

Are auditors going to be concerned? AFAANZ Webinar

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KEY DEVELOPMENTS

- **The Parliamentary Joint Committee (PJC) inquiry into the regulation of auditing in Australia (2019/20)**
 - Going concern - a review of the sufficiency and effectiveness of reporting requirements is undertaken
- **COVID! – increased focus on going concern risk**
- **The IAASB Discussion Paper *Fraud and Going Concern in an Audit of Financial Statements* in response to international corporate failures (2020)**
 - AUASB acknowledged the existence of an expectation gap in relation to going concern BUT couldn't be fixed by auditors alone.... Needed to consider reporting requirements....
- **The AASB released a *Going Concern Disclosures: A case for International Standard-Setting* (2021)**
 - Examined the Accounting Standards and a case for amendment based on inconsistency in practice or guidance to assist
- **The NZASB revised FRS-44 Going Concern**
 - Introduced more specific disclosure requirements when the going concern assessment has involved the consideration of material uncertainties and in circumstances when there are no material uncertainties, but significant judgement has been applied

KEY ISSUES BEING ADDRESSED BY ISA 570*

Material Uncertainty is explicitly defined as “an uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the entity’s ability to continue as a going concern...”

More robust and prescriptive requirements to support timely identification of matters relating to management's assessment of the entity’s ability to continue as a going concern.

- Shift from “shall evaluate” to “shall design and perform audit procedures” to form a basis to support risk assessment
- Require the performance of audit procedures to evaluate management’s assessment of going concern, irrespective of whether events or conditions that have been identified
- Perform audit procedures to evaluate the method, assumptions and data used by management to make its assessment of going concern by leveraging concepts in ISA 540.
- Strengthened requirements to evaluate whether management has the intent to carry out specific actions in its plan and the ability to do so.



KEY ISSUES BEING ADDRESSED BY ISA 570*

Increased auditor reporting requirements

- *Use of Going Concern Basis of Accounting Is Appropriate – No Material Uncertainty Exists*
 - Separate section “Going Concern” which states the use of the going concern assumption is appropriate and no material uncertainty has been identified.
 - For listed entities only – **if** events or conditions are identified that may cast significant doubt, auditor reports this and refers to disclosure in FS
- *Use of Going Concern Basis of Accounting Is Appropriate – A Material Uncertainty Exists*
 - For listed entities only auditor describes the procedures performed

RESEARCH NEEDS

TERMINOLOGY

Will clearly defining 'material uncertainty' impact auditors conclusions or judgements when determining whether a material uncertainty exists? Will this improve consistency among auditors?

TRANSPARENCY ABOUT THE AUDITOR'S RESPONSIBILITIES

Will increased reporting by the auditor achieve its intended purpose?

- How will users respond to the generic paragraph on going concern? Will it be perceived as a substitute for reporting on going concern in a Key Audit Matter (KAM)?
- Will ongoing attention to going concern result in users disregarding that information?
- Will increased reporting by the auditor when there are events or conditions mean that the accounting standard needs to be aligned?
- Will the inclusion of audit procedures in a MURGC paragraph have the same effect on users as boilerplate disclosures?
- Is there any existing evidence from other jurisdictions with similar reporting requirements i.e., the UK?

FS REPORTING REQUIREMENTS

Should the Accounting Standards be amended?

