

24 August 2023

Willie Botha, Technical Director
International Auditing and Assurance Standards Board
Via email

Dear Willie,

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

Thank you for the opportunity to comment on Exposure Draft (ED 570). In formulating this response, we sought input from a range of New Zealand constituents.

We support the proposals in ED 570 that promote consistent practice and facilitate effective responses to identified risks of material misstatement. We understand that most auditors are performing the proposed risk assessment procedures.

We support proposals for the timeline over which the going concern assessment is made. This would bring the international requirements in line with existing requirements in New Zealand.

While we support the intent of the proposals to promote transparency in the auditor's report, we are concerned that the proposals may further widen the expectation gap:

- Without a corresponding statement from management or those charged with governance, the proposals may lead to a perceived shifting of the responsibility to the auditor.
- The wording of the going concern paragraph where no issues exist, may be too confirmatory, i.e., it may be misinterpreted as guaranteeing the future viability of the entity.
- Including a going concern paragraph in all audit reports may undermine the information value and may cause unintended consequences, including readers not noting information that signals an issue with the going concern assessment.

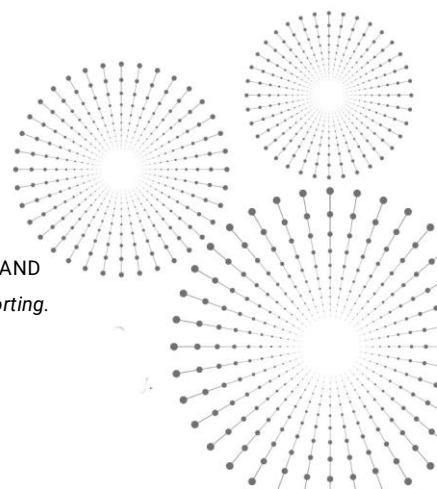
To address the risk of further widening the expectation gap, we strongly encourage the IAASB to continue to engage with the International Accounting Standards Board to ensure that the appropriate balance between management and auditor responsibilities is maintained. In New Zealand, additional reporting requirements have been included for management.

Should you have any queries concerning our submission please contact either myself at the address details provided below or Misha Pieters (misha.pieters@xrb.govt.nz).

Yours sincerely,



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Submission of the New Zealand Auditing and Assurance Standards Board

Exposure Draft: Proposed ISA 570 (Revised 202X) Going Concern and Proposed Conforming and Consequential Amendments to Other ISAs

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?

Yes, we agree that most of the proposals are responsive to the public interest.

With respect to the proposals to enhance transparency in the auditor's report, while we support the intent, we are concerned that the proposals may lead to a widening of the expectation gap which would not be in the public interest. We consider that the requirement to include a going concern paragraph in the auditor's report when there are no issues to report may not be a proportionate response as contemplated by the qualitative standard-setting characteristics.

Management and those charged with governance are responsible in the first instance for determining whether the going concern basis of accounting is appropriate and for any related disclosures. Putting the onus on the auditor to conclude on going concern, without a corresponding statement from management or those charged with governance may widen the expectation gap.

In addition, the wording of the going concern paragraph when there is no issue may be too confirmatory and could be misinterpreted as a separate opinion on going concern. The underlying principle of the auditor's report is that it is one overall opinion on the financial statements. When key audit matters were introduced, it was made clear that they were not discrete opinions. We are further concerned that the going concern conclusion may be misinterpreted as a guarantee on the future viability of the entity.

Addressing the expectation gap will require a holistic approach from all parties in the reporting ecosystem. We therefore encourage the IAASB to continue to engage with the International Accounting Standards Board (IASB) and International Public Sector Accounting Standards Board (IPSASB) for enhanced transparency on going concern. In New Zealand, additional reporting requirements for management have been included in the accounting standards¹.

We also believe the definition of material uncertainty as proposed does not meet the qualitative standard-setting characteristic of clarity. We are concerned about different interpretations. Refer to our response to question 5.

2. Do you believe that the proposals in ED-570, considered collectively, will enhance and strengthen the auditor's judgements 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 agree that the proposals in ED-570 will enhance and strengthen the auditor's judgements and work relating to going concern in an audit of financial statements. In our view, the proposals will drive the auditor to clearly document their work on going concern.

We have identified some areas in our responses to specific questions below where further clarity would promote consistent practice and responses by the auditor.

¹ Financial Reporting Standard 44 *New Zealand Additional Disclosures*

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

Yes, we believe the proposals are scalable. As noted in our response to question 8, we consider that more guidance could be provided to clarify if and how the work effort is proportionate to address entities that are in different going concern risk scenarios, i.e., clarify the extent of the work effort where the audit client is clearly a going concern.

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

Yes, we agree that ED-570 appropriately reinforces 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”?

We agree with defining the term material uncertainty and clarifying the meaning of *may cast significant doubt* so that they are clear and understood, to promote consistency in practice.

We are concerned that there is a lack of consistency between the terminology and definitions used in the International Standards on Auditing and financial reporting standards. We encourage the IAASB to continue to engage with the IASB and IPSASB. Consistency in the meaning of terminology across both reporting and auditing standards will enhance consistent use and application by management, those charged with governance and the auditor.

We do not believe that the proposed definition of material uncertainty is sufficiently clear to meet the public interest characteristic of enhancing understandability and minimising the likelihood of differing interpretations.

We encourage the IAASB to further clarify the distinction between material uncertainty versus significant doubt. The definition of material uncertainty is premised on the basis of significant doubt but does not help the auditor distinguish between significant doubt and material uncertainty. The proposed definition should include the auditor’s evaluation of management’s plans and future actions as this is important in the auditor’s conclusion about whether a material uncertainty exists.

The proposed definition should not refer to disclosures. The auditor’s conclusion as to whether a material uncertainty exists precedes the auditor’s consideration of the existence and adequacy of disclosures, therefore, we consider reference to disclosures in the definition to be inappropriate.

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 the proposals build on ISA 315 (Revised 2019) to support a robust risk identification process. Our outreach indicates that most auditors are already performing the risk assessment procedures proposed in accordance with ISA 315 (Revised 2019).

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)?

Yes, we support the extension of the auditor’s evaluation of the going concern assessment to at least 12 months from the date of approval of the financial statements. The proposed extension aligns closely with the current New Zealand requirements, and in our view will support consistency in practice globally.

We consider alignment of the accounting and auditing standards to be in the broader public interest and we encourage the IAASB to continue its efforts in engaging with the IASB and IPSASB to resolve inconsistencies in the period of management’s assessment.

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?

Overall, we support the proposed additional requirements in ED-570 to enhance the auditor’s evaluation of management’s going concern assessment. However, we believe further guidance on work effort is necessary so that the required audit procedures are proportionate to the assessed risks. Guidance regarding the need to consider systemic risks to the sector may also be helpful.

We encourage the IAASB to clarify, in application material, if and how the work effort may be adjusted to be proportionate to the audit clients’ going concern risk scenarios. For example, to clarify the extent of work effort where the entity is clearly a going concern.

The example scenarios and related work effort as illustrated in the IFRS Foundation educational material on [Going Concern – a focus on disclosure](#) may be useful. These illustrations consider the following scenarios:

- No significant doubts about going concern.
- Significant doubts about going concern but mitigating actions judged sufficient to make going concern appropriate. Entity determines no material uncertainties.
- Significant doubts about going concern but mitigating actions judged sufficient to make going concern appropriate. Material uncertainties about going concern remain after considering mitigating actions.

We recommend the IAASB develop similar scenarios for going concern from an auditor’s perspective, to clearly illustrate the work effort based on the going concern risk relevant to the entity.

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?

We agree that the concepts introduced from the estimates auditing standard are appropriately incorporated in ED-570.

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?

Response:

We generally support the enhanced requirements and application material on the auditor’s evaluation of management’s plans for future actions.

We agree that as part of evaluating management’s plans for future actions, it is important for the auditor to understand the intent and ability of other parties to maintain or provide the necessary financial support. The evaluation of intent should also extend to the extent to which other parties will provide financial support. However, from a practical perspective, we are aware that other parties are often not willing to provide written confirmation of their intent to provide financial support, as suggested in paragraph A52.

We therefore encourage the IAASB to develop additional application material to clarify the nature of work and the impact when sufficient appropriate audit evidence about other parties’ intent cannot be obtained.

11. Will the enhanced requirements and application material to communicate with those charged with governance (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?

We agree with the proposed communications with those charged with governance. The addition of the words “on a timely basis” to the requirement would encourage early dialogue.

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

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

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

We support the IAASB’s intent to enhance transparency about going concern through inclusion of a separate section in the auditor’s report. Our user/investor stakeholders indicated that more information on going concern, whether provided by management or auditor, would be beneficial.

However, most stakeholders expressed concerns that the proposal may have the impact of widening the gap between what a user expects and what the audit delivers. Including a going concern paragraph in all auditor’s reports:

- When there are no issues, is unnecessary because the auditor’s opinion addresses this implicitly.
- May undermine the information value of the auditor’s report when there are going concern issues to highlight.
- May have an unintended consequence that readers do not notice signals where there are matters to highlight relating to the use of the going concern basis of preparation.
- Does not align with disclosures made by management in all instances. Current financial reporting standards do not require an explicit statement by management or those charged with governance about going concern.

While we support the IAASB’s efforts to enhance transparency in the auditor’s report we do not consider the benefits of the proposed reporting requirements outweigh the concerns raised. To address these concerns, we encourage the IAASB to continue discussions with the IASB and the IPSASB to ensure that a holistic approach is taken so that an appropriate balance between management, those charged with governance and auditor responsibilities is maintained.

We also note that in describing the auditor’s responsibility for going concern, the auditor’s responsibility section of the auditor’s report includes statements that,

- The auditor’s conclusions are based on the audit evidence obtained up to the date of the auditor’s report.
- Future events or conditions may cause the entity to cease to continue as a going concern.

These statements are useful to remind users of the limitations of the auditor’s conclusion on going concern. This is particularly important when the auditor’s responsibilities section is included by reference in the auditor’s report.

We recommend that the IAASB move these statements from the auditor’s responsibilities section of the auditor’s report and require the above statements to be included in the going concern paragraph required by paragraph 33.

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?

We support the proposed requirement. Many of our stakeholders described this as “repackaging” of current requirements.

We do not support extending the proposals to also apply to audits of financial statements of entities other than listed entities at this time. We believe that application of this requirement should be consistent with the application of the extant requirement in ISA 701². We recommend that this be further considered in the context of public interest entities (PIEs) as part of the IAASB’s PIE track 2 project.

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., not in ISA 701 or any other

² ISA 701 *Communicating Key Audit Matters in the Independent Auditor’s Report*

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 believe ED 570 is 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 bring to your attention the following editorial comments:

- ISA 540, paragraph A75, ... events or conditions that may cast doubt ~~on about~~ the entity's ability to continue as a going concern.
- ISA 705 (Revised), Illustration 1, the word "exist" appears to be inadvertently struck out.

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

Translations – Recognising 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 review the ED-570

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 a 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?

We support the proposal to coordinate the effective date with the fraud project.