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24 July 2023

To Whom it may concern

### **Invitation to comment - IAASB ED Going Concern**

KPMG welcomes the opportunity to provide comments on the Exposure Draft Proposed ISA 570 (Revised), Going Concern and Proposed Conforming and Consequential Amendments to Other ISAs ('Exposure Draft').

Overall, we support the Exposure Draft. Our comments to the questions you seek comment on are included below. Please note final responses to overall questions that are not specific to New Zealand will be provided separately by our KPMG global network to IAASB. We have provided New Zealand specific input to the overall questions where we deemed appropriate below and for XRB's consideration in forming their response to the IAASB on the Exposure Draft.

#### 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?***

Yes, we agree with the proposal specified in the ED.

#### ***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?***

Yes, we agree with the proposal specified in the ED.

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

We have no comments to make.

#### ***NZ 4. Are there any other matters pertaining to the IAASB ED or the proposed NZ amendments that you wish to raise?***

#### IAS 1

Paragraph 26 of NZ IAS 1 require management to take into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. However the Exposure Draft proposes extending the timeline for the assessment period to at least twelve months from the date of approval of the financial statements, or the date the auditor's report is signed.

This was already the case in New Zealand as New Zealand have already amended the national equivalent going concern standard to require the commencement date of the twelve-month period of management's assessment to be the date the financial statements are issued or approved or when the auditor's report is signed.

We note this has been an existing misalignment between the two standards and we expect IAS 1 to be amended accordingly as a result of the proposed changes, however if amendments are not actioned promptly at the international level, we suggest amendments at local level after measuring the cost and benefit of the change.

#### FRS 44

We believe paragraph 12 of FRS-44 are still relevant and fit for purpose. We consider this standard is the key tool that require complete disclosures around going concern from those charged with governance and allow users to be sufficiently informed.

Overall Questions:

**Question 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)?**

Yes, we agree with the proposal specified in the ED that there is public concern around an entity being or not being a going concern. However, we question whether adding more information to the audit report and increasing the compliance burden on the auditor alone is the appropriate solution to address this concern. We suggest that the IAASB should explore whether improvements to the accounting standards would be more suitable.

**Question 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?**

No, we disagree. We do not believe this will enhance and strength the auditor's judgements and work relating to going concern then what is already in practice, and it may further widen the expectation gap, however we do acknowledge this may result in there being more clear documentation.

**Question 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?**

Yes, we agree with the proposal specified in the ED.

Paragraph A30 discusses some situations where a lack of detailed analysis by management to support its assessment may not prevent the auditor from concluding whether management's use of the going concern basis of accounting is appropriate in the circumstances. To provide greater clarity and elaboration on these scenarios, it is recommended to include specific examples where the auditor may reach a conclusion without relying on detailed analysis from management. This could be due to the unambiguous nature of the situation or the auditor's obligation to complete the necessary documentation. These examples would also highlight the importance of management completing the necessary assessment to comply with their obligation of maintaining proper accounting records.

**Question 4. Do the requirements and application material of IAASB ED appropriately reinforce the auditor's application of professional scepticism in relation to going concern?**

Yes, we agree with the proposal specified in the ED.

**Question 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"?**

Yes, we agree with the proposal specified in the ED. We believe this was much needed clarification and will further assist with identification of appropriate events and conditions that may cast significant doubt on the entity's ability to continue as a going concern

**Question 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?**

Yes, we agree with the proposal specified in the ED. Nevertheless, we would like to emphasise that this proposed change assumes that auditors are not conducting a rigorous risk assessment. Therefore, the IAASB must consider whether this assumption is fair and accurate. Despite this, we believe that this change will not significantly alter our current audit approach.

**Question 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 agree with the proposal specified in the ED which aligns to the case in New Zealand as New Zealand have

already amended the national equivalent going concern standard.

**Question 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?**

Yes, we agree with the proposal specified in the ED.

**Question 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?**

Yes, we agree with the proposal specified in the ED.

**Question 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?**

Yes, we agree with the proposal specified in the ED. However, we would like to highlight that the Exposure Draft lacks clarity concerning the evaluation of the "extent" of necessary financial support. While this may be inherently implied in the term "intent," we recommend being more specific in the standard to clarify this element, as the term "intention" may be subject to broad interpretation and may not be sufficient on its own. Therefore, we suggest amending the definition from "intention" to "intention and extent." Moreover, the standard should prescribe the requirement for the auditor to obtain sufficient appropriate audit evidence regarding the "intent and extent" of providing the necessary financial support. This evidence would need to be incorporated into management and the auditor's going concern assessment.

**Question 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?**

Yes, we agree with the proposal specified in the ED.

**Question 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?**

Yes, we agree with the proposal specified in the ED.

**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?**

**This question relates to the additional implications for the auditor's report**

We do not agree with the proposal specified in the ED. Paragraphs 75-78 appear to propose a generic statement about the auditor's conclusion without providing much value to the user. This may create a larger expectation gap in the market. As per FRS-44, those charged with governance have the primary responsibility for the entity's going concern assessment, and it provides the requirements for ensuring necessary disclosures are made. We understand that users desire more disclosures around these risks. In response, we suggest expanding FRS-44 to provide additional guidance and explicit disclosure requirements to meet users' needs, reflecting the key elements of the ED.

One aspect that XRB can consider is amending paragraphs 84-86 to include close-call scenarios, not just MURGC. Close-call scenarios may be equally or more important to users. This aligns with the premise of FRS-44, which requires extensive disclosures only in cases when events or conditions are identified that may raise substantial doubt (i.e., MURGC or close calls). We believe it would make sense to include specific going concern sections in the audit report to highlight only those higher-risk cases where estimation uncertainty and critical judgments were involved in the going concern assessment.

**Question 14. 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?**

No, we do not believe this will further enhance transparency as ISA 570 and ISA 701 already facilitates the required disclosures to achieve sufficient transparency expected. This seems to be merely having the same substance in different form in the audit report, leading to a cluttered report and potentially widening the expectation gap.

We do not recommend extending this proposal to audits of entities other than listed entities since it is not in the interest of the users. The definition of public interest entities in New Zealand is already broader than in other foreign jurisdictions, and we are mindful of the compliance burden that this proposal will bring. Ultimately, the benefits (if any) will be significantly outweighed by the compliance burden.

**Question 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., 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.**

Yes, we agree with the proposal specified in the ED.

**Question 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?**

We have no comments to make.

**Question 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)?**

Yes, we agree with the proposal specified in the ED.

Yours sincerely



**Darby Healey**

Partner