

Going Concern

Revisions to ISA (NZ) 570 (Revised)

Consultation document

May 2023

Consultation closes 31 July 2023





Contents

PART ONE: INTRODUCTION	3
1. What are we consulting on?	4
2. How can you contribute?	5
PART TWO: OVERVIEW OF THE PROPOSALS	6
3. Key proposals on going concern	7
3.1. Proposed IAASB ED	7
3.2. NZ specific considerations	8
3.3. Impact on Review Engagement Standards	10
PART THREE: CONSULTATION QUESTIONS	11
Overall Questions	12
New Zealand Specific Questions	12
Specific Questions	13
Specific Questions (continued)	14

PART ONE: Introduction





1.

What are we consulting on?

Corporate failures across the globe in recent years have brought the topic of going concern to the forefront and led to stakeholder demands for enhanced transparency on going concern. Conditions, such as war and the global pandemic, have also caused heightened risks focussing attention on the challenges and issues pertaining to the auditor's responsibilities and work related to management's assessment of going concern, and the reporting thereof. In addition, the ongoing uncertainties in the broader economic environment and the more recent turmoil in the financial sector have again put a spotlight on the topic of going concern, emphasising the need for a more robust standard.

In response, the International Auditing and Assurance Standards Board (IAASB) has issued for public comment Exposure Draft Proposed ISA 570 (Revised), *Going Concern and Proposed Conforming and Consequential Amendments to Other ISAs. (IAASB ED)*.

The aim of this consultation document is to:

- Provide you with information about the IAASB ED
- Provide you with possible New Zealand amendments to the proposals in the IAASB ED
- Seek your feedback

The XRB uses your feedback on the proposals to inform us when responding to the IAASB on the IAASB ED.

In addition to the international proposals, the XRB is seeking feedback on proposed compelling reason modifications that may need to be made to the IAASB ED when it is finalised, for application in New Zealand.



This consultation document should be read in conjunction with the [IAASB Explanatory Memorandum and Exposure Draft](#).



2.

How can you contribute?

Responding to consultation questions

We are seeking comments on the questions raised in the IAASB explanatory memorandum and this consultation document. We will consider all comments received. Your feedback on the IAASB ED will be used to inform the XRB submission to the IAASB.

Please feel free to comment on any or all of the questions.

We appreciate both formal and informal comments, whether supportive or critical, as both supportive and critical comments are essential for us to reach a balanced view. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and make specific suggestions for any proposed changes to wording.

We will put all written submissions on our website unless requested otherwise, and we reserve the right not to publish defamatory submissions.

Making a submission

Submissions on this consultation can be provided via any of the avenues below:

On our 'Open for Comment' page on [our website](#)

Asking questions and providing comments at our [virtual event](#) on Tuesday 18 July

Emailing us: assurance@xrb.govt.nz

Sending a letter to: External Reporting Board, PO Box 11250, Manners St Central, Wellington 6142

The consultation closes on **31 July 2023**

Figure 1: Timeline



PART TWO: **Overview of the** **proposals**



3.

Key proposals on going concern

3.1 Proposed IAASB ED

The IAASB's project to revise ISA 570 (Revised) has been undertaken in response to feedback received in relation to the IAASB's 2020 discussion paper [Fraud and Going Concern in an Audit of Financial Statements](#), which explored the differences between public perceptions about the role of the auditor and the auditor's responsibilities in a financial statement audit. A strategic objective of the IAASB is to ensure the International Standards on Auditing (ISAs) continue to form the basis for high quality, valuable and relevant audits conducted worldwide by responding on a timely basis to issued noted in practice and emerging developments.

The more significant changes proposed in the IAASB ED:

- Introduce a definition of the phrase "material uncertainty" and provide clarity for other terminology used in the proposed standard.
- Increase the period of the auditor's evaluation of management's assessment of going concern to at least twelve months from the date the financial statements are approved. This proposal closely aligns with the extant requirement in New Zealand.
- Introduce new requirements for the auditor to evaluate the intent and ability of a third or related party, including the entity's owner-manager, when financial support by such parties is necessary to support management's assessment of going concern.
- Strengthen the auditor's evaluation of management's assessment of going concern, including reinforcing the importance, throughout the audit, of the appropriate exercise of professional scepticism.
- Enhance transparency with respect to the auditor's responsibilities and work related to going concern where appropriate, including strengthening communications and reporting requirements.
- Modernise ISA 570 to be adaptable to the current business and audit environment, while considering scalability for different circumstances, such as those relating to public sector entities, and the impact on technology on the auditor's work related to going concern.



For a more detailed understanding of the significant matters refer to the [IAASB explanatory memorandum](#).

3.2 New Zealand specific considerations

The XRB proposes modifications to standards that it intends to adopt when the compelling reason test is triggered, i.e., when the international standard does not reflect or is not consistent with:

- (a) NZ legal and regulatory arrangements; or
- (b) Principles and practices that are appropriate having regard to the public interest in New Zealand (including the use of different terminology).

Extant ISA (NZ) 570 (Revised) includes NZ specific requirements and application material. The following table contains the current NZ paragraphs with a preliminary view on how the XRB expects to address these in a revised version of ISA (NZ) 570 (Revised).

Extant paragraph	Recommendation
<p>NZ1.1 For the purposes of this ISA (NZ), a reference to “management” is taken to mean “management, and where appropriate, those charged with governance”.</p>	<p>In New Zealand, for companies, there is a statutory requirement that the directors are responsible for the preparation of the financial statements. In other instances, it is considered best practice for those charged with governance to be responsible for the financial statements. This change has been made consistently throughout the ISAs (NZ). NZ paragraphs to be retained.</p>
<p>NZ1.2 In New Zealand, those charged with governance generally have responsibility for ensuring an entity meets its legal obligations in relation to the preparation of the financial statements. In these cases the process of financial reporting is usually delegated to management, but the responsibility for such matters remains with those charged with governance. In applying this standard the auditor shall apply professional judgement, using knowledge of the legal requirements and corporate governance practices of New Zealand as well as the particular engagement circumstances, to determine whether the requirements of this standard apply to management or those charged with governance or both.</p>	
<p>NZ16.1 Requesting written representations from those charged with governance, regarding their plans for future actions and the feasibility of these plans. (Ref: Para. A20)</p>	<p>Relates to NZ regulatory environment (as above). Written representations are required to be obtained from those charged with governance. Amend IAASB ED paragraph 38 to refer only to those charged with governance.</p>

Extant paragraph	Recommendation
<p>NZ13.1 In evaluating management’s assessment of the entity’s ability to continue as a going concern, the auditor shall consider the relevant period, which may be the same as or may differ from that used by management to make its assessment as required by the applicable financial reporting framework, or by law or regulation if it specifies a longer period. If management’s assessment of the entity’s ability to continue as a going concern covers less than the relevant period, the auditor shall request management to extend its assessment period to correspond to the relevant period used by the auditor. (Ref: Para. A11–A13)</p>	<p>No longer required as the IAASB ED covers this sufficiently.</p>
<p>NZ13.2 Relevant period means the period of at least 12 months from the date of the auditor’s current report.</p>	<p>No longer required as the IAASB ED covers this sufficiently. The IAASB ED proposed assessment of 12 months from the date of approval of the financial statements is consistent with the extant NZ requirement.</p>
<p>NZA15.1 Other than enquiry of management, the auditor does not have a responsibility to perform any other audit procedures to identify events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern beyond the relevant period, which, as discussed in paragraph NZ13.2, is at least twelve months from the date of the auditor’s report on the current financial statements.</p>	<p>No longer required as the IAASB ED covers this sufficiently.</p>

Possible New Zealand paragraphs

Possible new NZ paragraphs have been identified, as follows:

- IAASB ED paragraphs 33(b) and 34(d) include specific requirements for audits of listed entities.

In the ISAs (NZ) references to listed entities are generally changed to refer to FMC reporting entities considered to have a higher level of public accountability, which is much broader than the IAASB term. For example, ISA (NZ) 701, *Key Audit Matters*, applies to audits of complete sets of financial statements of FMC reporting entities considered to have a higher level of public accountability.

The XRB proposes to replace references to listed entities with reference to FMC reporting entities considered to have a higher level of public accountability, consistent with previous changes to the international standards. This is effectively current practice in New Zealand with auditors of FMC reporting entities considered to have a higher level of public accountability reporting “close calls” as KAMs.

Questions for respondents

NZ 1. Do you agree that extant paragraphs NZ1.1, NZ1.2 and NZ16.1 should be retained, renumbered as necessary?

NZ 2. Do you agree that references to listed entities contained in IAASB ED paragraphs 33(b) and 34(d) should be amended to FMC reporting entities considered to have a higher level of public accountability in New Zealand?

3.3 Impact on Review Engagement Standards

ISRE 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* has not been updated for some time and is still in pre-clarity format. The XRB updated NZ SRE 2410:

- To reflect the clarity format in 2009
- To align the review report to the revised auditor's report in 2020.

In its explanatory memorandum, the IAASB indicate that because ISRE 2410 is in pre-clarity format and has not been updated for other standards, e.g., quality management, they will not pursue any conforming amendments so as to not give the impression that the standard is up to date. The IAASB is considering whether to update ISRE 2410 in their recent consultation paper on their Strategy and Work Plan 2024-2027 and in its submission the XRB recommended this as a priority.

At the time of updating NZ SRE 2410 to align the review report with the revised auditor's report in 2020, it was agreed not to include the auditor's responsibility in relation to going concern in the review report so as to avoid the potential for misunderstanding of the auditor's responsibilities under the review standard. The [explanation for decisions made](#) explains this matter fully.

Question for respondents

NZ 3. How might the changes proposed in IAASB ED impact NZ SRE 2410?

PART THREE: Consultation questions





Consultation questions

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 explanatory memorandum](#))?
2. Do you believe that the proposals in IAASB ED, 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?
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?
4. Do the requirements and application material of IAASB ED appropriately reinforce the auditor's application of professional scepticism in relation to going concern?

New Zealand Specific Questions

- NZ 1. Do you agree that extant paragraphs NZ1.1, NZ1.2 and NZ16.1 should be retained, renumbered as necessary?
- NZ 2. Do you agree that references to listed entities contained in IAASB ED paragraphs 33(b) and 34(d) should be amended to FMC reporting entities considered to have a higher level of public accountability in New Zealand?
- NZ 3. How might the changes proposed in IAASB ED impact NZ SRE 2410?
- NZ 4. Are there any other matters pertaining to the IAASB ED or the proposed NZ amendments that you wish to raise?



Consultation questions

Specific Questions

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”?
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?
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)?
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 significant doubt on the entity’s ability to continue as a going concern?
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?
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?
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?

Consultation questions



Specific Questions (continued)

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?
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.
14. 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?
- 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).
15. 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?
- 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., not in 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.
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?
17. Effective Date - 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 standard. Earlier application would be permitted and encouraged. The NZAuASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISA (NZ)?



Level 7, 50 Manners St Wellington
PO Box 11250 Manners St Central
Wellington 6142 New Zealand

www.xrb.govt.nz