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Friday, 18 August 2023

Mr. Willie Botha
Program and Technical Director
International Auditing and Assurance Standards Board
International Federation of Accountants
529 5th Avenue,
New York, New York 10017 USA

Via online submission: www.iaasb.org

Dear Willie,

The IAASB's Proposed International Standard on Auditing 570 (Revised) Going Concern

As one of the largest professional accounting bodies in the world, CPA Australia represents the diverse interests of more than 170,000 members working in over 100 countries and regions around the world. We welcome the opportunity to provide a submission on the Exposure Draft: Proposed International Standard on Auditing 570 (Revised) Going Concern and Proposed Conforming and Consequential Amendments to Other ISAs (ED-570). We make this submission on behalf of our members and in the broader public interest.

We commend the International Auditing and Assurance Standard Board's (IAASB) commitment to improving ISA 570 *Going Concern* to address stakeholder needs and market expectations. We are supportive of the enhancements made in ED-570 in relation to risk assessment procedures and the auditor's evaluation of the method, assumptions, and data used in management's assessment of going concern. We are of the view that these proposals will enhance audit quality and the consistency of practice through further clarity and better alignment with other ISAs.

However, we recommend enhancements to transparency in the auditor's report should only be pursued if there are adequate improvements to the applicable financial reporting framework on management's going concern assessment and related disclosures. Each participant of the financial reporting ecosystem plays a unique and essential role that contributes towards high-quality financial reporting, as articulated in the 2020 IAASB Discussion Paper on Fraud and Going Concern in an Audit of Financial Statements (IAASB 2020 DP). Therefore, it will take a collaborative effort from all participants of the financial reporting ecosystem to bring about meaningful change and improve financial reporting transparency around going concern.

This need for a holistic approach to addressing going concern disclosures is supported by recent CPA Australia-funded academic research on the topic of *Going Concern Exposure Draft*[1] included as **Attachment 2** to this letter. This research aims to understand how investors may respond to proposed changes in going concern reporting in the auditor's report and how they might respond to additional disclosures around going concern by management. The research finds that participants are indifferent to the proposed additional transparency disclosures in auditor's report. In contrast, participants pay more attention to management disclosures regarding going concern and reacted strongly to it. We have also discussed these findings further in our detailed responses in **Attachment 1** to this letter.

For the reasons stated above, we are not supportive of the banket disclosure about going concern in the auditor's report, particularly when there are no going concern issues. However, if the IAASB is to go ahead with the proposed transparency disclosures in the auditor's report without the corresponding enhancement to the reporting requirements, we strongly encourage the IAASB to implement an education and awareness program for the wider public regarding the responsibilities of

[1] Going Concern Exposure Draft, Emerging Disclosures: Exploring the Potential Impact of Parliamentary Joint Committee Inquiry Recommendations on Investors' Perceptions, Ting-Chiao Huang, Robyn Moroney & Soon-Yeow Phang (2023)

different parties in relation to going concern, in particular the respective responsibilities of management and the auditor, to manage the potential widening of the audit expectation gap that may arise as a result of these proposed amendments.

Whilst advocacy efforts with the International Accounting Standards Board (IASB) continue for an internationally consistent long-term solution across both financial reporting and audit, in the short term, in Australia, we have recommended the Australian Accounting Standards Board (AASB) develops disclosures similar to those developed by the New Zealand Accounting Standards Board, to complement the requirements in IAS 1.

Our detailed responses to the questions raised in the consultation paper are provided in **Attachment 1** to this letter. Should you have any questions about the matters raised in this submission or wish to discuss them further, please contact Tiffany Tan, Audit and Assurance Policy Lead at tiffany.tan@cpaaustralia.com.au.

Yours sincerely,

Elinor Kasapidis

Head of Policy and Advocacy

CPA Australia

Attachment 1

Overall Questions

1. **Do you agree that the proposals in ED-570 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?**

   Other than the proposals to enhance transparency, we agree that the proposals in ED-570 have the potential to meet the intended project objectives. As noted in our responses to the specific questions below, we support the proposals to enable consistency in practice and improve auditor behaviour, and we believe these proposals support the public interest.

   Ensuring the entity remains a going concern is primarily management's responsibility. All participants of the financial reporting ecosystem including auditors need to be working together towards ensuring that management is fulfilling its responsibility. We believe there is a need to address disclosures by management of their going concern assessment in the financial statements. In response to the third agenda consultation by the IASB, our submission recommended that the IASB should undertake a project to improve going concern disclosures in the financial statements. We believe that there needs to be improvements in the current requirements for disclosures in financial statements for the proposals in ED-570 around going concern disclosures in the audit report to be effective.

   In our view, the current requirements in paragraph 25-26 of IAS 1 do not adequately address disclosure of management's going concern assessment. We encourage the IAASB to continue its discussions with the IASB to ensure that a holistic approach is taken that meets the expectations of stakeholders and that is in the wider public interest.

2. **Do you believe that the proposals in ED-570, considered collectively, will enhance and strengthen the auditor's judgments 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?**

   Subject to our comments in this submission on the proposals to enhance transparency, we agree that the proposals in ED-570 will enhance and strengthen the auditor's judgments and work relating to going concern in an audit of financial statements. We believe the enhancements proposed in ED-570 will better align with the requirements of the newer ISAs such as ISA 315 *Identifying and Assessing the Risks of Material Misstatement* (ISA 315), ISA 540 *Auditing Accounting Estimates and Related Disclosures* (ISA 540) and the proposed ISA 500 *Audit Evidence* (ED-500), which will further promote better documentation and consistency in practice.

   As noted in the cover letter and in our responses to Q1, Q13 and Q14, we do not support additional reporting requirements in the auditor's report without the corresponding enhancement to the going concern disclosures in the financial statements.

3. **Do you believe the proposed standard is scalable to entities of different sizes and complexities, recognizing 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 are of the view that further guidance and clarity on work efforts depending on management's assessment of going concern would be helpful. There is a lack of clarity around how the work efforts for the proposed additional requirements in the ED-570 could be scaled for smaller entities, or for entities that are in different going concern risk scenarios. As an extension to that, some clarity may be needed around the application of the proposed ED-570 on the work effort requirements for evaluating events or conditions that may cast significant doubt, compared to situations where material uncertainty exists. Scalability should not only consider whether the same requirements can be applied to entities of differing sizes, but there also needs to be an assessment of whether additional requirements will add value if applied in certain situations.

   We consider the example scenarios and related work efforts as illustrated in the IFRS Foundation educational material on Going Concern – a focus on disclosure to be very useful. We recommend the IAASB include similar example scenarios for going concern from an auditor's perspective, to clearly illustrate the step-up or step-down of work efforts that are proportionate to the size and going concern risks relevant to the entity.

4. **Do the requirements and application material of ED-570 appropriately reinforce the auditor's application of professional skepticism in relation to going concern?**

   Overall, we agree that the requirements and application material of ED-570 appropriately reinforce the auditor's application of professional scepticism in relation to going concern. However, we refer to comments made in Question 3 above in relation to scalability.

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"?**

   Broadly, we are supportive of the proposed definition of material uncertainty (related to going concern). However, we are of the view that the definition can be improved by providing further clarity and distinction between the terms 'material uncertainty' and 'may cast significant doubt'. To address this, we suggest including in paragraph 10, the wording from the application material in paragraph A5. This will help explain the concept that, material uncertainty is the result of unresolved events or conditions that, individually or collectively, may cast significant doubt.

   We are of the view that the definition of material uncertainty should not include the disclosure requirements. We also note that this term is not defined in the accounting standards. Therefore, imposing the proposed definition of accounting terms within auditing standards can be problematic. There is a risk that management may disagree with the auditor on what should be deemed as 'material uncertainty' as the term is currently undefined in accounting standards.

6. **Does ED-570 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?**

   We support the proposals in the ED-570 to enhance the risk identification and assessment requirements, so that they are consistent with those set out in ISA 315 *Identifying and Assessing the Risks of Material Misstatement* (ISA 315). The feedback we have received indicates that these are steps that are already being included in the current audit process. We believe the clarifications proposed in the ED-570 through alignment to ISA 315 will further promote consistency in practice.

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 ED-570)? When responding consider the flexibility provided in paragraphs 22 and A43–A44 of ED-570 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)?**

   We are supportive of the extension period of the auditor's evaluation of the going concern assessment to at least 12 months from the date of approval of the financial statements. The proposed extension period will be more aligned with the current Australian and New Zealand requirements.

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?**

   Broadly, we are supportive of the proposed additional requirements in the ED-570 to enhance the auditor's evaluation of management's going concern assessment.

   However, we disagree with the proposal 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. If no events or conditions have been identified and the risk of going concern is assessed as low or insignificant, there is little value in further evaluating management assessment of going concern. The costs incurred will be disproportionate to the benefits (if any) when the risk of going concern is insignificant.

In our view, the language and the tone used between accounting and auditing standards when addressing going concern are not aligned. Currently the phrasing in IAS 1 states that, "An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading or has no realistic alternative but to do so." Therefore, for an entity that is assessed as very low risk of not being a going concern, management may reach a conclusion that the going concern basis of accounting is appropriate without any detailed assessment. Furthermore, there is no specific requirement for management to include a statement that the financial statements have been prepared on a going concern basis. ED-570 proposes an implied secondary opinion by the auditor on the entity's going concern status without the corresponding specific disclosures in the financial statements.

9. **Does ED-570 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, ED-570 appropriately incorporates 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?**

    Yes.

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?**

    Yes.

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?**

    The requirements for an auditor to report to an appropriate authority outside of the entity already exist where law, regulation, or relevant ethical requirements require the auditor to report. Therefore, we are not convinced that repeating this requirement will add any value.

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 are not supportive of the banket disclosure about going concern in the auditor's report.

    In many audits, going concern would likely not be an issue. Therefore, a blanket disclosure about going concern in the auditor's report is likely to undermine its information value and may cause unintended consequences, including readers not noting disclosures that signal a concern with the going concern assessment. We are of the view that exception-based reporting is more appropriate, that is the inclusion of going concern disclosures in the auditor's report only when an issue related to going concern has been identified.

    The ED-570 proposes the same heading, 'Going Concern' for both the 'clean'[2] and 'close-call'[3] situations. If the IAASB is to proceed with the inclusion of the blanket disclosure for all audit reports containing an unmodified opinion when no events

[2] 'Clean' situation in this context means there are no events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern.

[3] 'Close call' situation in this context means, there are events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern, but do not give rise to a material uncertainty.

or conditions that may cast significant doubt ('clean' audit report), we recommend that the IAASB revise the heading to better distinguish a 'clean' audit report from a 'close-call' audit report.

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 are not supportive of the additional requirements to disclose in the auditor's report, how the auditor evaluated management's assessment of the entity's ability to continue as a going concern.

    We acknowledge that there have been calls for more transparency in the auditor's report with respect to the auditor's responsibilities and work related to going concern in the feedback received for the 2020 IAASB DP. However, an auditor's opinion in respect of going concern is expressed in accordance with an applicable financial reporting framework. Currently, the auditor's conclusion on the company's status as a going concern is made with reference to the relevant disclosures in the financial statements. Without changes to the current financial reporting requirements for more explicit requirements around management's going concern assessment and accompanying disclosures in the financial statements, we believe the IAASB's efforts could bring about an imbalance that may result in unintended consequences, including further widening the expectation gap affecting the audit profession.

    We appreciate IAASB can only focus on specific standard-setting actions within its remit. However, we are sceptical that the proposal to enhance the transparency in the auditor's report alone without the corresponding disclosures in the financial statements, will achieve IAASB's objectives that support the public interest.

    The academic research we have provided on this topic (**Attachment 2)** shows there is no significant difference in investors' responses when presented with the auditor's report for a listed entity with Material Uncertainty Related to Going Concern (MURGC) in the proposed new format as shown in Illustration 4 of ED-570, compared to Illustration 1 in extant ISA 570. This suggests that the proposed new enhanced transparency does not impact investor responses[4]. In contrast, when additional going concern disclosure made by management is included in the notes to the financial statements, investors reacted to the management's disclosures and changed their views on[5]:

    - The likelihood of the entity remaining in operation, returning to profit, and paying off its debts
    - How risky or attractive is the entity as an investment
    - Whether they have received fair warning of the risk of going concern.

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 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.**

    No comment.

16. **Are there any other matters 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.**

    Other minor areas that we have identified for clarification include:

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[4] Second experiment – MURGC – new v current format; Going Concern Exposure Draft, Emerging Disclosures: Exploring the Potential Impact of Parliamentary Joint Committee Inquiry Recommendations on Investors' Perceptions, Ting-Chiao Huang, Robyn Moroney & Soon-Yeow Phang (2023)

[5] Second experiment – additional information re GC included in the notes – included or not included; Going Concern Exposure Draft, Emerging Disclosures: Exploring the Potential Impact of Parliamentary Joint Committee Inquiry Recommendations on Investors' Perceptions, Ting-Chiao Huang, Robyn Moroney & Soon-Yeow Phang (2023)

(a) The location of disclosure in the audit report for a 'close-call' situation. We suggest the IAASB include further clarification and specific examples to illustrate the appropriate use of the Key Audit Matter (KAM) and Emphasis of Matter (EOM) paragraphs in the audit report.

(b) The ED-570 uses the terminology 'material uncertainty' whereas IAS 1 refers to 'material uncertainties'. We recommend the IAASB considers aligning the terminology with IAS 1.

(c) Paragraph 10 of the ED-570 refers to 'appropriate disclosure of the nature and implications of the uncertainty'. We recommend the IAASB clarify the location of the 'appropriate disclosure' that is being referred to in paragraph 10, i.e., is it in the disclosures in the financial statements, or the disclosures in the auditor's report.

17. The IAASB is also seeking comments on the matters set out below:

(a) Translations—Recognizing that many respondents may intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED-570.

We have no comments on translations.

(b) Effective Date—Given the need for national due process and translation, as applicable, and the need to coordinate effective dates with the fraud project, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods beginning approximately 18 months after approval of the final standard. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISA.

We agree with the proposed effective date.

Attachment 2

Going Concern
Exposure Draft

Ting-Chiao Huang
Robyn Moroney
Soon-Yeow Phang

Report for CPA Australia

Grant 34891:
Emerging Disclosures: Exploring the Potential Impact of
Parliamentary Joint Committee Inquiry Recommendations on Investors' Perceptions

Research Questions

The issue of going concern (GC) reporting and the form it should take is an important one. The assessment of GC uncertainty is the responsibility of both management and auditor. When preparing their financial report, management is responsible for assessing the appropriateness of the GC assumption. This assertion is then subsequently evaluated by the auditor. We are interested in whether investors can differentiate between different GC reporting and appreciate the varying GC disclosure by management.

Research Design

We conducted two experiments to understand how investors may respond to proposed changes in GC reporting and how they might respond to additional disclosure around GC by management.
In our *first experiment* we provided participants a profit and loss and balance sheet and then a clean audit opinion in the current format or in the proposed format (illustration 1 in the exposure draft), which includes a section that explains how the auditor has considered the GC status of the company.

Clean audit report format	Current	New
	n=91	n=89

n=number of participants (total 180)
Age – ranged from 20s to 60+ average in their 30s
Gender – 63% Male
Work experience – average of 18 years
Investment experience – average of 8.5 years

In our *second experiment* we provided participants a profit and loss and balance sheet. They then received notes to the financial statement and an audit report. The note included either, no additional information from management, some additional information regarding GC using either soft or strong wording. The audit report included a Material Uncertainty Regarding GC (MURGC) section in either the current or proposed format (illustration 4 in the exposure draft). For completeness we also included a version where the audit report included a discussion of GC being a significant doubt, like the way Key Audit Matters (KAMs) are currently used when a MURGC is deemed to be inappropriate.

	No additional	Soft additional	Strong additional
MURGC Current	n=105	n=101	n=96
MURGC New	n=100	n=91	n=105

An additional group received a significant doubt disclosure in their audit report (no additional information from management in the notes) n=104

n=number of participants (total702)
Age – ranged from 20s to 60+ average in 30s
Gender – 66% Male
Work experience – average of 19 years
Investment experience – average of 9 years

When management did not add any additional information, the note only included a table with numbers, which the auditor refers to in their GC discussion in the audit report. When management added additional information regarding GC, the wording was either 'soft' or 'strong'. Please see below for the wording used.

Soft:

1.k. Going concern basis of accounting

The financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. However, during the year ended 31 December 2022, the Company experienced a significant reduction in revenue because of an economic downturn, recorded a net comprehensive loss of $1,034,000. While the Company had cash on hand of $1,311,000, net assets of $7,158,000 and current assets which exceeded current liabilities by $4,789,000, there are concerns that it may not be able to make the required repayments under its debt facilities to comply with its debt covenants.

And under the table:

At the reporting date, Accell's financial statements include Deferred Tax Assets with a value of $3,808,000. Determining income tax provisions involves judgment on the tax treatment of certain transactions. Deferred tax is recognized on tax losses not yet used and on temporary differences where it is probable that there will be taxable profit against which these can be offset. The Directors have made judgments as to the probability of future taxable profits being generated against which tax losses will be available for offset.

Strong:

1.k. Material Uncertainty regarding the going concern basis of accounting

The financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. However, during the year ended 31 December 2022, the Company experienced a significant reduction in revenue because of an economic downturn, recorded a net comprehensive loss of $1,034,000. While the Company had cash on hand of $1,311,000, net assets of $7,158,000 and current assets which exceeded current liabilities by $4,789,000, there are concerns that it may not be able to make the required repayments under its debt facilities to comply with its debt covenants. This means that there is a material uncertainty whether the Company will be able to realize its assets and discharge its liabilities in the normal course of business.

And under the table:

At the reporting date, Accell's financial statements include Deferred Tax Assets with a value of $3,808,000. Determining income tax provisions involves judgment on the tax treatment of certain transactions. Deferred tax is recognized on tax losses not yet used and on temporary differences where it is probable that there will be taxable profit against which these can be offset. The Directors have made judgments as to the probability of future taxable profits being generated against which tax losses will be available for offset.

Note: In developing both experiments, we drew heavily on the expertise of staff at the AUASB and the AASB. We also consulted with experts in practice.

We asked the participants the following questions to evaluate whether different GC reporting and management GC disclosure affect investors' assessment of a company's GC status.

Questions – responses were on an 11-point scale

In your opinion, what is the likelihood that Accell will remain in operation over the next 12 months?
In your opinion, what is the likelihood that Accell will return to profitability over the next 12 months?
In your opinion, what is the likelihood that Accell will be able to service its existing debt?
How risky is an investment in Accell?
How attractive is an investment in Accell?
How likely are you to retain your investment in Accell's shares (keep your shares)?
How reliable is the information provided by Accell's management in the financial statement?
How confident are you in Accell's management?
Based on the information provided in the case materials, how credible is Accell's management?
How reliable is the information provided by Accell's auditor in the audit report?
How confident are you in Accell's auditor?
Please rate the extent to which you agree the auditors conducted a good quality audit.

Participants were then told:

You have just learned that Accell is closing down as they cannot pay their debts. You have made a significant loss on your investment in Accell.

We then asked participants the following questions to evaluate whether different GC reporting and management GC disclosure affect investors' perceptions on whether the audit report and the notes to the financial report provide fair warning on a company's GC status.

Do you believe that the information included in the audit report regarding Accell's capacity to remain a going concern gave you fair warning that they could close down this year?
Do you believe that the information included in the notes to the financial report gave you fair warning that Accell could close down this year?

Findings

First experiment – clean audit opinion – new v current format

The first experiment compares new format (illustration 1) with current format when a clean audit opinion is issued. The table below summarises the results of our t-tests comparing new and current.

S = significant NS = not significant

Likelihood that Accell will remain in operation over the next 12 months?	NS
Likelihood that Accell will return to profitability over the next 12 months?	NS
Likelihood that Accell will be able to service its existing debt?	NS
How risky is an investment in Accell?	NS
How attractive is an investment in Accell?	NS
How likely are you to retain your investment in Accell?	NS
How reliable is the information provided by Accell's management?	NS
How confident are you in Accell's management?	S*
How credible is Accell's management?	NS
How reliable is the information provided by Accell's auditor?	NS
How confident are you in Accell's auditor?	NS
Please rate the extent you agree the auditors conducted a good quality audit.	NS
Fair warning audit report	S**
Fair warning financial report	S**

*More confident when new audit report format used

**Rated warning fairer when new audit report format used (note no difference is financial report details provided across the two groups)

Second experiment – MURGC – new v current format

The second experiment compares new format (illustration 4) with current format when a MRUGC is issued. The table below summarises the results of our t-tests comparing new and current.

S = significant NS = not significant

Likelihood that Accell will remain in operation over the next 12 months?	NS
Likelihood that Accell will return to profitability over the next 12 months?	NS
Likelihood that Accell will be able to service its existing debt?	NS
How risky is an investment in Accell?	NS
How attractive is an investment in Accell?	NS
How likely are you to retain your investment in Accell?	NS
How reliable is the information provided by Accell's management?	NS
How confident are you in Accell's management?	NS
How credible is Accell's management?	NS
How reliable is the information provided by Accell's auditor?	NS
How confident are you in Accell's auditor?	NS
Please rate the extent you agree the auditors conducted a good quality audit.	NS
Fair warning audit report	NS
Fair warning financial report	NS

No significant difference in any responses – the new format does not impact investor responses.

Second experiment – additional information re GC included in the notes – included or not included.

The second experiment also compares the situation where additional GC disclosure by management is included in the notes and the situation where such disclosure is not included. The table below summarises the results of our t-tests comparing included and not included.

S = significant NS = not significant

Likelihood that Accell will remain in operation over the next 12 months?	S
Likelihood that Accell will return to profitability over the next 12 months?	S
Likelihood that Accell will be able to service its existing debt?	S
How risky is an investment in Accell?	S
How attractive is an investment in Accell?	S
How likely are you to retain your investment in Accell?	NS
How reliable is the information provided by Accell's management?	NS
How confident are you in Accell's management?	NS
How credible is Accell's management?	NS
How reliable is the information provided by Accell's auditor?	NS
How confident are you in Accell's auditor?	NS
Please rate the extent you agree the auditors conducted a good quality audit.	NS
Fair warning audit report	S
Fair warning financial report	S

When management include wording in the notes regarding GC it has this effect (when compared to no wording included):

Likelihood of remaining in operation, returning to profit, and paying of its debts assessed as lower.

Investment is assessed as more risky and less attractive.

Fair warning assessed as greater.

Second experiment – additional information re GC included in the notes – soft v strong language.

We further compare whether the language used by management in the additional GC disclosure impacts investors. The table below summarises the results of our t-tests comparing soft and strong language used in the additional information.

S = significant NS = not significant

Likelihood that Accell will remain in operation over the next 12 months?	NS
Likelihood that Accell will return to profitability over the next 12 months?	NS
Likelihood that Accell will be able to service its existing debt?	NS
How risky is an investment in Accell?	NS
How attractive is an investment in Accell?	NS
How likely are you to retain your investment in Accell?	S
How reliable is the information provided by Accell's management?	S
How confident are you in Accell's management?	NS
How credible is Accell's management?	NS
How reliable is the information provided by Accell's auditor?	NS
How confident are you in Accell's auditor?	NS
Please rate the extent you agree the auditors conducted a good quality audit.	NS
Fair warning audit report	NS
Fair warning financial report	NS

When management include strong wording in the notes regarding GC it has this effect (when compared to soft wording included):

Investors were more likely to retain their shares.

Investors assessed the information provided by management as more reliable.

Second experiment – significant doubt v MURGC (no additional information in the notes).

Last, we compare the situation where a significant doubt is reported and the situation where a MURGC is reported. The table below summarises the results of our t-tests comparing an audit report with a significant doubt disclosure with and audit report with a MURGC – with no additional information provided in the notes.

S = significant NS = not significant

Likelihood that Accell will remain in operation over the next 12 months?	NS
Likelihood that Accell will return to profitability over the next 12 months?	NS
Likelihood that Accell will be able to service its existing debt?	NS
How risky is an investment in Accell?	NS
How attractive is an investment in Accell?	NS
How likely are you to retain your investment in Accell?	NS
How reliable is the information provided by Accell's management?	NS
How confident are you in Accell's management?	NS
How credible is Accell's management?	NS
How reliable is the information provided by Accell's auditor?	NS
How confident are you in Accell's auditor?	NS
Please rate the extent you agree the auditors conducted a good quality audit.	NS
Fair warning audit report	NS
Fair warning financial report	NS

This finding is of interest as Rebecca Mattock's research shows that investors react differently to a MURGC and a KAM, containing the same information in a different format. By moving from a KAM to a discussion of a significant doubt under the GC heading, it is seen as the same as a MURGC disclosure under the same heading.