regarding the "Auditor's Responsibilities for the Audit of Financial Statements" section of the auditor's report, it is noted in the explanatory memorandum that the IAASB has formed a view that a consequential amendment to this section of the auditor's report is not necessary as the auditor's report does not need to state every aspect addressed by ISA requirements and the existing section does not give rise to inconsistencies with the revisions being proposed. There is a need to update this section to align with the proposed additional commentary about going concern required by auditors to be made in the auditor's report, including for a listed

entity. ED570 requires the auditor to provide a description on how the auditor has evaluated management's assessment of the entity's ability to continue as a going concern.

It would be helpful to include an explanatory diagram mapping going concern considerations and types of audit opinions. A similar approach can be adopted as seen in Appendix 1: Linking Going Concern Considerations and Types of Audit Opinions included in Auditing Standard ASA 570 Going Concern issued by the Auditing and Assurance Standards Board (AUASB) of Australia.

It would be helpful to include "Appendix 2 - Walkthrough of the Auditor's Decision-Making Process Whether a Material Uncertainty Exists" in the final standard. In addition, it is useful to clarify the order of the decision-making, for example, "1. Perform risk assessment procedures and related activities to identify events or conditions" and then "2. Perform audit procedures to evaluate management's assessment of going concern."

### **Malaysian Institute of Certified Public Accountants (MICPA)**

#### **Considerations When the Auditor Disclaims an Opinion on the Financial Statements**

Paragraph 36 of ED-570 is not clear whether the auditor is allowed to disclaim an opinion on the financial statements due to going concern alone. It refers to a disclaimer of opinion, which may not necessarily be related to going concern. Further clarity in this area will be helpful.

To include an illustrative report of a disclaimer of opinion due to multiple uncertainties involving the financial statement as a whole, supporting Paragraph A82 of ED-570.

### **Nordic Federation of Public Accountants (NRF)**

As an overarching comment we have some concerns with the proposals regarding the auditor's expected role in identifying risks related to going concern. Both the Explanatory Memorandum and ED-570 include many references to the auditor either identifying material uncertainties or identifying events and or conditions.

A robust corporate reporting system requires collaboration between all participants. In our view this is particularly prominent when dealing with future-oriented information. The auditor's role is to test the reliability of management's assessment and the assumptions used. However, there is a risk that this way of drafting gives the impression that the auditor's work in this regard is detached from what management is expected to do. This could imply a shift in the division of roles and responsibilities between the auditor and management that might cause unintended unclarity and create new expectation gaps.

In the consequential amendments to ISA 800 the illustrative examples (1 and 2) include wording about going concern as stipulated in ED 570 33 a). The inclusion of this section in circumstances where ISA 800 is applicable should, in our view, be conditional to where the special purpose framework is prepared under the going concern basis of accounting.

### **Saudi Organization for Chartered and Professional Accountants (SOCPA)**

In relation to the enhanced application material in ED-570 to reflect on the auditor's use of technology to perform the auditor's work related to going concern, we agree with the proposals in ED-570. However, the examples included in A12 could be enhanced by adding: Carrying out risk assessment and risk scoring. Automated risk assessment tools can assign scores or ratings to various risk factors associated with an entity's going concern. These tools can consider factors such as financial ratios, liquidity measures, debt levels, industry benchmarks, and macroeconomic indicators. By applying predefined algorithms, the tools can generate risk scores, highlighting areas of higher risk and assisting auditors in focusing their attention accordingly.

Additionally, with regard to the enhanced requirements and application material in ED-570 related to obtaining written representations, the proposal included in A38 in ED-570 should be revised to specifically state that written representations by management do not relieve an auditor from the requirement to obtain sufficient and appropriate audit evidence, to avoid overreliance by auditors on management representations. We have identified this as a significant issue since, based on auditing literature and our prior quality reviews, we observe that some auditors, in certain instances, may rely only on the written representations and make no considerable attempt to obtain sufficient and appropriate audit evidence relating to the specific matter.

#### **South African Institute of Chartered Accountants (SAICA)**

We urge the IAASB to strengthen the documentary proof and/or written representations provided by management by including an additional requirement alongside paragraph 38 for the auditor to request management and, where applicable, those charged with governance, to provide written representations that all identified events or conditions that may cause significant doubt on the entity's ability to continue as a going concern have been disclosed to the auditor and included as part of management's assessment of going concern.

We note that the IAASB may need to consider how amendments made to ISA 570 may impact the Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities.

#### **The Malta Institute of Accountants (TMIA)**

Further to the matters noted above, will ISA for LCE reflect and provide further examples and guidance in relation to scalability of procedures etc for less complex entities?

### **7. Academics**

#### **RMIT University (RMU)**

Going Concern

Exposure Draft

Ting-Chiao Huang

Robyn Moroney

Soon-Yeow Phang

Report for CPA Australia

Grant 34891:

Emerging Disclosures: Exploring the Potential Impact of

Parliamentary Joint Committee Inquiry Recommendations on Investors' Perceptions

Research Questions

The issue of going concern (GC) reporting and the form it should take is an important one. The assessment of GC uncertainty is the responsibility of both management and auditor. When preparing their financial report, management is responsible for assessing the appropriateness of the GC assumption. This assertion is then subsequently evaluated by the auditor. We are interested in whether investors can differentiate between different GC reporting and appreciate the varying GC disclosure by management.

Research Design

We conducted two experiments to understand how investors may respond to proposed changes in GC reporting and how they might respond to additional disclosure around GC by management.

In our first experiment we provided participants a profit and loss and balance sheet and then a clean audit opinion in the current format or in the proposed format (illustration 2 in the exposure draft), which includes a section that explains how the auditor has considered the GC status of the company.

n=number of participants (total 180)

Age – ranged from 20s to 60+ average in their 30s

Gender – 63% Male

Work experience – average of 18 years

Investment experience – average of 8.5 years

In our second experiment we provided participants a profit and loss and balance sheet. They then received notes to the financial statement and an audit report. The note included either, no additional information from management, some additional information regarding GC using either soft or strong wording. The audit report included a Material Uncertainty Regarding GC (MURGC) section in either the current or proposed format (illustration 4 in the exposure draft). For completeness we also included a version where the audit report included a discussion of GC being a significant doubt, like the way Key Audit Matters (KAMs) are currently used when a MURGC is deemed to be inappropriate.

An additional group received a significant doubt disclosure in their audit report (no additional information from management in the notes) n=104

n=number of participants (total 702)

Age – ranged from 20s to 60+ average in 30s

Gender – 66% Male

Work experience – average of 19 years

Investment experience – average of 9 years

When management did not add any additional information, the note only included a table with numbers, which the auditor refers to in their GC discussion in the audit report. When management added additional information regarding GC, the wording was either 'soft' or 'strong'. Please see below for the wording used.

Soft:

1.k. Going concern basis of accounting

The financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. However, during the year ended 31 December 2022, the Company experienced a significant reduction in revenue because of an economic downturn, recorded a net comprehensive loss of \$1,034,000. While the Company had cash on hand of \$1,311,000, net assets of \$7,158,000 and current assets which exceeded current liabilities by \$4,789,000, there are concerns that it may not be able to make the required repayments under its debt facilities to comply with its debt covenants.

And under the table:

At the reporting date, Accell's financial statements include Deferred Tax Assets with a value of \$3,808,000. Determining income tax provisions involves judgment on the tax treatment of certain transactions. Deferred tax is recognized on tax losses not yet used and on temporary differences where it is probable that there will be taxable profit against which these can be offset. The Directors have made judgments as to the probability of future taxable profits being generated against which tax losses will be available for offset.

Strong:

1.k. Material Uncertainty regarding the going concern basis of accounting

The financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. However, during the year ended 31 December 2022, the Company experienced a significant reduction in revenue because of an economic downturn, recorded a net comprehensive loss of \$1,034,000. While the Company had cash on hand of \$1,311,000, net assets of \$7,158,000 and current assets which exceeded current liabilities by \$4,789,000, there are concerns that it may not be able to make the required repayments under its debt facilities to comply with its debt covenants. This means that there is a material uncertainty whether the Company will be able to realize its assets and discharge its liabilities in the normal course of business.

And under the table:

At the reporting date, Accell's financial statements include Deferred Tax Assets with a value of \$3,808,000. Determining income tax provisions involves judgment on the tax treatment of certain transactions. Deferred tax is recognized on tax losses not yet used and on temporary differences where it is probable that there will be taxable profit against which these can be offset. The Directors have made judgments as to the probability of future taxable profits being generated against which tax losses will be available for offset.

Note: In developing both experiments, we drew heavily on the expertise of staff at the AUASB and the AASB. We also consulted with experts in practice.

We asked the participants the following questions to evaluate whether different GC reporting and management GC disclosure affect investors' assessment of a company's GC status.

Questions – responses were on an 11-point scale

In your opinion, what is the likelihood that Accell will remain in operation over the next 12 months?

In your opinion, what is the likelihood that Accell will return to profitability over the next 12 months?

In your opinion, what is the likelihood that Accell will be able to service its existing debt?

How risky is an investment in Accell?

How attractive is an investment in Accell?

How likely are you to retain your investment in Accell's shares (keep your shares)?

How reliable is the information provided by Accell's management in the financial statement?

How confident are you in Accell's management?

Based on the information provided in the case materials, how credible is Accell's management?

How reliable is the information provided by Accell's auditor in the audit report?

How confident are you in Accell's auditor?

Please rate the extent to which you agree the auditors conducted a good quality audit.

Participants were then told:

You have just learned that Accell is closing down as they cannot pay their debts. You have made a significant loss on your investment in Accell.

We then asked participants the following questions to evaluate whether different GC reporting and management GC disclosure affect investors' perceptions on whether the audit report and the notes to the financial report provide fair warning on a company's GC status.

Do you believe that the information included in the audit report regarding Accell's capacity to remain a going concern gave you fair warning that they could close down this year?

Do you believe that the information included in the notes to the financial report gave you fair warning that Accell could close down this year?

#### Findings

First experiment – clean audit opinion – new v current format

The first experiment compares new format (illustration 2) with current format when a clean audit opinion is issued. The table below summarises the results of our t-tests comparing new and current.

S = significant NS = not significant

\*More confident when new audit report format used

\*\*Rated warning fairer when new audit report format used (note no difference in financial report details provided across the two groups)

Second experiment – MURGC – new v current format

The second experiment compares new format (illustration 4) with current format when a MRUGC is issued. The table below summarises the results of our t-tests comparing new and current.

S = significant NS = not significant

No significant difference in any responses – the new format does not impact investor responses.

Second experiment – additional information re GC included in the notes – included or not included.

The second experiment also compares the situation where additional GC disclosure by management is included in the notes and the situation where such disclosure is not included. The table below summarises the results of our t-tests comparing included and not included.

S = significant NS = not significant

When management include wording in the notes regarding GC it has this effect (when compared to no wording included):

Likelihood of remaining in operation, returning to profit, and paying of its debts assessed as lower.

Investment is assessed as more risky and less attractive.

Fair warning assessed as greater.

Second experiment – additional information re GC included in the notes – soft v strong language.



We further compare whether the language used by management in the additional GC disclosure impacts investors. The table below summarises the results of our t-tests comparing soft and strong language used in the additional information.

S = significant NS = not significant

When management include strong wording in the notes regarding GC it has this effect (when compared to soft wording included):

Investors were more likely to retain their shares.

Investors assessed the information provided by management as more reliable.

Second experiment – significant doubt v MURGC (no additional information in the notes).

Last, we compare the situation where a significant doubt is reported and the situation where a MURGC is reported. The table below summarises the results of our t-tests comparing an audit report with a significant doubt disclosure with and audit report with a MURGC – with no additional information provided in the notes.

S = significant NS = not significant

This finding is of interest as Rebecca Mattock's research shows that investors react differently to a MURGC and a KAM, containing the same information in a different format. By moving from a KAM to a discussion of a significant doubt under the GC heading, it is seen as the same as a MURGC disclosure under the same heading.

## 8. Individuals and Others

### Altat Noor Ali Chartered Accountants (ANA)

The language of the proposed ED-570 is a matter of public interest. It's a matter of public interest that we express in a simple and user-friendly language.

The profession has evolved positively in last 30 years. Acknowledge that necessary procedures add to the cost of the audit and result in delays. R16

Yes.

16.1 Public interest>> Expectation Gap is a street full of entity management, auditor and users. It's a mutual responsibility of all to converge to an acceptable point.

The management shall disclose two aspects about the going concern in the financial statement: basis of preparation and twelve-month period of no intention to liquidate business. Auditor to carry out its evaluation and reporting of conditions as on date of financial position. Users to understand audit is no guarantee of going concern.

16.2 Revise terms >> Who would have thought that the term Balance Sheet will be replaced? Using the same principle of continuity of an entity for next twelve months is much understandable than the term 'going concern'. Look out for better terms for 'going concern' and 'material uncertainty relating to going concern'.

16.3 Cost of Audit>>> With each increase in audit requirements, we expect the survival of sole practitioner to be in jeopardy.

As the profession moves forward, quite naturally cost of audit rises. Our observation is the cost of an audit rises with each year whereas fees do not.

The competition is compelling many to the low balling in the audit fees. For the profession to develop on sustainable basis, conditions are to be conducive for professionally competent and professionally minded.

16.4 Language of the Standard>> We see it as a matter of public interest that IAASB publications (this Standard too) are less sleep-inducing and more understandable.

After going through 'CUSP Drafting Principles and Guidelines (Draft) April 2022' we have become even more conscious of liberty taken in formulating. (This document requires changes).

With some effort there are many sentences that may be stated in line.

Here I must mention using Artificial Intelligence to see how it transformed the readability of some of the paras of ED-570.

#### **Q16 - No other matter noted**

##### **1. Monitoring Group**

###### **Basel Committee on Banking Supervision (BCBS)**

###### **2. Regulators and Audit Oversight Authorities**

###### **Botswana Accountancy Oversight Authority (BAOA)**

None identified.

###### **3. Jurisdictional and National Auditing Standard Setters**

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

No comment.

###### **Hong Kong Institute of Certified Public Accountants (HKICPA)**

We do not have any further comments.

###### **Public Accountants and Auditors Board Zimbabwe (PAAB)**

PAAB has no other matters to raise in relation to ED-570?

###### **Royal Dutch Institute of Chartered Accountants (NBA)**

We do not have further comments to make.

##### **4. Accounting Firms**

###### **Crowe Global (CROWE)**

We have no other matters for consideration.

###### **Crowe LLP (CROWE LLP)**

###### **Mazars (MZ)**

There are no other matters we would like to raise.

###### **MNP LLP (MNP)**

Nothing further.

**Mo Chartered Accountants (MCA)**

None

**PKF International Limited (PKF)**

No other comments.

**5. Public Sector Organizations**

**Office of the Auditor General of Manitoba (OAGM)**

**Provincial Auditor Saskatchewan (PAS)**

None noted.

**6. Member Bodies and Other Professional Organizations**

**Botswana Institute of Chartered Accountants (BICA)**

We do not have any other matters to raise in relation to ED-570.

**California Society of CPA (CALCPA)**

No; we are not aware of other matters.

**Chartered Accountants Ireland (CAI)**

**Colombia's National Institute of Public Accountants (INCP)**

No.

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

We have no other matters to raise.

**European Federation of Accountants and Auditors for SMEs (EFEAA)**

We have no further comments.

**Federation of Accounting Professions of Thailand (FAPT)**

No, we don't have any other matters.

**Institute of Certified Public Accountants of Uganda (ICPAU)**

No additional comments.

**Institute of Chartered Accountants in England and Wales (ICAEW)**

**Institute of Chartered Accountants of Scotland (ICAS)**

There are no further matters that we would like to raise.

**Institute of Singapore Chartered Accountants (ISCA)**

**Instituto de Auditoria Independente do Brasil (IBRACON)**

No.

**Instituto Mexicano de Contadores Publicos (IMCP)**

None.

**Korean Institute of Certified Public Accountants (KICPA)**

No. There are no other matters we would like to raise in relation to ED-570.

**National Board of Accountants and Auditors of Tanzania (NBAA)**

**Pan-African Federation of Accountants (PAFA)**

We do not have any other additional comments over and above those provided in response to the specific questions above.

**8. Individuals and Others**

**Colin Semotiuk (CS)**

Question 16 intentionally left blank.

**Kazuhiro Yoshii (KY)**