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TECHNICAL NOTE

Comments of the AFAANZ Auditing and Assurance Standards Committee on Proposed International Standard on Auditing 570 (Revised) Going Concern

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Abstract

The International Auditing and Assurance Standards Board (IAASB) issued for public comment Proposed International Standard on Auditing 570 (Revised) Going Concern. The Australian Auditing and Assurance Standards Board (AUASB) and New Zealand Auditing and Assurance Standards Board (NZAuASB) also called for comments. The Auditing and Assurance Standards Committee of AFAANZ prepared a submission, based on the findings reported in extant research, informing a number of the questions asked by the IAASB. This technical note presents the formal submission made to the IAASB.

KEYWORDS

audit, evidence informed standard setting, going concern, international standards on auditing

JEL CLASSIFICATION

M42, M48

1 | INTRODUCTORY COMMENTS

We begin by commending the International Auditing and Assurance Standards Board (IAASB) for their work on revising the going concern standard. The effectiveness of the audit/auditor is often cast into the spotlight following spectacular corporate collapses shortly after the auditor has issued a clean opinion. Research also highlights differing views on the perceived role of auditors in assessing going concern (e.g., Campbell & Mutchler, 1988; McEnroe & Martins, 2011; Porter et al., 2012). We are of the view that there are considerable opportunities to enhance confidence in capital markets and to reduce the expectation gap by enhancing auditor responsibilities relating to going concern and to improve user understanding of those responsibilities.

Overall, we believe that the proposed standard, when considered collectively, will enhance and strengthen the auditor's judgements and work relating to going concern, but that there remain opportunities for the IAASB to further improve the proposed standard prior to issue.

We limit our comments to the questions for which we are of the view that the extant research literature may meaningfully contribute. Specifically, we comment on Questions 2, 3, 4, 5, 6, 8, 9, 11, 13, 14, 15 and 16.

In summary, we feel that the proposed standard:

(i) will broadly enhance and strengthen auditors' judgements and work relating to going concern, but believe that there are opportunities for the IAASB to further enhance the requirements and application and other explanatory material (see our response to Question 2),
(ii) is scalable to entities of different sizes and complexities but examples illustrating scalability may suggest that going concern risk is lower in smaller and/or less complex entities (see our response to Question 3),
(iii) could further reinforce the application of professional scepticism in relation to going concern (see our response to Question 4),
(iv) does not give greater clarity to the meaning of material uncertainty (related to going concern) (see our response to Question 5),
(v) should require the team discussion undertaken as part of the risk assessment process to specifically focus on events or conditions that may give rise to a material uncertainty (see our response to Question 6),
(vi) appropriately extends requirements for auditors to design and perform audit procedures to evaluate management's assessment of going concern in all circumstances, and not just when events or conditions have been identified (see our response to Question 8),
(vii) could more effectively incorporate concepts introduced from ISA540 (Revised) including attention to alternate future scenarios that management may not have effectively considered and to make explicit reference to auditor's use of management's (and auditor's) experts (see our response to Question 9),
(viii) does not sufficiently encourage timely communication with those charged with governance (TCWG) (see our response to Question 11),
(ix) appropriately enhances reporting on going concern matters for all entities (see our response to Question 13),
(x) should extend the enhanced requirements for the auditor's report to speak to auditor's responsibilities and work performed to all entities (not just listed entities), and to all circumstances (not just when events or conditions have been identified) (see our response to Question 14),
(xi) should further clarify (in conforming amendments to ISA701) when matters related to going concern should and should not be reported as a Key Audit Matter (see our response to Question 15), and
(xii) does not cover limited assurance engagements.

We expand on these points below.

2 | RESPONSES TO SPECIFIC QUESTIONS

2.1 | Question 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 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. We believe, however, that there are unrealised opportunities to further enhance and strengthen the auditor's judgements and work in this area.

We commend the IAASB in their work in this critical area of the audit and believe that the proposals in ED-570, when considered collectively, will enhance and strengthen the auditor's judgements and work relating to going concern. We note, however, that there are opportunities for the IAASB to further enhance the proposals to improve auditor's work in the area of going concern. In particular, with reference to the extant research literature, we encourage the IAASB to reinforce the importance of going concern in audits of smaller and/or less complex entities, increase the auditor's focus on alternate future scenarios that management may not have considered, refer to auditor biases that may constrain the exercise of professional scepticism, consider numerical expressions of probability as a means of providing clarity to the meaning of material uncertainty (related to going concern), reflect on the merit of requiring the audit team discussion to include consideration of events or conditions that may give rise to a material uncertainty, and to harmonise auditor reporting on going concern across all entities and circumstances.

2.2 | Question 3: Do you believe that 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?

We believe that the proposed standard is scalable to entities of different sizes and complexities, but are concerned that examples illustrating scalability may lead the auditor and other stakeholders to believe that going concern is less of a risk in smaller and/or less complex entities (which research suggests is not the case). We encourage the IAASB to focus scalability examples on the application of the enhanced requirements in the unique circumstances characterising smaller and/or less complex entities and avoid references to a less extensive work effort.

We note that a number of the paragraphs in the proposed standard relating to scalability (i.e., paragraphs A13 and A31) speak to the expected auditor work effort in smaller and/or less complex entities compared to larger and/or more complex entities. We are concerned that this may be interpreted as going concern being less of an issue (i.e., requiring less attention) in smaller and/or less complex entities. Such an assumption is contrary to research which suggests that firm size is inversely related to perceived risk of bankruptcy and likelihood of a material uncertainty being reported on by the auditor (e.g., Amin et al., 2021; Carson et al., 2013; Dal Maso et al., 2020; DeFond et al., 2002; Dhaliwal et al., 2020; Hossain et al., 2020; Li & Xin, 2023; Reynolds & Francis, 2000). Similarly, there is mixed evidence on the effects of complexity on the likelihood of the auditor reporting on a material uncertainty. Dal Maso et al. (2020) and Dhaliwal et al. (2020) both find that more complex entities are less likely to have a material uncertainty reported on by the auditor, but Amin et al. (2021) find the opposite.

In addition, we note research highlighting that auditors may be excessively conservative when assessing going concern in smaller entities, in that they are more likely to report on a material uncertainty, but that the client remains viable into the future (i.e., Type I going concern misclassification) (e.g., Amin et al., 2021; Berglund et al., 2018; Hossain et al., 2020; Wang, 2022). Research similarly finds a greater preponderance of material uncertainty reporting in smaller charities (Yang et al., 2022), non-profit organisations (Vermeer et al., 2013), and development stage companies (Foster & Shastri, 2016). We believe, therefore, that there is an opportunity for auditors to more accurately assess their smaller and less complex clients' going concern and feel that the enhanced requirements will help in this regard.

We do feel, however, that the scalability examples should limit the potential impression that the risk of going concern is less of an issue, and that the auditor's necessary work effort is less extensive, in audits of smaller and/or less complex clients. We recommend that the IAASB focus more on the application of the enhanced requirements in the often unique circumstances characterising smaller and/or less complex clients.

2.3 | Question 4: Do the requirements and application material of ED-570 appropriately reinforce the auditor's application of professional scepticism in relation to going concern?

We believe that there are opportunities for the IAASB to further enhance the requirements and application material of ED-570 to reinforce the auditor's application of professional scepticism. We encourage the IAASB to consider revising application material such that the auditor is not excessively focused on management's process and assumptions at the expense of alternate future scenarios that management may not have effectively considered. We further encourage the inclusion of references to auditor biases (and not just management bias), and for the IAASB to encourage the application of an '*appropriate*' level of professional scepticism.

Research shows that the exercise of an elevated level of professional scepticism is associated with higher quality going concern judgements (e.g., Feng & Li, 2014; Hardies et al., 2021) and we commend the IAASB on its focus on the reinforcement of the auditor's application of professional scepticism in relation to going concern.

A significant threat to the appropriate exercise of professional scepticism is the adoption of an implemental as opposed to a deliberative mindset (e.g., Nolder & Kadous, 2018). An implemental mindset focuses the auditor on the completion of the task whereas a deliberative mindset focuses the auditor more on the different dimensions (alternatives) inherent in the task and encourages critical thinking. The adoption of an implemental vs deliberative mindset has been shown to be associated with insufficient challenging of, and overreliance on, management's assumptions and processes (Griffith et al., 2015) and is more likely to be prompted in a going concern environment where auditors are required to evaluate *management's assessment* of the entity's ability to continue as a going concern. We believe that requirements in paragraph 18 and paragraph 19 (and associated application and explanatory material) go some way to prompting a more deliberative analysis of the entity's ability to continue as a going concern (and the exercise of an appropriate level of professional scepticism), but believe that it may still be too focused on management's assumptions and processes at the expense of alternate scenarios that the auditor, but not the client, may envisage. As such, management bias in the assessment of going concern may survive the audit.

We do not suggest that auditors be required to make a going concern assessment independent of management, but encourage the IAASB to consider providing further elaboration in paragraphs A32–A37 with a view to suggesting that evaluating management's assessment in an unbiased manner may involve considering alternate scenarios that the auditor envisages independent of the client's assessment. While paragraph A36 briefly speaks to alternate assumptions, we do not believe that this is sufficient (see also our response to Question 9).

We further note that while ED-570 speaks to management bias, the proposed standard is essentially silent on auditor biases that have the potential to constrain the auditor's exercise of professional scepticism. We note that proposals associated with revisions to ISA500 speak to auditor biases that may threaten the auditor's exercise of professional scepticism and we believe that there is an opportunity for the IAASB to reinforce the exercise of professional scepticism by cross referencing to ISA500 when discussing an unbiased evaluation of management's assessment. We consider this to be especially important in light of research suggesting that the auditor's exercise of professional scepticism may be constrained when the auditor reports on work that was done (Asbahr & Ruhnke, 2019). We do note, however, our comments on ED-500 which expressed concern that overconfidence bias (e.g., Pincus, 1991) was not covered, and highlight the potential threat to the exercise of professional scepticism from overconfidence bias when evaluating going concern.

Finally, we note that the relationship between levels of professional scepticism and quality-enhancing behaviours is not infinitely positive and elevated levels of professional scepticism are not always audit quality-enhancing (e.g., Harding et al., 2016; Sun et al., 2022). Given that management's assessment is focused on inherently uncertain future outcomes, and the auditor is making an assessment about the level of uncertainty, excessive levels of professional scepticism have the potential to inflate incidences of a material uncertainty relating to going concern which we believe would detract from the decision usefulness of such reporting in the auditor's report. We believe that this can be addressed with a revision to paragraph A16 to refer to auditors maintaining an '*appropriate*' level of professional scepticism.

2.4 | Question 5: Do you support the definition of material uncertainty (related to going concern)? In particular, do you support the application material in the definition clarifying the phrase 'may cast significant doubt'?

We commend the attempt to bring greater clarity to the meaning of material uncertainty (related to going concern) but note that the proposed approach is unlikely to realise the clarity and consistency in interpretation that the IAASB hoped for. We recommend that the IAASB explore the potential for numerical expressions of probability as a means of providing clarity and facilitating consistency in interpretation of this important term.

By name, and by nature, material uncertainty (related to going concern) is meant to express uncertainty as to the entity's continued viability. On a probability distribution, it lies between certainty that the entity is a going concern and certainty that the entity is not a going concern. It is defined with reference to verbal probability terms (i.e., 'may' and 'doubt') and modifiers (i.e., 'material' and 'significant'). The modifiers suggest that the threshold is some distance from certainty to continue as a going concern, but beyond this, the auditor and other participants in the financial reporting ecosystem are given little guidance as to the intended threshold. The clarification of 'may cast significant doubt' in paragraph A5, unfortunately, does not help in that it does not speak to the intended indeterminacy of the relationship between the identified events or circumstances and the entity's ability to continue for the foreseeable future. That is, in paragraph A5, 'may' becomes 'will' in order to provide the supposed clarity, but in doing so, the indeterminacy is now removed. We believe that the current definition in paragraph 10 and clarification in paragraph A5 will not bring clarity to the meaning of material uncertainty.

Research on the meanings derived from verbal probability terms has long highlighted that there is inter-individual variability in how these terms are interpreted (e.g., Lichtenstein & Newman, 1967). The recipients of information on uncertainty expressed by way of verbal probabilities may not, therefore, interpret the information as intended (e.g., Brun & Teigan, 1988).

Variation in the interpretation of verbal probability terms is similarly evident in accountant and auditor populations (e.g., Amer et al., 1994; Harrison & Tomassini, 1989; Reimers, 1992) and amplified with the inevitable imprecision when translating these terms (e.g., Davidson & Chrisman, 1994; Doupnik & Richter, 2003) and cultural differences (Doupnik & Riccio, 2006; Doupnik & Richter, 2003). Furthermore, variation is evident across different participants in the financial reporting ecosystem (e.g., Seo & Thomson, 2016).

Although related to the US term 'substantial doubt', rather than 'significant doubt', research highlights that there is variation in the interpretation of going concern terminology across different participants in the financial reporting ecosystem (Bierstaker & DeZoort, 2019; Ponemon & Raghunandan, 1994). While we commend the IAASB on their efforts, and acknowledge the benefits, in providing clarity and encouraging consistency in the interpretation of material uncertainty, the research literature suggests that the current efforts will fall short of expectations. Moreover, the use of alternative verbal probability phrases is unlikely to be any more effective.

In order to improve clarity and consistency in the interpretation of the term material uncertainty (relating to going concern), we encourage the IAASB to consider supplementing the proposed definition with guidance using numerical expressions of probability (e.g., ** ± **% probability that the entity will not be able to continue as a going concern). This may help auditors and others in the financial reporting ecosystem to understand what the IAASB means by the term material uncertainty.

Although not tested in a going concern setting, research suggests that probability information is more clearly expressed and seen as being more credible when numerical probabilities are used (e.g., Collins & Mandel, 2019). While some may be concerned that numerical probabilities could inadvertently increase invalid perceptions of precision, research in a national security decision-making setting suggests that quantification does not increase perceptions of rigour and encourages further reflection by the recipient of the message (Friedman et al., 2017). Probability ranges rather than a precise point estimate could also help to illustrate the indeterminacy inherent in a material uncertainty, thereby assisting in the interpretation of this imprecise probability term.

We are not aware of research that investigates the use of numerical probabilities in a going concern setting and do not recommend adoption of numerical probabilities in the absence of research being undertaken (including research on whether the numerical probabilities should be included as part of the auditor's report and/or presented as guidance as to the interpretation of the term, and what the appropriate probability range should be). However, to the extent that the IAASB sees merit in clarifying the meaning of the term significant influence, and that the current approach is unlikely to realise this objective, the IAASB may wish to consider numerical probabilities as part of the solution.

2.5 | Question 6: Does ED-570 appropriately build on the foundational requirements in ISA315 (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 believe that there is an opportunity to include a requirement that the team discussion specifically focus on events or conditions that may give rise to a material uncertainty about going concern (similar to the way ISA240 requires the team discussion to specifically address fraud).

ISA315 paragraph 17 requires an engagement team discussion of the application of the applicable financial reporting framework and the susceptibility of the entity's financial report to material misstatement. ISA240, paragraph 16 further requires this discussion shall place particular emphasis on how and where the entity's financial report may be susceptible to material misstatement due to fraud. One of the benefits of team discussions/brainstorming is the pooling of many individuals' ideas and to generate additional ideas via cognitive stimulation (e.g., Trotman et al., 2015). Encouragingly, research highlights the benefits of discussion/brainstorming in a fraud setting (e.g., Brazel et al., 2010; Carpenter, 2007; Dennis & Johnstone, 2016; Hoffman & Zimbelman, 2009).

We believe that the going concern setting would similarly benefit from a team discussion in that it may result in the identification of more potential events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and lead to more effective responses to these potential events or conditions. In a going concern setting, Seol (2006) shows that interacting groups have better going concern problem representation and are more focused on relationships between information rather than the information itself.

We encourage the IAASB to consider including a requirement in the proposed standard to ensure that the audit team discussion place particular emphasis on events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

2.6 | Question 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 support the enhanced approach requiring auditors to design and perform audit procedures to evaluate management's assessment in all circumstances in that doing so should result in auditors more robustly challenging management's assessment that the entity will continue as a going concern. We note, however, that the benefits of this enhanced approach are constrained by the proposed differential auditor reporting requirements.

Auditors face incentives to support management's assumptions (e.g., Kadous et al., 2003) and this can result in conscious and subconscious bias in the search for and evaluation of evidence relating to these assumptions (Kunda, 1999). Extant auditing standards, by truncating the requirement for auditors to perform audit procedures where events or conditions have not been identified, likely discourage auditors from concluding that events or conditions are present in 'close call' situations, and limit auditor accountability in that further procedures that may challenge the client's preferred position are not required.

White (2011) discusses the process by which auditors decide that they have collected sufficient evidence (i.e., evidential stopping rules) and the enhanced approach requiring the performance of procedures in all circumstances will produce a more comprehensive evidence set, thereby limiting conscious and subconscious biases favouring evidence in support of management's preferred outcome (Austin et al., 2020; Kunda, 1999). In this setting, it is more likely that evidence contradictory to management's assessment will be collected and considered, thereby subjecting management's assessment to a more robust evaluation.

We further note that the benefits of the enhanced approach proposed in paragraph 17 are reinforced by the enhanced reporting requirements and transparency in the auditor's report, but note that the realisation of the benefits of the enhanced requirements in paragraph 17 are constrained by the proposed differential requirements for listed and non-listed entities. We note in our response to Question 14 that the enhanced reporting should apply to all entities, not just listed entities, such that the enhanced approach reflected in paragraph 17 can fully realise its audit quality enhancing potential.

2.7 | Question 9: Does ED-570 appropriately incorporate the concepts introduced from ISA540 (Revised) for the auditor's evaluation of the method, assumptions and data used in management's assessment of going concern?

We are of the view that ED-570 broadly incorporates the concepts introduced from ISA540 (Revised) and will likely lead to higher quality auditor going concern judgements. We do, however, encourage the IAASB to reflect on whether current application material in paragraph A32 is sufficient to de-bias auditor focus on evidence addressing management's predictions and assumptions at the expense of alternate future scenarios that management may not have effectively considered. We further suggest reflection on whether reference to ISA500, and in particular, the auditor's use of a management's (and auditor's) expert, is warranted in proposed ISA570 (as is the case in extant ISA540).

As is the case with auditing accounting estimates, evaluating management's assessment of the entity's ability to continue as a going concern similarly involves a forward-looking perspective, inherent subjectivity and prediction uncertainty. With reference to auditing estimates, research (e.g., Dharmasiri & Phang, 2023) shows that increased effort in collecting/assessing evidence (i.e., greater elaboration) results in higher quality judgements (see also Griffith et al., 2018). We, therefore, commend the IAASB in enhancing auditor requirements around evaluating management's assessment of going concern in all circumstances as we believe that this will enhance auditors' effort in elaborating information cues and result in higher quality going concern judgements.

However, we further note research highlighting auditors' excessive focus on management's assumptions, valuation models and underlying data when auditing estimates and the potential for management optimism bias to survive auditor attention (e.g., Glover et al., 2017; Griffith et al., 2015). This threat to the quality of auditor judgements is especially salient in a going concern setting given the explicit objective of evaluating *management's* evaluation of going concern. In this regard, we commend the requirement (paragraph 18) for audit procedures to be designed so as to not be biased towards obtaining either corroborative or contradictory evidence. We do, however, encourage the IAASB to consider whether application material in paragraph A32 is sufficient to ensure that ‘evaluating management's assessment’ is not interpreted (consciously or subconsciously) as meaning that the auditor should focus only on factors that management has considered (see also our response to Question 4).

Finally, we note research on threats to audit quality from the use of a management's expert when auditing complex estimates (e.g., Pyzoha et al., 2020). We note that ISA540 (Revised) makes reference to ISA500 when considering the work carried out by a management's expert and encourage the IAASB to reflect on whether similar references would be useful in the proposed revisions to ISA570.

2.8 | Question 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?

We agree with the intention to encourage timely (early) transparent communication among the auditor, management and TCWG, but do not believe that the enhanced requirements sufficiently encourage this timely communication. We recommend that the IAASB incorporate into paragraph 39 an explicit requirement for ‘timely’ communication.

Effective communication between the auditor, management and TCWG is a positive factor contributing to audit quality (e.g., Cohen et al., 2008). Such communication not only facilitates the effective execution of management's and TCWG's responsibilities, and an opportunity to respond to the auditor's concerns, but also, importantly, impacts the quality of auditor judgements. In a going concern setting, Andiola et al. (2023) show that auditors expressing reservations around going concern throughout the audit are more likely to express concern in the year-end auditor's report.

Individuals do not like to communicate bad news (e.g., Fisher, 1979), but early communication of unpleasant news that may be forthcoming can reduce negative feelings (e.g., Beis, 2013) and facilitate a balanced evaluation of the evidence that does not overly favour the client's preferred position (Andiola et al., 2023).

While timely communication of the auditor's beliefs as to going concern is important, we do not believe that the proposed application material is sufficient for auditors to be aware of and overcome negative emotions regarding going concern communication. This may mean that such communication is delayed in the hope of not having to have such a conversation (and in doing so the auditor becomes more vested in the client's preferred outcome). Paragraph A87 is focused on management and TCWG reactions, which, while important, ignores auditor judgement implications. We recommend that paragraph 39 explicitly require 'timely' communication and paragraph A87 recognise that the advantage of timely communication is not limited to actions by management and TCWG, but may extend to minimising bias in the performance of procedures to evaluate management's assertion and increase the likelihood of an appropriate level of scepticism being exercised.

2.9 | Question 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 requirements and application material facilitating enhanced reporting for all entities.

The research literature does not clearly answer the question on the usefulness of going concern information in that it is difficult to disentangle the effects of auditor reporting on going concern from other contemporaneous information reported on at the same time (e.g., Myers et al., 2018). Research reporting on the information content of auditor reporting on going concern uncertainty therefore needs to be interpreted with caution and with reference to interrelationships across the entire financial reporting ecosystem. That said, we support the requirements and application material facilitating enhanced reporting.

With reference to the extant requirements, in the absence of a stated material uncertainty related to going concern, users are left to infer the auditor's evaluation of the appropriateness of management's use of the going concern basis of accounting. It would not be appropriate to assume that in such a situation users perceived the auditor's assessment of management's use of the going concern basis is appropriate (e.g., Shafer, 1976; Srivastava, 2011; Srivastava & Liu, 2003). By clearly stating, irrespective of whether or not there is a material uncertainty, that the auditor has concluded that management's use of the going concern basis is appropriate, the enhanced reporting minimises any potential confusion by leaving no doubt as to the outcome of the auditor's evaluation. We believe that this is useful information for intended users of the audited financial information.

2.10 | Question 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 requirements and application material that facilitate further enhanced disclosures in the auditor's report about the auditor's responsibilities and work related to going concern, but note that the benefits of the enhanced requirements extend beyond increased transparency to improved audit quality. With this in mind, we believe that the requirements should be extended to all entities. In addition, we encourage the IAASB to consider extending the requirements to all circumstances and not just when events or conditions have been identified.

The proposed requirements in paragraph 33(b)(ii) and paragraph 34(d) are similar to reporting of going concern Key Audit Matters as required by extant ISA701, and research on Key Audit Matters informs assessments of the appropriateness of the proposed enhancements to auditor reporting on going concern. In particular, research speaks to at least two dimensions of the proposed enhanced auditor reporting; the potential increased information content and transparency, and the broader impact on audit quality.

Research on the decision usefulness of reporting Key Audit Matters is mixed (for reviews, see Gold & Heilmann, 2019 and Minutti-Meza, 2021) and does not consistently demonstrate benefits to the users of the auditor's report of increased transparency. Extant requirements, however, allow for the disclosure of a level of uncertainty that is removed in the proposed standard. That is, auditors can presently speak to ‘close calls’ as a Key Audit Matter, and research (Mattocks, 2023) highlights that users are able to distinguish going concern implications across a material uncertainty versus a Key Audit Matter close call. Similarly, Wright and Wright (2014) find that explanations of the auditor's judgement processes in ‘close-call’ going concern uncertainties is useful information to investors. This gradation is somewhat lost in the proposed standard with reporting on going concern required in all circumstances (making it more difficult to identify when there was a ‘close call’).

Practically, however, we note research highlighting that going concern issues are rarely raised as a Key Audit Matter (e.g., Camacho-Minano et al., 2023; Grosse et al., 2023; Kend & Nguyen, 2020). We, therefore, believe it to be in the public interest to require the auditor to report on the work done in order to assess going concern.

Moreover, we note research highlighting that Key Audit Matter reporting is associated with improved financial reporting quality (e.g., Burke et al., 2023; Reid et al., 2019; Zeng et al., 2021). The reporting of Key Audit Matters, however, may detract from the quality of auditor judgements in that they may be perceived as providing a licence for doing less work (e.g., Asbahr & Ruhnke, 2019; Ratzinger-Sakel & Theis, 2019; Vinson et al., 2019).

A long tradition of research on auditor justification and accountability highlights that the auditor having to explain/justify their judgements leads to increased effort and often (but not always) improved judgement performance (e.g., Agoglia et al., 2003; Kennedy, 1993; Koonce et al., 1995; Peecher, 1996). Although the research is mixed on the auditor behavioural consequences of reporting Key Audit Matters (or Critical Audit Matters), and therefore the likely impact on auditor judgement of reporting how the auditor addressed going concern, we believe that the required positive statements as to the auditor's conclusions about the appropriateness of the going concern basis of accounting will encourage the quality-enhancing effects of disclosing what was done to evaluate management's assessment, thereby increasing the effectiveness of the enhanced requirements for auditors to evaluate management's assessment in all circumstances. In addition, this improvement in underlying audit quality is likely to be accompanied by a similar increase in perceptions of increased auditor credibility and audit quality by users of the auditor's report (Carver et al., 2023; Moroney et al., 2021).

Recognising the potential benefits beyond increased transparency, we encourage the IAASB to consider expanding the scope of paragraph 33(b) such that it is not limited to circumstances when events or conditions that may cast significant doubt on the entity's ability to continue as a going concern have been identified. That is, extend the requirement to all circumstances. Mindful of the benefits for auditor judgement of reporting how the auditor evaluated management's assessment, we believe that extending the requirement to all circumstances makes the realisation of the benefits from the enhanced approach requiring the auditor to design and perform audit procedures to evaluate management's assessment of going concern in all circumstances more likely (see our response to Question 8). In addition, the absence of disclosure may lead to lower user perceptions of auditor credibility and audit quality (Carver et al., 2023) than should otherwise be the case.

We also encourage the IAASB to consider extending the requirements of paragraph 33(b) and paragraph 34(d) to all entities, and not just listed entities. We note above the likely benefits of the provisions of paragraph 33(b) and paragraph 34(d) and believe it to be in the public interest for such benefits to also be realised in audits of non-listed entities. While it is understood that the benefits of increased transparency are more evident in listed entities, the benefits of improved audit practices are applicable and important across all entities. In this regard, we note in our response to Question 3 the importance of going concern assessments (and the opportunity to improve the quality of those assessments) in smaller and/or less complex entities.

2.11 | Question 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 ISA701 or any other ISA)? This includes when a material uncertainty related to a 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

We believe that additional clarification is necessary and encourage the IAASB to consider conforming amendments to ISA701 so as to be clear that matters relating to the auditor's assessment of events or circumstances that may cast doubt on the entity's ability to continue as a going concern (irrespective of whether the auditor's conclusion is that there is a material uncertainty) are not described in the Key Audit Matters section. In addition, we encourage the IAASB to consider amending ISA701 so as to be clear that a circumstance indirectly related to going concern is not excluded from being disclosed as a Key Audit Matter when it is significant to the audit, independent of the implications that it may also have for going concern.

Extant ISA701 (paragraph 15) serves to exclude from Key Audit Matters those matters relating to the auditor's conclusion that there is a material uncertainty relating to going concern.

With additional reporting being proposed in all circumstances, we believe that paragraph 15 needs to be amended so that 'close calls' that would sometimes be included as a Key Audit Matter are now not reported as such (as they will be discussed in the new going concern section of the auditor's report).

We also note that, in many circumstances, matters that may indirectly be related to an entity's ability to continue as a going concern are also consistent with disclosure as a Key Audit Matter. These circumstances may be related to an auditor's assessment of management's assertions as to going concern, but may also be matters of significance to the audit for reasons other than their relationship to going concern.

Camacho-Minano et al. (2023) show that the number and nature of the disclosed Key Audit Matters is related to financial distress, thereby highlighting the relationship between going concern and Key Audit Matters. In the absence of greater clarity in paragraph 15 of ISA701, we fear that circumstances that would otherwise warrant Key Audit Matter disclosure are not reported on account of a relationship to going concern. We encourage the IAASB to consider making consequential amendments to paragraph 15 of ISA701 to clarify the relationship between Key Audit Matters and reporting proposed under ED-570 and to reinforce that a connection between the circumstance and assessment of going concern does not preclude its reporting as a Key Audit Matter where its significance arises from matters other than its relationship to going concern.

2.12 | Question 16: Are there any other matters that 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 raise two further points for the IAASB's consideration. We wish to again reinforce the respective responsibilities of management and the auditor in assessing going concern. It remains the case that management are responsible for and reporting on an assessment of the entity's ability to continue as a going concern. We do not believe that it is in the public interest for improved disclosures to be driven through the auditor's report.

In addition, while acknowledging that reasons have been put forward as to why review engagements are out of scope of this project, we note the importance of interim reporting on going concern (which is often subject to review rather than audit) and encourage the IAASB to revise ISRE2400 and ISRE2410 as a matter of urgency.

We make the point that it is management's responsibility to assess and report on the appropriateness of the going concern basis of preparation. For example, IAS1 requires management to make an assessment of an entity's ability to continue as a going concern. Current requirements in IAS1 are not fully aligned with proposed (and extant) auditing standard requirements in that reporting standards are less specific on going concern disclosures (Bradbury et al., 2022). We do not believe that it is the place for auditing standards to be the vehicle through which to improve corporate reporting in this critical area.

We highlight that New Zealand made amendments to their accounting standards in 2020 to align accounting and auditing practices. In this regard, Grosse et al. (2023) highlight the benefits of alignment and reinforce concerns raised by auditors that management's lack of preparation for financial reporting disclosure surrounding the going concern assumption leads to increased audit effort and delays in financial statement preparation (Geiger et al., 2021).

We further note the absence as part of this project of a consideration of going concern in limited assurance engagements (i.e., ISRE2400 and ISRE2410). Research reveals the importance of interim reporting of going concern (e.g., Grosse & Scott, 2022; Wang, 2022) and in many jurisdictions such reporting is the subject of review rather than audit. In particular, we are concerned with the potential confusion associated with different going concern reporting requirements across review and audit engagements. While we acknowledge the reasons put forward by the IAASB for not also considering ISRE2400 and ISRE2410, we nevertheless encourage the IAASB to consider as a matter of urgency revising ISRE2400 and ISRE2410 in line with the positive enhancements proposed in ED-570.

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