Nexia Australia

Nexia Australia
Level 22, 2 Market Street
Sydney NSW 2000
PO Box Q776
QVB NSW 1230
E: info@nexiaaustralia.com.au
P: +61 2 9251 4600
F: +61 2 9251 7138

nexia.com.au

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International Auditing and Assurance Standards Board
529 5th Avenue
New York, New York 10017
UNITED STATES OF AMERICA

Dear Sir/Madam,

Response to Exposure Draft ED-570 – Proposed ISA 570 (Revised) Going Concern and Proposed Conforming and Consequential Amendments to Other ISAs

We welcome the opportunity to provide our views on the IAASB's *Exposure Draft ED-570 Proposed ISA 570 (Revised) Going Concern and Proposed Conforming and Consequential Amendments to Other ISAs.*

Nexia Australia Pty Ltd represents the six independent chartered accounting firms comprising the Nexia Australia network with 80 partners servicing clients from small to medium enterprises, large private companies, not-for-profit entities, subsidiaries of international companies, and listed public companies.

We make the following limited comments on the Exposure Draft. The following questions correspond to the items in the Exposure Draft.

Question 6 – Does ED-570 appropriately build on the foundational requirements in ISA 315 (Revised 2019) in addressing risk assessment procedures and related activities, to support a more robust identification by the auditor of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern?

We have some concerns regarding the Board's attempt to link risk assessment procedures to ISA 315.

As described in paragraph A6 of the ED, 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. Such events and conditions may include non-financial matters, such as licenses, permits, banking facilities, loans, insurances and similar scheduled to expire during the subsequent financial year, earthquakes, floods, pandemics, changes to government policies, and other geopolitical risks.

The ED defines a material uncertainty related to going concern as an uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern where the magnitude of its potential impact and likelihood of occurrence is such that, in the auditor's professional judgment, appropriate disclosure of the nature and implications of the uncertainty is necessary.

While the potential magnitude of the impact of the non-financial matters identified above may be significant, it may be difficult for the auditor to obtain sufficient appropriate audit evidence to support the likelihood of their occurrence (as assessed by both management and the auditor) as being low (or extremely unlikely). Similarly, in the absence of management's documented plans to respond to such non-financial matters and black swan events it may be practically difficult for the auditor to evaluate and conclude on those matters as required by paragraph 26 of the ED.

We are concerned that paragraphs 16 – 27 (and their related application guidance) of the ED are primarily focussed on financial events and conditions that may cast significant doubt on the entity's ability to continue as a going concern and does not adequately address non-financial events or conditions or provide adequate guidance on how the auditor should address those non-financial matters.

For example, the ability of an aged care provider to continue as a going concern may be dependent upon the renewal of government licences and permits within the next financial year. This is identified as an event or condition that may cast significant doubt on the entity's ability to continue as a going concern. Based on past practice, compliance with licencing conditions and current government policy, management assesses the likelihood of non-renewal as low. However, the relevant government department is unlikely to provide representations that the entity's licence will be renewed in the future. Based solely on these circumstances, it is unlikely that an auditor would include a Material Uncertainty Related to Going Concern paragraph in an auditor's report under extant ISA 570.

We recommend that the proposals clarify and explain how auditors should address black swan and non-financial conditions and events which (while extremely low in likelihood) could have significant adverse effects on the ability of an entity to continue as a going concern, and for which it may be extremely difficult to obtain audit evidence to mitigate such risk.

Otherwise, we are concerned that the proposals will have the unintended consequence of unnecessarily increasing the number of Material Uncertainty Related to Going Concern paragraphs in auditor's reports in an attempt by auditors to reduce the risk of non-compliance with ISA 570 (and potential actions by regulators and other third-party actions against the auditor), even if the likelihood of such event or condition occurring is very low.

We do not believe that the increased use of Material Uncertainty Related to Going Concern paragraphs is an appropriate consequence of the proposals, but whose likelihood is possible. Consequently, we recommend that the Board reconsider the proposals to clarify and better address non-financial risks.

Question 10 – Do you support the enhanced requirements and application material, as part of evaluating management's plans for future actions, for the auditor to evaluate whether management has the intent and ability to carry out specific courses of action, as well as to evaluate the intent and ability of third parties or related parties, including the entity's owner-manager, to maintain or provide the necessary financial support?

We are supportive of the proposal, subject to the IAASB making the following clarifications.

The requirements of an IAASB Standard are expressed using the word "shall" to denote the obligations an assurance practitioner is required to comply with in achieving the objective or objectives stated in the standard. Paragraphs 16, 17, 18, and 19 of the ED identify actions and procedures that an auditor "shall" perform. Of particular concern are those matters listed in paragraph 19 of the ED that must be performed.

In many cases, management's and the auditor's assessment of the entity's ability to continue as a going concern may be straightforward because the business activities are simple or the entity has significant cash reserves. In these cases, management may not perform a detailed cash flow forecast that extends at least twelve months from the date of the auditor's report.

Similarly, those charged with governance and the auditor may assess that the business is not affected by events or conditions that may cast significant doubt on the entity's ability to continue as a going concern – for example, in the case of a self-managed superannuation fund.

Nevertheless, paragraph 19 requires the auditor to evaluate management's methods, calculations, data, and assumptions in assessing the entity's ability to continue as a going concern. Although application paragraphs A30 and A31 indicate that management may not always be obliged to perform a detailed analysis, and A31 and A38 attempt to provide scalability, the remaining A33 – A37 are written in the context of management preparing detailed forecasts and the auditor performing a detailed evaluation of those forecasts in all cases.

To improve clarity and consistency in application of the standard, we recommend that the Board redraft paragraphs 16 – 19 and A30 – A38 to clarify those elements that are mandatory in all cases and those capable of modification by the auditor should they not be considered necessary in the circumstances.

Moreover, paragraph 23 and its related application paragraph A43 places the responsibility on the auditor where management is unwilling to make a formal assessment of the entity's ability to continue as a going concern. In the absence of management's formal assessment regarding the ability of the entity to continue as a going concern, the auditor is required to either perform its own assessment or issue a modified opinion.

In our opinion, greater responsibility should lie with management to formally assess and document their assessment relating to going concern. (refer also Question 13, below). Such matter cannot be resolved through amendments to auditing standards and should be dealt with through revisions to AASB 101 *Presentation of Financial Statements*.

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

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

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

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

As described in ISA 200, ISA 700, and ISA 701 the auditor does not explicitly opine on a singular element of the financial statements. We are concerned that mandating the explicit expression of a conclusion on an individual element of the financial statements will create an expectation gap that users will interpret as the auditor guaranteeing that the entity will not enter administration or bankruptcy within twelve months from the date of the auditor's report and will also set a precedent for the inclusion of explicit opinions on other elements of the financial report in the future.

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

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

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

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

Question 14 - Do you support the requirements and application material [for audits of financial statements of listed entities, i.e., to also describe how the auditor evaluated management's assessment of going concern when events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern (both when no material uncertainty exists or when a material uncertainty exists)] that facilitate further enhanced transparency about the auditor's responsibilities and work relating to going concern?

Should this be extended to also apply to audits of financial statements of entities other than listed entities?

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

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

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

Nevertheless, paragraph 33 of the ED mandates disclosures where the auditor identifies events or conditions that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained, the auditor concludes that no material uncertainty exists.

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

Question 16 – Other matters

In our opinion, the proposals will prima facie cause inconsistencies with ISRE 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*.

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.

Should you wish to discuss any aspects of our submission, please contact Martin Olde at molde@nexiaaustralia.com.au.

Yours faithfully

Nexia Australia Pty Ltd

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