

Subject: RE: CA ANZ preliminary staff views on the IAASB's Exposure Draft Proposed International Standard on Auditing 570 (Revised 202X) Going Concern [SEC=OFFICIAL:Sensitive]

Dear Matthew and Anne

We are pleased to share our high-level comments on the proposals contained in the IAASB's Exposure Draft Proposed International Standard on Auditing 570 (Revised 202X) Going Concern (the ED) based on our outreach to date. These comments are preliminary CA ANZ staff views which may change as we finalise our joint submission to the IAASB with the ACCA. We hope the board finds them useful in its considerations.

Overall comments

We commend the IAASB for revising ISA 570 in response to the feedback received from its earlier Discussion Paper (the DP) and from other stakeholders since the DP consultation.

The going concern assumption is a key principle in the preparation of financial reports and it is important that ISA 570 remains fit for purpose. We support revisions to ISA 570 that will support consistent application of the standard and provide useful information to the users of the financial statements. However, we wish to emphasise that fundamentally, regulation cannot remove the risk involved in business. While audit quality must continue to improve and evolve, there will still be corporate failures, even for entities who have had high quality audits. The two areas where we have heard the most feedback are outlined below.

Evaluation of management's assessment of going concern

- The feedback has consistently expressed a concern that there is an increase in the auditor's responsibilities comparatively to management's and that the ISA requirements of management and those charged with governance (TCWG) are not equivalent to the responsibilities placed on the auditor. The proposals are viewed as an attempt to improve the preparation of financial reports through the auditing standards, rather than by amending the accounting standards.
- Concerns were raised about the fact that there is a lack of consistency between the terminology and definitions used in the ISAs and the IASB's accounting standards. Given the IASB's reluctance to date to pursue such change, it may be necessary to have dialogues with local regulators. We also encourage the AUASB to continue to: advocate this issue directly with the IASB and encourage the IAASB to keep raising this issue with the IASB.
- Stakeholders also expressed concerns with the operability of the need to evaluate the ability and intent of third parties as part of the evaluation of management's assessment. More application material may be required to clarify the nature of work and the impact if sufficient appropriate audit evidence about third parties cannot be obtained. Some stakeholders feel this will increase the incidence of modified opinions related to going concern.
- Some directors we heard from also disagree with the perceived shifting of responsibility from management to auditors.

Transparency in the auditor's report

- Shareholders prefer a simple approach and do not agree with including a statement on going concern in all auditor's reports when there is no issue.
- We are not aware of evidence that the extant auditor's report is not meeting users' needs.
- Views expressed that additional boilerplate wording in the auditor's report is not helpful and that including a statement on going concern where there are no issues will potentially reduce the informational value of the going concern paragraph where there is an issue. We heard suggestions that the IAASB needs to differentiate the types of going concern paragraphs more clearly in the auditor's report using headings and carefully consider the wording to be used to avoid confusion.

- There is a strong feeling that the wording of the going concern paragraph when there is no issue is too confirmatory and could be misinterpreted as a separate opinion on going concern. The underlying principle of an auditor's report is that it is one overall opinion on the financial report, and when key audit matters (KAM) were introduced, it was made clear that they were not discrete opinions. Concerns were raised about the precedent this statement would set and practitioners also expressed concern that this would have a significant impact on their litigation risks.
- Concerns were also expressed that there may be circumstances in which the auditor would be introducing information that is not in the financial report as it is possible that management has made an assessment, some issues exist, but they have taken appropriate mitigating actions so no material uncertainty related to going concern (MURGC) exists, and the entity may not need be required to make disclosures in the financial report, but the auditor does in the auditor's report.
- We have heard mixed views on the additional requirements for listed entities in both sets of circumstances where these are triggered. Some stakeholders are supportive on the basis that the users of financial reports of listed entities do not have the same ability to access information as users of privately held entities and that it is mostly information already presented in KAMs. However, others expressed concerns that listing procedures performed may result in higher litigation risks and that the information could be confusing. Some stakeholders expressed the view that users do not understand the existing information in the auditor's report related to going concern, and if they do not understand the nuances of the proposed content, entities may be negatively impacted when no material uncertainty exists. On balance, we do not support the inclusion of additional disclosures for listed entities.
- Stakeholders agreed that if the IAASB proceeds with the proposals in the ED as currently drafted, it will need devote resources to educating users and other stakeholders, so they understand the changes.
- We note that we do not support the wording of proposed paragraph 32 where a material uncertainty exists. This wording requires the auditor to force management to provide disclosures that are specified in more detail than is required by IAS 1. Either the accounting standards need to change to match the disclosures specified in paragraph 32, or paragraph 32 should be amended so it only refers to the auditor having to determine whether the disclosures in the financial report comply with the applicable accounting standards. As it seems unlikely that the IASB will amend IAS 1 in the short term, we encourage the AUASB to have discussions with the AASB as to whether it would be appropriate for Australia to follow New Zealand's approach and introduce additional disclosures here.

Comments on other proposals

Risk assessment

- Overall, stakeholders are supportive of the proposals, but some noted that risk assessment related to going concern is always challenging.

Terminology

- Stakeholders feedback was that it is important that the definition of "material uncertainty" and the concept of "significant doubt" are clear and understood to promote consistency of application in practice. However, views were mixed on whether the proposed definition and application material sufficiently clarify these terms.

Timeline for the auditor's evaluation of management's assessment

- In general stakeholders do not think this proposal will have an impact in Australia due to current requirements and practice. However, our submission to the IAASB will note that this change will result in further misalignment with the accounting standards.

Australian specific comments

- We support amending ASRE 2410 to reflect changes to ISA 570 where appropriate.
- We encourage the AASB to consider taking action to amend Australian Accounting Standards to address the current misalignment in requirements if the IASB does not amend the international accounting standards.
- Auditors find [Aus] Appendix 1: Linking Going Concern Considerations and Types of Audit Opinions in extant ASA 570 useful, so this should be retained and revised as appropriate.

Kind regards
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