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Enseignement supérieur de type long de niveau universitaire

***Expectation gap relating to going concern in an
audit of financial statements***

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ACRONYMS AND ABBREVIATIONS

IAASB : International Auditing And Assurance Standards Board

ISA : International Standards on Auditing

Big Four : EY, KPMG, Deloitte, PwC

IBR-IRE : Instituut van de Bedrijfsrevisoren / Institut des Réviseurs d'Entreprises

TCGW : Those charged with governance

KAM : Key Audit Matters

MURGC : Material Uncertainty Related to Going Concern

Note that in this research, the terms auditor and external auditor are used to represent a single person. This choice was made knowing that the research does not mention the role of the internal auditor.

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INTRODUCTION

Research topic

Dear reader,

The work you are about to read is the fruit of month-long applied research, the aim of which is to enrich theoretical thinking in the field of management.

One of the good things about studying at a business school is that you get to discover lots of different disciplines. From economics to psychology to accounting and business strategy, and I could go on.

When you opt to carry out applied research, you have a wide choice of subjects on which to advance theoretical reflection. This wide choice also corresponds in a way to the wide choice of options that we can take in our business schools, but also to the wide range of career opportunities that may be open to us at the end of our studies. In my case, the choice wasn't very difficult: I opted for auditing.

- Why auditing?

The first reason is that it is a key profession in our market economy. In the 'Les acteurs de l'éco' programme on 3 May 2023, Marc Bihain, Secretary General of the 'Institut des réviseurs d'entreprise', explained that there are around 470,000 companies in Belgium that deposit their annual accounts at the National Bank of Belgium, and of those, 28,000 are audited. This corresponds to less than 6% of companies, yet it represents 75% of the added value created by Belgian companies, or 2/3 of private sector employment (Les News 24 & Bihain, 2023). So in my view, doing research on the auditing profession means contributing to providing information on a profession that is at the heart of our economy.

And the second (more personal) reason is that my ambition is to become a certified auditor. Having had the opportunity to learn about international auditing standards as part of my Master's degree, I'll be able to experience the profession in practice from October 2024 when I will start work as a junior auditor.

That being said, the profession is very broad and so are the missions that can be assigned to an auditor. So it's important to have a clear framework for my research. To do this, I asked myself various questions, inspired in particular by the Ikigai, in order to enjoy writing this work. Let's forget the question 'What you can be paid for' and look at the other three in the context of my audit research:

□ What you love : I like to analyse companies' business models and use figures to illustrate matters, but above all I like to look to the future and imagine what tomorrow's world and companies will look like.

○ What you are good at : I have only had one auditing course in the context of my work, International Standards on Auditing, which I thoroughly enjoyed and passed, so let's start with International Standards on Auditing.

► What the world needs : The auditor works in the public interest, and in this respect I relied on the proposed strategy and work plan issued by the IAASB on 11 January 2023. I noted that the organisation is currently working on improving ISA 500 audit evidence, ISA 570 going concern, ISA 240 fraud and developing ISSA 5000 on sustainability (IAASB, 2023).

The conclusion of all this is that the work I would most enjoy doing, and which would be in the public interest, would concern the ISA 570 standard on going concern. It remains to be seen what objective my research would pursue. I therefore carried out some preliminary research on the subject in order to understand what the latest news on the subject actually was, but also what the research had been about in recent years.

I have thus formulated two initial questions that will guide the first stages of my research :

- ① what is the auditor's role with regard to going concern (ISA 570)?
- ② why is ISA 570 included in the IAASB work plan?

Scientific approach

Defining the initial questions is the first step in the scientific approach, but also the start of a long adventure! These two research questions will guide our first stage, the exploration phase. This consists of gathering as much scientific resource as possible - exploring the literature in order to acquire a solid theoretical understanding of our subject, and to provide possible answers to our initial questions.

At the end of this exploration phase, we will have sufficient theoretical knowledge to define an angle from which to analyse our subject. This angle will be chosen on the basis of the challenges facing the profession; we will thus aim to develop a research question that will fulfil the objective of this applied research, i.e. to enrich theoretical reflection.

We will then move on to the practical part of this work. To answer our research question, we will set up a methodology for collecting data from the professional world.

The collection and analysis of this data will then constitute a key stage in this work, as it will enable us to provide an answer to our research question. It is by providing an answer to our question that we will fulfil our objective of advancing theoretical thinking on our subject of the going concern audit. Finally, we will conclude. Without further delay, let us begin our exploration of the literature.

LITERATURE REVIEW - EXPLORATION

2.0 Introduction

The literature was explored in order to acquire as much knowledge as possible on the subject. This led to the identification of 7 points, the exploration of which will enable to develop a research question in the next phase.

The first objective is to understand why companies have their accounts audited and how the auditor works. This is the objective of points 2.1, 2.2 and 2.3. This is followed by a fourth point, 2.4, which focuses on the outcome of the audit, an analysis of the final result of the auditor's work through the audit report.

The fifth and sixth points focus on the going concern concept. Although our analysis of the understanding of the auditor's job will enable us to discover that one of the auditor's tasks is to assess management's use of the going concern principle, it is in points 2.5 and 2.6 that we analyse the subject in detail.

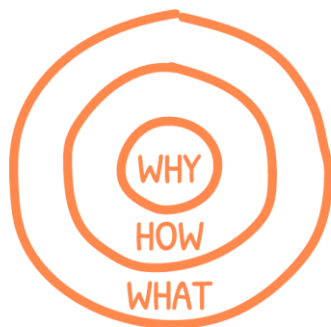
Finally, section 2.7 will focus on recent factors affecting the auditor's assessment of the going concern principle. This will allow us to conclude our literature review with section 2.8.

2.1 Why are audits required

In his book "Start with Why", Simon Sinek points out that the most successful companies are those that create a synergy in the communication of their "why" - the purpose behind their existence, their "how" - the methods they use and their "what" - the actions they perform. But above all, they communicate it in this precise order.

While the primary purpose of this tool is not necessarily to introduce and explain what auditing is, I believe that it is no less relevant for that. We are going to follow this structure to discover the world of auditing for two main reasons:

- 1) the first reason is that auditing is a profession that serves the public interest. Therefore, I would like to target as wide an audience as possible for my thesis, and in doing so, I would like not to lose a single reader in the first chapter. This tool should enable me to present the world of auditing in a simple and holistic way.
- 2) the second reason is that the subject of going concern, which we will deal with later and which is at the heart of this work, is often the subject of debate; and with it the role of the auditor. Taking a global view of auditing will enable us to approach the question of the auditor's role in the assessment of the going concern with a great overview of the auditor's universe.



- We shall therefore begin with an analysis of the purpose of the auditing profession. This will enable us to understand why an external opinion on a company's financial statements is necessary.
- We will then look at how. In this section we will define the concept of assurance.
- Finally, we look at the what, during which we analyse the audit process.

Source: Golden circle illustration reference : *Golden Circle for Individuals* - Simon Sinek. (2024, January 16). Simon Sinek. <https://simonsinek.com/product/golden-circle-for-individuals/>

2.1.1 A brief history of auditing

The world of auditing as we know it today developed during the industrial revolution. While for most of history the separation between the provider of capital and the manager of that capital was thin, it became necessary to widen it during the industrial revolution. In fact, in order to seize the opportunities offered by the industrial revolution, the owner-managers found themselves limited in their capital and needed to call on the capital of the community. The exchange of financial products will develop and separation between the provider of capital and the manager of that capital became a key element of the economy. A document then becomes central to these transactions, the financial report issued by company management (Hayes & Schilder, 2005).

Legislation will quickly follow this development, according to accounting historian John L. Carey, audits were required by law in England as early as 1845 to protect shareholders from “improper actions by promoters and directors.” The Joint Stock Companies Act required management to prepare a full and fair balance sheet and the company’s accounts to be audited by an auditor. Yet, it wasn’t until the Companies Act 1862 that the annual presentation of the balance sheet to shareholders and its audit became mandatory. In this period, marked by the first and second industrial revolutions, the auditor's role was mainly focused on detecting fraud and ensuring that the company's solvency was correctly represented on the balance sheet (Lee et al., 2008).

While the UK was the home of the industrial revolution and of the development of auditing, the growth of the American economy following the First World War surpassed it. There was also a shift in view of the main function of auditing. Works published after the 1929 crisis, such as the successive editions of Montgomery's Auditing or an article in the New York Times of the 6 April 1975, show that the auditor's essential function has changed from detecting fraud (which remains an important element of auditing) to ensuring that the company's situation is fairly and truly represented.

The increasing volume of transactions and the presence of companies in different locations will introduce the concepts of materiality, sampling techniques, reliance on the internal control system and the risk-based auditing (Lee et al., 2008).

The audit profession is evolving in line with the economic environment surrounding companies and is also affected by several financial scandals. Notably the Royal Mail Case, which led to the enactment of the Securities and Exchange Commission Act in 1934 in the United States, and the Enron scandal, which led to the introduction of the Sarbanes-Oxley Act, which introduced a series of measures concerning auditor independence and analysis of internal control (Toms, 2019).

At international level, the IAASB was created in March 1978 under the umbrella of the International Federation of Accountants. It provides guidelines on the objective and scope of an audit. In 1991, these guidelines became the International Standards on Auditing (ISAs).

We can observe that over the course of history, the purpose of audit has evolved under the influence of society's needs and expectations. We can see that these needs and expectations are strongly influenced by the economic, political and sociological factors that affect a society at a given time (Lee et al., 2008).

Although the general objective of the auditor has not changed since the end of the second industrial revolution and the development of exchanges on the financial markets, the profession continues to evolve. Whether it's a global pandemic, the impact of digitalisation or the growing role of non-financial information, the audit profession continues to adapt to the economic environment and public expectations.

2.1.2 The key role of the auditor

The principle of having companies' financial statements audited by an independent external auditor has been a foundation for the building of confidence in the world's financial systems (PwC, 2017). Investors and creditors sometimes have different expectations than management (for example, management may prefer higher salaries and benefits, while investors may want higher profits and dividends). Both investors, creditors and other stakeholders such as employees, regulators, analysts, etc require a fair presentation of the financial statements. To give them confidence in the financial statements, an auditor provides an independent, expert opinion on the fairness of the reports, called an audit opinion (Hayes & Schilder, 2005).

The audit opinion enables shareholders and other stakeholders to evaluate and make decisions, such as whether to invest, dispose of, lend to or contract with the company, with confidence and on a consistent basis (CPA Australia Ltd, 2019).

The following illustration proposed by the Institute of Chartered Accountants of Pakistan gives us a better idea of the key role played by the auditor in our economy:

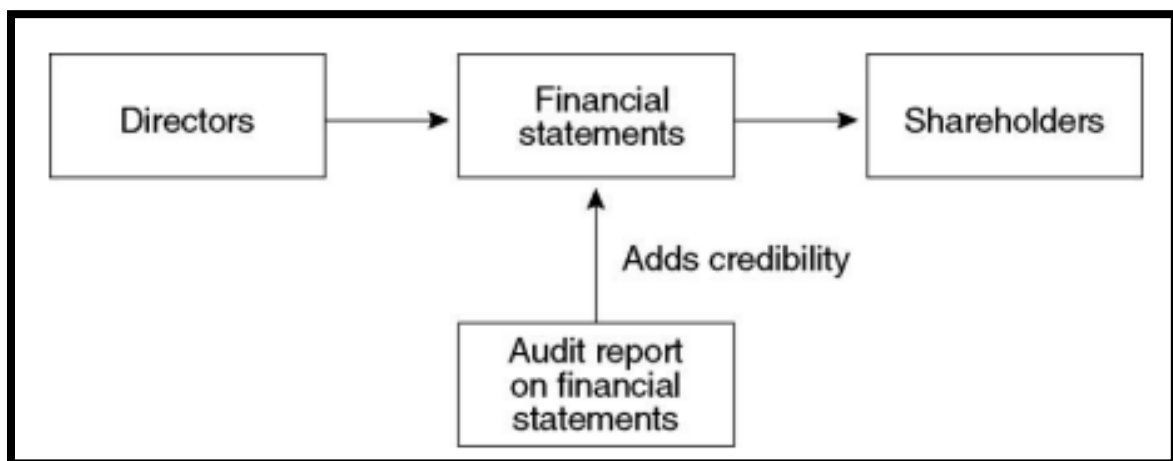


Figure 1 : Why are audits required?

Source: The Institute of Chartered Accountants of Pakistan. (2015). Audit and assurance (2^e éd.). Emile Woolf International.

2.2 Assurance Engagement

Now that we have a good understanding of why auditing is necessary, we will seek to understand how the auditor achieves this key role of building trust.

2.2.1 What does assurance mean

The auditor build trust between different parties by providing assurance. The International Audit and Assurance Standards Board defines assurance as « *An engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria* » (IAASB, 2013)

The International Framework for Assurance Engagements describes five elements common to all assurance engagements (IAASB, 2013):

- A three party relationship involving
 - a practitioner : the person providing professional services that will review the subject matter and provide the assurance (for example the audit firm)
 - a responsible party : the person(s) responsible for the subject matter (for example directors are responsible of the preparation of the financial statements to be audited)
 - intended users : the person(s) or group of persons for whom the practitioner prepares the assurance report (the shareholders for example)
- An appropriate subject matter : the data prepared by the responsible party (such as the financial statements) and evaluated by the practitioner
- Suitable criteria : the rules against which the subject matter is evaluated in order to reach an opinion. In an audit this might be national framework or IFRS
- Sufficient appropriate evidence : information used by the practitioner to form a conclusion on which their opinion is based. They must be sufficient (enough) and appropriate (relevant)
- A written assurance report : contains the practitioner's opinion and destined to the intended user following the collection of evidence

This thesis deals with financial statement audits, which are conducted to provide an independent opinion on a company's financial statements. The outcome of the audit is an audit report where the auditor provides a conclusion aiming to enhance the confidence that users can plan in company's financial statements.

The International Framework for Assurance Engagements permits two types of assurance engagement by a practitioner (IAASB, 2013):

- a reasonable assurance engagement
- a limited assurance engagement

2.2.2 Reasonable and limited assurance engagement

In an audit engagement, the auditor provides a reasonable assurance (Hayes & Schilder, 2005). A reasonable level of assurance is high, but not absolute. It does not ensure that financial statements are completely accurate. Obtaining absolute assurance when auditing a financial statement is not possible for several reasons, one of which is that auditors cannot check every transaction. In addition, the preparation of financial statements requires management to make judgements and estimates, which implies that the exact values of assets or liabilities recorded in the financial statements cannot always be accurately reflected in the financial statements (CPA Australia Ltd, 2019).

Reasonable assurance indicates that, considering the procedures for obtaining audit evidence and the characteristics of the subject matter, the auditor has obtained sufficient appropriate audit evidence. The audit conclusion of a reasonable assurance is expressed in the positive form, for example: “in our opinion [subject matter] conforms, in all material respects, with [criteria].” (Hayes & Schilder, 2005).

A limited assurance indicates that the auditor has obtained sufficient appropriate evidence to reduce the assurance engagement risk to a moderate level. The audit conclusion of a limited assurance is expressed in the negative form, for example, “nothing has come to our attention that causes us to believe that [subject matter] does not conform, in all material respects, with [criteria].” (Hayes & Schilder, 2005).

Procedures required to provide reasonable assurance are more extensive than those required to provide limited assurance. Consequently, reasonable assurance is a higher assurance than limited assurance.

Here is a practical example from Solvay SA Annual report of 2021 to illustrate the difference between the conclusion of a limited and reasonable assurance:

• *For the indicators in scope of “limited assurance” (identified by the symbol ‘L’)*

On the basis of the procedures performed by us, nothing came to our attention that causes us to believe that the Information identified by the symbol ‘L’ as included in the 2021 Annual Integrated Report, is not prepared, in all material respects, in accordance with the Reporting Framework.

• *For the indicators in scope of “reasonable assurance” (identified by the symbol ‘R’)*

In our opinion, based on the procedures performed, the Information identified by the symbol ‘R’ as included in the 2021 Annual Integrated Report, has been prepared in all material respects in accordance with the Reporting Framework.

Signed at Zaventem on 18 March 2022

The statutory auditor

Source: Solvay (SA). (2021). *Solvay Annual Integrated Report 2021*.
<https://www.solvay.com/en/investors/annual-reports>

2.2.3 The financial reporting ecosystem

Before moving to the audit process, it seems important to point out that the auditor belongs to an ecosystem that greatly influences the way assurance engagement is translated into practice. As defined by the IAASB, the financial reporting ecosystem embraces all the parties involved in preparing, approving, auditing, analysing and using financial reports (IAASB, 2020).

2.2.3.1 Entity and its management

Organisations are required to prepare their financial statements in compliance with a framework of generally accepted accounting principles (GAAP) in their country (PwC, 2017). In Belgium, companies will either prepare their financial statements based on Belgian GAAP or International Financial Reporting Standards (IFRS).

In Belgium, companies considered large must have a statutory auditor. Since first January 2024, a company is considered large if it exceeds at least two of the three following criteria:

Criteria	Size
Number of workers employed in full-time equivalents (as an annual average)	50
Annual turnover before tax	11.250.000€
Balance sheet total	6.000.000€

If two or more of the three criteria are exceeded or no longer exceeded, this will only have an impact if this circumstance occurs during two consecutive financial years.

In addition, small listed companies, small companies that are public interest entities and companies that are part of a group required to prepare consolidated annual accounts must always nominate a statutory auditor. Companies not covered by this obligation may voluntarily nominate an auditor (IBR-IRE, n.d.).

2.2.3.2 External auditors

Auditors use a framework of Generally Accepted Auditing Standards (GAAS), also referred to as auditing standards, to assess whether the financial statements give a true and fair view. These standards provide requirements and guidance on how an audit should be conducted. (PwC, 2017).

International Standard on Auditing ISA 200 describes the auditor's overall objective as “*To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework*” (IAASB, 2008).

The law states that the auditor is proposed by the management organ.

The Annual Shareholders' Meeting selects the auditor from among the registered auditors listed in the public register of the “IBR-IRE”. When the company is required by law to set up an audit committee, the management board's proposal is made on the basis of a justified recommendation from the audit committee (Commission des normes comptables, 2019).

In a Belgian context, to work as a certified public accountant, you must first complete a training course organised by the “IBR-IRE”. The training period lasts at least three years and access to it is subject to several conditions set out in article 75 § 1 of the law of 7 December 2016:

- 1) to be a national of a Member State of the European Union and to have an establishment, in a Member State, or to have an establishment in Belgium
- 2) be honourable, i.e. not have been deprived of your civil and political rights, not have been declared bankrupt without having obtained a discharge and not have incurred a prison sentence, even conditional, of at least three months
- 3) hold a master's degree, delivered by a Belgian university or a Belgian institution of higher education of long university level
- 4) be no more than sixty years of age
- 5) have signed a traineeship agreement, for the entire duration of the traineeship, with a certified public accountant who has been entered in the public register for at least five years and who undertakes to guide the trainee and assist him in his training as a certified public accountant (Etaamb.Openjustice.Be, 2016)

Auditors may work independently or for an auditing firm. Auditing firms can be local, regional or international. Internationally, the 4 main audit firms, known as the ‘big 4’, are Deloitte, Ernst & Young, KPMG and PricewaterhouseCoopers (Johnstone et al., 2013).

Their size and international presence make these companies a major influencer of international auditing standards (Hayes & Schilder, 2005).

The non-Big 4 companies do not form a common group of small businesses; some are also large companies with an international presence (Johnstone et al., 2013).

2.2.3.3 Regulators, professional bodies and standard-setters

Regulators set out the rules and best practices that guide the work done by external auditors. As a member of the European Union, Belgium is subject to European regulations and directives that have been transposed into national law and regulations.

➤ Accounting framework

The Belgian Accounting Standards Board (BASB) is responsible for enacting financial reporting standards in Belgium. The tasks of the Belgian Accounting Standards Board are:

- advise the government and parliament, at their request or on its own initiative, on matters relating to accounting and annual accounts

- developing accounting doctrine and determining legal accounting principles

(IFAC, 2023)

Some companies are required to prepare their accounts in accordance with International Financial Reporting Standards (IFRS) (IFRS - *View Jurisdiction*, n.d.):

- individual and consolidated financial statements of all listed companies
- consolidated financial statements of credit institutions, insurance companies and investment entities whose securities are not traded on a public market
- the consolidated financial statements of companies other than those mentioned above whose securities are not traded on a public market are authorised but not mandatory.

IFRS are set by the International Accounting Standards Board (IASB).

Companies that are not required to use IFRS must use the Belgian Generally Accepted Accounting Principles (GAAP) issued by the BASB.

➤ Auditing framework

The law of 7 December 2016 implements Directive 2006/43/EC of the European Parliament on statutory audits of annual accounts and consolidated accounts.

The law establishes the Belgian Audit Oversight Board (BAOB), which is an institution responsible for overseeing auditors and audit firms registered in Belgium.

All audits must be conducted in accordance with the auditing standards drafted by the Belgian Institute of Registered Auditors (IBR-IRE) and approved by the BAOB and the Minister for Economic Affairs. Since 2009, IBR-IRE has applied the International Standards on Auditing (ISA).

➤ IFAC and IAASB

International Standards on Auditing are set by The International Auditing and Assurance Standards Board (IAASB), which is a standing committee of the council of the International Federation of Accountants (IFAC).

The IAASB's objective is to improve the uniformity of auditing practices and related services throughout the world by publishing international standards applicable to auditing and assurance activities.

The framework below shows the structure of IAASB's technical pronouncements:

- All audit services have the IFAC Code of Ethics as a common basis.
- Three sets of standards (ISAs, ISREs and ISAEs) share the assurance engagement framework and one standard set (ISRS) is based on the related services framework (Hayes & Schilder, 2005).

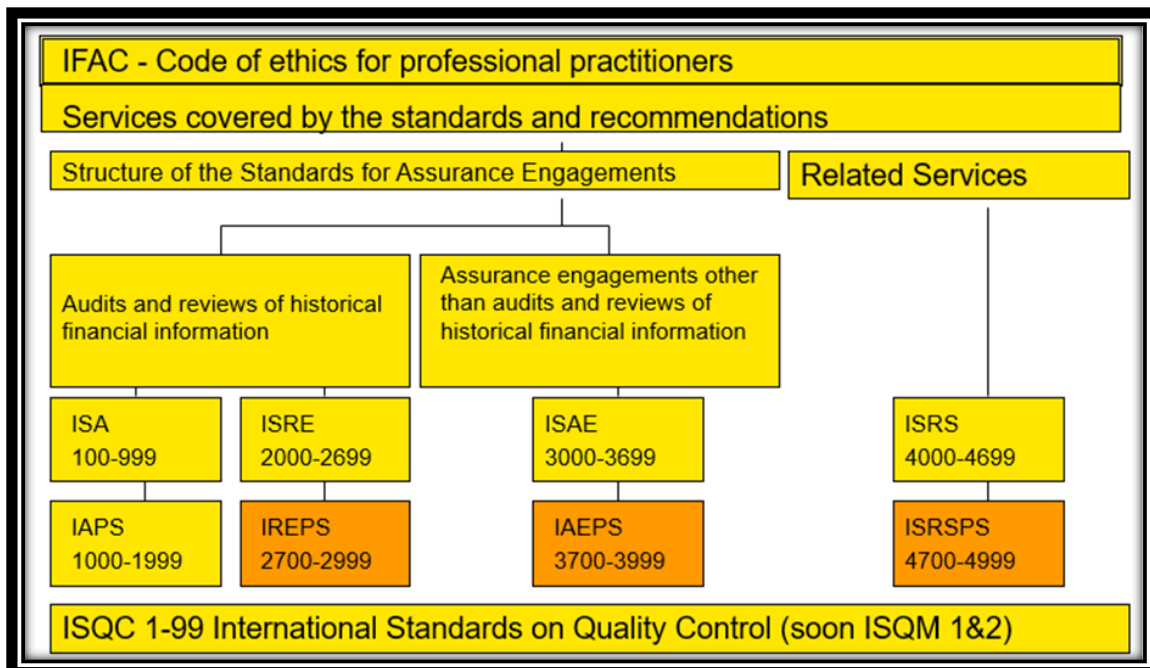


Figure 2 : IAASB Framework

Source: Van Hoof, E. (2023, september). *IAASB Framework* [Diapositives ; PowerPoint].

Please note that since this diagram was created, the ISQM 1&2 standards have come into force. We will expand on these when we present the audit process.

Assurance Engagement Standards:

- International Standards on Auditing (ISAs) are applied in the audit of historical financial information
- International Standards on Review Engagements (ISREs) are applied in the review of historical financial information
- International Standards on Assurance Engagements (ISAEs) are applied in assurance engagements dealing with subject matters other than historical financial information (Hayes & Schilder, 2005).

Related Services Framework:

Some engagements do not meet the definition of assurance engagement and are therefore not included in the assurance engagement standards.

- International Standards on Related Services (ISRSs) are applied in compilation engagements, agreed upon procedures and other related services engagements (Hayes & Schilder, 2005).

Since this thesis is focused on the audit of historical financial information, we will focus exclusively on the International Standards on Auditing.

2.2.3.4 Users of financial report

We will see in the next section that identifying the main users of the annual accounts is an important element in the audit process. In the report “The Conceptual Framework for Financial Reporting”, the IASB identifies different types of users of financial disclosures according to their needs:

- investors: they are mainly concerned about the risks that are associated with their investments and the potential return behind it. Shareholders are also interested in the entity's ability to pay dividends (IASB, 2010)
- employees: they are interested in the stability and profitability of their employer, but also in the company's ability to pay them or offer them job opportunities (IASB, 2010)
- providers of capital: they are interested in whether their loan and the interest will be paid (IASB, 2010)
- suppliers: they are interested in whether the entity will be able to pay its invoices on time. (IASB, 2010)
- customers: when they have a long-term partnership with the entity, they are interested in the company's ability to sustain over the long term (IASB, 2010)
- the government: they are interested in the company's financial information in various cases, in particular when granting subsidies or to determine tax or make statistics, etc. (IASB, 2010)
- the public: companies can have a significant impact on the local economy, particularly in terms of the number of people they employ or their partnerships with local suppliers. (IASB, 2010)

With so many different group of people basing their decisions on the financial information provided by a company, we can easily understand the key role played by the auditor.

2.3 The 4 stages of the audit process

Our circle is starting to fill up! We now know the purpose of auditing and its key role as a confidence builder. We have also answered the question of how, by defining the principle of assurance engagement and explaining that the auditor gives an independent opinion on the information prepared by the company's management.

We will now complete with the technical aspect of the audit by answering our 'what' question - i.e. what are the tasks performed by the auditor to form an opinion that helps to build trust between the party that produces the financial information and the party that uses that information.

As explained in ISA 200 – Overall objectives of the independent auditor and the conduct of an audit in accordance with international standards on auditing – In conducting an audit of financial statements, the overall objectives of the auditors are:

- ▶ *To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework; and (IAASB, 2008)*
- ▶ *To report on the financial statements, and communicate as required by the ISAs, in accordance with the auditor's findings. (IAASB, 2008)*

2.3.1 Client acceptance & Continuance decisions

The first stage of the audit deals with client acceptance and continuance.

Audit firms are business enterprises like any other, so they also operate for profit. Nevertheless, this does not mean that the auditor has to agree to work with any company that needs an audit. (Hayes & Schilder, 2005).

In the course “Audit et compétences professionnelles” by Eric Nys at ICHEC, he summarises the objectives of this first phase of the audit as follows:

- to identify the client
- to ensure that there are no potential conflicts of interest between the auditor and the client
- to appreciate the client's integrity
- to ensure that the auditor has the necessary skills and resources to perform the engagement (Nys, 2023)

When accepting the engagement, the auditor must comply with ISQM 1 and ISQM 2, which require the auditor to assess the client's integrity and ethical values, as well as the firm's ability to perform the engagement. (IAASB, 2020)

In the case of the acceptance of a new client, the auditor will contact his predecessor in order to obtain the professional reasons why the mandate should not be accepted and confirmation that all fees due by the company have been paid to the predecessor (Nys, 2023).

ISA 210 provides requirements for an audit, particularly in terms of management responsibility. Indeed, management must acknowledge and understand its responsibility for the preparation of the financial statements and the implementation of internal controls to ensure that the financial statements are free from material misstatement (IAASB, 2009). Furthermore, the auditor must have access to the information and people needed to gather audit evidence (IAASB, 2009).

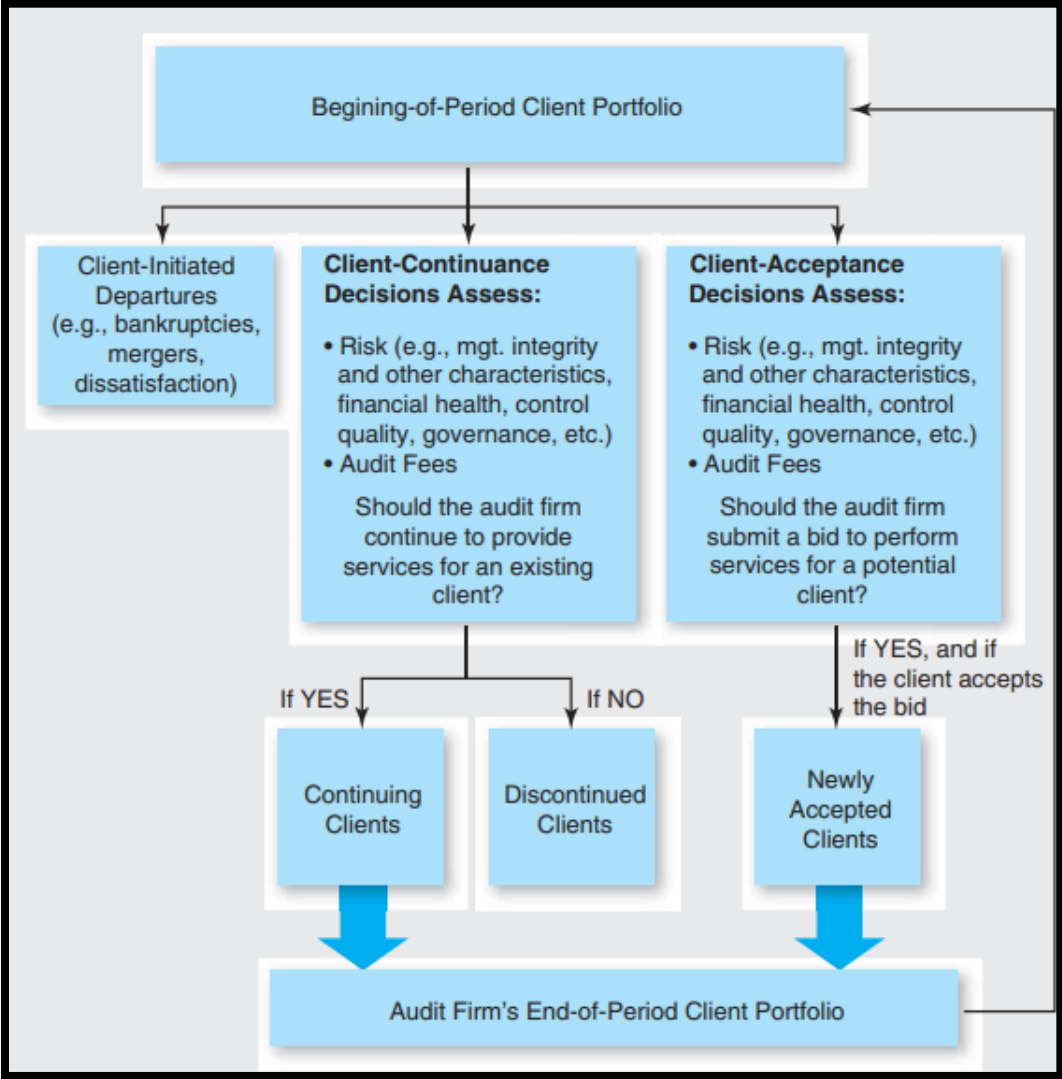


Figure 3 : Client acceptance-continuance decisions
 Source : Johnstone, K. M., Gramling, A. A., & Rittenberg, L. E. (2013). *Auditing : A Risk-Based Approach to Conducting a Quality Audit*. <https://ci.nii.ac.jp/ncid/BB14275722>

The outcome of this first stage is the issue by the auditor of an engagement letter. The engagement letter is an agreement between the audit firm and the client. This document specifies the objective and scope of the audit, the auditor's responsibilities and the form that the audit report will take (Hayes & Schilder, 2005).

2.3.2 Planning & Risk assessment

The second phase of the audit is the planning phase.

After accepting the engagement, the auditor will prepare an audit plan in order to form an opinion on the fair presentation of the company's financial statements.

ISA 300, which deals with planning an audit of financial statements, explains that:

“The objective of the auditor is to plan the audit so that it will be performed in an effective manner” (IAASB, 2009b)

The main points in the planning stage are:

- 1) acquiring an understanding of the entity and its environment
 - 2) assessing the risk of material misstatements of the financial statements
 - 3) determining materiality
 - 4) preparing the audit programme in response to the risks identified
- (Hayes & Schilder, 2005).

2.3.2.1 understanding of the entity and its environment

In order to determine the audit procedures to be performed, the auditor will base his evaluation on the risk that the financial statements do not present a true and fair view of the company's situation. In order to measure this risk, the auditor must first and foremost rely on a solid knowledge of the company and the environment in which it operates.

ISA 315 (REVISED 2019) - Identifying And Assessing The Risks Of Material Misstatement - provides a set of requirements on what the auditor should obtain an understanding of. So the auditor will seek to understand

- how the company is structured (shareholding, governance)
- the industry that the company operates in
- the company's business model and strategy
- internal accounting policies and internal control measures (IAASB, 2020a)

2.3.2.2 risk assessment

ISA 315 (REVISED 2019) - Identifying And Assessing The Risks Of Material Misstatement – require the auditor to perform risk assessment procedures to obtain evidence that provides an appropriate basis for the identification and assessment of risk of material misstatement, whether due to fraud or error, at the financial statement and assertion levels (IAASB, 2020a).

- At the financial statement level means considering risks related to the financial statements as whole and which may affect several assertions. An example would be the tendency of management to override internal controls (The Institute of Chartered Accountants of Pakistan, 2015)
- At the assertion level means risks specific to an assertion. An example would be the risk related to existence of recorded assets. (The Institute of Chartered Accountants of Pakistan, 2015)

Modern auditing theory takes the view that the financial statements prepared by the directors comprise a number of ‘assertions’ or representations. (The Institute of Chartered Accountants of Pakistan, 2015)

Assertions relative to the balance sheet are:

- existence: *‘assets, liabilities and equity interests exist’*. (IAASB, 2020a)
- rights and obligations: *‘the entity holds or controls the rights to assets, and liabilities are the obligations of the entity’*. (IAASB, 2020a)
- completeness: *‘all assets, liabilities and equity interests that should have been recorded have been recorded, and all related disclosures that should have been included in the financial statements have been included’*. (IAASB, 2020a)
- accuracy, valuation and allocation: *‘assets, liabilities and equity interests have been included in the financial statements at appropriate amounts and any resulting valuation or allocation adjustments have been appropriately recorded, and related disclosures have been appropriately measured and described’*. (IAASB, 2020a)
- classification: *‘assets, liabilities and equity interests have been recorded in the proper accounts’*. (IAASB, 2020a)
- presentation: *‘assets, liabilities and equity interests are appropriately aggregated or disaggregated and clearly described, and related disclosures are relevant and understandable in the context of the requirements of the applicable financial reporting framework’*. (IAASB, 2020a)

Assertions regarding the Profit and Loss Statement are:

- occurrence: *‘transactions and events that have been recorded or disclosed have occurred, and such transactions and events pertain to the entity’*. (IAASB, 2020a)
- completeness: *‘all transactions and events that should have been recorded have been recorded, and all related disclosures that should have been included in the financial statements have been included’*. (IAASB, 2020a)
- accuracy: *‘amounts and other data relating to recorded transactions and events have been recorded appropriately, and related disclosures have been appropriately measured and described’*. (IAASB, 2020a)
- cutoff: *‘transactions and events have been recorded in the correct accounting period’*. (IAASB, 2020a)

- classification: *'transactions and events have been recorded in the proper accounts'* (IAASB, 2020a)
- presentation: *'transactions and events are appropriately aggregated or disaggregated and clearly described, and related disclosures are relevant and understandable in the context of the requirements of the applicable financial reporting framework'*. (IAASB, 2020a)

Based on the knowledge acquired of the entity and its environment, the auditor will assess the risks associated with the entity and its assertions. All the risks that the auditor may identify will not necessarily translate into a risk of material misstatement of the financial statements.

The risk of a material misstatement is often referred to as audit risk (Hayes & Schilder, 2005). As defined by the IAASB; *"the audit risk is the risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated"* (IAASB, 2008).

To provide reasonable assurance, the auditor will reduce the audit risk to a sufficiently low and acceptable level to enable them to formulate their opinion. As explained previously, reasonable assurance is not absolute. In addition to the elements explained in the first section, this can also be understood by the fact that the auditor cannot reduce the audit risk to zero.

Audit risk is a function of the risks of material misstatement and detection risk (IAASB, 2008).

We can measure it with the following formula:

Audit risk = inherent risk * control risk * detection risk

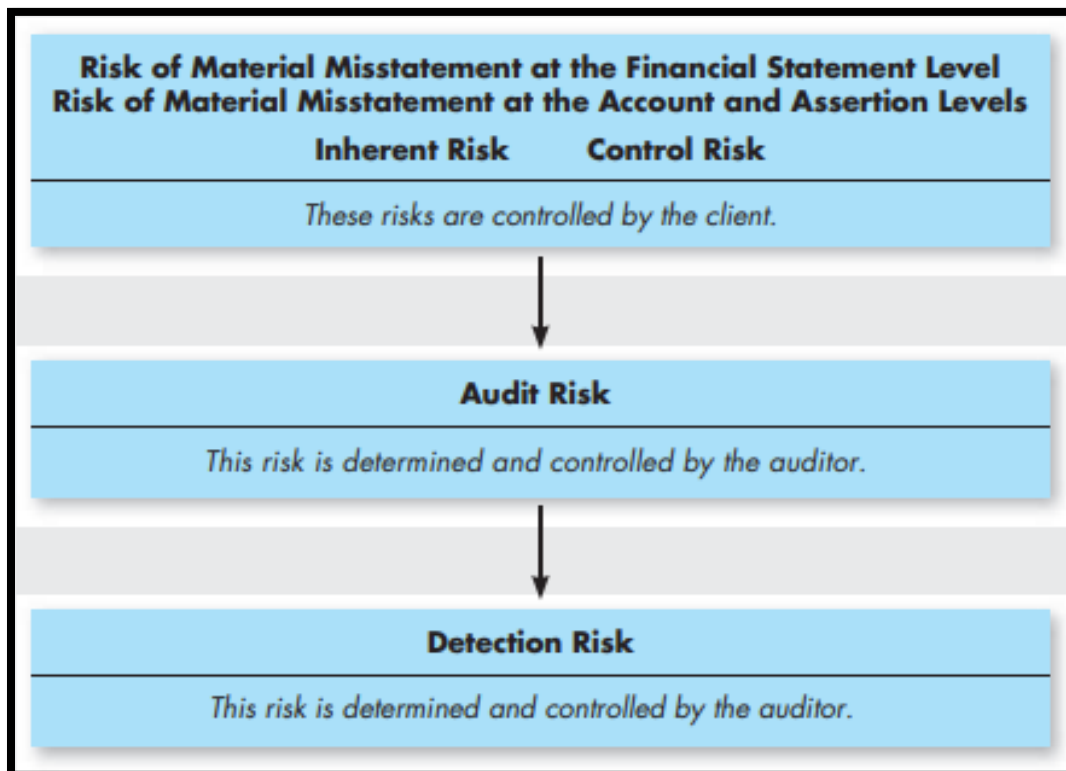


Figure 4: the audit risk

Source: Johnstone, K. M., Gramling, A. A., & Rittenberg, L. E. (2013). *Auditing : A Risk-Based Approach to Conducting a Quality Audit*. <https://ci.nii.ac.jp/ncid/BB14275722>

Risk of material misstatement

The risk of material misstatement is a function of inherent risk and control risk.
As defined in Auditing – a risk based approach to conducting a quality audit.

Inherent risk is “*The susceptibility of an assertion about a class of transaction, account balance, or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls*”
(Johnstone et al., 2013)

Control risk is “*The risk that a misstatement that could occur in an assertion about a class of transaction, account balance, or disclosure and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity’s internal control*” (Johnstone et al., 2013)

The auditor will adjust the level of acceptable audit risk according to the risk of material misstatement: a higher risk of material misstatement leads to a lower acceptable audit risk. In practice, if the auditor accepts a level of 5% for example, this means that the auditor accepts that there is a 95% probability that the accounts do not contain a material error.

Detection risk

Detection risk is “*The risk that the procedures performed by the auditor to reduce audit risk to an acceptably low level will not detect a misstatement that exists and that could be material, either individually or when aggregated with other misstatements*” (Johnstone et al., 2013)

The auditor has control over the detection risk, which determines the amount of audit effort required for performing the audit. A higher risk of material misstatement requires a reduction in detection risk in order to maintain overall audit risk at a tolerable level. To reduce the detection risk, the auditor adjusts the type, timing and extent of audit procedures.

The graph below illustrates the relationship between the components of audit risk:

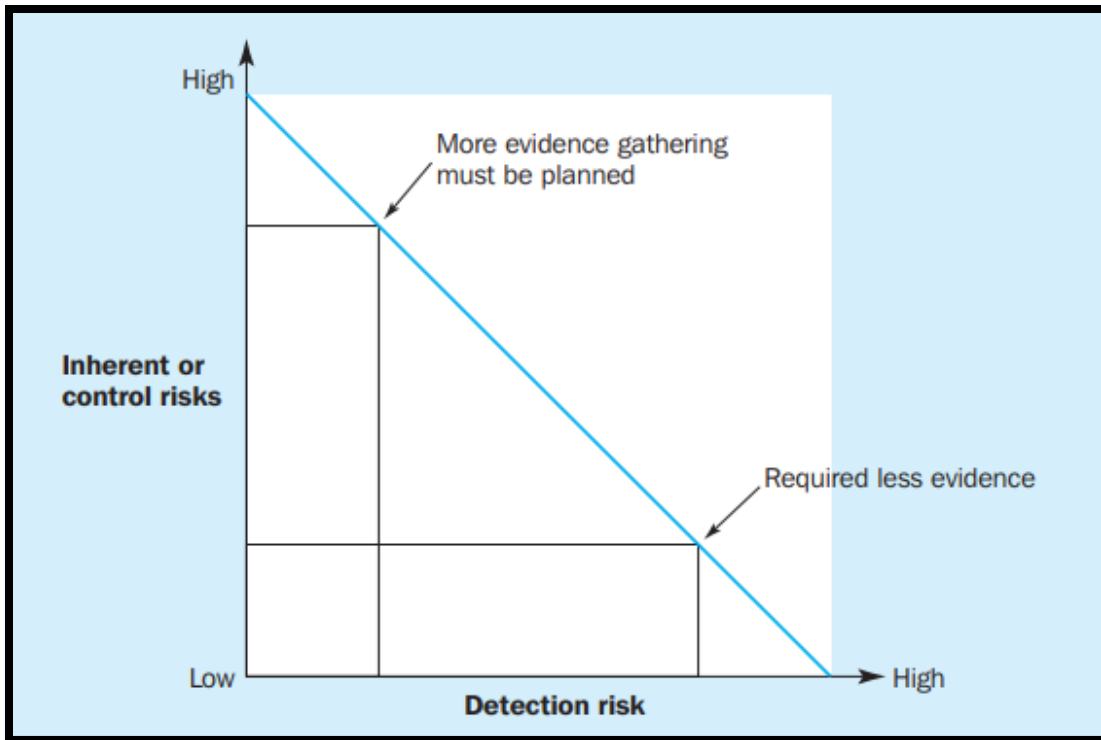


Figure 5 : Relationship between inherent, control and detection risk

Source: Hayes, R. S., & Schilder, A. (2005). *Principles of Auditing : An Introduction to International Standards on Auditing*. Financial Times/Prentice Hall.

2.3.2.3 determining materiality

We have used the term material misstatement several times. However, what is the difference between a misstatement and a material misstatement? Answering this question is a key element for the auditor.

As defined in IAS 1 – Presentation of financial statements – “*Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity*”.
(IFRS Foundation, s. d.)

The auditor will therefore set an amount above which an error will be considered material, i.e. it is to be expected that this error could have an impact on the decision taken by users of the financial statements.

Auditing firms generally provide guidance on determining materiality and the criteria for establishing it. A basic rule for setting materiality for the financial statements as a whole is to apply 1% of total assets or sales; 5% of net profit may also be used. The auditor will first follow the guideline and adjust as necessary for the client concerned (Hayes & Schilder, 2005).

In addition to the materiality level, the auditor must also determine performance materiality, as required by ISA 320. Indeed, the auditor cannot overlook the fact that several accumulated errors can reach the materiality threshold. The purpose of performance materiality is to reduce “the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole.” (IAASB, 2009c).

The level of performance materiality may take on a value of between 50% and 85% of the materiality level set for the financial statements as a whole (KPMG, 2022).

Finally, the auditor will set an adjusting difference level as from which an error is taken to the summary of unadjusted audit differences (for example 5% of the overall materiality)

The auditor should consider materiality and its relationship with audit risk when conducting an audit.



Figure 6 : Inverse relationship between materiality and audit risk

Source: Hayes, R. S., & Schilder, A. (2005). *Principles of Auditing : An Introduction to International Standards on Auditing*. Financial Times/Prentice Hall.

2.3.2.4 audit program in response to risks identified

The outcome of the planning stage is the development of the audit program.

The auditor develops and documents an audit strategy that describes the audit procedures to be used. These procedures are designed to reduce audit risk to an acceptable level. The strategy should specify the nature, timing and extent of the planned procedures (Hayes & Schilder, 2005).

2.3.3 Testing & Evidence

As previously mentioned, during the planning phase, the auditor will assess risk of material misstatement at both the financial statement and assertions level. ISA 330 deals with responses to assessed risks.

As explained in ISA 330 – The auditor’s responses to assessed risks, *‘the objective of the auditor is to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement, through designing and implementing appropriate responses to those risks’*. (IAASB, 2009d)

Based on the risk assessment performed, both at the level of the financial statements and at the level of the assertions, the auditor will develop responses to address the risk of material misstatement.

At financial statement level, responses will be broad and may include:

- emphasising the importance of maintaining an attitude of professional scepticism
- allocate a team of more experienced members
- calling on the services of experts

(The Institute of Chartered Accountants of Pakistan, 2015)

At the level of assertions, responses will take the form of audit procedures, which may take the form of:

- tests of controls and/or
- substantive procedures.

(The Institute of Chartered Accountants of Pakistan, 2015)

2.3.3.1 Test of controls

The auditor should design and perform tests of controls to obtain sufficient appropriate audit evidence regarding the operating effectiveness of controls.

If the auditor considers that internal control is weak and that he cannot rely on it, then he will rely more on substantive procedures. On the other hand, if they consider internal control to be robust, they will need fewer substantive procedures.

2.3.3.2 Substantive procedures

The amount of substantive testing will depend on the outcome of the tests of controls. Substantive procedures are designed to generate evidence about the financial statement assertions (The Institute of Chartered Accountants of Pakistan, 2015).

These substantive procedures include

- tests of details

When performing tests of controls and substantive tests of details, the auditor should determine a sample on which to work to obtain evidence (Johnstone et al., 2013).

Evidence can be gathered by

- selection of all items: this method is suitable when the population consists of a small number of high-value transactions
- selecting specific items: this method is more suitable for transactions involving large amounts or key items
- selecting a representative sample of items in the population: the advantage of statistical sampling is that the test results can be extrapolated mathematically.

To obtain audit evidence via the substantive procedures, the auditor will perform:

- inspection : obtain evidence about an item by going to look at it
- observation : watching a procedure and seeing how it is carried out
- inquiry : asking questions
- confirmation from a party outside the entity, for example a bank
- re-calculation : check of the arithmetical accuracy of documents or records
- reperformance : re-performs a check or control originally carried out by the client
- Analytical procedures

(The Institute of Chartered Accountants of Pakistan, 2015)

- analytical procedures

Analytical procedures are based on predictable relationships between financial and non-financial data. They apply primarily to large volumes of transactions that tend to be predictable over time.

For example, in the context of an audit of a hotel, the auditor could make an estimate of revenue using the number of rooms in the hotel, the average occupancy rate of the rooms and link the information to the hotel's revenue. If the auditor finds that his estimate is very different from the actual figures, he will select a larger number of test of details (Johnstone et al., 2013).

2.3.3.3 Evidence

The auditor gathers and examines evidence relating to transactions and economic events. ISA 500 deals with audit evidence. The auditor's objective in obtaining audit evidence is to obtain sufficient and appropriate audit evidence to form an audit opinion.

- sufficient relates to the quantity of evidence
- appropriate relates to the quality of the evidence (Nys, 2023).

Audit evidence is more reliable when it is obtained from an external source independent of the entity. It will also be more reliable if it is gathered by the auditor than if it is gathered indirectly or by deduction. Finally, audit evidence is more reliable when it exists in tangible form, either on paper or in electronic form (Nys, 2023).

2.3.4 Evaluation & Reporting

2.3.4.1 Evaluation

The auditor should summarise the misstatements identified during the audit, except those below the adjusting difference level. Misstatements can be of three types:

- factual: there are no doubts
- related to management judgement which the auditor considers to be unreasonable or inappropriate
- extrapolated: those that correspond to the auditor's best estimate of the misstatements contained in the populations, which is based on the extrapolation of the misstatements identified in the selected samples.

(Nys, 2023).

The auditor should communicate in a timely way to

- management all misstatements identified during the audit and request management to correct them; and
- those charged with governance of the entity of uncorrected misstatements and the effect that such misstatements individually or in the aggregate may have on the audit opinion expressed in the auditor's report.

(Nys, 2023).

2.3.4.2 Final procedures prior to audit report

Assessing the going concern accounting principle (ISA 570). We will develop this point in more detail in the next section.

Considering subsequent events (ISA 560): the auditor should perform audit procedures to obtain sufficient appropriate audit evidence to determine whether all events occurring between the date of the financial statements and the date of the audit report that require adjustment to, or disclosure in, the financial statements have been identified.

Performing an overall analytical review at the financial statement level to ensure that all variations are consistent with the evidence gathered in the audit file.

On top of that, the auditor should obtain a written representation from management (a representation letter) concerning the completeness of information provided. If there is doubt as to the reliability of written representations or if requested written representations are not provided, it may lead to more work, a scope limitation, and possibly qualification or disclaimer in the auditor's report.

2.3.4.3 Opinion and audit report

The auditor gives an account of his assignment in a report in which he expresses and justifies his opinion on the true and fair view that the financial statements give of the entity's situation and includes the additional information required by the "Code des Sociétés et des Associations". We will develop the audit report in more detail in the next section.

The auditor can give 4 different types of opinion:

- unqualified opinion
- qualified opinion
- adverse opinion
- disclaimer of opinion

We will develop their meaning in the next section.

The following diagram provide a summary of the audit approach:

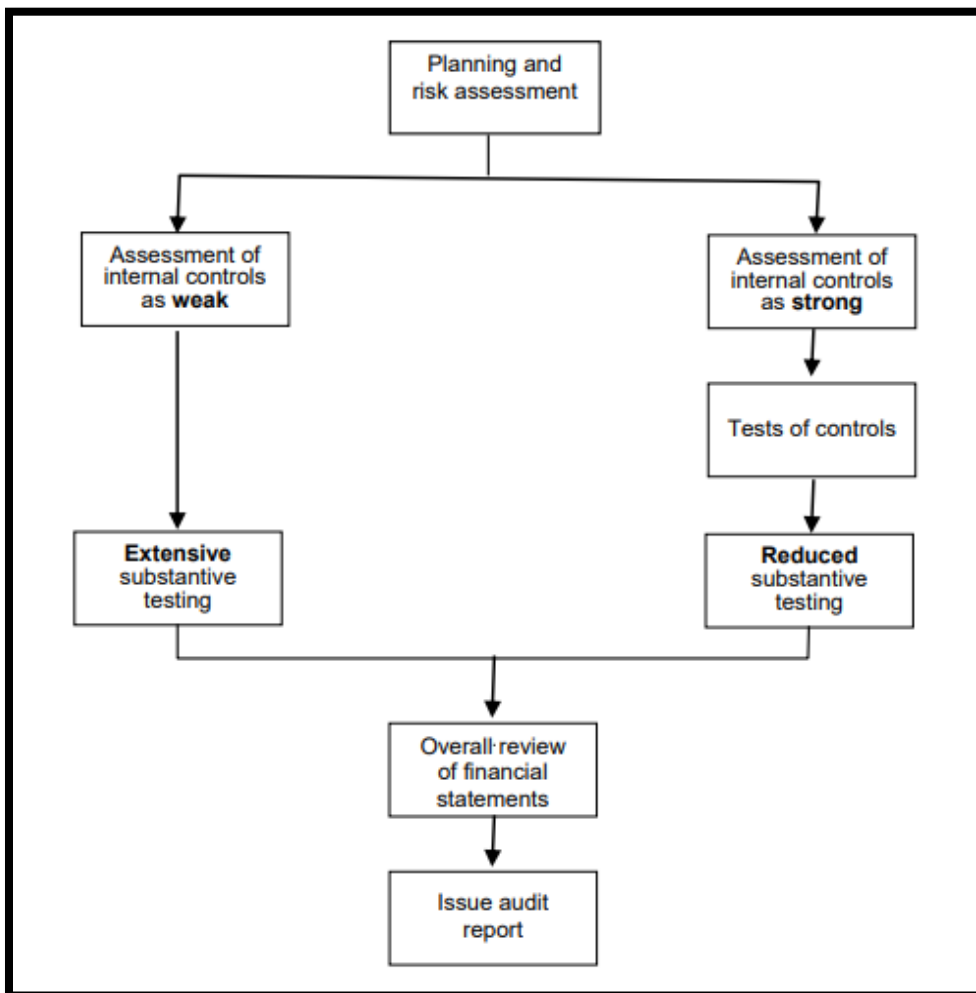
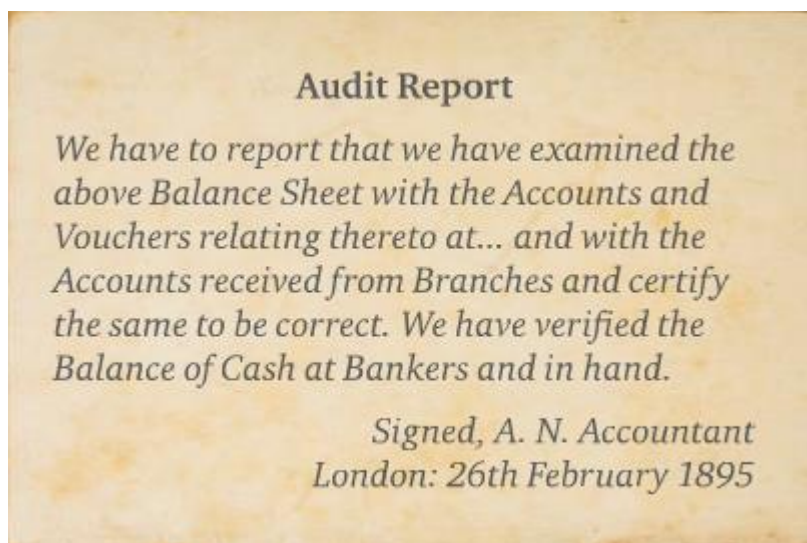


Figure 7 : summary of the audit approach

Source: The Institute of Chartered Accountants of Pakistan. (2015). Audit and assurance (2^e éd.). Emile Woolf International.

2.4 Audit report



The audit report is the final result of the audit process - it is the document in which the auditor expresses an opinion on the true and fair presentation of a company's financial statements. (The Institute of Chartered Accountants of Pakistan, 2015).

This illustration is a reproduction of what an audit report was looking like in the 1800s, just the opinion and very brief commentary, often less than 50 words (PwC, 2015b).

There have been many changes to the audit report. Fortunately, stakeholders will tell you. Following the financial crisis of 2008, the informative value of the financial statements and the auditor's report has been questioned (ICCI, 2022). Given its key role of communication with the users of financial statements, the IAASB has initiated a series of reforms aimed at increasing the communication value of the auditor's report and the transparency of the work performed by the auditor (ICCI, 2022).

At European level, the European Parliament has launched Regulation 537/2014 on specific requirements for the audit of public interest entities and Directive 2014/56/EU with the same objective of enhancing external communication on the role of the audit and increasing the informative value of the audit report (ICCI, 2022).

In Belgium, the content of the audit report is regulated by national legislation and international auditing standards. At national level, articles 3:75 and 3:80 of the "Companies and Associations Code" cover the elements that must be included in the audit report. With regard to auditing standards, the auditor will comply with ISA 700, ISA 701, ISA 705 and ISA 706 (ICCI, 2022).

2.4.1 Overview of the new requirements

2.4.1 Key audit matters

In January 2015, the IAASB published the new ISA 701 - Communicating key audit matters in the independent auditor's report (ICCI, 2022).

The auditor now has to communicate key audit matters (KAMs) - those are matters that in the auditor's judgement were of most significance in the audit of the current period financial statements (Deloitte, 2017).

2.4.2 Going concern

Enhancement of the auditor reporting on going concern including:

- specific descriptions of the responsibilities of management and the auditor for going concern
- when a material uncertainty exists and is adequately disclosed in the financial statements, a separate section is included in the auditor's report (previously this was included as an emphasis of matter paragraph) (Deloitte, 2017).

2.4.3 Other information

The audit committee and management shall determine documents that will be within the scope of 'other information' as defined by the ISA and therefore within the scope of the auditor's responsibilities. ISA 720 applies to other information included in an annual report (ICCI, 2022).

The auditor's report will contain a 'other information' part that:

- explains management responsibility for the other information
- explains the auditor's responsibilities and the work in relation to other information
- contains a statement on whether there is something to report in regards to the other information or not & contains a statement describing any uncorrected material misstatements (Deloitte, 2017).

Responsibilities of the auditor, the management and those charged with governance :
enhancement of the description of responsibilities of the auditor and key features of an audit.
Improved descriptions of the responsibilities of the management and those charged with governance particularly relating to going concern (ICCI, 2022).

2.4.2 Structure of the audit report

2.4.2.1 Opinion section & Basis of opinion

ISA 700 deals with the auditor's responsibility to form an opinion on the financial statements and the form and content of the auditor's report issued following an audit of financial statements. (ICCI, 2022).

The auditor will give either an unmodified or a modified opinion.

Unmodified opinion (= unqualified)

As described in ISA 700 - An unmodified opinion is “*the opinion expressed by the auditor when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework*”. (IAASB, 2015).

An unmodified or unqualified opinion gives a high level of assurance that the examination has not revealed any material misstatement in the financial statements.

Modified opinion

The auditor express a modified opinion on the financial statements when (ICCI, 2022) :

- the auditor concludes that the financial statements as a whole are not free from material misstatement or
- the auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement

ISA 705 established three types of modified opinions:

- a qualified opinion : when the auditor concludes that misstatements, individually or in the aggregate are material but not pervasive or when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive (IAASB, 2016)
- an adverse opinion : when the auditor concludes that misstatements, individually or in the aggregate are both material and pervasive to the financial statements (IAASB, 2016)
- a disclaimer of opinion : when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion and concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive (IAASB, 2016).

2.4.2.2 Emphasis of matter

As defined in ISA 706, an emphasis of matter paragraph is “*A paragraph included in the auditor’s report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor’s judgment, is of such importance that it is fundamental to users’ understanding of the financial statements*”. (IAASB, 2015b)

If the auditor considers an item to be fundamental and it has been adequately described in the notes to the financial statements, the auditor may include it in an emphasis of matter paragraph without changing or weakening the audit opinion (ICCI, 2022).

2.4.2.3 Material uncertainty related to going concern

As required by ISA 570, if the auditor concludes that there is a going concern uncertainty, the auditor should include a separate section in the report on the financial statements referring to that uncertainty. If the auditor decides to include such a section, the auditor should be able to refer to information from the governing body that describes the significant going concern uncertainty transparently. This is discussed in more detail in the next section (ICCI, 2022).

2.4.2.4 Key audit matters (for PIE)

As explained above, the auditor must now communicate the key audit matters. As defined by ISA 701, key audit matters are “Those matters that, in the auditor’s professional judgment, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance.” (IAASB, 2015c)

2.4.2.5 Other information

ISA 706 also provides the auditor with the option of inserting a paragraph in which he or she desires to report on matters other than those presented or described in the financial statements that are, in the auditor's judgment, relevant to the users' understanding of the audit work. The auditor will use this paragraph in particular when the previous financial year has not been audited or when the previous financial year has been audited by another auditor (ICCI, 2022).

2.4.2.6 Responsibilities of management and those charged with governance for the financial statements

This section sets out the responsibilities of the board of directors and the auditor responsible for auditing the financial statements. The governing body corresponds to the board of directors of a public limited company, whereas the management corresponds to all of the managers of the entity (ICCI, 2022).

2.4.2.7 Other legal and regulatory requirements

This part includes different sections composed of:

- a section on the responsibilities of the board of directors
 - a section on the responsibilities of the statutory auditor
 - a "management report aspects" section
 - a section on "information relating to the social balance sheet
 - a section "information relating to independence"; and
 - a paragraph relating to other points
- (ICCI, 2022).

2.4.2.8 Name of the partner in charge of the audit

Auditor’s reports for non-PIES will have the same structure but they will not include key audit matters (Deloitte, 2017).

2.5 The concept of going concern

We saw in the analysis of the audit process that the auditor had to assess the organisation's ability to continue as a going concern. In the previous section, we also saw that part of the audit report is devoted to this. But what does going concern actually consist of and what should the auditor do about it? These questions are addressed in sections 2.5 and 2.6, where we analyse the concept of going concern in detail.

2.5.1 Definition & Regulation

In preparing their financial statements, companies operate on a going concern basis. In other words, the company is presumed to continue its activities in the future without any intention or need to liquidate or significantly reduce its operations. This assessment is based on several factors, including the company's financial situation and external factors that are likely to affect it. This assessment is essential since it affects the valuation of assets and liabilities. (Commission des normes comptables, 2018).

Going concern is regulated from both the accounting point of view and the audit of financial statements (Hategan & Imbrescu, 2021).

2.5.1.1 Belgian GAAP

Belgian accounting rules require the board of directors to assess the going concern assumption annually when preparing the financial statements. There is no time limit for the assessment of the going concern assumption. However, it is reasonably accepted that this assessment should be made over a period of at least twelve months from the financial year-end (ICCI, 2020).

If the board of directors considers that the company is a going concern, the annual accounts are prepared in accordance with the normal valuation rules, and assets and liabilities are valued without forecasting liquidation or cessation.

On the contrary, if the board of directors decides not to continue the company's activities or if circumstances indicate that going concern is not justified, the valuation rules must be adapted. This involves

- full amortisation of business creation costs
- write-downs on fixed assets and current assets
- provisions for cessation costs

(Commission des normes comptables, 2018)

2.5.1.2 Code of companies and associations

The assessment of going concern is also regulated by the Code of Companies and Associations. If a company reports a loss on the balance sheet, or if the profit and loss account shows a loss for the financial year for two successive financial years, the entity must justify the application of the going concern principle in the annual report.

There is also a warning procedure regarding net assets.

Net assets is calculated by deducting provisions, debts and unamortised establishment and expansion costs as well as research and development costs from total assets. There are certain exceptional cases in which depreciation amounts may not be included in the calculation, but the CNC specifies that such cases are rarely encountered and that, consequently, amounts not yet depreciated will be taken into account almost automatically when calculating net assets (Gatellier, 2022).

For a company with share capital, if the net assets are reduced to less than half the share capital:

- the board of directors must propose to the General Meeting that the company be dissolved or that a special report be made to shareholders justifying the measures proposed to ensure that the company can continue as a going concern
- the board of directors must call a general meeting within two months of the date on which the loss was (or should have been under legal or statutory provisions) incurred in order to decide whether to dissolve the company or to take measures to ensure the company's continuity (Gatellier, 2022).

In the case of a company without share capital, it is necessary to ensure that the net assets have not turned negative or are not in danger of doing so. The same formalities apply as for companies with share capital, with the difference that the same diligence will be required if the board of directors finds that it is no longer certain that the company, in accordance with developments that can reasonably be expected, will be able to pay its debts as they come due for at least the next twelve months. The major difference for these companies is therefore that it is more a matter for the board of directors to anticipate the company's future results as far as possible (Gatellier, 2022).

However, the assessment of going concern is made independently of the net asset value, even in the case of positive net assets. However, if it becomes clear that there is no clear path after the warning procedure, then the going concern assessment will need to be adapted.

2.5.1.3 IAS 1

On the international stage, IAS 1, "Presentation of Financial Statements" states that In preparing financial statements, management must make an assessment of the entity's ability to continue as a going concern, meaning the entity is expected to continue operations for the foreseeable future. This evaluation is conducted over a minimum period of 12 months from the closing of the financial statements.

2.5.2 Responsibilities of the auditor per ISA 570

- Audit evidence gathering : the auditor has to obtain sufficient and appropriate audit evidence regarding the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements (IAASB, 2015b).
- Evaluation of material uncertainty : based on the audit evidence obtained, conclude whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (IAASB, 2015b).
- Assessment of management's use of the going concern basis : conclude on the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements (IAASB, 2015b).
- Report in accordance with ISA 570 (IAASB, 2015b).

2.5.3 What is required per ISA 570

2.5.3.1 Risk assessment procedures and related activities

- Consider events or condition that may cast significant doubt on the entity ability to continue as a going concern : When performing risk assessment procedures as required by ISA 315, the auditor must consider if there are any events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (IAASB, 2015b).
- Determination of management's preliminary assessment : the auditor must determine whether management has performed a preliminary assessment of the entity's ability to continue as a going concern
 - if an assessment exists : the auditor should engage in discussion with management about their assessment - determine if management has identified any events or conditions that may individually or collectively cast significant doubt on the entity's ability to continue as a going concern - review management's plans to address elements identified
 - if no assessment has been made : discuss with management their basis for using the going concern basis of accounting - inquire if there are any events or conditions that may individually or collectively cast significant doubt on the entity's ability to continue as a going concern (IAASB, 2015b).
- Stay aware during the audit : the auditor must stay aware for any evidence of events or conditions that arise during the audit process which may cast significant doubt on the entity's ability to continue as a going concern (IAASB, 2015b).

2.5.3.2 Evaluating management's assessment

- Evaluate management's assessment : the auditor must scrutinize the process by which management assessed the entity's ability to continue as a going concern. This involves looking at the assumptions and information management used to support their conclusion (IAASB, 2015b).
- Assessment period : The auditor should ensure that the period covered by management's assessment is at least equal to that required by the applicable financial reporting framework, or by law or regulation if it specifies a longer period. If management's assessment covers less than twelve months from the date of the financial statements, as outlined in ISA 560, the auditor should request that management extend their assessment to cover a minimum period of twelve months from that date (IAASB, 2015b).
- Inclusion of relevant information : the auditor considers whether management's assessment includes all relevant information that the auditor is aware of as a result of the audit (IAASB, 2015b).

2.5.3.3 The period beyond management's assessment

- Inquiry of management : the auditor must inquire management about their knowledge of any events or conditions that could arise beyond the period covered by their going concern assessment, which may cast significant doubt on the entity's ability to continue as a going concern (IAASB, 2015b).

2.5.3.4 Additional audit procedures when events or conditions are identified

When events or conditions that may cast significant doubt on the entity's ability to continue as a going concern have been identified, ISA 570 requires the auditor to perform additional audit procedures to determine whether a material uncertainty exists. These procedures are:

- Requesting management's assessment : if management has not already assessed the entity's ability to continue as a going concern, the auditor shall request that such an assessment be made (IAASB, 2015b).
- Evaluating management's plans: the auditor should evaluate management's plans and assess whether the outcome of these plans is likely to improve the entity's situation - the auditor should consider the feasibility of management's plans in the context of the circumstances (IAASB, 2015b).
- Analysing cash flow forecasts: if the entity has prepared a cash flow forecast, and the forecast is significant to the evaluation of management's plans, the auditor must evaluate the reliability of the data used to prepare the forecast. Moreover, the auditor needs to determine if there is adequate support for the assumptions underlying the forecast (IAASB, 2015b).
- Review subsequent events or information : the auditor should consider any additional facts or information that have become available since the date management made its assessment (IAASB, 2015b).
- Obtain written representation : the auditor should request written representation from management, and where appropriate those charged with governance. These representations should be regarding their plans for future actions and the feasibility of these plans (IAASB, 2015b).

2.5.3.5 Form a conclusion

- Evaluate audit evidence : determine if sufficient appropriate audit evidence has been obtained regarding the appropriateness of management’s use of the going concern basis of accounting (IAASB, 2015b).
- Conclude on going concern basis : conclude on the appropriateness of the going concern basis of accounting used in the preparation of the financial statements (IAASB, 2015b).
- Judge the presence of material uncertainty : based on the audit evidence obtained, the auditor must make a judgment on whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern (IAASB, 2015b).

- Evaluate disclosure adequacy when material uncertainty exists : if a material uncertainty is identified, and management’s use of the going concern basis is deemed appropriate, the auditor must determine if:
 - the financial statements adequately disclose the principal events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern
 - the financial statements clearly state that there is a material uncertainty which may cast significant doubt on the entity’s ability to continue as a going concern and that the entity may be unable to realize its assets and settle its liabilities in the normal course of business (IAASB, 2015b).

- Evaluate disclosure adequacy when no material uncertainty exists: if events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern have been identified, but not material uncertainty is concluded based on the audit evidence, the auditor must evaluate whether the financial statements provide adequate disclosure about these events or conditions (IAASB, 2015b).

2.5.4 Implications for the audit report

The auditor’s report is directly affected by the going concern assessment

- Inappropriate use of going concern basis : if the auditor judges that the use of the going concern basis of accounting in the financial statements is inappropriate, an adverse opinion must be expressed in the auditor’s report (IAASB, 2015b).
- Appropriate use of going concern basis but a material uncertainty exists
 - adequate disclosure made : the auditor’s report should include a separate section titled “Material Uncertainty Related to Going Concern”. This section should draw attention to the note in the financial statements that discloses the issues & state that a material uncertainty exists that may cast significant doubt on the entity’s ability to continue as a going concern, and affirm that the auditor’s opinion is not modified regarding this matter
 - adequate disclosure not made : the auditor shall express a qualified opinion or an adverse opinion, depending on the situation, as we saw with ISA 705. In the “Basis for Qualified (Adverse) Opinion” section, it should be stated that there is a material uncertainty that may cast significant doubt on the entity’s ability to continue as a going concern & the financial statements do not adequately disclose this matter (IAASB, 2015b).
- Management unwilling to make or extend its assessment : if management does not make or extend its going concern assessment when asked by the auditor, the auditor must consider the implications for the auditor’s report (IAASB, 2015b).

The diagram hereafter summarises the implications of the going concern assessment for the auditor's report:

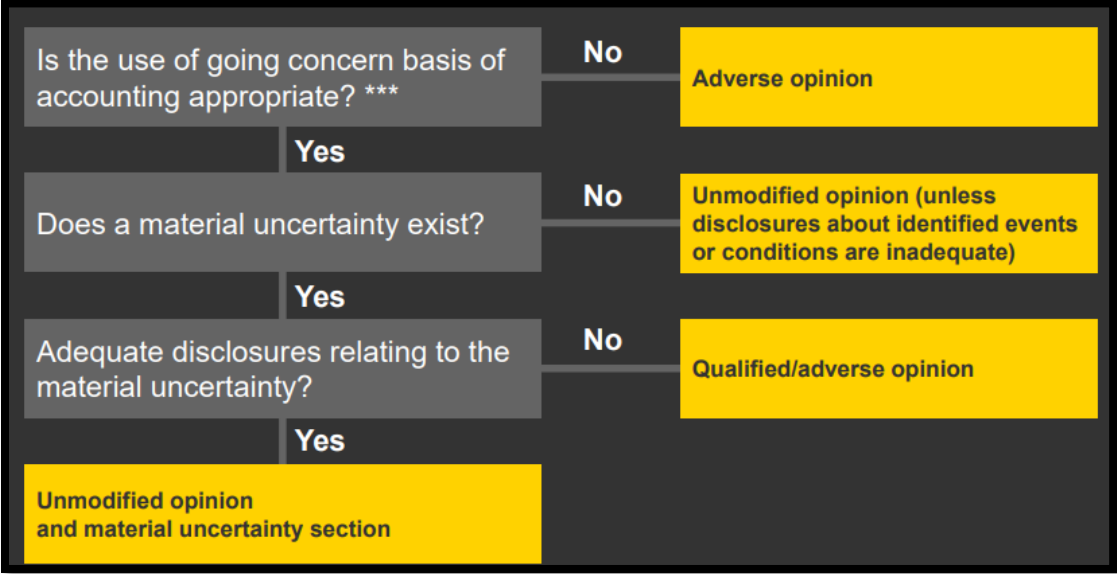


Figure 8 : Implications of going concern for auditor’s report
 Source: Van Hoof, E. (2023, novembre). *The new auditor’s report* [Diapositives ; Slide].

2.5.4.1 Illustration of an unmodified opinion : the auditor has concluded that a material uncertainty exists and disclosure in the financial statements is adequate.

Material Uncertainty Related to Going Concern

We draw attention to Note XXX in the financial statements, which indicates that the Company incurred a net loss of ZZZ during the year ended December 31, 20X1 and, as of that date, the Company’s current liabilities exceeded its total assets by YYY. As stated in Note 6, these events or conditions, along with other matters as set forth in Note 6, indicate that a material uncertainty exists that may cast significant doubt on the Company’s ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Source: IAASB. (2015b). *INTERNATIONAL STANDARD ON AUDITING (ISA) 570 (REVISED), GOING CONCERN*. <https://www.iaasb.org/publications/international-standard-auditing-isa-570-revised-going-concern-3>

2.5.4.2 Illustration of qualified opinion : the auditor has concluded that a material uncertainty exists and the financial statements are materially misstated due to inadequate disclosure.

Basis for Qualified Opinion

As discussed in Note yy, the Company's financing arrangements expire and amounts outstanding are payable on March 19, 20X2. The Company has been unable to conclude re-negotiations or obtain replacement financing. This situation indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. The financial statements do not adequately disclose this matter.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in [jurisdiction], and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Source: IAASB. (2015b). *INTERNATIONAL STANDARD ON AUDITING (ISA) 570 (REVISED), GOING CONCERN*. <https://www.iaasb.org/publications/international-standard-auditing-isa-570-revised-going-concern-3>

2.5.4.3 Illustration of an adverse opinion : the auditor has concluded that a material uncertainty exists and the financial statements omit the required disclosures relating to a material uncertainty.

Basis for Adverse Opinion

The Company's financing arrangements expired and the amount outstanding was payable on December 31, 20X1. The Company has been unable to conclude re-negotiations or obtain replacement financing and is considering filing for bankruptcy. This situation indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. The financial statements do not adequately disclose this fact.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in [jurisdiction], and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

Source: IAASB. (2015b). *INTERNATIONAL STANDARD ON AUDITING (ISA) 570 (REVISED), GOING CONCERN*. <https://www.iaasb.org/publications/international-standard-auditing-isa-570-revised-going-concern-3>

2.6 Identification of a significant doubt

As defined in the previous section, a company is a going concern when it is presumed to continue its activities in the future without any intention or need to liquidate or significantly reduce its operations (Commission des normes comptables, 2018).

As set out in ISA 570 (IAASB, 2015b), the auditor is responsible for

- obtaining sufficient and appropriate audit evidence regarding the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements and
- conclude whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

The auditor must therefore analyse the factors that may indicate a going concern problem and determine whether management has a viable plan for dealing with the problem.

(Johnstone et al., 2013). In this section, we will make a theoretical analysis of the factors that may indicate a going concern problem and the models that may enable the auditor to assess management's plans.

2.6.1 Financial indicators

Analytical procedures may indicate risk that the going concern assumption should be questioned. General analytical procedures are trend analysis, ratio analysis, statistical and data mining analysis, and reasonableness tests. The auditor will determine on the basis of professional judgement which analytical procedure is most appropriate, but the use of comparison and ratio analysis is generally more commonly used than complex statistical approaches (Hayes & Schilder, 2005).

ISA 570 sets out several financial indicators that may cast doubt on a company's ability to continue as a going concern.

As explained by Corporate Finance Institute : *“Financial ratios are quantitative measures used to assess businesses. Ratio analysis is a great way to quantify how efficient a company's operations are and how profitable the business is set up to be; solvency ratios for example can be used to analyse how well a company will be able to meet their financial obligations.”* (Corporate Finance Institute, 2023).

2.6.1.1 Liquidity ratios

□ The current ratio

= current assets / current liabilities

Also known as the working capital ratio, it measures a company's ability to meet its short-term obligations, i.e. those that are due in less than one year.

A ratio of less than 1 is a bad sign for a company (Corporate Finance Institute, 2023).

Quick ratio

= (cash + marketable securities + accounts receivable) / current liabilities

It also measures the company's ability to pay its short-term debts, but this time with assets that are rapidly convertible into cash, which is why we use the term 'quick' and do not include inventories, for example. Once again, if the ratio is less than 1, this is a bad sign for the company (Corporate Finance Institute, 2023).

2.6.1.2 Solvency ratios

Debt-to-equity ratio

= (ST debt + LT debt + Other fixed payments) / shareholder's equity

This ratio measures the structure of a company's capital, depending on whether it is financed mainly by debt or equity. The higher the ratio, the more debt the company uses to finance itself. Its interpretation will vary from one sector to another, but too much debt financing can constitute a risk, particularly in terms of interest expenses (Corporate Finance Institute, 2023).

Interest coverage ratio

= Earnings before interest and taxes / interest expense

It measures the company's ability to pay interest on its debts. Once again, it should be interpreted on an industry basis. However, if the ratio is less than 1.5, the company's ability to pay interest is questionable (Hayes, 2024)

2.6.1.3 Profitability ratios

Gross margin ratio

= Gross profit / total revenue

It measures the percentage of profit a company generates on 1€ of revenue. Comparison with other companies in the sector is necessary, but overall, a ratio that is too low is a bad sign (Corporate Finance Institute, 2023).

Return on equity (ROE)

= Net income / Shareholder's equity

This is a key ratio for investors, as it determines the attractiveness of an investment. A high ROE means that the company is effectively converting its capital into profit. By comparing it with the industry average, we can determine whether the company has or lacks a competitive advantage (Corporate Finance Institute, 2023).

2.6.1.4 Activity ratios

Accounts receivable turnover ratio

= Net credit sales / Average accounts receivable

It measures how efficiently a company is when collecting receivables from its clients by measuring the number of times a company collects its average accounts receivable balance. (Murphy, 2024). The higher the ratio, the more quickly customers pay, while a ratio that is too low indicates that customers are not paying rapidly.

□ Accounts receivable days

= Number of days in period / Accounts receivable turnover ratio

The previous ratio allows us to calculate the accounts receivable days, which measures the average number of days it takes the company to collect credit from its customers. As with all ratios, this result must be compared with the industry to see if the company is prone to risk at this level (Corporate Finance Institute, 2023).

□ Inventory turnover ratio

= Cost of goods sold / Average inventory

It measures how many times a business sells and replaces its stock of goods in a given period of time (Corporate Finance Institute, 2023). While a high ratio might suggest good stock turnover, a low ratio would indicate a problem with sales and could point to a problem with the supply chain or marketing (Fernando, 2023).

□ Inventory turnover days

= Number of days in period / Inventory turnover ratio

As with accounts receivable, knowing the inventory turnover ratio enables us to calculate the inventory turnover days, which measures the average number of days required to sell inventory. By comparing its value with the industry average, we can identify whether the company has a weakness in this area and takes longer than its competitors to sell its stock. (Corporate Finance Institute, 2023).

The analysis of these key ratios will be meaningful only if they are compared with industry benchmarks, and also by comparing their evolution over several financial years. A negative trend in these ratios shows that the company's performance is deteriorating rather than improving (Loughran, 2010).

2.6.2 Bankruptcy prediction models

Many audit firms use bankruptcy prediction models to analyse whether their client has a going concern problem (Johnstone et al., 2013)

2.6.2.1 The Altman model

Several studies of bankruptcy cases have shown that a combination of ratios can indicate the likelihood of bankruptcy (Johnstone et al., 2013)

By weighting different financial ratios, the Altman model can be used to classify whether a company presents a potential risk of bankruptcy. The model offers two different formulas depending on whether the company is publicly owned or private.

The table below shows the formulas in detail:

Z-Score for Publicly Owned Manufacturing Companies		Z-Score for Public and Private Service and Manufacturing Companies	
Weight	Ratio	Weight	Ratio
1.2 ×	Working capital to total assets	6.56 ×	Working capital to total assets
+ 1.4 ×	Retained earnings to total assets	+ 3.26 ×	Retained earnings to total assets
+ 3.3 ×	Return on total assets	+ 6.72 ×	Earnings before interest and taxes to total assets
+ 0.99 ×	Sales to total assets		
+ 0.6 ×	Market value of equity to total debt	+ 1.05 ×	Net worth to total liabilities
<i>Interpretation of Z-Score</i>			
< 1.81	High potential for bankruptcy	< 1.1	High potential for bankruptcy
> 2.99	Little potential for bankruptcy	> 2.6	Little potential for bankruptcy

Figure 9 : Altman Z-Score models

Source : Johnstone, K. M., Gramling, A. A., & Rittenberg, L. E. (2013). *Auditing : A Risk-Based Approach to Conducting a Quality Audit*. <https://ci.nii.ac.jp/ncid/BB14275722>

- Working capital / total assets : A liquidity ratio measuring a company's ability to meet its short-term obligations. (Prayanthi, 2017)
- Retained earnings / total assets : A profitability ratio measuring the cumulative profitability. This ratio will therefore be directly affected by the age of the company, and a low ratio may be a sign of a young company. (Prayanthi, 2017)
- Earnings before interest and taxes / total assets : A productivity ratio measuring the company's ability to generate income from the assets that were used (Prayanthi, 2017)
- Net worth / total liabilities : Net worth is total assets minus total liabilities, it is an important metric to evaluate a company's health and it provides a great idea of the company's current financial position (Ganti, 2023). Dividing it by the total liabilities gives an indication of what shareholders would receive if the company were liquidated. (Hayes, 2022)

The model does not predict a guarantee of bankruptcy, but it does provide the auditor with evidence of the presence of a going concern problem (Johnstone et al., 2013).

2.6.3 Consideration of external and internal factors

2.6.3.1 External factors

There are some external events that may seem more predictable than others. For example, if the company needs a critical resource and this resource is under threat of shortage, the company should be able to predict this risk to its supply chain (Loughran, 2010). However, external events that create economic uncertainty may have a significant impact on a company's ability to continue as a going concern (Van Staaïj, 2022).

The environment in which a company operates can be evaluated at three different levels, as illustrated below:

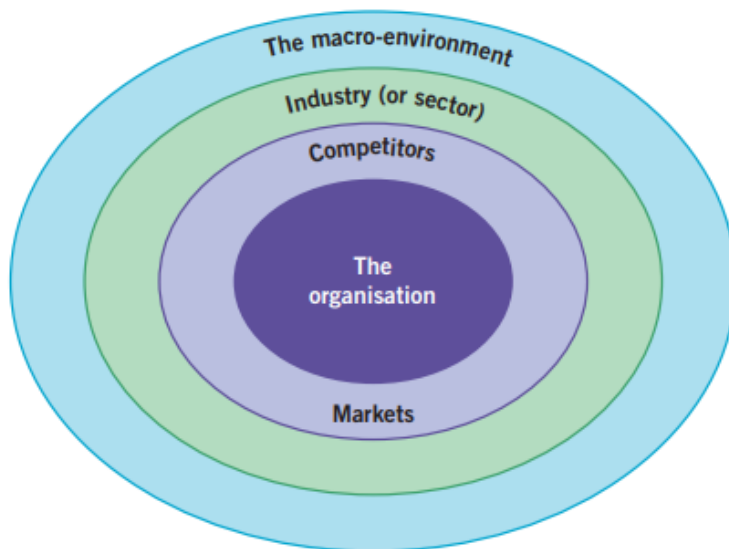


Figure 10 : the business environment

Source : Johnson, G. (2019). *Exploring Strategy, Text and Cases, 12th Edition*. Pearson UK.

The macro-environment

The macroeconomic environment covers all the factors in the environment that can have a significant or less significant impact on all the companies in a given economy (Johnson, 2019). For example, Inflation, geopolitical instability and rising interest rates are examples of factors that can create economic uncertainty for many businesses; taken individually or collectively, these factors can cast significant doubt on a company's ability to continue as a going concern (Kegalj, 2022)

PESTEL analysis is a tool for analysing a company's macroeconomic environment, taking into account six key factors: political, economic, social, technological, ecological and legal.

Politics : Depending on the sector and the country, this factor will have a more or less considerable influence on the company. The defence industry, for example, will be more influenced by the political factor than a company active in the food industry. Just as a country that regularly experiences upheaval in the run-up to elections will be more affected by this factor than one that is politically stable, even after a change of government. (Johnson, 2019).

Economics: Exchange rates, interest rates and inflation are all factors that can threaten companies. A company exporting a lot of products, for example, will need to keep a close eye on the exchange rate, just as a company dependent on debt to finance its investments could be threatened by a rise in interest rates. These indicators are subject to projections, but the economy is never completely immune to shocks (Johnson, 2019).

Social : Social factors can influence a company through changes in the nature of supply and demand in an economy. A change in consumer habits, for example, could have an impact on a company's business model (Johnson, 2019).

Technology : as stated in ISA 570, the emergence of a highly successful competitor may cast doubt on the company's ability to continue as a going concern. The emergence of new technologies can be as much an opportunity for some companies as a threat for others (IAASB, 2015b).

Ecological : This factor is becoming increasingly important because of the impact that companies have on the environment and the policies developed to control it. Environmental changes can also have an impact on a company's activities (Johnson, 2019).

Legal : ISA 570 provides guidance on this point, such as changes in law or government policy that may adversely affect the entity (IAASB, 2015b). Similarly, if a third party has initiated legal proceedings against the entity that could result in financial damages that the entity would not be able to meet.

Industry

As we saw earlier, a number of financial indicators are designed to examine a company's profitability. The profitability of the company will be affected in particular by competition and the power of buyers and suppliers (Johnson, 2019). For example, ISA 570 considers the loss of a major supplier to be an indicator of a factor that could have an impact on going concern; this factor will be more or less important depending on the number of suppliers and the power they have.

Porter's five forces framework is a tool for analysing an industry by looking at 5 forces that determine its structure and attractiveness:

Competitive rivalry : Competitive rivals are organisations aiming at the same customer groups and with similar products and services (Johnson, 2019).

The threat of entry : This factor measures how easy it is for new entrants to enter the market. The easier it is to enter the market, the more the company's profitability could be threatened by the arrival of new entrants (Johnson, 2019).

The threat of substitutes : Substitute products are those that aim to fulfil the same need as those offered by the company. Substitute products can reduce demand and limit the prices that the company can offer for its products/services (Johnson, 2019).

The power of buyers : These are the people who pay for the products/services offered by the company. If these people have significant power because they are few in number, can easily move from one company to another or can fill the need themselves, then they will more easily be able to negotiate prices or terms of sale (Johnson, 2019).

The power of suppliers : These are the company's suppliers. They can supply raw materials, equipment, labour and capital. They will have significant power if there are few of them, if it is not easy to switch from one supplier to another or if the products are highly differentiated. (Johnson, 2019). This is why ISA 570 points out that the loss of a key member of the management team could pose a threat to the company's ability to continue as a going concern if he or she cannot be replaced.

2.6.3.2 Internal factors

Events occurring within the company may also be relevant to evaluate the going concern assumption (Loughran, 2010).

Internal factors may include strikes or other labour difficulties, critical dependence on the success of a particular project or the need to change operations (KPMG, 2024).

As highlighted in ISA 570, Reading minutes of the meetings of shareholders and those charged with governance and relevant committees and inquiries will allow the auditor to be aware of those internal events.

2.6.4 Evaluation of management plans

2.6.4.1 Management's plan

If the auditor identifies that there is significant doubt about the going concern basis of the business, the auditor will need to identify and evaluate management's plan to address these doubts (Johnstone et al., 2013)

Management's plans to address these doubts may include:

- Plans to dispose of assets (O. R. Whittington, 2015) : the sale of an asset generates cash that would allow the company, whose liquidity is at risk, to meet its short-term obligations.
- Plans to borrow money or restructure debt (O. R. Whittington, 2015) : borrowing money may increase the funds available to the company. Restructuring the debt on the other hand could extend the payment period or reduce the interest rate.
- Plans to reduce or delay expenditures (O. R. Whittington, 2015) : reducing or postponing non-essential expenditure can enable the company to conserve cash, reduce operating costs and improve liquidity.
- Plans to increase ownership equity (O. R. Whittington, 2015) : a capital increase can improve the company's liquidity and reduce leverage by repaying debt. However, the feasibility of such an operation will depend on the confidence of investors and market conditions.

Management's plans to guarantee the company's ability to continue as a going concern are generally accompanied by cash flow models or budget projections, as well as other elements such as a sales forecast (Đorđević & Đukić, 2021).

If management's plan is based on a financial projection, the auditor will ask management to provide the information on which their assumptions are based. The auditor, in turn, will consider the appropriateness of the assumptions on which management's projections are based (Johnstone et al., 2013).

2.6.4.2 Professional scepticism

Consideration should be given to the fact that management may be resistant to the idea of the auditor making a change to the going concern basis. Indeed, they may consider that such a communication from the auditor would send a negative message to investors, lenders of capital or customers about the confidence they may have in the company. This could worsen the company's situation by making capital providers more reluctant to lend money to the company or partners less inclined to associate with the organisation. (Johnstone et al., 2013)

When evaluating management's plan, the auditor must demonstrate professional scepticism. As defined in the ISAs, this means *“An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence.”* (IAASB, 2019)

According to a study by Mei Feng and Chan Li in 2009, the attitude of professional skepticism is key in the assessment of going concern, as management could be led to provide biased forecasts in order to avoid an opinion on going concern. (Feng & Li, 2009)

2.7 Recent challenges and developments

Now that we have a good overview of the audit and assessment of going concern, we will conclude our review of the literature with a look at the recent challenges and developments surrounding this task of the auditor. This will be a key point in helping us form hypotheses in response to our research question. Section 2.7 is devoted to this topic.

2.7.1 Economic volatility

Throughout the 21st century, the economic environment has become increasingly complex and volatile, particularly in terms of international trade and politics (Zamani & Ait Soudane, 2021). An acronym is often used to describe today's business environment, VUCA, which stands for "Volatility, Uncertainty, Complexity and Ambiguity" (Zamani & Ait Soudane, 2021).

This description of the business environment over the past few years is in no way misleading. Fresh from the covid19 pandemic, in 2022 the global economy suffered a succession of crises including higher energy prices aggravated by the war between Russia and Ukraine (Trends/Tendances, 2022). Furthermore, high inflation has led central banks to raise interest rates, thereby increasing the cost of capital.

Periods of economic uncertainty, such as financial crises, pose a greater risk not only to the company's ability to meet its liabilities, but also to its ability to continue as a going concern. This requires the auditor to place greater emphasis on management's assessment of its ability to continue as a going concern (Alexeyeva & Svanström, 2015).

As mentioned in the previous section, management's assessment of going concern is usually based on financial projections based on historical trends. However, the uncertainty created by the economic environment makes these projections more difficult, and reliance on historical data insufficient. Therefore, the auditor needs to pay closer attention to the information on which management relies to make future projections (Đorđević & Đukić, 2021).

Finally, while we can expect from management the ability to develop plans to deal with the routine activities of organizations when the economic environment is relatively calm and stable, the ability to develop strategies in a more volatile environment is more complex (Zamani & Ait Soudane, 2021).

2.7.2 Audit expectation gap

Since the audit report is the only direct means of communication between the auditor and the users of the company's financial statements, it is often the subject of discussion as to what it should cover. Many stakeholders are critical of the fact that it is not sufficiently informative and is too standard. (Mazars, 2016).

The expectation gap is the difference between what users expect from the auditor and the financial statement audit, and the reality of what an audit is. (International Auditing and Assurance Standards Board, 2020).

An ACCA study shows that the audit expectation gap can be broken down into three components, which are illustrated in the figure below:

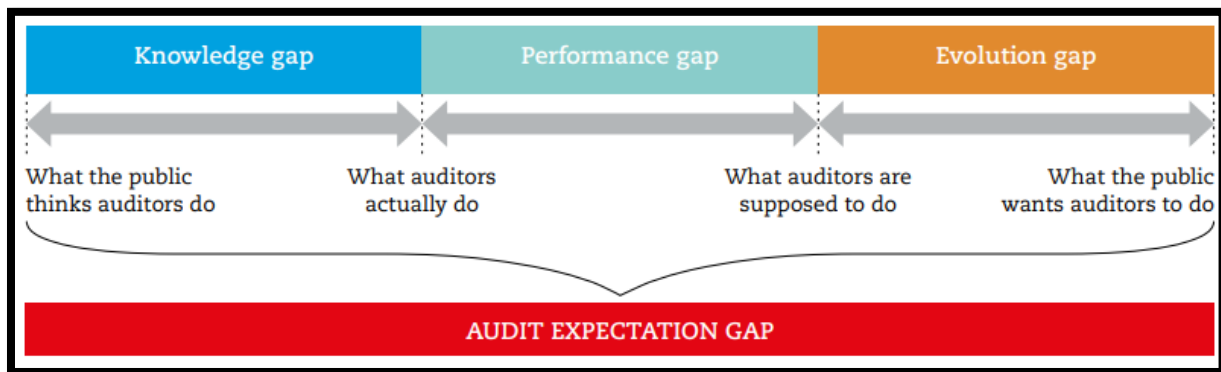


Figure 11 : the audit expectation gap

Source: ACCA. (2019). Closing the expectation gap in audit. Dans *ACCA Global*.

<https://www.accaglobal.com/gb/en/professional-insights/global-profession/expectation-gap.html>

2.7.2.1 Knowledge gap

The knowledge gap is the difference between what the public thinks auditors do and what auditors actually do (ACCA, 2019). This gap recognises that the public may sometimes have a misunderstanding of what an audit involves. .

For example, the auditor's responsibility to prevent a company's failure. A survey carried out by ACCA in 11 countries shows that the majority of respondents believe that if the auditor does his job properly, he will prevent the collapse of a company (ACCA, 2019). These findings illustrate the knowledge gap, because even if an audit can identify elements that could cause a company to fail, there will always be risks that the audit does not cover. Moreover, preventing a company's failure remains first and foremost the responsibility of the company's management.

2.7.2.2 Performance gap

The performance gap is the difference between what auditors actually do and what auditors are supposed to do (ACCA, 2019). This component of the expectation gap focuses on the gap between what is expected by auditing standards and what auditors do in practice. It can be explained by a lack of focus on audit quality, the complexity of certain audit standards or the difference between the auditor's interpretation of the standard or law and what is required by the standard or law.

2.7.2.3 Evolution gap

The evolution gap is the difference between what auditors are supposed to do and what the public wants auditors to do (ACCA, 2019). This gap focuses on the areas of audit where there is a need for evolution, taking into account public demand, technological advances and the audit process in general in order to increase the value of audit. Nevertheless, the study suggests that the knowledge and performance gap should be addressed as a priority in order to see where evolution is needed.

2.7.3 Evolution of auditing standards

Auditing standards are developed and reviewed by the IAASB. As explained in the recent development of ISQM 1 & ISQM 2, the organisation is developing and reviewing auditing standards in order to respond to a constantly changing and increasingly complex environment, particularly in terms of stakeholder evolution (Brathwaite & Arnold, 2021).

On the basis of the need identified, the IAASB then develops a revision project. This is what the IAASB did on 26 April 2023 when it published a draft revision of International Standard on Auditing (ISA) 570 on going concern. Based on the need identified, the IAASB has developed a draft revision of ISA 570; the objectives as presented by the IAASB are to achieve the following:

- *'Promote consistent practice and behavior and facilitate effective responses to identified risks of material misstatement related to going concern'* (IAASB, 2023)
- *'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 skepticism; and'* (IAASB, 2023)
- *Enhance transparency with respect to the auditor's responsibilities and work related to going concern where appropriate, including strengthening communications and reporting requirements.* (IAASB, 2023)

The IAASB's revision is then the subject of a public consultation during which organisations around the world can submit comments on the revision. For example, we can read the comments of Accountancy Europe, which considers in particular that the financial ecosystem must evolve to become more efficient in assessing an entity's ability to continue as a going concern (Accountancy Europe, 2023).

After analysing the comments received, the IAASB publishes the revised standard. In its 'Strategy and work plan for 2024-2027', the IAASB announces its intention to publish the final version of the standard by 2024.

2.7.4 Non financial information and ESG-related risks

2.7.4.1 CSRD

Traditionally, the auditing profession has focused exclusively on a company's financial position. However, at a time where sustainable development is seen as an essential pillar of business operations success, it has become imperative to include non-financial data in the audit as well. Following the adoption by the European Union of the Corporate Sustainability Reporting Directive (CSRD), which requires companies to publish wider information on sustainability matters, such requirements are now also being imposed. This new reporting initiative is a response to the increasing number of stakeholder expectations for better information on the impact of corporate environmental and social activities (ibr-ire, 2023).

The CSRD requires companies to provide detailed information on their environmental, social and governance (ESG) impact. To do this, companies will use a combination of quantitative and qualitative information, both historical and prospective, and will report in accordance with the ESRS (European Sustainability Reporting Standards), SFDR (Sustainable Finance Disclosure Regulation) and the EU Taxonomy Regulation (Mulken, 2023). EU Member States have until 6 July to transpose the CSRD into their national legislation, with gradual application up to 2029 depending on the size and nature of the company.

The CSRD will replace the NFRD (Non-Financial Reporting Directive), which required companies to disclose non-financial information at 4 levels:

- respect for human rights
- protection of the environment
- anti-corruption and bribery
- employee-related information

The CSRD extends the required elements with :

- the introduction of double materiality, which requires companies to communicate information that enables them to understand how sustainability factors impact the company, as well as information that enables them to understand the impact of the entity on society and the environment
- but also information on the company's strategy, its targets, the role of the board and management, the impact of the company and its value chain, the intangible elements and how they have identified the information they are sharing (Boeykens, 2022)

A significant new development with the introduction of the CSRD is that sustainability reports are now subject to limited assurance, which as we have seen in the definition of assurance engagement means that there is no material suggestion that sustainability information has been misrepresented. Sustainability auditing involves the verification of disclosures relating to a company's sustainability practices. To do this, auditors need to develop new audit methodologies and call on experts to effectively assess the accuracy and relevance of sustainability information and verify the consistency of the information provided with the company's operational and strategic realities (ibr-ire, 2023).

2.7.4.2 ESG-related risks

Given that companies are increasingly faced with climate-related risks, auditors must take these factors into account when acquiring an understanding of the company and its environment, as they could pose a material risk to the company (Grant Thornton, 2022).

In practice, there are two main categories of climate-related risks (PwC, 2022):

- the threat posed by climatic events
- those resulting from the changes needed to respond to legislative initiatives

The table below proposed by Grant Thornton illustrates situations arising from ESG elements that may pose different risks:

Situation due to ESG matters	Type of risk factor
Travel and tourism entity with hotel and boating properties in drought-stricken areas	Change in conditions or circumstances
ESG impact on impairment analysis for an agricultural entity located in a flood plain that has experienced more frequent flooding events	Complexities associated with classes of transactions or accounting requirements
Energy company that spilled oil due to faulty maintenance, which resulted in immeasurable damages	Complexities associated with classes of transactions or accounting requirements
New government regulations to reduce toxic waste, which require retooling of manufacturing machinery	Changes in conditions or circumstances
Key customers may demand commitments to certain ESG goals, which may include reporting the ESG goals performance	Change in conditions or circumstances; or Complexities associated with classes of transactions or accounting requirements
Requirements from lending or private equity owners to reduce carbon emissions	Changes in conditions or circumstances
Decrease in demand for existing products based on changes in consumer tastes to more sustainable alternatives	Potential problems that may hinder an entity from achieving its financial reporting objectives

Figure 12 : ESG impacts on audit engagements

Source: Grant Thornton. (2022). ESG impacts on audit engagements. MICPA Malaysia.

<https://www.micpa.com.my/v2/wp-content/uploads/2022/10/ESG-Impacts-on-Audit-Engagements.pdf>

When considering whether the application of the going concern principle is applicable, the company's management relies on all the information at its disposal to consider whether there are any events or conditions that cast substantial doubt on the company's ability to continue as a going concern into the next financial year; if such an event or condition is identified, management will provide plausible responses to address the substantial doubt (Van Staaij, 2022).

The plan prepared by management will then have to take ESG factors into account, especially as these are becoming increasingly important both in terms of the choices made by consumers and the conditions for granting a loan, for example (Van Staaij, 2022).

2.7.5 Technological advancements

While we have previously discussed how COVID19 has had an impact on the assessment of going concern, and in a way put the subject back at the forefront, it has also accelerated the digitization of the profession. Let's end our review of the literature with an analysis of how digitalization is impacting auditing practices, and more specifically, the evaluation of going concern.

The accounting and auditing professions have benefited from rapid technological development in recent years, particularly in the area of predictive analytics (Alotaibi, 2023).

The use of analytics in finance is not a new phenomenon, but what is new is the amount of data available to organisations, to the point where we now speak of 'big data' to describe the huge amount of data available to organisations to analyse and understand their performance and plan for the future (ACCA, 2020).

The following chart from the Association of Chartered Certified Accountants illustrates the four types of analysis we can use (ACCA, 2020).



Source: ACCA. (2020). Analytics in finance and accountancy.

https://www.accaglobal.com/content/dam/ACCA_Global/professional-insights/aifaa/PI-ANALYTICS-FINANCE-ACCOUNTANCY-2pp%20v1.pdf

2.8 Conclusion of the literature review & development of the research question

2.8.1 Review of the theoretical part

Exploring our subject from a theoretical point of view brings a lot of elements to our research question, so let's take a step back and look at all the elements we have acquired.

Points 2.1, 2.2 and 2.3 laid the foundations of auditing. The use of the golden circle has enabled us to develop a global vision of the purpose of the audit, its assurance mission and the various stages in the process that enable the auditor to build trust between the management that produces the financial information and all those who make decisions on the basis of this information. The outcome of the audit is discussed in section 2.4 through a detailed explanation of the contents of the audit report. This enabled us to complete the initial elements we acquired on the concept of going concern during the audit process by seeing how this point is communicated in the audit report.

It is mainly in points 2.5 and 2.6 that we see the concept of going concern in detail. We refer to International Standard on Auditing (ISA) 570 in section 2.5 and then to the assessment of factors that may cast doubt on going concern in section 2.6.

Finally, in section 2.7, we look at recent challenges and developments in assessing going concern. We discuss the debates surrounding this topic and the IAASB's intention to update ISA 570. But also, the growing impact of climate elements in our assessment and the contribution of technology.

2.8.2 Development of the research question

As a reminder, we began the exploration phase with two initial questions:

- ① what is the auditor's role with regard to going concern (ISA 570)?
- ② why is ISA 570 included in the IAASB work plan?

Thanks to the exploration, we now have a good overview of the auditor's work on going concern. We also understand from a theoretical point of view why ISA 570 is in the IAASB's work plans.

It is now time for us to define an angle from which to analyse our subject in practice. Indeed, applied research begins with a theoretical analysis, then the practical analysis of the research, to return to a theoretical angle at the end.

To define our research question, which will require us to collect data on how the field operates, we are going to focus on a concept that we have explored theoretically, the audit expectation gap. We will link this to another evolution that we have observed with the development of the new ISA 570. Thus, the research question that we are going to investigate in practice is the following:

“How could the revision of ISA 570 impact the expectation gap relating to going concern in an audit of financial statements?”

To ensure I had the right foundations, I considered the three criteria for evaluating a good research question: clear, pertinent and feasible (Quivy & Van Campenhoudt, 2017).

- Clear : the question is not too long and all the concepts it uses are taken from auditing and accounting field
- Pertinent : the question focuses on a specific theme, which is the impact of the revision of ISA 570. In answering this question, we aim to advance research into the evolution of the auditor's work on going concern. Moreover, the research question does not imply any implicit judgement; it aims to focus on what exists.
- Feasible : sufficient resources are available to answer the question.

METHODOLOGY

3.1 Analysis model

Since we now have our research question, it is important to ask ourselves how and with what type of data we are going to answer this question.

3.2.1 Resolution on the basis of defined operational objectives & hypotheses

To do this, we have two options: to choose a resolution based on the formulation of hypotheses and/or a resolution based on the definition of operational objectives (Paquet et al., 2020). In the context of this work, we have selected a resolution based on operational objectives and hypotheses. This involves a set of activities that will be conducted in order to test our hypotheses.

Operational objectives & hypotheses can be formulated as follows:

<p><u>Research question:</u></p> <p>“How could the revision of ISA 570 impact the expectation gap relating to going concern in an audit of financial statements?”</p>	<p><u>Operational objectives:</u></p> <ul style="list-style-type: none">- to identify the causes of expectation gap relating to going concern in an audit of financial statements <i>Identifying the causes of the expectation gap will enable us to identify the factors that need to be taken into account to determine whether the content of the new ISA 570 has a positive or negative impact on the expectation gap.</i>- to compare the current ISA 570 with the proposed new standard to compare new components and analyze the views of audit professionals on the impact of the new ISA 570 <i>Identifying the new features proposed for ISA 570 and analyzing the opinions of audit professionals will enable us to verify how the latter impacts the identified causes of the expectation gap.</i>- to determine how the proposed revision of ISA 570 might impact the causes of the expectation gap based on audit professionals' views of the intended changes. <i>Using the previous two operational objectives, we will be able to fulfil this final operational objective and thus answer our research question</i>
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	<p><u>Assumptions:</u></p> <ul style="list-style-type: none"> - <i>New requirements proposed for ISA 570 represent an opportunity to reduce the expectation gap relating to going concern in an audit of financial statements</i> - <i>New requirements proposed for ISA 570 represent a threat to widen the expectation gap relating to going concern in an audit of financial statements</i>
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3.2 Construction of data collection tools

It is essential in the context of an applied research to establish a link with what is being done in the field, and to gather information on practices in the professional world. To this end, it is necessary to develop a data collection tool to resolve our research question and meet our operational objectives.

3.2.1 qualitative analysis

We have two options: conduct a quantitative or qualitative study (Paquet et al., 2020). As explained in the syllabus "writing and completing a thesis in management", the qualitative method seeks to understand the causes of behaviour, but also to gather perceptions and attitudes (Paquet et al., 2020). Since our operational objectives are to understand the causes of the going concern expectation gap, as well as audit professionals' opinions of the revision of ISA 570, qualitative research appears to be well suited to our research.

Four data collection tools are suggested in the syllabus: interview, survey, direct observation and collection of existing data (Paquet et al., 2020). As our aim is to gather perceptions, opinions & intentions, the two most suitable tools are interviews and the use of existing data. However, as this work is marked by various limitations, including the fact that the author does not have the direct opportunity to be in the field (via an internship, for example), the quality of the answer to the research question would be highly dependent on the availability of experienced audit professionals to provide a qualitative answer based on interviews. The author therefore decided to collect data by accessing letters written by professional auditing organizations and addressed to the IAASB.

Using this data collection tool is very practical in our case, given that only an international organization such as the IAASB has the means to gather opinions from audit professionals around the world. It is important to point out that the angle of the research question presents a different direct objective from that presented by the IAASB, so it is necessary to use several studies carried out by the organization and to connect the data from these different studies. This will enable the author to have access to a large number of organizations expressing their opinions in order to provide an answer to the research question.

3.2.2 Corpus

There are two main types of data collection: numerical and literary (Paquet et al., 2020). Since we're collecting opinions and perceptions, we'll be collecting mainly literary data.

3.3.2.1 Observe what and how

To meet our first operational objective, we will analyse the letters written by audit professionals in response to the IAASB document “*fraud and going concern in an audit of financial statements*”. A total of 94 organizations submitted their answers to the various questions posed by the IAASB. In the context of this research, we will analyse the answers given to the question: “**What do you think is the main cause of the expectation gap relating to fraud and going concern in an audit of financial statements?**” Only questions explaining the expectation gap relating to going concern will be considered. 94 Comment letters were sent out from September 16, 2020 to April 12, 2021.

The second operational objective will be achieved by analysing the comments letters sent by auditing professionals in response to the new ISA 570 proposed standard. A total of 78 letters were sent between June 16, 2023 and September 7, 2023. These letters will be analysed in conjunction with the new ISA 570 in order to gather the opinion of audit professionals on the new elements of the ISA.

3.3.2.2 Observe who

In order to provide a general answer to our research question, and given that we are analysing letters from two different studies, to ensure continuity between the causes identified in the first study and the comments addressed in the second study, we have decided to retain only those from organizations that provided a response to both the first and second questionnaires. This corresponds to 47 letters analysed per study.

List of the organizations whose opinions were analysed can be found in the appendix.

Number of documents analysed : 94 comment letters
Types of documents: Comment letters from 2 studies
- “Fraud and going concern in an audit of financial statements” (IAASB, 2020)
- “Proposed international standard on auditing 570 (revised 202X) going concern and proposed conforming and consequential amendments to other ISAs” (IAASB, 2023)

PRESENTATION AND ANALYSIS OF DATA COLLECTED

The aim of this part of the work is to present and analyse all the data collected in order to answer our research question, which, as a reminder, aims to analyse the impact of the revision of ISA 570 from the point of view of the audit expectation gap, measuring its impact on the latter. The data have been selected in accordance with our operational objectives (explained in detail in the methodology).

4.1 Presentation of the data collected

4.1.1 Introduction of the field analysis

First of all, it is interesting to understand the context in which this work in the field is taking place, and why the IAASB is being driven to develop a revision of ISA 570.

As explained by the IAASB, the aim of a new revision of ISA 570 is to respond to the demand for transparency from various stakeholders (notably the PIOB) on the subject of going concern, following the increasing number of bankruptcies, notably as a result of pandemics and war (IAASB, 2023).

4.1.1.1 The United Kingdom sets the tone

The IAASB is also seeking to provide an international response to an issue that has been the subject of various reforms at national level, notably in the UK, which on September 30, 2019 launched a review of the auditing standard concerning going concern, also in response to the rising number of bankruptcies, notably the major bankruptcy of the company active in construction, Carillion.

Carillion's bankruptcy made a huge impact in the UK, not only because it employed 43,000 people, but also because the company was reporting solid results just before going bankrupt and had the support of its shareholders, who shortly before the collapse had voted a 50% increase in management remuneration (Hatchuel, 2019). However, the company will start to lose money on important contracts that presented risks. Important projects will be delayed, all at a time when the company was heavily in debt. Our aim here is not to elaborate on this case or to use it as a case study to evaluate the auditor's work. Instead, I refer readers to the analysis of the case by the financial reporting council.

In the context of this work, it is interesting to note that the role of the auditing firm was strongly questioned. To the extent that the latter, KPMG, was fined £21 million. The Chief Executive of KPMG UK, Jon Holt, admitted that the audit work carried out on Carillion had been "very bad" (Kollewe & Makortoff, 2023). KPMG would have failed to detect various indicators showing that Carillion's core business was loss-making and that cash flow was supported by unsustainable measures (Kollewe & Makortoff, 2023). The audit firm lacked professional scepticism regarding the unreasonable estimates of Carillion's management (Kennedy, 2024).

Interestingly, this is not the first case in the UK where the role of the auditor has been called into question. Audit firm PwC was fined £6.5 million shortly before the collapse of the BHS chain store. The Financial Reporting Council stated that the firm had not collected sufficient evidence to conclude on the use of the going concern accounting principle, but also that the projections made by the company were unrealistic (Farrell, 2018).

4.1.1.2 The situation in Belgium

While Belgium may appear to be relatively free of scandals involving auditing firms following bankruptcies, the country is not immune to the rise in the number of bankruptcies. Based on the number of bankruptcies handed down by the courts, data-gathering company GraydonCreditsafe reports 10,771 bankruptcies in Belgium in 2023, representing an increase of 9.65% compared to 2022 (Vadino & L'Echo, 2024). The table below shows the 10 most significant bankruptcies in terms of job losses:

Makro	1.826	
Veldeman Bedding	196	
Switch Holding	179	
Consual	150	
ASK-Romein	148	
AAACare	100	
Packo Cooling	90	
DTM Taxi	89	
Tit.-Ser. de Bouge	79	
Home Solution	75	

Figure 13: Impact of the 10 biggest bankruptcies in Belgium in 2023
 Source : Vadino, K. & L'Echo. (2024, 3 janvier). Le contexte difficile a pesé sur les faillites en 2023. *L'Echo*. <https://www.lecho.be/economie-politique/belgique/economie/le-contexte-difficile-a-pese-sur-les-faillites-en-2023/10516985.html>

In the "Premiers sur l'éco" program, Bruno Wattenbergh explains that this increase in the number of bankruptcies can be explained by a triple shock, namely the increase in wages through indexation, the rise in energy prices and the rise in interest rates, all of which reduce the financial solidity of Belgian companies, and that the solvency of companies decreases as the various shocks occur (Les News 24 & Wattenbergh, 2024).

Bruno Wattenbergh explains that the direct consequences of these shocks are that companies' margins shrink as higher interest rates make repayments more expensive, as he puts it: " It is as if companies were working for their banks". Lack of solvency also impacts borrowing capacity, and access to financing is essential for investment in digitalization and ecological transition - without these investments, business continuity is threatened (Les News 24 & Wattenbergh, 2024).

4.1.2 Main drivers of the expectation gap

In order to assess respondents' views on the causes of the expectation gap relating to going concern, an analysis of the IAASB questionnaire was carried out. Organisations were asked to answer the following question: 'What do you think is the main cause of the expectation gap relating to fraud and going concern in an audit of financial statements? Given that this work focuses on going concern, only responses relating to the expectation gap were taken into account. Analysis of the responses shows that the knowledge gap is the most frequently cited reason. Followed by the evolution and performance; as the graph below illustrates:

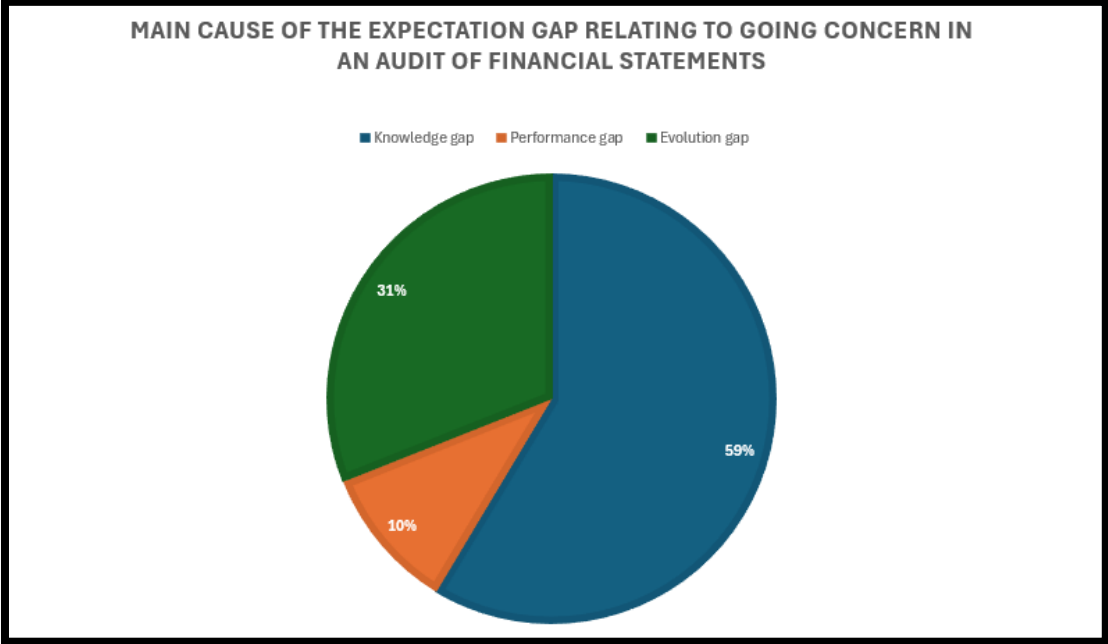


Figure 14 : Main cause of the expectation gap relating to going concern in an audit of financial statements
Source : graph created by the student on the basis of the analysis of responses to the attached questionnaire

4.1.2.1 Knowledge gap

The knowledge gap is the most frequently mentioned cause by respondents to explain the expectation gap regarding the assessment of going concern. The knowledge gap is the difference between what the public thinks auditors do and what auditors actually do (ACCA, 2019).

This gap can be explained by the fact that some users of financial statements do not understand what an audit is and what its limitations are, including key audit concepts such as the fact that the auditor provides reasonable rather than absolute assurance, and that the auditor works with levels of materiality (BDO, 2021) (MNP LLP, 2021) (PKF International Limited, 2021) (CPA Australia Ltd, 2021) (CPA Uganda, 2021) (ACCA & CA ANZ, 2021) The lack of understanding of the limits of auditing also leads some respondents to speak of the 'reasonableness gap', which can lead some stakeholders to have unreasonable expectations of the auditor's work (IDW, 2021) (IFAC, 2022).

A component of the latter is also that stakeholders do not have a good understanding of the role of the auditor and how responsibilities are allocated in relation to the assessment of going concern (Deloitte, 2021) (PwC, 2021) (Crowe, 2021) (CNCC, 2021) (CAQ, 2021) (AASB, 2021) (HKICPA, 2021) (BAOA, 2020) (CSA/ACVM, 2021) (BICA, 2021) (IFAC, 2022). Some respondents also point to the potentially negative influence of the media in blurring lines of responsibility. (SAICA, 2021) (KICPA, 2021) (AUASB, 2020) (IFAC, 2022) (Grant Thornton, 2021).

In addition, KPMG also mentions that the knowledge gap may arise from the fact that many stakeholders may not understand the principle that the existence of a material uncertainty must be disclosed but does not automatically imply that the annual accounts cannot be prepared on a going concern basis. For the company as well as for EY it is therefore important that stakeholders do not see the going concern assessment as an assessment of the long term viability of the company as the 'thresholds' are not at the same level (KPMG, 2021) (EY, 2021) (CNCC, 2021) (MICPA, 2021) (Mazars, 2021). For Accountancy Europe, it is therefore important to distinguish the role of the assessment of the use of the going concern accounting principle from that of providing information on the viability of the business. The problem is that the term going concern is used to illustrate both (Accountancy Europe, 2021).

4.1.2.2 Evolution gap

The second most common cause cited by respondents is the evolution gap. This is defined as the difference between what auditors are supposed to do and what the public wants auditors to do (ACCA, 2019).

Having conducted a survey of various stakeholders, the ACCA and CA ANZ highlighted in their questionnaire the fact that there is a significant demand from stakeholders for the auditor's role in relation to going concern to evolve (ACCA & CA ANZ, 2021). It is therefore necessary to see how auditing standards can evolve to meet reasonable expectations (RSM, 2021).

As explained by the Australian Auditing and Assurance Standards Board, the expectations of users of financial statements have evolved and it is necessary to consider whether the current going concern reporting requirements are still adapted to these needs or whether other reporting should be taken into account (AUASB, 2020). One element mentioned by various stakeholders is the expectation of stakeholders for more communication from the auditor on the procedures carried out in relation to going concern, but also for the auditor to play a more important role in preventing failure caused by poor identification of risks or poor financial stability (CNCC, 2021) (IRBA, 2021) (NBA, 2021) (CPA Australia Ltd, 2021) (MICPA, 2021) (KPMG, 2021) (PKF International Limited, 2021).

For Mazars, even if the fact that management does not sufficiently detail its justification for the use of the going concern accounting principle goes beyond the scope of the IAASB, it is interesting to consider how to strengthen the audit of the key assumptions and data used by management to determine this justification (Mazars, 2021).

Finally, it is also mentioned that auditing standards may not have kept pace with the rapid changes in financial markets, technology and new types of business models, and how these impact on auditing; these latest developments highlight the need to reconsider events that could cast significant doubt on the going concern principle (HKICPA, 2021) (SAICA, 2021) (KICPA, 2021) (CAQ, 2021) (NBA, 2021).

4.1.2.3 Performance gap

Finally, the performance gap. As a reminder, the performance gap is defined as the difference between what auditors actually do and what auditors are supposed to do (ACCA, 2019). In the context of ISA 570, this means a gap between what the auditing standard requires and what the auditor actually does.

For several respondents, the existence of the performance gap cannot be ignored when considering the expectation gap (NBA, 2021) (CEAOB, 2021). Various respondents consider that the performance gap regarding going concern results from the lack of clarity in the audit standard and the meaning of key concepts such as going concern and material uncertainty (KPMG, 2021) (CNCC, 2021) but also by the difficulty of applying them in practice (NBA, 2021). The AUASB also adds that the performance gap also comes from a lack of alignment between auditing and accounting standards (AUASB, 2020).

4.1.2.4 Operational objective for the expectation gap

The data gathered from the first questionnaire allows us to understand in which cases the new standard will have a positive impact on the expectation gap and in which cases it will have a negative impact, as illustrated in the table below:

Opportunity	Threat
<p>Knowledge gap: 1) <i>The new standard provides a better understanding of the auditor's responsibility for assessing going concern</i></p> <p>Evolution gap: 2) <i>The new standard is more in line with the risks facing companies today</i> 3) <i>The new standard responds to stakeholders' desire for more communication from the auditor about his work on going concern</i></p> <p>Performance gap: 4) <i>the new standard provides a better understanding of what constitutes a material uncertainty</i> 5) <i>the new standard allows for better application in practice</i></p>	<p>Knowledge gap: 1) <i>the new standard reinforces doubts about the auditor's responsibility for going concern</i></p> <p>Evolution gap: 2) <i>The new standard is not in line with the current risks facing companies</i> 3) <i>The new standard does not require more communication from the auditor about his work on going concern, or does so by threatening the knowledge gap</i></p> <p>Performance gap: 4) <i>the new standard does not provide a better understanding of what a material uncertainty is</i> 5) <i>the new standard is more difficult to apply in practice</i></p>

4.1.3 ISA 570 proposed revision and reaction from the audit profession

Now that we know the causes of the expectation gap, we can begin our more detailed analysis of the impact that the revision of ISA 570 could have on them. We will begin by presenting the proposed new elements of ISA 570. We will then seek the views of the audit profession using our second source of data, the letters written by the audit profession to the IAASB. Analysis of these letters will enable us to fulfil our second operational objective, which will allow us to conclude with an answer to our research question. It is important to note that the elements included are those around which a consensus has emerged. Indeed, the objective is not to include all the individual opinions and necessary changes but rather to see where a consensus is emerging on the impact of certain elements of the revision of ISA 570. Due to the rich content of their letters and their impact on the profession, particular attention has been paid to companies.

Given that we are analysing the reform proposal in terms of its impact on the expectation gap, our objective is not to present in detail all of the New Measures for ISA 570. In this section, we will review the changes without going into detail, the aim being to make it easier to read the subsequent sections on the impact of the New Measures on the previously identified causes of the expectation gap. However, where we feel it is necessary for the reader to have a more detailed explanation of the requirements, we will refer you to the appendices where a full version of the new requirement will be included. We can therefore analyse that the new requirements can be classified into two broad categories, depending on the objectives stated by the IAASB behind the revision of ISA 570.

Objective	New elements
<ol style="list-style-type: none"> 1) “Promote consistent practice and behavior and facilitate effective responses to identified risks of material misstatement related to going concern.” (IAASB, 2023) 2) “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 skepticism.” (IAASB, 2023) 	<ul style="list-style-type: none"> • Enhancing the relationship between ISA 570 and ISA 315 (revised 2019) to provide audit evidence to support the assessment of going concern (IAASB, 2023) • Extending the assessment period to 12 months from the date of approval of the financial statements (IAASB, 2023) • When going concern requires financial support from a third party, assess its intent and ability (IAASB, 2023) • A definition of ‘material uncertainty’ (IAASB, 2023) • Reinforce the impact of the use of technology (IAASB, 2023) • Enhancement and new audit procedures for management's assessment of going concern (IAASB, 2023) • Enhanced importance of professional skepticism in the assessment of management's assessment (IAASB, 2023)

<p>3) “Enhance transparency with respect to the auditor’s responsibilities and work related to going concern where appropriate, including strengthening communications and reporting requirements.” (IAASB, 2023)</p>	<ul style="list-style-type: none"> • Strengthening communication with those charged with governance (IAASB, 2023) • Communication with an external authority when required by law (IAASB, 2023) • Greater transparency on the auditor's responsibility and work on going concern (IAASB, 2023)
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4.1.3.1 Risk identification and assessment

One of the key elements of the proposed new standard is to strengthen the assessment procedures, moving from requests to management and discussion to the development of risk assessment procedures, based on ISA 315. While the ‘risk assessment procedures and related activities’ section comprises 2 paragraphs in the current standard, it comprises 5 paragraphs in the new standard. These 5 paragraphs can be found in the appendix to this work.

For this section, we analysed the answers to question 6: “Does ED-570 appropriately build on the foundational requirements in ISA315 (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?” (IAASB, 2023).

As this is a more open-ended question, it was difficult to aggregate the responses into statistics, as respondents generally added different nuances to their answers. However, we did find that, in general, respondents consider that developing the link between ISA 315 and ISA 570 is a good way of strengthening going concern assessment procedures. This is illustrated by the words of The Korean Institute of Certified Public Accountants : ‘The ED-570 requires not only to inquire of or discuss with management but also to perform risk assessment procedures in accordance with ISA 315 (Revised 2019), supporting a more robust identification of events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern.’ (KICPA, 2023) But also through the words of the Canadian Auditing and Assurance Standards Board : ‘It is appropriate that the auditor’s responsibilities relating to one of the most important aspects of an audit be more rigorous than being based primarily on inquiries’. (AASB, 2023).

However, respondents questioned several aspects of the new requirements relating to risk assessment procedures and related activities. paragraph 11 of the standard proposes:“ In applying ISA 315 (Revised 2019), the auditor shall design and perform risk assessment procedures to obtain audit evidence that provides an appropriate basis for the identification of events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern. ” (IAASB, 2023).

The firms Deloitte, EY and Mazars consider that the paragraph implies that the auditor must identify all events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (Deloitte, 2023) (Ernst & Young Global Limited, 2023) (Mazars, 2023). PwC also considers this paragraph questionable insofar as it is management's primary responsibility to perform such an analysis and it is problematic to require the auditor to implement risk assessment procedures in order to obtain 'an appropriate basis for identifying events or conditions that threaten the entity's ability to continue as a going concern' (PwC, 2023).

Respondents commenting on paragraph 11 generally agree that it creates a lack of clarity about the respective roles of the auditor and management in identifying conditions or events that could cast doubt on the going concern (Deloitte, 2023) (Ernst & Young Global Limited, 2023) (Mazars, 2023) (Center for audit quality, 2023) (IFAC SMAG, 2023) (The Malaysian Institute of Certified Public Accountants, 2023) (Crowe LLP, 2023) (ICAEW, 2023) (IDW, 2023). This concern, shared by various organisations, is illustrated by the comments of The Royal Netherlands Institute of Chartered Accountants : *"We note that the requirement that auditors become responsible for obtaining sufficient appropriate audit evidence to identify events and conditions that may cast significant doubt about the entity's ability to continue as a going concern and must publicly report on this, is a major change. We reiterate that this is primarily management's responsibility, and that the auditor should primarily assess whether management has properly identified and, where relevant, reported on such events and circumstances. As noted before, in our view, the primary role of the auditor is and should remain to audit and opine on information provided by management"* (NBA, 2023).

To a further extent, KPMG considers that it is important to take into account that for some less complex entities with, for example, less complex debt arrangements or with a relatively simple structure, the procedures may be less formal and more 'inquiry-based' towards key members of the organisation with a good knowledge of the organisation. This point is also made by the IFAC Small and Medium Practices Advisory Group. (KPMG, 2023) (IFAC SMAG, 2023).

It is important to note, however, that the strengthening of risk assessment procedures is also seen by various organizations as a modernization of practices, notably through the various examples of events that can threaten business continuity and mention of the use of data and analytical tools. This observation is shared by various organisations (KPMG, 2023) (BICA, 2023) (MIA, 2023).

4.1.3.2 Evaluating management's assessment

We began by analysing the answers given to question 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?”* (IAASB, 2023).

The new elements concerning the evaluation of the assessment made by management can be found in the appendix. For this question, 43 questionnaires were analysed. Only 4 questionnaires were not taken into account because they did not answer the question. The analysis revealed two impacts of this measure on the expectation gap.

19 of the 43 respondents, or 44%, consider that this measure has a positive impact. These respondents see it as a response to the public interest in business continuity, as Crowe puts it *“The inclusion of these procedures in all circumstances meets the expectations of stakeholders.”* (Crowe LLP, 2023) and also PKF, which shares the view that *“This new requirement ensures a more robust approach to applying ED-570 and removes the element of judgment regarding whether it is appropriate for the auditor to conclude on going concern basis of preparation without a detailed assessment having been prepared by management.”* (PKF Global, 2023).

However, the vast majority of respondents, the remaining 56%, shared a negative opinion of this new measure. The reasons put forward include the fact that audit procedures should be carried out according to the risks identified, but also that the assessment made by management is not always detailed.

Some organisations point out that the assessment of going concern can sometimes be self-evident and that additional audit procedures would not add anything. This view is echoed by CPA Australia, which states: *“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.”* (CPA Australia, 2023).

We began with an analysis of question 8 because it is a question where respondents formed clear opinions as to whether or not they support the measure. However, this question cannot be dissociated from question 9, which also concerns the assessment made by management and includes a new requirement: *“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?”* (IAASB, 2023). As this question was more open-ended, respondents provided different nuances, making it difficult to draw up a statistic grouping together common opinions. However, as this question is linked to question 8 and the new requirements on management assessment, it aroused similar reactions, with a majority of respondents sharing concerns about it.

The Center for Audit Quality and KPMG have expressed similar concerns about ‘designing and performing audit procedures to evaluate management's assessment of going concern’ as this can be challenging for the auditor when the company has not performed a detailed analysis to support its going concern (Center for audit quality, 2023) (KPMG, 2023) (KICPA, 2023). For example, a historically profitable company with no liquidity problems or a small company with less informative forecasts (AASB, 2023). In addition, the firm KPMG mentions that the financial reporting framework does not generally impose a way of justifying going concern, so the audit standard may not be aligned on this point with what is done in financial reporting (KPMG, 2023).

This point is also emphasised by Grant Thornton, which also points out that the financial reporting framework does not always contain requirements on how the company should justify its going concern. Consequently, in some organisations, this can be done in a one-page document if the company is profitable and has a good cash flow, or in a more detailed analysis with cash flow projections and different scenarios. For the company, this point should therefore be conditional, as the current paragraph would mean that the auditor would have to carry out excessive procedures even when the risk does not justify it; for example, a company with constant profitability, cash reserves, little or no debt and no other identified going concern risk (Grant Thornton, 2023).

It is important to specify for PwC that the lack of detail in the analysis made by management to justify the going concern assumption should not prevent the auditor from considering that the going concern assumption is appropriate (PwC, 2023). In the same line of thought, Deloitte considers it necessary to mention that, in practice, companies do not always rely simultaneously on these 3 elements (methods, assumptions, and data) when assessing going concern, but sometimes on one of the three or a combination of some (Deloitte, 2023). Grant Thornton agrees with this observation and considers that the audit standard would indirectly impose a working method on the entity or the auditor to report on implicit assumptions (Grant Thornton, 2023).

KPMG considers that it is more appropriate to expect the auditor to robustly assess whether significant management's assumptions and judgements are reasonable/supportable rather than assessing the methods and data used (KPMG, 2023). For Deloitte, it is preferable to expect the auditor to assess the risk of material misstatement in the method, assumptions and/or data used by management to assess going concern (Deloitte, 2023). Finally, the South African Institute of Chartered Accountants (SAICA) explains that since in practice the justification of going concern is generally based on a cash flow projection or on obtaining a letter of financial support, it is necessary to specify whether a letter of support constitutes a method for assessing going concern (SAICA, 2023).

4.1.3.3 Professional skepticism

Here we have analysed the results of question number 4: *“Do the requirements and application material of ED-570 appropriately reinforce the auditor's application of professional skepticism in relation to going concern?”* (IAASB, 2023).

We note that the vast majority of respondents consider that the standard reinforces the auditor's application of professional skepticism.

Several organisations consider that the new standard reinforces the application of professional skepticism in the assessment of management's going concern plan. This is due in particular to the emphasis on the link with ISA 540 the need to consider all evidence, whether corroborative or contradictory (PwC, 2023) (Ernst & Young Global Limited, 2023) (SAICA, 2023). KPMG also highlights paragraph 29, which requires the auditor to also assess whether there are any potential signs of bias on the part of management regarding the way in which it has prepared its going concern assessment (KPMG, 2023).

In addition, the strengthening of the application of professional skepticism is also highlighted through the development of closer links between ISA 315 and ISA 570. Although the latter raises a number of concerns, as noted above, respondents consider that the application of ISA 315 principles in the assessment of going concern is a positive factor in strengthening the application of professional skepticism (Ernst & Young Global Limited, 2023).

For the financial reporting council, the strengthening of professional skepticism will also enable the auditor to question whether the identification of biases in the assessment of going concern also makes it possible to identify whether this risk also applies to the preparation of the financial statements as a whole (FRC, 2023)

4.1.3.4 Evaluating management's plan for future actions

The revised standard also introduces enhanced requirements for the assessment of management's plan for future actions. Paragraphs 26 and 27 of the standard state that:

“If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall evaluate management's plans for future actions in relation to its going concern assessment, including whether:

- (a) The outcome of these plans is likely to improve the situation;*
 - (b) Management's plans are feasible in the circumstances; and*
 - (c) Management has both the intent and ability to carry out specific courses of action.”*
- (IAASB, 2023).

“If management's plans for future actions include financial support by third parties or related parties, including the entity's owner-manager, the auditor shall evaluate the intent and ability of those parties to maintain or provide the necessary financial support” (IAASB, 2023).

This point is based on the results of question 10 of the questionnaire: *“Do you support the enhance 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?”* (IAASB, 2023). As the responses were more nuanced, it was difficult to draw up clear statistics on how respondents felt about the impact of this measure, nevertheless they did express significant concern about the auditor’s assessment of a third party’s ability to carry out an action.

Although the current version of the standard already mentions the need to assess the plan made by management, it does not include assessing the intention and ability of a third party to maintain or provide the necessary financial support as a requirement. While there was general support for strengthening procedures for assessing management’s plan, respondents were more reserved about assessing third parties or related parties.

PwC points out that it is often difficult to obtain evidence from third parties concerning their financial support, or that this conformation is often informal with little contractual value. The company explains that, in practice, it is common for the auditor to rely on other sources of information to verify the ability of the third party to provide financial support. The company explains that it is common for the auditor to make independent investigations of other stakeholders who may have insights into the ability of the third party to provide financial support (PwC, 2023). This is also emphasised by KPMG, which considers that in addition to written confirmation, which is not always available, it is worth considering other elements to assess the intent and ability of the third party, such as how they usually behave, their current ability to lend and, more generally, taking into account the general economic situation (KPMG, 2023). EY adds that additional guidance should be provided on the extent of evidence that the auditor should obtain given that access to third party financial and non-financial information may be limited to what is publicly available and that third parties outside the entity are not required to respond to inquiries made by the auditor (Ernst & Young Global Limited, 2023). The difficulty of obtaining evidence from third parties is highlighted by several respondents (KICPA, 2023) (AASB, 2023) (MNP LLP, 2023) (AUASB, 2023) (The Malaysian Institute of Certified Public Accountants, 2023).

Several respondents also mentioned the difficulty of assessing the intent and ability of third parties or related parties to provide necessary financial support and whether the auditor is expected to assess the going concern of these parties (Hong Kong Institute of Certified Public Accountants, 2023). IFAC SMPAG and other organisations consider that assessing management’s ability to implement a series of actions is a feasible challenge, but that considering management’s ability as well as that of a third party is a greater challenge (IFAC SMAG, 2023) (Mazars, 2023).

4.1.3.5 Definition of material uncertainty

For this section, we will refer to question 5 of the questionnaire; details of the answers are given in the appendix. The question put to the professionals was as follows: 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’?

As we saw earlier, the lack of definition of key concepts related to going concern is cited as a cause of the performance gap. In the new ISA 570, the IAASB defines material uncertainty as: *“An uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the entity’s ability to continue as a going concern where the magnitude of its potential impact and likelihood of occurrence is such that, in the auditor’s professional judgment, appropriate disclosure of the nature and implications of the uncertainty is necessary for: - In the case of a fair presentation financial reporting framework, the fair presentation of the financial statements, or - In the case of a compliance framework, the financial statements not to be misleading.”* (IAASB, 2023).

In addition, the expression ‘may cast significant doubt’ is described as *“when the individual or collective magnitude of identified events or conditions is such that the entity will be unable to meet its obligations and continue its operations for the foreseeable future unless management takes remedial actions to mitigate the effects of these events or conditions. Remedial actions may include, for example, that management realizes assets sooner than originally intended or obtains alternative or additional sources of liquidity to support the entity’s ability to continue as a going concern.”* (IAASB, 2023).

A significant number of respondents welcomed the IAASB's initiative.

For example, for PwC the clarification of what is meant by ‘may cast significant doubt’ is a good thing, as this is an element that often causes confusion within engagement teams (PwC, 2023) while for the AUASB, a clear definition of these concepts is critical to enable auditors to properly form their assessment of going concern (AUASB, 2023)

However, it is important to note that despite the strong support for the introduction of these definitions, a large majority of respondents expressed concern about certain words used or a potential lack of clarity.

Nevertheless, given that respondents put forward a multitude of different solutions to the wording problem, and that no “general” problem emerges, we won't be presenting all the varieties proposed by respondents. Furthermore, as our analysis focuses on the expectation gap, it would be beyond the scope of our research to analyze all the proposals to make the definition clearer. In our context, we find it interesting to note that only one organization is directly opposed to the introduction of these definitions in the standard, considering that it is primarily up to the accounting framework to define them.

4.1.3.6 Going concern in the auditor's report

The new standard requires two new elements from the auditor to enhance the transparency of the auditor's work on going concern

- When the use of the going concern is appropriate and there is no material uncertainty, mention this in a separate section of the audit report. (IAASB, 2023).
- Where events or conditions that cast doubt on the going concern have been identified or there is a section on material uncertainty, the auditor should describe how it has assessed management's assessment of the going concern - for listed entities. (IAASB, 2023).

Of all the points raised by the revision, this seems to be the one that arouses the most reaction from respondents.

The Korean Institute of Certified Public Accountants considers that : *“There are concerns about including the auditor’s explicit conclusions in a separate section under the heading “Going Concern”, which may distort the information user’s decision-making considering the significant knowledge gap related to going concern between the auditor and the information user. Even under the current reporting framework, the knowledge gap on the scope of audit of financial statements may mislead the information user to believe that the auditor’s unqualified opinion guarantees the audited entity’s ability to continue as a going concern. Such knowledge gap may become even deeper if the auditor provides explicit statements on the appropriateness of management’s use of the going concern basis of accounting and on whether a material uncertainty has been identified. And the information user is more likely to be misled to believe that the auditor provides reasonable assurance about the entity’s ability to continue as a going concern.”* (KICPA, 2023). This point clearly illustrates the feelings of the majority of respondents.

Among the companies, we thought it would be interesting to highlight the opinions shared by the big four, given their importance around the world. KPMG considers that this would risk widening the expectation gap by giving a false impression of the auditor's responsibility with regard to the going concern when this is primarily the responsibility of management and those charged with governance. The company therefore considers that it is up to the financial reporting standard setters to put in place new requirements on the justification of going concern by management (KPMG, 2023). One solution put forward by KPMG would be to initially reinforce the requirements of the financial reporting standards so that management has to justify why the going concern basis is used, together with the significant assumptions and judgements made in relation to these assumptions. The auditor could then explain how he has assessed management's assessment in a going concern section (KPMG, 2023). EY shares a similar opinion to KPMG in that it considers it to be problematic to require the auditor to make an explicit statement on an element that is not required by management in the first instance (Ernst & Young Global Limited, 2023). However, the company considers that currently, when the auditor does not comment on going concern, he is implicitly stating that the use of going concern is justified and that there is no material uncertainty. EY is therefore not opposed to making this explicit, but considers that it should be accompanied by explanations to avoid any misunderstanding by the user of the auditor's role, which could widen the expectation gap (Ernst & Young Global Limited, 2023).

Deloitte does not support disclosure where there is no material inaccuracy. The company considers that the KAM mechanism is better used to communicate on the elements that have retained a significant judgment. PwC supports the inclusion of a conclusion on management's use of going concern and whether a material uncertainty has been identified. However, all the elements relating to going concern should be grouped together in a single section in order to avoid going concern being mentioned in three different sections, i.e. the section on management responsibilities, the section on the auditor's responsibilities and the new section (PwC, 2023). The fact of grouping together the points concerning going concern is also shared by EY.

Concerning the elements required for listed entities, in line with its first response, EY considers that it is first and foremost necessary to strengthen disclosures to management in order to increase the amount of information that the auditor has to communicate on going concern. The auditor's practices must therefore be aligned with those of management. If there is a material uncertainty reported by management, the auditor can then explain how he has assessed management's assessment of going concern. This is to avoid the auditor having to communicate information that is not included in the annual report (Ernst & Young Global Limited, 2023).

For KPMG, the description of how the management's assessment of the entity's ability to continue as a going concern was assessed for listed entities, with reference to the related disclosures in the financial statements, is a good way of increasing transparency regarding the audit procedures carried out to assess the management's assessment of going concern. This would make it possible to align the assessment of going concern with what is done with the KAMs (KPMG, 2023).

4.2 Analysis of data collected & construction of a reasoned response

4.2.1 Analysis of data collected

With data collection complete, we can now reach our final operational objective, which should enable us to test our hypotheses and thus formulate a reasoned response to the research question. Analysis consists of highlighting the relationship between the data (Paquet et al., 2020).

The aim of the table below is to link the data collected via the achievement of our two operational objectives:

	Opportunity	Threat
Risk identification and assessment	<p><u>Evolution gap</u></p> <p>By enhancing risk identification, the revised standard enables better identification of the risks facing organizations today.</p>	<p><u>Knowledge gap</u></p> <p>The revised standard casts doubt on the respective responsibilities of the auditor and management in identifying conditions or events that could cast doubt on the going concern.</p>
Evaluating management's assessment	<p><u>Evolution gap</u></p> <p>Audit procedures to evaluate management's assessment of going concern in all circumstances</p>	<p><u>Performance gap</u></p> <p>The auditor's assessment of the use of the going concern depends on the analysis carried out by management, which in practice is not always based on methods, assumptions and data. Moreover, its does not always need to be detailed</p>

<p>Professional skepticism</p>	<p><u>Evolution gap</u></p> <p>In addition to the strengthened links with ISA 315, those with ISA 570 and the consideration of corroborative or contradictory evidence reinforce professional skepticism and the identification of potential bias.</p>	
<p>Evaluating management’s plan for future actions</p>		<p><u>Performance gap</u></p> <p>Several organizations point out that it is difficult in practice to assess a third party's intent and ability to perform an action.</p>
<p>Definition of material uncertainty</p>	<p><u>Performance gap</u></p> <p>Definitions of “material uncertainty” and “may cast a significant doubt”, addresses one of the identified elements of the performance gap. Although supported, the definition requires further clarification, according to several organizations</p>	

<p>New requirements about going concern in the auditor's report</p>	<p><u>Evolution gap</u></p> <p>Explicit declaration of going concern and details of procedures for entities listed deals with the request for transparency and explanation of audit procedures</p>	<p><u>Knowledge gap</u></p> <p>Give a false impression of the auditor's responsibility for going concern and the purpose of the audit in general.</p>
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4.2.2 Interpretation of data and construction of a reasoned response

The first thing we can confirm is that all our operational objectives have been achieved. Indeed, we were able to collect the causes of the expectation gap, we were able to collect the opinions of audit professionals on the impact of the proposed new elements of ISA 570, by analysing the situation from the point of view of the expectation gap. Finally, we were able to carry out an analysis of the impact of the new elements on the expectation gap. This presentation is summarised in the table in section 4.2.1.

Now it is time for us to check whether our hypotheses are confirmed or invalidated. As a reminder, our two hypotheses are as follows:

H1: New requirements proposed for ISA 570 represent an opportunity to reduce the expectation gap relating to going concern in an audit of financial statements

H2 : New requirements proposed for ISA 570 represent a threat to widen the expectation gap relating to going concern in an audit of financial statements

Data analysis shows that our two hypotheses need to be nuanced. Indeed, the reform of ISA 570 makes it possible to reduce certain components of the expectation gap, mainly the evolution gap. However, it also threatens certain components, mainly the knowledge gap and, to a lesser extent, the performance gap. As a reminder, our research question is:

“How could the revision of ISA 570 impact the expectation gap relating to going concern in an audit of financial statements?”

Our answer can be formulated as follows :

“The revision of ISA 570 represents a great opportunity to reduce the gap between what the public expects of the auditor and what the auditor actually does. The key elements contributing to this are that the auditor must perform enhanced risk analysis procedures to identify events or conditions threatening going concern, assessing management evaluation in all circumstance, but also that he must rely on more evidence and explicitly communicate his assessment of going concern, and in some cases the procedures performed in this respect. That being said, the revision also poses the threat of a widening knowledge gap, insofar as the public is likely to have a false image of the auditor's responsibility with regard to going concern and on the whole of the purpose of the audit, as well as a performance gap, insofar as certain requirements will be difficult to apply in practice without the requirements for the entity evolving.”

After spending quite a few months analysing letters from audit professionals to the IAASB, perhaps I should write my own as well? How do you feel about it?

CONCLUSION

5.1 Review of the approach

This work is above all the fruit of intellectual curiosity. It began when, as a Master's student who had enjoyed his course on international auditing standards, I wondered about the work of the auditor in accordance with international auditing standard ISA 570. I knew very little about this standard at the time, but it intrigued me because of its importance, especially in the economic context surrounding our society at the end of the covid 19 pandemic and the war and its consequences for businesses.

The rich theoretical analysis of the first part of this work has provided not only an understanding of the auditor's work in relation to going concern, but also an insight into the various trends and challenges surrounding the auditor's work in this area. While some of these challenges are recent, others have been discussed for longer among audit professionals and have been reinforced by the current economic context. Hence the IAASB has launched a project to reform ISA 570. While the impact of the latter can generally be assessed from a number of angles, the angle chosen in this work is that of the expectation gap regarding the auditor's work in assessing going concern. I asked myself the following research question: **“How could the revision of ISA 570 impact the expectation gap relating to going concern in an audit of financial statements?”**

One of the first challenges posed by such a question is that it is necessary to have access to a large number of respondents in order to gather opinions on several elements. Both to identify the causes of the expectation gap and to gather opinions on the reform of ISA 570 and see how opinions relate to the expectation gap. To do this, the methodology used was that of collecting existing data. This methodology is particularly suitable for situations where it is necessary to access a large quantity of data. This method thus met a key criterion of a research question: feasibility. Given my constraints, i.e. that of a student with a time constraint to carry out his research, this method was also the best suited to enabling me to concentrate my research on resolving my research question.

The existing data was collected by analysing the letters sent by 47 organisations to the IAASB. The letters come from two different studies, the first focusing on understanding the audit expectation gap. The second focused on gathering opinions on the new elements of ISA 570.

The research question was resolved by developing operational objectives and hypotheses. The operational objectives were as follows

- 1) to identify the causes of the going concern expectation gap in an audit of financial statements
- 2) to compare the current ISA 570 with the proposed new standard in order to compare the new elements and to analyse the audit professionals' views on the impact of the new ISA 570
- 3) Determine how the proposed revision of ISA 570 might affect the causes of the expectations gap, based on audit professionals' views of the proposed changes.

And based on these operational objectives, two hypotheses were developed:

H1: New requirements proposed for ISA 570 represent an opportunity to reduce the expectation gap relating to going concern in an audit of financial statements

H2 : New requirements proposed for ISA 570 represent a threat to widen the expectation gap relating to going concern in an audit of financial statements

The application of our data collection methodology enabled us to answer our question and to qualify our hypotheses. We discovered that the ISA 570 review represents a great opportunity to reduce the evolution gap, but a threat to extend the knowledge and performance gap. This is how we were able to formulate the following answer to our research question:

“The revision of ISA 570 represents a great opportunity to reduce the gap between what the public expects of the auditor and what the auditor actually does. The 3 key elements contributing to this are that the auditor must perform enhanced risk analysis procedures to identify events or conditions threatening going concern, but also that he must rely on more evidence and explicitly communicate his assessment of going concern, and in some cases the procedures performed in this respect. However, the revision also poses the threat of a widening knowledge gap, insofar as the public is likely to have a false image of the auditor's responsibility with regard to going concern, as well as a performance gap, insofar as certain requirements will be difficult to apply in practice without the requirements for the entity evolving.”

5.2 Limits of the thesis

This research was not carried out without significant challenges that limit its scope.

The first and most important limitation, in my opinion, is that it was very difficult to obtain interviews with audit professionals with sufficient experience to gain perspective on the issue of going concern and to have an opinion on the impact of the reform of ISA 570 on this issue. Indeed, the auditors I spoke to told me that they lacked the experience to help me with my research question. For this reason, it was decided to collect data that already existed in order to carry out this study. Although reading the letters from large companies and organisations in the audit world enabled me to fulfil my operational objectives, having access to experienced auditors working in a Belgian context would certainly have added value to this work.

The second is that the expectation gap is not a subject that requires a response from the auditor alone. If the research focuses on the audit expectation gap, it is essential to recall the theoretical basis of an assurance engagement, which is the three party relationship. In order to deal with the expectation gap, it would have been preferable to develop a data collection methodology targeting the other two parties in the three-party relationship, i.e. the companies and the users of the financial statements. However, given the time and resources available, it was decided to collect only the opinions of audit professionals.

Finally, a more personal limitation is that this work is the work of a student with a theoretical knowledge of auditing, through his courses. This is why the more technical elements of the new ISA 570 proposals have not been discussed in depth, as a lack of experience would not have allowed me to debate them. Having said that, I have done my very best to analyse and understand in detail the letters from professionals to the IAASB to maximise my knowledge of the subject.

5.3 New perspectives

The results of the research provide interesting perspectives for further research into the auditor's work on going concern in general.

Firstly, linked to the link between knowledge and evolution gap, it would be very interesting to go into more detail on the relationship between evolution gap and knowledge gap. Indeed, if the results of this study reveal that the latter are evolving in the opposite direction under the reform of ISA 570, it would be interesting to see if this relationship is verified with other reforms planned by the IAASB. Why not with ISA 240? Checking whether this relationship is verified on different reforms of auditing standards would thus enable the development of more targeted measures on the audit expectation gap and ensure the development of resilient ISAs that ensure public confidence in the auditor's work.

Secondly, linked to the subject of the evolution gap, it would also be interesting to see whether another type of assurance engagement could be developed. Indeed, one of the issues raised by several audit professionals in relation to the knowledge gap is the lack of understanding between the going concern principle and the assessment of a company's viability. As the two elements are not judged at the same level, it would be interesting to see whether stakeholders' expectations regarding the going concern principle can be met by a reform of ISA 570 or whether the auditing world, in collaboration with the accounting world, needs to develop a different form of reporting and its assurance.

Thirdly, with regard to the knowledge gap, it would be interesting to see how this can be reduced by involving different stakeholders. I have personally begun research on this subject, notably with trade union representatives. The subject deserves to be explored in greater depth, because in my opinion, relying on external intermediaries is a good way of dealing with the knowledge gap. The academic world can also play a part, and why not develop auditing courses from bachelor level? This could also help to develop vocations for this profession, which is essential to society. All the more so with the arrival of the CSRD.

And fourthly, to stay on the subject of CSRD, the audit world is about to undergo a major change with the audit of so-called ESG information. We touched on this in the literature review, but I think it would be very interesting to look at the subject in greater depth and see how ESG-related risks can be incorporated into ISA 570. Here too, I've had the opportunity to have some very rewarding conversations, particularly about the transformation that the so-called 'hard-to-abate' sectors are undergoing.

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