

24 July 2020

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Via website: <https://www.xrb.govt.nz/accounting-standards/standards-in-development/open-for-comment/nzasb-ed-2020-2/> and <https://www.xrb.govt.nz/accounting-standards/standards-in-development/open-for-comment/nzasb-ed-2020-3/>

Dear April

## Submission on Exposure Drafts: ED 2020-2 and ED 2020-3 Going Concern Disclosures (Proposed Amendments to FRS-44 and PBE IPSAS 1)

Thank you for the opportunity to provide feedback on the above Exposure Drafts (“the EDs”). Currently the disclosure requirements in auditing standards are more specific than in accounting standards when the use of the going concern basis of accounting is appropriate but a material uncertainty exists. Therefore, we support aligning the disclosure requirements in the accounting standards with those in the auditing standards in this regard.

Financial report preparers are not required to comply with the auditing standards, therefore auditing standards should not prescribe disclosure requirements. It can result in such disclosures being omitted from financial reports which in turn can create tension between management and auditors in practice. Against a backdrop of COVID-19, there are likely to be more significant judgements in determining whether the going concern basis of preparation is appropriate and more material uncertainties related to going concern, which amplifies the issue.

This is not a New Zealand specific issue therefore our preference is for this to be an international standard setting project. However, we believe a timely response is required and therefore support the NZASB taking it on as a domestic project in the interim. We note that the AASB has decided not to conduct an equivalent project, so there will not be trans-Tasman harmonisation in this regard. We will be raising this issue in our submission to the IASB on ED/2019/7 *General Presentation and Disclosures* whilst NZ IAS 1 *Presentation of Financial Statements* is open for revision. Likewise, we encourage the NZASB to continue working with the IASB and the IPSASB to achieve accounting standards change in this area.

The IESBA ED: *Proposed Revisions to the Fee-related Provisions of the Code* proposed requirements to disclose fee-related information for public interest entity (PIE) audit clients. In our submission we supported efforts to clarify fee disclosures in financial reports to improve transparency but raised concern over this being in the ethical standards rather than the accounting standards. Whilst FRS-44 *New Zealand Additional Disclosures* / PBE IPSAS 1 *Presentation of Financial Statements* are being opened for revision we encourage the NZASB to also consider amendments to paragraphs 8.1—8.2 / 116.1—116.2 for more granular disclosure of fees (i.e. audit, assurance, audit related, and non-audit related services).

Appendix A contains our responses to the specific questions raised in the ED. Appendix B provides information about Chartered Accountants Australia and New Zealand (CA ANZ). If you have any questions about our submission, please contact Amir Ghandar, Assurance and Reporting Leader at [Amir.Ghandar@charteredaccountantsanz.com](mailto:Amir.Ghandar@charteredaccountantsanz.com).

Yours sincerely



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## Appendix A

### Responses to specific questions

**1. Do you agree with the proposal to introduce more specific disclosure requirements when the going concern assessment has involved the consideration of material uncertainties? If you disagree, please explain why.**

Proposed paragraphs 12A.1 / 41.1 would apply in situations where events or conditions are identified that may cast significant doubt on the entity's ability to continue as a going concern, and a material uncertainty does exist, but the use of the going concern basis of accounting is appropriate.

The proposed paragraphs are based on paragraph 19 of ISA (NZ) 570 (Revised) *Going Concern* which does prescribe specific disclosure requirements. Therefore, we agree with this proposal. However, it is not clear what "significant doubt" means or how it differs from "material uncertainty". We encourage the NZASB to explore alternative terminology related to the application of significant judgement in forming a view that there is a material uncertainty.

**2. Do you agree with the proposal to introduce more specific disclosure requirements when the going concern assessment has led to the conclusion that there are no material uncertainties, but significant judgement has been applied in reaching that conclusion? If you disagree, please explain why.**

Proposed paragraphs 12A.2 / 41.2 would apply to situations where events or conditions are identified that may cast significant doubt on the entity's ability to continue as a going concern, but the use of the going concern basis of accounting is appropriate. However, there is no indication that they would only apply to situations where the conclusion is that a material uncertainty does *not* exist. So, as currently drafted, they would apply alongside proposed paragraphs 12A.1 / 41.1 when a material uncertainty does exist, as well as in isolation when a material uncertainty does not exist. It is not clear whether the intention is for the two proposed paragraphs to be mutually exclusive. Given significant judgement would be applied in reaching a conclusion as to whether a material uncertainty does *or* does not exist, we do not believe the two proposed paragraphs should be mutually exclusive.

The proposed paragraphs are based on paragraph 20 of ISA (NZ) 570 (Revised) *Going Concern* which states "*in view of the requirements of the applicable financial reporting framework, the financial statements provide adequate disclosures about these events or conditions*". In our view, the auditing standard does not prescribe specific disclosure requirements. Likewise, we do not believe proposed paragraphs 12A.2 / 41.2 introduce more specific disclosure requirements in the accounting standard. They appear to serve as a reminder that the existing disclosure requirements in paragraphs 122 and 125 of NZ IAS 1 *Presentation of Financial Statements* / paragraphs 137 and 140 of PBE IPSAS 1 *Presentation of Financial Statements* apply in the context of making the going concern assessment. Therefore, we are not convinced that these proposed paragraphs add value.

**3. Do you agree with the proposed effective date of the amendments? If you disagree, please explain why.**

We agree with the proposed effective date of the amendments being accounting periods ending on or after 30 September 2020, with early adoption permitted.

**4. Do you agree that there should be no disclosure concessions for Tier 2 entities due to the pervasive nature of the going concern assessment?**

We agree that there should be no disclosure concessions for Tier 2 entities as the requirements in the auditing standards are the same regardless of what tier the entity reports under.

**5. Are there any other issues in relation to going concern disclosures that you would like to be considered in the future?**

We have no other issues in relation to going concern disclosures to raise at this time.

**6. Do you have any other comments on the proposals in this ED?**

We have no further comments.

## Appendix B

### About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand (CA ANZ) represents more than 125,000 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.

We also have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents more than 870,000 current and next generation accounting professionals across 179 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications.