

Joint submission by Chartered Accountants Australia and New Zealand and The Association of Chartered Certified Accountants

23 August 2023

To: Mr Thomas R. Seidenstein
The Chairman
International Auditing and Assurance Standards Board
529 5th Avenue 6th Floor
New York 10017
United States of America

Submission via IAASB website

Submission on IAASB's Exposure Draft Proposed International Standard on Auditing 570 (Revised 202X) Going Concern and Proposed Conforming and Consequential Amendments to Other ISAs

This submission is made jointly by Chartered Accountants Australia and New Zealand (CA ANZ) and the Association of Chartered Certified Accountants (ACCA) under our strategic alliance.

ACCA and CA ANZ created a strategic alliance in June 2016, forming one of the largest accounting alliances in the world. It represents 870,000 current and next generation accounting professionals across 179 countries and provides a full range of accounting qualifications to students and business. Together, ACCA and CA ANZ represent the voice of members and students, sharing a commitment to uphold the highest ethical, professional and technical standards. More information about ACCA and CA ANZ is contained in Appendix B.

General comments

We welcome the opportunity to comment on the proposed ED-570, *Going concern* and we commend the IAASB for moving forward with the revision of the standard. This is a topic of significant public interest given the direct relevance it has with corporate failures. As the IAASB's discussion paper *Fraud and Going Concern in an Audit of Financial Statement Exploring the Differences Between Public Perceptions About the Role of the Auditor and the Auditor's Responsibilities in a Financial Statement Audit*, explicitly stated, the IAASB cannot narrow the expectation gap alone, others too will need to consider and act upon their role in narrowing the expectation gap, so that there is a better functioning financial reporting ecosystem.

Similar views were expressed in ACCA's thought leadership paper in collaboration with CA ANZ, CPA Canada and the Canadian Auditing and Assurance Standards Board titled [Closing the Expectation Gap in Audit – the way forward on fraud and going concern: A multistakeholder approach](#) (the 'thought leadership report'), by our stakeholders representing the financial reporting ecosystem who emphasised the important role that each stakeholder has in narrowing the expectation gap relating to fraud and going concern.

Extending the going concern period

We do not support the change in the commencement date of the 12 month period of management's assessment of going concern, from the date of the financial statements to the date of the approval of the financial statements. This requirement will result in a misalignment with the requirements of IAS 1, Presentation of Financial Statements. While we are aware that some jurisdictions already impose different requirements for the assessment via local amendments, fundamentally we believe that the auditing standards cannot impose reporting requirements on management. The period to be covered by management's assessment of going concern is a financial reporting framework issue and therefore beyond the IAASB's remit. We elaborate further on this in our response to Q7.

Scalability

We find that in many instances the requirements make sense for listed/public interest entities, but not necessarily for small or less complex entities. For example, the requirement for 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. Such requirement does not appear to be reasonable in cases where, based on the auditor's judgement, the entity's ability to continue as a going concern is obvious. Requiring an auditor of a small or less complex entity to apply the requirements in proposed para 16-25, where it is clear there are no issues with management's assessment of going concern, will be a greater cost than benefit which may be detrimental to audit quality.

Transparency in the auditor's report

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

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

- Making a strong positive statement on going concern within the auditor's report where there are no issues identified, may be interpreted as a separate opinion.
- Raises liability concerns questioning how professional indemnity insurers will react.
- Could also increase the use of disclaimer of opinions which will impair the value of financial reporting to the market.
- When there is such a statement about going concern in all auditor's reports, users are likely to become accustomed to this content and, over time, will stop paying the necessary attention to going concern information in the auditor's report.

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

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

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

- Proposed para 32 in ED-570 is the same as para 19 in extant ISA 570 and essentially requires the auditor to request management to make disclosures that are not explicitly required by IAS 1. The auditing standards cannot impose disclosure requirements on management, so this puts auditors in a difficult situation.
- As noted above, in our view the IAASB cannot narrow the expectation gap alone, others within the financial reporting ecosystem also need to make changes to help address this issue. In order for the auditor to be in a position to conclude on the appropriateness of management's use of the going concern basis of accounting and whether a material uncertainty has been identified, management should be making equivalent disclosures in the financial statements.

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

Our responses to the specific questions for comment raised in the ED follow in Appendix A. Should you have any queries about the matters in this submission, or wish to discuss them in further detail, please contact Melanie Scott, Senior Policy Advocate at CA ANZ via email: melanie.scott@charteredaccountantsanz.com and Antonis Diolas, Head of Audit and Assurance at ACCA via email: antonis.diolas@accaglobal.com.

Yours sincerely

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Appendix A

Responses to specific questions

1. Do you agree that the proposals in ED-570 are responsive to the public interest, considering the qualitative standard-setting characteristics and project objectives that support the public interest as set out in Appendix 1?

We generally agree that the proposals in ED-570 are responsive to the public interest subject to the concerns noted in our responses to the specific questions.

However, we are particularly concerned that in some instances the proposed requirements are beyond the remit of the IAASB and that some also imply shifting management's responsibility towards the auditor. We identify this in a number of the proposed requirements that we refer to in our responses to the specific questions below. Some examples include:

- Para 11 refers to identification of events and conditions by the auditor.
- Para 21 suggests that the auditor shall request management to extend its assessment of the entity's ability to continue as a going concern if it covers less than twelve months from the date of approval of the financial statements. This does not align with the requirements of the financial reporting standards. If it is desirable for the auditor to evaluate management's assessment of going concern for 12 months from the approval date, then it should be an explicit requirement of the financial reporting for management to make their assessment over that period. This is a financial reporting issue that should be addressed in financial reporting standards. More specifically, in the case of the International Financial Reporting Standards, the IASB should address this in IAS 1, Presentation of Financial Statements.

2. Do you believe that the proposals in ED-570, considered collectively, will enhance and strengthen the auditor's judgments and work relating to going concern in an audit of financial statements, including enhancing transparency through communicating and reporting about the auditor's responsibilities and work?

We believe that some of the proposals are likely to enhance and strengthen the auditor's judgement and work relating to going concern in an audit of financial statements. However, we have concerns regarding some of the proposals which we discuss in our responses to the specific 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?

We do not find all proposed requirements to be scalable to entities of different sizes and complexities. Our stakeholders emphasised that many of the requirements do make sense for listed/public interest entities but not necessarily for small or less complex entities.

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For example, the requirement for 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 was viewed as a requirement where the costs may outweigh the benefits.

4. Do the requirements and application material of ED-570 appropriately reinforce the auditor's application of professional skepticism in relation to going concern?

Yes, we find that the requirements and application material will help reinforcing the auditor's application of professional scepticism.

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"?

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

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 understand that some of the feedback to the discussion paper suggested that the auditor should be required to perform specific risk assessment procedures in relation to going concern that are beyond inquiry and discussion. However, we find that many of the requirements proposed in ED-570, that build on the foundational requirements in ISA 315 (Revised), cause repetition rather than supporting a more robust identification by the auditor of events and conditions that may cast significant doubt on the entity's ability to continue as a going concern. For example, para 12 refers to a list of risk assessment procedures found in ISA 315 (Revised) which implies also relevant documentation, but it is not clear whether these are in addition to those found in ISA 315 (Revised). In our view, the work performed under ISA 315 (Revised) should help the auditor obtain an understanding on how to identify and assess risks related to going concern.

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

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alternative(s) would you suggest (please describe why you believe such alternative(s) would be more appropriate and practicable)?

ED-570 was preceded by a discussion paper on fraud and going concern which emphasised that these issues are ecosystem issues with other stakeholders (such as the IASB) having an important role. However, with this proposed change it seems that the IAASB is moving away from the ecosystem issue and trying to address a financial reporting issue through the auditing standards, something that is beyond the IAASB's remit in our view.

We therefore do not support the change in the commencement date of the 12 month period of management's assessment of going concern, from the date of the financial statements to the date of the approval of the financial statements. This requirement will result in a misalignment with the requirements of IAS 1, Presentation of Financial Statements. While we are aware that some jurisdictions already impose different requirements for the assessment via local amendments, fundamentally we believe that the auditing standards cannot impose reporting requirements on management. The period to be covered by management's assessment of going concern is a financial reporting framework issue and therefore beyond the IAASB's remit. This is an issue for the IASB to deal with in IAS 1.

One of the key actions we set out in our thought leadership report is that the IASB should take into consideration the concerns raised regarding the inconsistencies noted in relation to the going concern assessment period. This is particularly the case, in some jurisdictions where the going concern assessment period specified in the local accounting framework commences from the date that the financial statements are authorised to be issued rather than the reporting period as specified in IAS 1.

In forming our view, we also took into consideration the explanation provided in the Explanatory Memorandum that the financial reporting frameworks specify a minimum period for which management is required to take into account all available information and that this would acknowledge that a longer time frame than the minimum period can be considered. However, we still find that if management can choose not to go beyond the minimum period, an extended period beyond the minimum cannot be a requirement in the auditing standard. Auditing standards have no authority over management and therefore such change is likely to put auditors in a difficult position.

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?

We find that, while the enhanced approach proposed in ED-570 is sensible for listed/PIEs, it does not appear to be sensible for small or less complex entities. For these entities, it is often not complex for auditors, based on the audit evidence and their professional skills and judgement to form a view that the use of the going concern basis is appropriate. Our stakeholders therefore questioned the necessity to go through the proposed requirements in para 16-25 in such cases given the auditor is aware that there are no issues with management's assessment of going

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concern as the costs will likely outweigh the benefits. We therefore suggest that the IAASB provides examples regarding the work effort required for small or less complex entities.

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?

While we find that the concepts introduced from ISA 540 are appropriately incorporated, our stakeholders noted some concerns regarding the consistency of the requirements and application material between the two standards. For example, para 24(b) of ISA 540 (Revised) states that in applying the requirements in para 22, with respect to significant assumptions, the auditor's further audit procedures shall address whether the adjustments made in selecting the significant assumptions give rise to indicators of possible management bias. This is not part of the requirements proposed in ED-570 but instead, is only found in the application material. We therefore suggest that the IAASB ensures that there is consistency between the requirements and application material of the two standards.

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?

While we are not against the enhanced requirements and application material, our stakeholders expressed concerns about the practicalities of having to assess the intent as per para 27 and the ability of third parties to maintain/provide financial support and what the auditor should do if they cannot obtain sufficient appropriate evidence. We suggest that the IAASB provides guidance, including practical examples, on how to evaluate the intent and the ability of third parties to maintain/provide financial support.

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 find that the enhanced requirements and application material will encourage early transparent dialogue among the auditor, management and TCWG.

12. Do you support the new requirement and application material for the auditor to report to an appropriate authority outside of the entity where law, regulation or relevant ethical requirements require or establish responsibilities for such reporting?

Yes, we support these proposals.

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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?

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

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

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

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

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

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

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

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

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

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

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

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

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

- 14. This question relates to the additional implications for the auditor's report 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).**

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?

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For the reasons noted in our response to Q13, we would support the requirements and application material that facilitate further enhanced transparency provided that management makes equivalent statements about how they have assessed going concern and addressed any material uncertainties. In this way, the requirement will not also need to be differentiated between listed and non-listed entities but rather the auditor would only have to evaluate whether the disclosures comply with the financial reporting requirements. We do not support the requirement for auditors to disclose the nature of procedures used as this would potentially increase the auditor's risk and is also likely to quickly become boilerplate and not useful to users.

- 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 (i.e., 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.**

Yes, we find this to be clear.

- 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.**

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.

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

- (a) Translations—Recognizing that many respondents may intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED-570.**
- (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.**

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We have no issues to raise with regards to translations and the effective date.



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Appendix B

About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand (CA ANZ) represents more than 135,000 financial professionals, supporting them to build value and make a difference to the businesses, organisations and communities in which they work and live.

Around the world, Chartered Accountants are known for their integrity, financial skills, adaptability and the rigour of their professional education and training.

CA ANZ promotes the Chartered Accountant (CA) designation and high ethical standards, delivers world-class services and life-long education to members and advocates for the public good. We protect the reputation of the designation by ensuring members continue to comply with a code of ethics, backed by a robust discipline process. We also monitor Chartered Accountants who offer services directly to the public.

Our flagship CA Program, the pathway to becoming a Chartered Accountant, combines rigorous education with practical experience. Ongoing professional development helps members shape business decisions and remain relevant in a changing world.

We actively engage with governments, regulators and standard-setters on behalf of members and the profession to advocate in the public interest. Our thought leadership promotes prosperity in Australia and New Zealand.

Our support of the profession extends to affiliations with international accounting organisations.

We are a member of the International Federation of Accountants and are connected globally through Chartered Accountants Worldwide and the Global Accounting Alliance. Chartered Accountants Worldwide brings together members of 13 chartered accounting institutes to create a community of more than 1.8 million Chartered Accountants and students in more than 190 countries. CA ANZ is a founding member of the Global Accounting Alliance which is made up of 10 leading accounting bodies that together promote quality services, share information and collaborate on important international issues.

Find out more at www.charteredaccountantsanz.com



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About ACCA

ACCA is the Association of Chartered Certified Accountants. We're a thriving global community of 241,000 members and 542,000 future members based in 178 countries that upholds the highest professional and ethical values.

We believe that accountancy is a cornerstone profession of society that support both public and private sectors. That's why we're committed to the development of a strong global accountancy profession and the many benefits that this brings to society and individuals.

Since 1904 being a force for public good has been embedded in our purpose. And because we're a not-for-profit organisation, we build a sustainable global profession by re-investing our surplus to deliver member value and develop the profession for the next generation.

Through our world leading ACCA Qualification, we offer everyone everywhere the opportunity to experience a rewarding career in accountancy, finance and management. And using our respected research, we lead the profession by answering today's questions preparing us for tomorrow.

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