Ref: KLBfTNNH

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Auditing and Assurance Standards Board

Submission via the AUASB website

Dear Chair,

SUBMISSION - EXPOSURE OF THE IAASB'S PROPOSED ISA 570 (REVISED), GOING CONCERN AND PROPOSED CONFORMING AND CONSEQUENTIAL AMENDMENTS TO OTHER ISAS

We appreciate the opportunity to provide comment to the Australian Auditing and Assurance Standards Board on the Audit Evidence Consultation Paper on the Exposure of the *IAASB's Proposed /SA 570 (Revised), Going Concern and Proposed Conforming and Consequential Amendments to Other ISAs).*

Pitcher Partners is an association of independent firms operating from all major cities in Australia. Firms in the Pitcher Partners network are full service firms and we are committed to high ethical standards across all areas of our practice. Our clients come from a wide range of industries and include listed and non-listed disclosing entities, large private businesses, family groups, government entities, and small to medium sized enterprises.

We support the International and Australian Auditing and Assurance Standards Boards' efforts to facilitate greater consultation in the standard setting process. We acknowledge that the requirements within the *IAASB's Proposed /SA 570 (Revised), Going Concern and Proposed Conforming and Consequential Amendments to Other /SAs* "the ED" are principles based, however there are a number of technical comments as well as practical application matters (especially for non-listed small to medium sized entities), some of which we believe may be challenging to implement and may have unintended consequences that will be adverse to the users of the financial statements. In short, the intent of the ED is admirable, but the practical matters require further consideration to achieve the intended outcome of enhancing audit quality and effectiveness.

Our detailed responses to the questions contained in the ED are attached to this letter and we would welcome the opportunity to engage in any further discussion of this topic with other interested parties.

Yours sincerely,

KL BYRNE

Partner

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Director, Audit & Accounting Technical

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Overall Questions **1. Do you agree that the proposals in IAASB ED 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 (see IAASB EM)?**
We acknowledge that it is appropriate for the IAASB to revisit the going concern standard generally. We believe particularly that the intentions of the proposed changes are admirable in light of the recent updates to other auditing standards (such as ISA 315 and ISA 540). We agree with the elevated and new requirements in IAASB ED relating to risk assessment procedures for going concern, and the change in the timeline over which management's assessment of going concern shall be made (at least 12 months from the date of approval of the financial statements). However, we question whether some of the other proposals in IAASB ED will assist in responding to the public interest and decrease the audit expectation gap (refer to our responses to specific questions below). Furthermore, we believe there is a need to reinforce and clearly distinguish the responsibilities of management and the auditors in assessing going concern. We envisage the proposals in IAASB ED are likely to create confusion and increase the time and effort (in some cases unnecessarily) to support the conclusion and wording of the auditor's report. The practical impact being more auditor's reports may have a material uncertainty related to going concern ("MURTGC") paragraph and it will lose its importance and intended impact to users of the financial statements. Equally the guidance regarding "close calls" will likely mean that auditors due to risk aversion and conservatism, will err towards including the MURTGC paragraph, as it will be considered more defensible. This in turn is likely to lead to more generic paragraphs addressing broad economic uncertainties which will not inform the users of the financial statements in a meaningful way. Key Audit Matters ("KAMs") are an example of this, where over time the KAMs have become generic and repetitive year on year in many cases. On this basis the relevance of the MURTGC will be diminished. While it may be consistent, it will not be useful to users of the financial statements, and any impact of a MURTGC will be lost. Further the increase in MURTGC will be potentially problematic to clients as the other users of financial statements (such as banks) may not fully understand the MURTGC and/or be able to differentiate between just being a MURTGC and nearly being a disclaimer.
2. Do you believe that the proposals in IAASB ED, 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?
Refer to responses to other questions, including questions 1 and 13.
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?
Going concern itself as a concept has no scalability, however, the quantum of work required may be increased as a consequence of the proposal. A potential outcome is that further time and work effort is incurred in situations where it is not necessarily needed and is not adding anything further to enhancing users' understanding or audit quality. The full impact of this will depend on the individual client facts and circumstances.
4. Do the requirements and application material of IAASB ED appropriately reinforce the auditor's application of professional scepticism in relation to going concern?
Auditors already operate with heightened professional scepticism in respect of going concern. The proposals in IAASB ED are unlikely to change the level of scepticism which the auditor uses although it is acknowledged that the changes may directly reinforce this.

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"?
The definition of MURTGC relies heavily on the phrase "may cast significant doubt" which is not directly defined as it is included in the application material, which doesn't seem to be appropriate and is an inconsistent approach. We believe that either both definitions are included in the Definition section of the standard or within the application guidance. In addition, the definition of MURTGC is overly focused on the auditor's professional judgment as to what is needing to be disclosed in the financial statements which is firstly management's responsibility, and it detracts from the crux of the MURTGC definition. We believe that the MURTGC definition should be updated to be clearer and more succinct.
6. Does IAASB ED 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?
As indicated in our response to question 1 above, we agree with the elevated and new requirements in IAASB ED relating to risk assessment procedures for going concern and believe that the IAASB ED appropriately builds on the foundational requirements in ISA 315. From a practical perspective the IAASB ED will likely lead to an increase in documentation - whether it results in increased identification of events or conditions is unclear. However, if more events and conditions are identified that may cast significant doubt then this may (as referenced elsewhere in our response) lead to a greater number of MURTGC sections in auditor's reports which will potentially dilute and lessen the relevance and usefulness of the MURTGC concept to users of the financial statements.
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 IAASB ED)? When responding consider the flexibility provided in paragraphs 22 and A43-A44 of IAASB ED 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 change in the period of management's assessment of going concern. This is essentially already the requirement of the Australian auditing standards, and it is more relevant and useful to users of the financial statements. We also support the new and strengthened requirements (and application guidance) for the auditor when management is unwilling to make or extend its assessment when requested to do so by the auditor. In addition, we take the opportunity to highlight that paragraph A44 includes only one example of when it may be considered appropriate that management choose not to extend the period of assessment (i.e. when the entity has profitable operations and has no liquidity concerns, and management have not identified any events or conditions that may cast significant doubt before their designated period of assessment) and thus there is no guidance or indication as to any other situations (if any) where it may be appropriate also.

8. Do you support the enhanced approach in IAASB ED 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 si!mificant doubt on the entity's ability to continue as a going concern?
There are several layers and different aspects that impact our response to this question which we have laid out below. The requirements equally apply in situations where there are no substantive questions or reasons to question the entity's ability to continue as a going concern. The current wording used in IAASB ED relating to the auditor designing and performing audit procedures "irrespective" of events or conditions been identified (paragraph 17) seems to go against the principles of a risk based audit approach (as embedded within the auditing standards including ISA 200 and ISA 315) and doesn't take into consideration scalability. This is further evidenced by the requirement of the auditor to evaluate the method, assumptions and data used in management's assessment (paragraph 19). We acknowledge that the auditor will be required to assess the use of the going concern assumption in all circumstances, however there is a spectrum of significance and risk relating to going concern based on the specific facts and circumstances of the entity. We believe that auditors should be focusing their attention, time, and effort in areas where it is warranted - the lack of distinction between different going concern situations is not only inconsistent with a risk based audit approach but may potentially lead to a dilution of importance for higher risk situations or applying a "mechanical check the box" mindset for less risky situations. Furthermore, there is a concern that this may be a catalyst or an example for future auditing standard requirements moving to documenting why things are not at risk of material misstatement which would be a very challenging and time consuming proposition. We believe that there should be more direct reinforcement that the assessment of going concern is the responsibility of entity management and this should be referenced back to the requirements in the preparation of financial statements in IAS 1 (or other relevant framework). We note that this is currently only referred to in the Introduction section of the proposed standard. Linked to the above comment with respect to management's responsibility for the assessment of going concern, stating that the auditor "shall request" management to make its assessment if they haven't yet done so (in paragraph 16) and design and perform procedures on management's assessment (paragraph 17) does not necessarily address the issue and seems to move the responsibility for performing the assessment to the auditor. It is unclear what can practically constitute "management's assessment" although the IAASB ED does indicate that there is a spectrum of analysis by management to support their assessment (as per paragraph A30) as it refers to management's assessment with or without a "detailed analysis". This is an important concept as practically if the auditor is obtaining management's assessment or requesting management to perform an "assessment" then it should be clearer what this constitutes and what supporting analysis would be expected. Referencing to the example included in paragraph A30, for a situation when the entity has profitable operations and there are no liquidity concerns management may make its assessment without detailed analysis. It is unclear what would be considered appropriate in these circumstances - if management discussed their assessment of going concern in a meeting and they stated that there were no issues given the profitable operations and no liquidity concerns would this be sufficient and appropriate? We would recommend additional practical examples be developed to illustrate where an auditor would likely conclude that no detailed analysis is required, and what in fact constitutes detailed analysis by management.

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9. Does IAASB ED 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?
Using the concepts from ASA 540 to assess going concern is sensible given that the assessment does constitute an estimate and involve judgement by management, however as outlined above (refer to response to question 8) there is no scalability or spectrum for this evaluation and it would be practically challenging for the auditor to incorporate these concepts in circumstances when there are no events or conditions indicating a going concern issue and/or when management's assessment and supporting analysis is not detailed. There is currently not a lot of guidance for the practical issues/circumstances which auditors will face (especially in the middle markets) around intent and ability with privately held businesses, where management documentation may be extremely limited (refer to response to question 10). Based on our responses above relating to the responsibility of assessing going concern sitting with management of the entity, if the auditor is going to be required to assess going concern using the concepts from ISA 540 then we believe that these concepts would need to be incorporated directly into ow management perform and document their assessment (including supporting analysis).
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?
Evaluation of intent and what specific procedures could be undertaken to "evaluate intent" is particularly challenging in the private business area, where we do not always have access to or knowledge of other relevant matters which may impact the intent or capacity of the party to continue to support (such as family illness, divorce, etc.). While inquiries can be made, establishing and evaluating intent and how this would necessarily be documented and described in a meaningful way, is difficult to determine. Conceptually, the idea has merit but witl:lout a cohesive communication plan to ensure that particularly in the middle market managemenUowner managers, understand the changes to the auditing standard and consequently their obligations to have and document appropriate plans and/or make available relevant documents, the proposed requirements in IAASB ED are pushing further work to the auditors, which may be considered exhaustive and not necessarily valuable to clients in the private business area.
11. Will the enhanced requirements and appli"cation 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 AOinA concern?
Additional communication is likely, however, whether this discourse is beneficial is less clear, clients already receiving a MURTGC or disclaimer will already be having the communication, however, clients will now be engaged in conversations where they are justifying/arguing to remove a MURTGC where it has been added out of conservatism.
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 reportinA?
Overall, we are in sapport of this. We do highlight that it is important to have consistency, clear connections and interactions with other areas including non-compliance with laws and regulations and communications with external parties.

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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?

Given the content included within auditor's reports relating to the auditor's responsibilities relating to going concern and the current availability of different mechanisms (i.e. MURTGC section, KAMs for listed entities, emphasis of matter, other matter paragraph) to communicate key information to users as well as the extended length and complexity overall, we can't understand the compelling reasons to call out going concern specifically or include further statements (especially when there are no going concern issues) in the auditor's report. We don't believe including further information in the auditor's report is going to enhance transparency or more crucially actually provide additional information useful to users.

We believe including a separate Going Concern section in all auditor's reports is likely to lead to confusion for users and reduced clarity and focus in situations where there is MURTGC. There is no distinction proposed for non-listed entities when there are no going concern issues or when there is events or conditions that may cast significant doubt (but not MURTGC). Also, for listed entities there is no explicit statement proposed indicating that there are events or conditions that may cast significant doubt on the ability to continue as a going concern.

As referred to earlier the increased number of MURTGC will likely lead to standardised responses with vague legal terminology, so while the intent may be good, we further believe it is unlikely to achieve the intended outcomes of enhanced transparency, or provide additional clarity to users of the financial statements.

As a result of our comments above, it may be appropriate to enhance the wording in the auditor's report relating to the auditor's responsibilities in relation to going concern and our recommendations for reporting within the auditor's report in relation to going concern are:

Listed entities

- No going concern issues - nothing further included in the report
- May cast significant doubt - included in KAMs only (if applicable). If not a KAM, then could include an Other Matter paragraph (and refer to disclosure in the notes to the financial statements) if considered appropriate.
- MURTGC - separate section included in the report (as is the case now, thus no change)

Non-listed entities

- No going concern issues - nothing further included in the report
- May cast significant doubt - nothing further included in the report. Could include an Other Matter paragraph (and refer to disclosure in the notes to the financial statements) if considered appropriate.
- MURTGC - same as for a listed entity with a separate section included in the report (as is the case now, thus no change)

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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 conditio_ns 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 aooly to audits of financial statements of entities other than listed entities?

Refer to response to question 13.

15. Is it clear that **IAASB** ED 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 **IAASB** ED 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.**

Refer to responses to other questions.

16 Are there any other matters you would like to raise in relation to IAASB ED? If so, please clearly indicate the requirement(s) or application material, or the theme or topic, to which your comment(s) relate.

The private business implications and the ability to assess intent and capacity/ability in respect of support, is difficult to assess but additional guidance and examples based on likely scenarios would be helpful to assess whether in practice this will present challenges or issues. A private business which is profit ble is unlikely to have extensive if any documentation regarding going concern, and is unlikely to perceive the auditor adding value in requesting additional information to support a conclusion which is "obvious" and will not change the outcome.

17. Effective Date - Recognising that IAASB ED is a substantive revision, and given the need for national due process and translation, as applicable, 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 ISA. Earlier application would be permitted and encouraged. The AUASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ASA?

18 months would provide a suitable time to begin educating management and those charged with governance as to the changes and the likely additional work they will need to undertake and document particularly in the private space.

18. Whether you agree with the AUASB's preliminary view in relation to the Aus paragraphs and Appendices contained in the current ASA 570 (refer to paragraph 14 above)? In particular do you agree with the AUASB's preliminary view on the period of evaluation of management's assessment? If not, provide reasons whv.

Yes. Refer to response to question 7.

19. Whether the proposed changes in the IAASB ED are adequately aligned with existing financial reporting reauirements?

Refer to responses to other questions, specifically question 8. The responsibility for the assessment of going concern and the application of this in the preparation of the financial statements sits with management of the entity. The IAASB ED incre ses the requirements of the auditor in relation to assessing going concern, but there doesn't seem to be any planned changes to what and ow management make their assessment, and no indications as to the communications of expectations with management (and those charged with governance).

20. Whether the proposed changes in the IAASB ED have any corresponding impact on the current requirements of ISRE/ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entitv?
There are broader considerations as to the relevance and applicability of ISRE/ASRE 2410 and the interactions with auditing standard requirements. It is highlighted that we expect the period of assessment for going concern will equally extend to 12 months from the date of signing for ASRE 2410 review engagements. In relation to the flow on impacts to the auditor's review report, based on our response to question 13 we would expect: • No going concern issues - nothing included in the report • May cast significant doubt - included in KAMs only (where appropriate) therefore no impact on the review report • MURTGC - would be similarly applicable as for the audit thus a separate section included in the review report.
21. Have applicable laws and regulations been appropriately addressed in the proposed standard and are there any references to relevant laws or regulations that have been omitted?
No further comments.
22. Whether there are any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard? Stakeholder feedback will directly inform AUASB compelling reason c,-liscussions (refer paragraphs 20- 22 of this Consultation Paper).
No further comments.
23. Whether there are any principles and practices considered appropriate in maintaining or improving audit quality in Australia that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard? Stakeholder feedback will directly inform AUASB compelling reason discussions (refer paragraphs 20-22 of this Consultation Paper).
No further comments.
24. What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the main changes to the requirements of the proposed standard? If significant costs are expected, the AUASB would like to understand: **(a) Where those costs are likely to occur;** **(b) The estimated extent of costs, in percentage terms (relative to audit fee); and** **(c) Whether expected costs outweigh the benefits to the users of audit services?**
Refer to responses to other questions. The additional procedures and requirements to include specific information directly in the auditor's report will necessitate additional time, effort, review and supervision which will likely include the engagement partner, engagement quality reviewer (where applicable) and technical departments, and possibly even lawyers given the importance of the going concern position and any potential use of the documentation in a litigation matter.

25. What, if any, implementation guidance auditors, preparers and other stakeholders would like the AUASB to issue in conjunction with the release of ASA 570 (specific questions/examples would be helpful)?
Clarity on the guidance the AUASB intends to publish for those charged with governance or how they will engage with the director community to ensure that the increased focus is not entirely placed on the auditor.
Are there any other significant public interest matters that stakeholders wish to raise?
The entire standard is focused on the auditor's responsibilities - what or how will the additional responsibilities be communicated to management and other stakeholders such as directors who are responsible for the documentation and decision making in the first instance? Additionally, clarity to the investing community that going concern is significantly different from an endorsement of the business model or the entities likelihood of achieving its objectives and budgets, going concern is whether the entity will survive, not necessarily thrive.