



FRAUD AND GOING CONCERN IN AN AUDIT OF FINANCIAL STATEMENTS

Issued 01 February 2021

ICAEW welcomes the opportunity to comment on the Discussion Paper (DP) Fraud and going concern in an audit of financial statements: Exploring the differences between public perceptions of the role of the audit and the auditor's responsibilities in a financial statement audit published by IAASB on 15 September, a copy of which is available from this [link](#)

At the same time, the UK's Financial Reporting Council (FRC) is proposing limited amendments to ISA (UK) 240 on fraud with a view to addressing some of the concerns expressed in the Brydon report.

Both consultations were issued prior to the publication of the UK Government (BEIS) consultation on audit reform which has not yet been issued. We suggest in our response to the FRC that it should defer its limited proposed amendments to the UK ISA pending more detailed consideration of proposals in the BEIS consultation and the IAASB project

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KEY POINTS

Fraud and going concern need to be addressed by all stakeholders, on a holistic basis

1. There is more to be done on fraud and going concern by all stakeholders. Expectations are high. Fraud and going concern are complex issues and IAASB acknowledges that auditing standards are just part of the solution.

Fraud

2. Fraud demands an intelligent joined up response from companies, investors, auditors, audit regulators and standard-setters. Auditors can and should do more, and those we consulted were clear that they were willing to do so, but a corresponding effort must also be made by others. IAASB must make this clear in its communications and seek to engage with investors and companies when developing proposals. In particular, IAASB needs to understand what investors want to see in auditors' reports with regard to fraud, how they want audits scoped and what they are prepared to pay. Our discussions in the past suggest that they would like to see audits scoped more widely with respect to fraud, at greater cost, and in particular more nuanced communication in audit reports about where on the spectrum an entity's fraud risks lie. IAASB should reach out to this constituency.
3. With regard to companies though, some of those we consulted believe that little will change in this area until SOX style reporting by companies and auditors on internal controls over financial reporting becomes more widespread. We believe that IAASB should acknowledge the contribution of such regimes to the prevention, detection and reporting of fraud in ISA 240.
4. We note in our response to the FRC the Brydon recommendation that the new UK audit regulator maintain an open access case study register detailing corporate frauds. It is surprisingly difficult to obtain good quality information on corporate fraud without trawling through hundreds of pages, often long after the event. Consistent with IAASB's public interest mandate, we encourage it to engage with audit and capital markets regulators on this issue.
5. It is not enough for regulators simply to demand that others do more, when it is within their power to help achieve their own objectives by their own actions. We understand the difficulties associated with opening such registers safely, but we do not believe that these difficulties are insurmountable. The potential benefits in terms of reducing the expectation gap are significant and far outweigh the costs. The resulting benefits to auditor training and education will be manifest in better quality risk assessment and design of responses.
6. It became clear during our discussions that a significant issue IAASB might consider further is the erroneous belief that the distinctions between fraud, error and non-compliance with law and regulations (NOCLAR) are or should always be clear. Large and complex frauds are only ever determined definitively by the courts, often long after the event, and the real issue is often timing: at what point should auditors have 'spotted' a fraud? At what point should they raise the alarm? ISA 240 and ISA 250 acknowledge this issue but do not address it.
7. In practice, a fraud can start with directors changing an accounting policy or method, or pushing the boundaries within existing policies or methods, at which point there is no error, still less a fraud. Over time, changes and boundary pushing degenerate into fraud. We believe IAASB should better articulate this type of nuance in order to emphasise the role of professional judgement, the need for auditors to address red flags on a timely basis, and to manage expectations about the limitations of auditing standards. The UK's Auditing Practices Committee's 2001 publication [Aggressive Earnings Management](#), provides a simple example to demonstrate how legitimate business practices can develop into unacceptable financial reporting.
8. There is more to be done. Among other things, the larger firms of auditors we consulted suggested that some are:
 - mandating data analytics for fraud testing using additional internal and external data and information relating to short selling, for example;

- using electronic confirmations wherever possible;
 - developing fraud risk assessment frameworks;
 - mandating annual fraud training, incorporating techniques borrowed from the behavioural sciences relating to bias;
 - requiring the use of forensic specialists on a targeted-risk basis.
9. Embedding these procedures in the core audit practice goes beyond what is currently required by ISA 240. IAASB highlights a number of these issues in its DP and we believe they are worthy of further consideration.
10. The one area which we believe does not merit further consideration is the discussion of a 'suspicious mind-set'. We acknowledge the UK origin of this idea but none of those we consulted believe it would be possible to demonstrate any real difference in behaviour, nor did they think it right for auditors to be asked to assume that management assertions are wrong, because they are not, generally. There are also practical resource constraints. A better use of IAASB's limited resources would be to consider how, in practical terms, auditors can more effectively challenge management.

Going concern

11. The current reporting season will be like no other. Those to come will never be the same. IAASB will need to revisit this area later in the year when the nature and extent of references to going concern issues in audit reports globally become clearer. We are aware that auditors in firms of all sizes are challenging their clients on going concern issues much more robustly and consistently in this COVID era than ever before, and we are hopeful that the better practices that emerge will inform IAASB's discussions.
12. A key feature of our discussions in this area relates to the need for more nuanced reporting. Stakeholders still want to know whether in the auditors' opinion an entity is a going concern or not but, as with audit reports more generally, they want more colour. Going concern, like fraud, is not always a binary issue. Technically insolvent companies can and do limp on for many years and stakeholders want to know something about management and auditor views on the likelihood that a company will fail.
13. Auditor reporting on going concern issues is inextricably linked with management reporting and we encourage IAASB to re-engage with the IASB on this issue. Despite the fact that viability reporting has not gained widespread traction globally, IAASB might consider elements of it in order to encourage companies and auditors to genuinely and confidently look beyond the one-year period currently circumscribing going concern assessments.

Scope-outs

14. Those we consulted were concerned by IAASB's apparent scope-outs of technology, communications with those charged with governance, the rebuttable presumption regarding the risk of fraud in revenue recognition, risks relating to management override and journals testing. We understand that it is not the intention to scope these out of the project, just the DP. These are contentious and difficult issues, and we encourage IAASB to be clearer about how it intends to deal with them and set out a clear timetable for dealing with them in the very near future. Dealing with fraud or going concern on a piecemeal basis is a recipe for failure.

ANSWERS TO SPECIFIC QUESTIONS

Question 1. In regard to the expectation gap (see Section I):

(a) What do you think is the main cause of the expectation gap relating to fraud and going concern in an audit of financial statements?

(b) In your view, what could be done, by the IAASB and / or others (please specify), to narrow the expectation gap related to fraud and going concern in an audit of financial statements?

15. Expectation gaps relating to fraud and going concern are long-standing and not straightforward. They are linked because it is not uncommon for the failure of large businesses shortly after an unqualified audit report has been issued to be associated with fraud. Something needs to be done. But we are not convinced that analysing these gaps, or even seeking to address them, is the right starting point. Repeated analyses of expectations gaps over many years have borne little fruit.
16. Expectation gaps are more a symptom of an underlying problem, which is that more needs to be done by everyone concerned. IAASB's focus should be less on managing expectations, and more on helping all stakeholders, including auditors, enhance their ability to prevent, detect and report fraud, and to challenge management and report more effectively on going concern.
17. We note in our main points above the need for IAASB to engage with investors to understand their need for more nuanced reporting of fraud risks and what they are prepared to pay, for IAASB to understand and acknowledge the role of reporting on internal controls over financial reporting in fraud prevention, detection and reporting, and the need for IAASB to encourage audit regulators to share their detailed understanding of how frauds are perpetrated.
18. We also make the following observations.
 - **IAASB should avoid further widening the expectation gap:** it should not overplay the likely impact of changes to auditing standards alone on audit quality, scope or auditor performance and in particular, on levels of fraud detection. We make a similar comment to the UK's FRC in this context, particularly in relation to its proposed requirement for auditors to consider the need to engage forensic specialists.
 - **Debates about whether auditors are responsible for opining on the going concern status of an entity, as opposed to the appropriateness of management's assessment, should be avoided:** the distinction is of little consequence.
 - **IAASB should address the non-binary nature of fraud and error and the overlap with NOCLAR:** large and complex frauds are only ever determined definitively by the courts, often long after the event, and the real issue for auditors is often timing, because seemingly legitimate changes can degenerate into error and fraud. At what point should auditors be expected to 'spot' a fraud or raise the alarm? Existing references to these issues in paragraphs 3 and 5 of ISA 240 are clear, including the fact that a properly performed audit may not detect a material fraud. Nevertheless, ISA 240 can too easily be misread as presenting fraud and error as if they are (or should be) clearly distinguishable at first sight. In practice, many frauds, small and large, involve some degree of collusion and almost always a great deal of deception. IAASB should consider how auditors can address the fact that the boundaries between fraud, error and NOCLAR are rarely clear.
 - **Audit regulators should share their detailed knowledge of corporate fraud:** good quality information about corporate fraud is hard to find. In the UK, the Brydon report recommended that the new UK audit regulator maintain an open access case study register detailing corporate frauds. We urge IAASB to engage with the audit and capital market regulators who oversee it on this issue. If regulators have it within their power to help achieve their own objectives by their own actions, they should do so. We understand the difficulties associated with opening such registers safely, but these difficulties are not insurmountable. The potential benefits in terms of improved auditor training and enhanced risk responses should reduce the expectation gap.

Question 2. This paper sets out the auditor's current requirements in relation to fraud in an audit of financial statements, and some of the issues and challenges that have been raised with respect to this (see Sections II and IV). In your view:

(a) Should the auditor have enhanced or more requirements with regard to fraud in an audit of financial statements? If yes, in what areas?

(b) Is there a need for enhanced procedures only for certain entities or in specific circumstances? If yes:

i. For what types of entities or in what circumstances?

ii. What enhancements are needed?

iii. Should these changes be made within the ISAs or outside the scope of an audit (e.g., a different engagement)? Please explain your answer.

General observations

19. Some we consulted suggest that IAASB should consider how ISA 240 might be rebalanced: it is currently tilted towards the identification of fraud, rather than how to deal with the risk assessed. The paragraphs dealing with the auditors' response are either very high level (paragraphs 28-30) or highly procedural (paragraphs 31-33). In practice, many frauds come to light 'by accident' - overheard conversations in a bad atmosphere, staff telling auditors about their suspicions, and things not looking right - people not appearing to do what they are supposed to do or doing things they should not, or the information presented for audit not making sense in some way.
20. The limited references to such oblique indicators in application material could be enhanced, but it is more important for IAASB to consider how the requirements can be enhanced to enable auditors to more confidently and robustly address these issues. For example, there could be clearer acknowledgement of the need for reconsideration of the quality of audit evidence provided by management generally where there is evidence of apparent recklessness, carelessness or negligence on their part in any area.
21. Some we consulted also observe that it would be helpful to revisit ISA 240 through the lens of financial reporting fraud - and to include more on how auditors might respond to suspicions of fraud relating to tax, options and off-balance sheet financing.

Specific enhancements

22. There was some support for enhancements relating to Engagement Quality Control Reviews (EQCRs) where fraud risks are higher or where evidence of potential fraud comes to light. There was also support for consideration of the need for specialist involvement generally. There was little support for the mandatory involvement of forensic specialists not least because of their limited availability, but we acknowledge that their use might helpfully be more strongly encouraged where appropriate. There was no support for differential requirements based on the size or nature of an entity.
23. Concerns were however expressed about the value of some extant requirements, such as the approach to management override of controls in the audit of smaller entities. This is relevant to IAASB's project to develop a standard for LCE audits.
24. We provide our rationale and further details on each of these issues and others, below.
 - **EQCRs:** scepticism was expressed about the efficacy of the enhanced EQCR procedures described in the DP, but there was some support for requirements or application material relating to 'hot' reviews and/or EQCRs for audits in which the risk of fraud is heightened or in which potentially material fraud is alleged, suspected or detected - regardless of the size of the audit. A key area to be addressed is the extent to which EQCRs should cover the work performed by specialists. The current trend is to broaden the scope of EQCRs, but there is a risk of diluting their impact if they become too focused on the work of specialists.
 - **Third party fraud:** many frauds involve some collusion with or involvement of third parties, but the DP lacks clarity regarding exactly what is being addressed. There was little enthusiasm for enhancing procedural requirements in this area. Some recent high-profile frauds that apparently went undetected relate not to a lack of requirements, but to a lack of application of requirements. This is an enforcement issue, not a standards issue. Even so, there was support for further consideration of the impact of cybercrime on internal controls, regardless of the presence or absence of financial reporting implications. Cybercrime is an important issue for management, and we have encouraged the UK's FRC to consider guidance for directors on these risks, which are widely underestimated.

- **Non-material fraud:** an audit cannot be designed to detect non-material fraud and it is not a forensic audit. There is a real risk of expanding the expectation gap if stakeholders believed an audit was able to detect immaterial fraud.
 - **Qualitative fraud:** we note in our main points above how seemingly innocuous changes to accounting policies or methods can lead to error and then fraud. Some discussion in ISA 240 of how this can happen may serve to strengthen the auditors' position when seeking to challenge management. The UK's FRC has proposed changes to the UK standard emphasising the need for auditors to consider qualitatively material fraud that is not quantitatively material. In our response, we discuss the need to balance legitimate calls for auditors to address, for example, non-material but nevertheless egregious abuses of management expenses, regardless of fraud and/or compliance with regulation or company policy, with the need to avoid auditors having to check every expense claim for every director and follow up every error. Such issues are hard to address but some discussion of them in application material may again help strengthen the auditors' position when challenging management. It may be helpful to consider requiring auditors to reconsider evidence already obtained when evidence of non-material fraud, or more generalised recklessness or negligence come to light.
 - **Forensic experts:** we are concerned by the suggestion that forensic experts should always be used as part of the fraud enquiry process.
25. An audit manager within the firm who has been on a three-day online course should not be classified as a forensic expert. The number of fully qualified forensic experts available to auditors is small. In many jurisdictions forensic experts simply do not exist. We understand that some firms are beginning to use forensic experts at the planning stage of the audit, but most of those we consulted believe that the use of forensic experts would be unlikely to significantly alter the risk of undetected management fraud. Generally speaking, forensic experts may help deal with fraud or suspected fraud once auditors have found them, but to date they have not helped auditors find them.
26. Typically, forensic experts are brought into the largest of financial statement audits when management has already identified a fraud and is pursuing its own investigations. Their approach is not risk based, they have little in the way of materiality considerations, and they have considerably more time and more generous budgets than financial statement auditors. The IAASB should not inappropriately raise expectations in this area. Involvement in all audits could increase the expectation gap or make their involvement perfunctory.
27. The PCAOB in the USA considered requirements for forensic audits in 2007. A paper by its Standard Advisory Group (SAG) noted that the purpose of forensic audits is clearly different from those of financial statement audits:
-users of forensic audits (e.g., audit or special investigative committees, management, and regulators) establish their objectives on a case-by-case basis. For example, an audit committee may engage an accountant or other person with specialized expertise to determine whether an accounting error was intentional and, if so, to then determine the participants in the fraud and how it was orchestrated.*
28. We believe that the emphasis should instead be on training auditors with regard to the nature of fraud, in challenging management and in basic forensic techniques. Sir Donald Brydon in the UK recommended that... *training in both forensic accounting and fraud awareness be parts of the formal qualification and continuous learning process to practice as a financial statements auditor.*
29. Further acknowledgement of the risks posed by complexity in IT systems is warranted. The recently revised ISA 315 refers to complexity as a risk factor in many areas but only scratches the surface of the issue. Complexity in IT is a major risk factor in many larger audits and regulatory audit monitoring reports refer to this issue in the context of over-reliance on untested systems.
- **Management override:** neither the IAASB nor the FRC have asked specific questions in this area but we believe it worthy of consideration in relation to LCE audits. With regard to management override, paragraph 31 of ISA 240 states that:

...Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk.

30. In many smaller audits this is simply not the case. Where controls are operated on an informal basis through the day-to-day involvement of management in all aspects of the business, the idea that management overrides controls makes little sense. Management is the control. Where that is the case, erratic application represents a weak control environment and/or control ineffectiveness in terms of design and implementation - not management override. Auditors of SMEs are thus required to shoehorn the presumptive significant risk of fraud due to management override applicable in larger entities into the audit of entities in which the concept makes little sense. Application material should acknowledge more clearly than it does now that the risks related to management override are likely to be relevant in larger and more complex entities where controls are formalised.
31. There should be more focus in the ISA on simple frauds in revenue recognition facilitated by collusion with third parties.

(c) Would requiring a ‘suspicious mindset’ contribute to enhanced fraud identification when planning and performing the audit? Why or why not? Should the IAASB enhance the auditor’s considerations around fraud to include a ‘suspicious mindset’? If yes, for all audits or only in some circumstances?

32. Those we consulted were concerned about the exercise of professional scepticism and noted:
 - the number of prior year adjustments evident on a change of audit partner or firm, suggesting that professional scepticism needs to be addressed;
 - that more work needs to be done by IAASB on the complex issues associated with corroborative and contradictory evidence, and the extent to which auditors can and should be required to seek out the latter.
33. However, we note in our main points above that we do not believe that further consideration should be given to requiring a 'suspicious mindset', despite the UK origins of this idea. None of those we consulted believe it would be possible for demonstrate a real difference in what auditors do. They did not think it right for auditors to assume that management assertions are wrong, because they are not, generally, and because of practical resource constraints. It is for these reasons that debates about a neutral mind-set moving to presumptive doubt, and a forensic stage of the audit - involving an attitudinal shift in which auditors modify their concept of professional scepticism and presume the possibility of dishonesty - have not been fruitful.
34. Furthermore, if a suspicious mindset was required only in certain circumstances, the translation issues would create an unacceptable level of confusion as both terms are often defined in terms of such other.
35. It would be a better use of IAASB's limited resources for it to consider how, in practical terms, auditors can challenge management, and how they can address confirmation bias.

(d) Do you believe more transparency is needed about the auditor’s work in relation to fraud in an audit of financial statements? If yes, what additional information is needed and how should this information be communicated (e.g. in communications with those charged with governance, in the auditor’s report, etc.)

36. One starting point for the IAASB might be the enhanced transparency in audit reports required by the UK’s FRC in relation to the extent to which the audit is considered capable of detecting ‘irregularities’, including fraud. This is now required for all audits.
37. 'Irregularity' is not defined in UK legislation, but is deemed to correspond to the ISA 250 definition of non-compliance: acts of omission or commission, intentional or unintentional, contrary to the prevailing laws or regulations. The explanation required covers how auditors have assessed the risk of material misstatement in respect of irregularities, including fraud, and their response. Guidance on factors for auditors to

consider in making this statement, and the relationship with KAM and COVID-19 has been developed by ICAEW.

38. We note in our main points above our belief that investors need to re-engage on what they want to see in auditors' reports. Our discussions in the past suggest that they would like to see audits scoped more widely with respect to fraud, at greater cost, and in particular more nuanced communication in audit reports about where on the spectrum an entity's fraud risks lie. IAASB should reach out to this constituency.

Question 3. This paper sets out the auditor's current requirements in relation to going concern in an audit of financial statements, and some of the issues and challenges that have been raised with respect to this (see Sections III and IV). In your view

(a) Should the auditor have enhanced or more requirements with regard to going concern in an audit of financial statements? If yes, in what areas?

39. Many of those we consulted were of the view that the ISA should refocus the responsibilities between management and auditors. Currently, the expectation seems to be that all management is required to do is to respond to auditor queries about how management has satisfied itself that the entity is a going concern. The ISA should better reflect widespread requirements within law and regulation for management to do more.
40. We believe that IAASB should also engage with those responsible for the regulation of companies and encourage a much more robust approach to going concern on the part of management.

(b) Is there a need for enhanced procedures only for certain entities or in specific circumstances? If yes:

i. For what types of entities or in what circumstances?

ii. What enhancements are needed? Should these changes be made within the ISAs or outside the scope of an audit (eg, a different engagement)? Please explain your answer.

41. We do not believe that differential audit requirements relating to going concern based on the nature of an entity are necessary or appropriate. Going concern is an issue for smaller and larger entities alike and any enhanced procedures should apply to all.
42. Nevertheless, those we consulted suggested a variety of potential enhancements including the following:
- **A two-tier system:** distinguishing between procedures required for entities that are clearly going concerns - where cash, profitability, funding and prospects are all good for example, and in which the preparation of a cash flow forecast might not be necessary - and procedures for all other entities where this is not the case.
 - **No cash flow forecast:** greater clarity about auditor options where management has not produced a cash flow forecast where one might reasonably be expected - such as detailed oral enquiries backed up with documentation, and consideration of a modified audit report.
 - **Reviews:** clarity relating to when internal reviews such as 'hot' reviews or EQCRs might be appropriate.
 - **Events or conditions:** where 'events or conditions' are identified, paragraph 16 requires additional procedures such as evaluating the reliability of data supporting cash flow forecasts and determining whether support for assumptions is adequate. These procedures should apply to other data and assumptions used in management's evaluation of going concern, such as data and assumptions underlying the valuation of non-cash assets and other accounting estimates. The application material to paragraph 12 makes only brief references to data and assumptions.
 - **Challenging management:** auditors in firms of all sizes are challenging entities on going concern issues much more robustly and consistently this reporting season and we are hopeful that better practices will emerge to inform IAASB's discussions. For example, firms report developing questionnaires for audited entities asking them to demonstrate why they think they are a going concern.

- **Going concern: 12 months from when?** In the UK, the required period for management to consider is 12 months from the approval of the financial statements and UK auditors report challenging entities to look even further this reporting season. We believe that this extension should be actively considered by IAASB. We find no conflict between the accounting and auditing requirements and note in our main points above our belief that IAASB should seek to re-engage with the IASB on this important issue.
- **Going concern, viability and resilience:** we do not believe that now is the right time for IAASB to devote resources to develop thinking about viability or resilience *per se*. However, IAASB might consider bringing some elements of viability reporting into going concern assessments, such as auditor assessment of stress or reverse stress testing performed by management, probability assessments for different scenarios, and looking beyond one year.
- **Cash flow forecasts:** it is common for cash flow forecasts not to be prepared. Entities with no going concern problems may have no need to prepare one. However, some entities fail to prepare them because they lack skills or resources, and/or because preparation may raise questions about the entity's future that management would rather not face, still less subject to audit scrutiny. Appropriate responses to such situations vary. In some cases, sufficient appropriate audit evidence may be available from other sources but in many cases the situation will not be clear cut and auditors will need to use their judgement in determining an appropriate response. Application material might usefully describe these different situations. One practical approach described to us that might be reflected in application material is for auditors to challenge management to engage with them to demonstrate how the organisation 'will not run out of money'.
- **Providing original information:** there is a tension between the (disputed) belief that auditors cannot or should not provide original information not already provided by the entity, and the acknowledgement in many jurisdictions that the only way to ensure high quality disclosure by management of sensitive information (about directors' remuneration, for example), is by requiring auditors to provide that information if management fails to do so - as well as qualifying the audit opinion if appropriate. Another area in which this approach might usefully be taken might be a requirement to make certain going concern disclosures where management has failed to do so.

(c) Do you believe more transparency is needed:

i. About the auditor's work in relation to going concern in an audit of financial statements? If yes, what additional information is needed and how should this information be communicated (e.g., in communications with those charged with governance, in the auditor's report, etc.)?

ii. About going concern, outside of the auditor's work relating to going concern? If yes, what further information should be provided, where should this information be provided, and what action is required to put this into

43. The current and future reporting seasons will be like none that have gone before. Weaknesses in the current regime and inconsistencies in levels of transparency on the part of management and auditors will be highlighted. National standard-setters, audit regulators and professional accountancy organisations have issued additional guidance to practitioners, and firms will struggle with demands to avoid boilerplate and blanket approaches to going concern reporting issues, while ensuring a level of consistency.
44. Some firms are requiring additional reviews for any audit where no additional reference is to be made to going concern issues in the audit report. Others are providing banks of wording to be adapted to audited entities facing similar situations, others again are insisting that each case is to be decided on its merits. IAASB will need to revisit this area later in the year when the nature and extent of references to going concern issues in audit reports globally become clearer.

45. Transparency on the part of audit regulators is needed to demonstrate 'what good looks like' on an audit file in relation to going concern. IAASB should engage with audit regulators to encourage this.
46. A key feature of our discussions in this area related to the need for more nuanced reporting. Stakeholders still want to know whether in the auditors' opinion an entity is a going concern or not, but as with audit reports more generally, they want more colour. Going concern, like fraud, is not always a binary issue. Technically insolvent companies can and do limp on for many years and neither management nor auditors have any clear way to predict when circumstances will push them over the edge.
47. Stakeholders want to know something about management and auditor views on the likelihood that a company will fail and, as with fraud, the issue for auditors is often timing. Auditors say that by the time they get to reporting a material uncertainty, it is often too late.
48. The starting point for a renewed debate on going concern issues should be with better and more graduated disclosure by companies of the threats to continuance as a going concern. This debate has already commenced in the context of viability reporting and predates the pandemic.
49. The fear that reporting any perceived 'problem' with going concern becomes a self-fulfilling prophecy is well founded. IAASB should consider engaging with US credit rating agencies during the current reporting season as there is anecdotal evidence of a lack of understanding of different references to going concern in audit reports. But IAASB should also seek to move towards a more subtle and nuanced reporting regime that is capable of distinguishing between entities at different ends of the going concern spectrum.
50. Auditor reporting on going concern issues is inextricably linked with management reporting on the same and we encourage IAASB to re-engage with the IASB on this issue to open up the debate on the time period to be considered in a going concern assessment, the limited options for reporting and the possibility of more nuanced reporting.
51. Reporting on going concern issues by companies and auditors can and should be better but finding a way forward will require determination, time and skill.