AICPA

August 24, 2023

Mr. Willie Botha
Technical Director
International Auditing and Assurance Standards Board
529 Fifth Avenue
New York, NY 10017

Re: Exposure Draft – Proposed International Standard on Auditing 570 (Revised 202X) Going Concern and Proposed Conforming and Consequential Amendments to Other ISAs

Dear Mr. Botha:

The American Institute of Certified Public Accountants (AICPA) Auditing Standards Board (ASB) is pleased to respond to the International Auditing and Assurance Standards Board's (IAASB) above referenced Exposure Draft. The responses provided in this letter are from the perspective of an audit of the financial statements of a non-issuer in the United States of America consistent with the mission of the ASB.

Introduction

Since the release of the IAASB's Discussion Paper in September 2020, the ASB has been very interested[1] in the direction the IAASB is moving related to going concern because of the ASB's commitment to converge its standards with those of the IAASB. Accordingly, we[2] appreciate the opportunity to comment on the IAASB's proposed standard.

To assist the IAASB and its desire to address evolving public expectations, we are pleased to share the results of financial statement user[3] and preparer surveys and interviews we performed in 2022 regarding the auditor's report and transparency related to going concern. The focus of the ASB's outreach was on whether potentially expanded disclosure about going concern in the auditor's report would influence users of the report. We surveyed and interviewed a broad set of financial statement users and preparers (including those charged with governance) to obtain their views about transparency in the auditor's report in general and going concern matters more specifically. We developed and structured our survey questions and interview protocol in ways to avoid potential

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[1] Refer to the ASB response the IAASB's *Discussion Paper - 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 Statement Audit*.

[2] References to "we," "our," or "us" refer to the AICPA's ASB and not to the AICPA as a whole or to members or member firms.

[3] For purposes of our outreach the term "users" refers to those who use financial statement information to make operational, investment, or financial decisions.

demand effects.[4] The results of our outreach have informed our views and recommendations throughout this letter.

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

1. Although survey respondents noted that auditors have a role in communicating going concern information, 83% of them believe that information related to going concern should initially be provided by management.
2. The majority of interview participants do not believe additional information about going concern is needed in the auditor's report.
3. There is no consensus among survey respondents as to whether *close call*[5] information should be included in the auditor's report. More specifically, 40% do not believe such information should be included, 34% believe it should, and 26% were unsure.

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

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

Key Comments and Recommendations

We commend the IAASB for certain changes made in the Exposure Draft over extant International Standard on Auditing (ISA) 570 (Revised), *Going Concern* (ISA 570). We are supportive of some changes such as reinforcing professional skepticism and communicating with those charged with governance. We also believe that guidance provided in the application material could support the IAASB's objective to promote consistent practice.

At the same time, we have various concerns regarding (1) the requirements related to risk identification and assessment, and (2) scalability of certain requirements, which we believe may be at odds with principles-based standards, may undermine auditors' professional judgment, and could hinder auditors' ability to respond to risks, or lack thereof, associated with going concern. Also, as informed by our outreach, we generally believe the "exception-based going concern reporting model" in extant ISA 570 remains preferential over the proposed changes to the auditor's report in paragraph 33 of the Exposure Draft.

We are also concerned that certain aspects of the Exposure Draft may be an "auditor-driven model" of going concern assessment designed to address the absence or shortcomings of matters that should be resolved in the applicable financial reporting frameworks (for example, the definition of material uncertainty related to going concern). Immediately below, we share our views of the drawbacks of an

[4] In research, a demand effect occurs when an individual infers a preferred response and behaves or responds in a manner that aligns with the researcher's expectations.

[5] Refer to Appendix B, page 20 for our description of a "close call" for purposes of our outreach. We believe our description is closely aligned with way the IAASB has described a close call noted in paragraph 2 of the Explanatory Memorandum to the Exposure Draft.

auditor-driven going concern assessment model. Unless the financial reporting framework drives consistency and comparability in management's assessment of going concern, consistency in auditor performance will not be achieved.

Risks of an Auditor-Driven Going Concern Assessment Model

Users of the financial statements who are looking for more insights about the entity, including indicators of risk tied to the nature of going concern uncertainties, should look to management to provide this information first. Indeed, in our 2022 survey, 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 initially come from the company's management.

Prior to 2016, the going concern model in the United States (U.S.) relied only on general requirements related to the preparer's disclosure of material information. U.S. generally accepted auditing standards (GAAS) at that time had long required that an auditor make assessments of going concern uncertainties and the adequacy of related disclosures and to modify the audit report accordingly. The downside to such an "auditor-driven model" was that it was an annual assessment and users were not receiving timely information about going concern uncertainties and any changes thereof through management disclosure.

In the U.S., FASB Accounting Standards Update No. 2014-15, *Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* (ASU 2014-15), became effective in 2016. ASU 2014-15 contains the requirements management must follow in conducting its going concern assessment and the disclosures the entity may have to make as a result on both an interim and annual basis. [6]

Compared to the accounting model prior to 2016, these changes have improved the timeliness and quality of disclosures in the notes to the financial statements about going concern uncertainties because, as an entity's ability to realize its assets and meet its obligations changes, management has the initial responsibility to determine the need for evaluating going concern uncertainties and the related disclosures to convey whether the entity would be able to meet its obligations as they become due. Management disclosures may be less extensive in the early stages because available information may be limited. In subsequent reporting periods, disclosures generally become more extensive as additional information becomes available about the previously disclosed conditions and events, and about management's plans. When substantial doubt ceases to exist during a period, management's disclosures should explain how the relevant conditions or events that raised substantial doubt were resolved.

Subsequent to the issuance of ASU 2014-15, the ASB amended AU-C Section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* (AU-C 570) to align the auditor's going concern assessment to that of the accounting framework applied by the entity. Our outreach with financial statement users and preparers (as noted in Appendix B) indicates that U.S.

[6] Under ASU 2014-15 (codified as FASB Accounting Standards Codification Sub-Topic No. 205-40), there are two types of disclosures: (1) disclosures when substantial doubt is raised but is alleviated by management's plans and (2) disclosures when substantial doubt exists (that is, is not alleviated by management's plans. Refer to ASC 205-40-50-12 and ASC 205-40-50-13).

auditing requirements and generally accepted accounting principles promulgated by the FASB (GAAP) operate in tandem to provide useful information when substantial doubt exists about an entity's ability to continue as a going concern.

Because of the improvements in U.S. accounting and auditing frameworks and our belief that the responsibility for the going concern assessment and related disclosures initially rests with management, we are concerned that certain aspects of the Exposure Draft rely on an "auditor-driven model" of going concern assessment designed to overcome shortcomings in international financial reporting frameworks such as the International Financial Reporting Standards (IFRS) which the IAASB considered[7] in the development of the Exposure Draft.

For example, unlike GAAP, International Accounting Standard No. 1, *Presentation of Financial Statements* (IAS 1)[8], does not

- Define important terms, such as "material uncertainty",
- Prescribe a method by which management is to perform the going concern assessment,
- Provide extensive guidance on which management plans can be considered in the going concern assessment, or
- Require disclosure about events and conditions even if alleviated by management's plans.

We believe that certain decisions reached by the IAASB in the Exposure Draft are designed to overcome shortcomings in IFRS that should be first addressed by the International Accounting Standards Board (IASB) and be the initial disclosure obligation of management. Such decisions include:

- defining "material uncertainty" and clarifying the phrase "may cast significant doubt",
- establishing the setting of the timeline over which the going concern assessment is made when it may conflict with the underlying financial reporting framework, and
- prescribing, in the case of a listed entity, how the auditor shall evaluate and communicate in the auditor's report management's assessment of the entity's ability to continue as a going concern (irrespective of whether requirements exist in the applicable financial reporting framework or whether there may be a conflict with the underlying financial reporting framework).

In our view, determining what actions may be necessary to enhance the reliability of financial reporting, including audit quality, involves all members of the financial reporting ecosystem, including the financial reporting standard setters, regulators, management, those charged with governance and the auditor. The IAASB recognized in the going concern project proposal that each participant of this ecosystem plays a unique and essential role that contributes towards high quality financial reporting[9]. However, we believe that the Exposure Draft is conflating the responsibilities of management and those of the auditor and, if adopted, could have direct and indirect effects in

[7] See paragraph 34 of the going concern project proposal.

[8] Refer to IAS 1.

[9] Refer to footnote # 9 in the going concern project proposal.

jurisdictions that have well established roles, responsibilities, and expectations that exist between management, the auditor, and others who rely on the financial statements and the auditor's report. We believe that, without more robust financial reporting guidance and disclosures under IFRS, the Exposure Draft could have many unintended consequences, including (1) creating confusion for users of financial statements and audit reports and (2) potentially putting auditors in the position of providing original information.

Please refer to Appendix A for various recommendations to delineate the roles and responsibilities of management and the auditor.

Key Recommended Changes and Actions

To fully realize the IAASB's objectives to enhance extant ISA 570, we believe certain requirements need to be clarified such that they can be consistently understood, implemented, and applied. The primary areas of our focus are on risk identification and assessment, scalability, and implications to the auditor's report. Our specific concerns and recommendations can be found in Appendix A.

Also, while we acknowledge that the resources of the IAASB are finite and that the IAASB is not currently expected to discuss 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. As discussed more fully in Appendix A, Question #16, we recommend six activities that we believe the IAASB should champion or lead that are critical to the success of the final revisions to extant ISA 570. The six actions we recommend are:

1. 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,

2. Conduct user outreach aimed at obtaining evidence as to whether the knowledge and expectations gaps would narrow or increase because of the Exposure Draft,

3. Understand going concern developments from other national standard setters to learn whether recent efforts on similar changes are having intended results,

4. 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,

5. Create and publish a pro forma illustration of the auditor's report to assess financial statement users' and other stakeholders' comprehension of changes conveyed through the cumulative effect of the proposed going concern, proposed fraud, and recently approved changes regarding auditor independence for public interest entities, and

6. Coordinate actively with the IAASB's fraud task force to address shared project proposal objectives and certain common proposed requirements.

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Thank you for the opportunity to present our views on the Exposure Draft. In addition, we sincerely hope our stakeholder outreach is as useful to the IAASB as it is the ASB. Because we have a common objective in serving the public interest and advancing audit quality, we know the IAASB welcomes and will carefully consider data-driven insights and recommendations.

We would be pleased to discuss our comments or answer any questions that the IAASB or staff may have regarding the views expressed in this letter. Please feel free to contact the Chair of the ASB, Sara Lord, at sara.lord@rsmus.com or the AICPA's Chief Auditor, Jennifer Burns, at jennifer.burns@aicpa-cima.com. Respectfully submitted on behalf of the ASB,

Sara Lord, CPA
Chair, Auditing Standards Board

Jennifer Burns, CPA
Chief Auditor
Professional Standards and Services

About the AICPA Auditing Standards Board

The ASB is the senior committee of the AICPA designated to issue auditing, attestation, and quality control standards applicable to the performance and issuance of audit and attestation reports for non-issuers. Its mission is to serve the public interest by developing, updating and communicating comprehensive standards and practice guidance that enable practitioners to provide high-quality, objective audit and attestation services to non-issuers in an effective and efficient manner.

About the American Institute of CPAs

The American Institute of CPAs® (AICPA®) is the world's largest member association representing the CPA profession, with more than 428,000 members in the United States and worldwide, and a history of serving the public interest since 1887. AICPA members represent many areas of practice, including business and industry, public practice, government, education, and consulting. The AICPA sets ethical standards for its members and U.S. auditing standards for private companies, not-for-profit organizations, and federal, state, and local governments. It develops and grades the Uniform CPA Examination, offers specialized credentials, builds the pipeline of future talent, and drives continuing education to advance the vitality, relevance, and quality of the profession.

Appendix A – Responses to Questions in the Exposure Draft

As invited to do, we have only responded to those questions that we feel are most relevant to our concerns and for which we have specific suggestions for the IAASB.

Overall Questions

3. Do you believe the proposed standard is scalable to entities of different sizes and complexities, recognizing that general purpose financial statements are prepared using the going concern basis of accounting and that going concern matters are relevant to all entities?

    - Given the IAASB's objective to promote consistent practice, we understand why the IAASB included requirements such as paragraphs 17[10] and 19[11] in the Exposure Draft as we understand these requirements are intended to address the risk of confirmation bias and the potential for anchoring on favorable results while excluding disconfirming information. However, we view the requirements in these paragraphs, which are to be performed in all circumstances irrespective of whether events or conditions have been identified, as not scalable to auditor's assessment of complexity and inconsistent with the principle of a risk-based audit approach, because they do not allow for the auditor's professional judgment in designing a response based on the assessed risk of *material* misstatement. Because we believe that the auditor's risk assessment should inform the nature and extent of audit procedures to evaluate management's assessment of the entity's ability to continue as a going concern, we do not believe that the requirements set forth in paragraphs 17 and 19 are applicable or appropriate in all circumstances; rather, the auditor's work should be based on the nature of management's assessment and the auditor's assessment of going concern uncertainty risk. Moreover, as written, we believe auditors will be confused about how to reconcile the results of their risk assessment with the required performance of paragraphs 17 and 19. Refer to our responses to Questions # 8 and # 9 for specific recommendations and changes.

Specific Questions

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

    - We believe these terms should be defined by accounting standard setters (for example, IASB) so that management, the party responsible for preparing financial statements, understands the terms and the implications for the financial statements. While the IAASB stated in paragraph 20 of the Explanatory Memorandum that it does not believe the proposed material uncertainty definition will give rise to inconsistencies involving recognized financial reporting

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[10] Paragraph 17 indicates that the auditor should be required to design and perform audit procedures to evaluate management's assessment of going concern in all circumstances and irrespective of whether events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern.

[11] Paragraph 19, building off the requirement in paragraph 17, similarly requires the auditor to evaluate method, assumptions and data used in management's assessment in all circumstances.

frameworks, we disagree and note that the term remains undefined in IFRS. In our view, the IASB should include a definition of this term in the accounting standards to provide a consistent definition among standard setters. The experience in the U.S. is when a "substantial doubt" related to going concern was defined in GAAP this reduced diversity in disclosures in the notes to the financial statements, fostered comparability, and it allowed the ASB to make changes in GAAS to strengthen the consistency of auditor procedures to assess going concern uncertainties.

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

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

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

Material Uncertainty (Related to Going Concern)—An uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern (for at least twelve months from the date of approval of the financial statements) where the magnitude of its potential impact and likelihood of occurrence is such that in the auditor's professional judgment, appropriate disclosure of the nature and implications of the uncertainty is necessary for: (Ref: Para. A4–A5)

> *(a) In the case of a fair presentation financial reporting framework, the fair presentation of the financial statements, or*
>
> *(b) In the case of a compliance framework, the financial statements not to be misleading.*

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 agree that ISA 315 (Revised 2019): *Identifying and Assessing the Risks of Material Misstatement* (ISA 315) is the appropriate foundation for risk assessment related to going concern. However, we are concerned about the proposed requirement in paragraph 11 of the

Exposure Draft that the auditor shall design and 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. The wording in the Exposure Draft could be interpreted to mean that the auditor is required to perform risk assessment procedures that identify *all* events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, which goes beyond the requirements in ISA 315 to obtain *sufficient* appropriate evidence.

Accordingly, we recommend that paragraph 11 of the Exposure Draft be replaced with the following wording from extant ISA 570 (Revised) paragraph 10 (additions are marked as underlined and deletions are shown in ~~strikethrough~~):

11. In applying the risk assessment procedures required by ISA 315 (Revised), [FN 3 excluded] the auditor shall consider whether events or conditions exist that may cast significant doubt on the entity's ability to continue as a going concern. ~~ISA 315 (Revised 2019) [FN 3 excluded], the auditor shall design and 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.~~ (Ref: Para. A6–A14)

We support retaining paragraph 13 and paragraph 12(e) in the Exposure Draft.

7. Do you support the change in the commencement date of the twelve-month period of management's assessment of going concern, from the date of the financial statements (in extant ISA 570 (Revised)) to the date of approval of the financial statements (as proposed in paragraph 21 of ED-570)? When responding consider the flexibility provided in paragraphs 22 and A43–A44 of ED-570 in circumstances where management is unwilling to make or extend its assessment. If you are not supportive of the proposal(s), what alternative(s) would you suggest (please describe why you believe such alternative(s) would be more appropriate and practicable)?

- Paragraph 39 of the Explanatory Memorandum states that IAS 1 requires a minimum management assessment period of at least 12 months from the reporting period but does not cap the outlook to no more than 12 months; and that pursuing a different commencement date of the twelve-month period of management's assessment of going concern would not be inconsistent with the requirements of recognized financial reporting frameworks. From this the IAASB has stated its view that pursuing a different commencement date in the Exposure Draft than the period of management's assessment enables greater auditor comparability and consistency among jurisdictions globally.

  We acknowledge the IAASB's views and understand that some public interest stakeholders believe the auditor's commencement date and timeline to evaluate management's assessment of going concern needs to be reformed and strengthened irrespective of the requirements (or lack thereof) in the applicable financial reporting framework. However, while we acknowledge that auditors can make an assessment about forward-looking going concern uncertainties based on the audit evidence obtained, forcing accounting practices through audit standards could have negative unintended consequences due to the auditing standards dictating management responsibilities.

When ASU 2014-15 was issued to require that management first evaluate events or conditions that may raise substantial doubt about the entity's ability to continue as a going concern for one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued, when applicable), the ASB responded in-kind with updates to AU-C 570 by requiring that the auditor's going concern assessment be made to address a "reasonable period of time." AU-C section 570 defines a reasonable period of time as "the period of time required by the applicable financial reporting framework or, if no such requirement exists, within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued, when applicable)." Together, the U.S. accounting and auditing environment have established a clearer understanding for users and have driven more consistency in performance responsibilities by management and auditors alike.

We believe that public interest needs are not served without a corresponding strengthening of applicable financial reporting frameworks, such as IAS 1. Refer to our response to Question #16 for additional recommendations to urge IASB action.

8. Do you support the enhanced approach in ED-570 that requires the auditor to design and perform audit procedures to evaluate management's assessment of going concern in all circumstances and irrespective of whether events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern?

   - Building on our concerns expressed in our response to Question #3 regarding the lack of scalability of procedures in response to the risks assessed, we recommend paragraph 17 be amended (additions are marked as <u>underlined</u> and deletions are shown in ~~strikethrough~~). Corresponding changes to referenced application material will also be required.

     17. <u>In response to the risk assessment performed in paragraph 11, t</u>~~T~~he auditor shall design and perform audit procedures to evaluate management's assessment of the entity's ability to continue as a going concern. (Ref: Para. A29–A31)

9. Does ED-570 appropriately incorporate the concepts introduced from ISA 540 (Revised) for the auditor's evaluation of the method, assumptions, and data used in management's assessment of going concern?

   - Building on our concerns expressed in responses to Questions #3 and #6 and our additional concern that the auditor would be required to perform audit procedures over the methods, assumptions, and data used in management's assessment in all circumstances, irrespective of whether events or conditions that suggest going concern uncertainties had been identified, we recommend paragraph 19 be amended as follows (additions are marked as <u>underlined</u> and deletions are shown in ~~strikethrough~~). Corresponding changes to referenced application material would also be required.

19. The audit procedures ~~required by~~ resulting from paragraph 17 shall include evaluating, based on the assessed risks of material misstatement, the following: (Ref: Para. A30, A33, A38):

(a) [omitted]
(b) [omitted]
(c) [omitted]

11. Will the enhanced requirements and application material to communicate with TCWG encourage early transparent dialogue among the auditor, management and TCWG, and result in enhanced two-way communication with TCWG about matters related to going concern?

- Yes, we believe the enhanced requirements and application material to communicate with those charged with governance encourage earlier and important two-way communication. We also support the requirements in paragraph 38 regarding written representations.

  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. 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.

  b. 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.

13. This question relates to the implications for the auditor's report for audits of financial statements of all entities, that is, 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?

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

  Other mechanisms, such as an emphasis of matter paragraph available under ISA 706, *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* (ISA 706), continues to be a viable option for the auditor to convey going concern uncertainties such as "close calls". Our view is informed by our outreach findings that indicated that a majority of interview participants do not believe additional information about going concern is needed in the auditor's report. In fact, consistent with our outreach findings, we believe that financial statement users may become desensitized to mandatory going concern reporting, and more ambiguity, rather than clarity, may be created if a going concern section were included in every auditor's report irrespective of whether going concern uncertainties have been identified. The risk of diminished effectiveness from overused content in the auditor's report has been previously acknowledged by the IAASB.[12]

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

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

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

[12] Refer to ISA 706 paragraph A6 which notes that a widespread use of Emphasis of Matter paragraphs may diminish the effectiveness of the auditor's communication about such matters.

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

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

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

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

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

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

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

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

  (b) <u>*The auditor's responsibility to conclude on the appropriateness of management's use of the going concern basis of accounting when forming an opinion on the financial statements and obtaining reasonable assurance on the financial statements as a whole.*</u>

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

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

(i) *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) *(ii) The auditor has not identified a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (for at least twelve months from the date of approval of the financial statements).*

14. This question relates to the additional implications for the auditor's report for audits of financial statements of listed entities, that is, to also describe how the auditor evaluated management's assessment of going concern when events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern (both when no material uncertainty exists or when a material uncertainty exists). Do you support the requirements and application material that facilitate further enhanced transparency about the auditor's responsibilities and work relating to going concern? Should this be extended to also apply to audits of financial statements of entities other than listed entities?

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

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

15. Is it clear that ED-570 addresses all implications for the auditor's report relating to the auditor's required conclusions and related communications about going concern (that is, auditor reporting is in accordance with ED-570 and not in accordance with ISA 701 or any other ISA)? This includes when a material uncertainty related to going concern exists or when, for audits of financial statements of listed entities, 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.

    - Regarding clarity, we have some additional comments about conforming and consequential amendments:

[13] Refer to the CAQ's comment letter.

- We recommend the IAASB reject the deletion of "where applicable" language to ISA 700, paragraphs 29 and 50(f). Currently, this enables the auditor to report under two sets of standards (for example, ISA and GAAS) when going concern related reporting differs due to jurisdictional differences. By deleting this language, it could jeopardize the ability of auditors to use the layout or wording specified by the national auditing standards in accordance with paragraph 51 of ISA 700 (Revised).

- Additionally, if the IAASB acts upon our recommendations noted in Questions # 13 and # 14, conforming and consequential amendments will be necessary consistent with our recommendations.

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.

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:

1. **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.

2. **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.

3. **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.

4. **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.

5. **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.

6. **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.

Request for General Comments

17. The IAASB is also seeking comments on the matters set out below:

(b) Effective Date—Given the need for national due process and translation, as applicable, and the need to coordinate effective dates with the fraud project, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods beginning approximately 18 months after approval of the final standard. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISA

- Eighteen months may be suitable, contingent on how the IAASB addresses recommendations to align the fraud and going concern projects, to provide illustrative integrated auditor reports reflecting the impact from both standards. With the alignment of the IAASB's project in fraud in mind, a December 20XX effective date would be highly preferred over a June calendar date effective date.

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

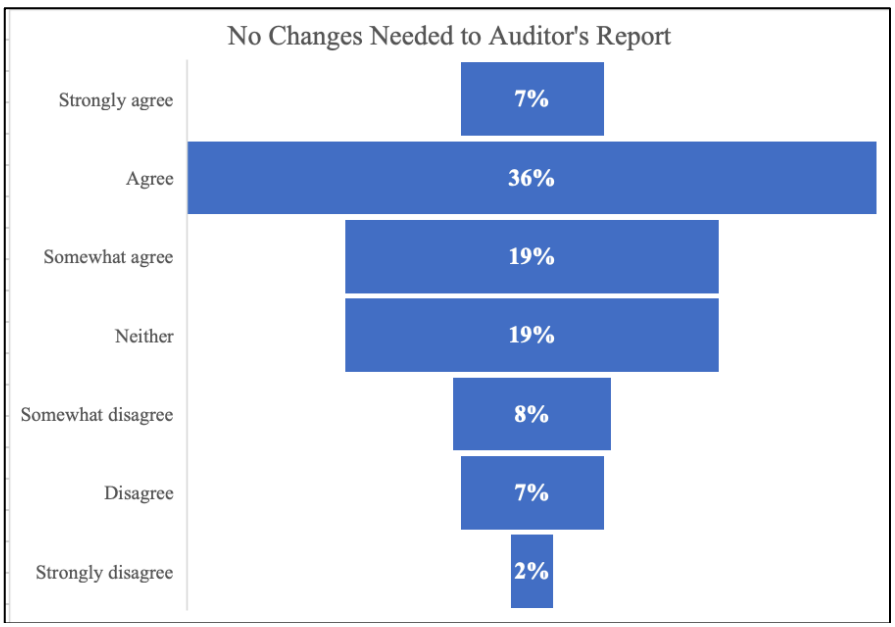
Twenty-one percent of respondents are employed at a non-profit organization, while 18% work in financial services, 11% work in professional services, and the balance representing a variety of other industries. Forty-eight percent of respondents are either Controllers or CFOs at their company, while 4% 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.

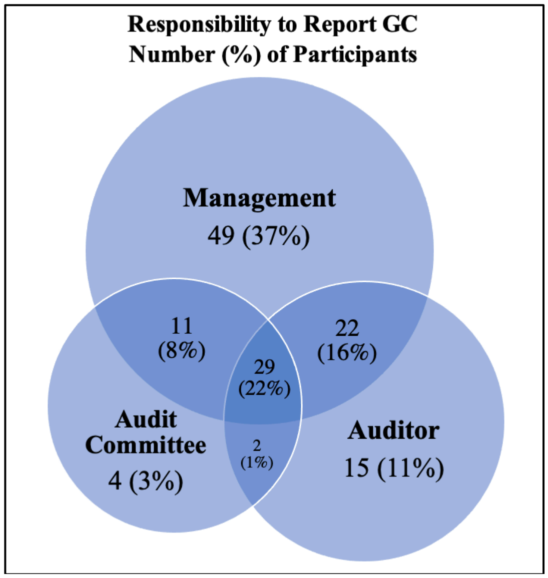
Most respondents (62%) strongly agree, agree, or somewhat agree with the statement that, "the content and length of the current version of the auditor's report is appropriate and no additional information is necessary." A not insignificant proportion, 17 %, do not believe additions to the report are 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.[14]



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.

[14] Two percent of respondents not represented in the graph selected "Other" and provided suggestions that the information come from the Board of Directors or lenders.

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.