Tom Seidenstein

IAASB Chair

Filed via the website

Brussels, 25 July 2023

Subject: Proposed International Standard on Auditing 570 Going Concern

Dear Sir, Dear Tom,

Accountancy Europe is pleased to provide you with its comments on the proposed International Standard on Auditing 570 Going Concern.

Going concern is one of the key topics oriented to public interest so any revisions of the auditing standards should aim to reduce the expectation gap among different stakeholders.

Although the primary responsibility lies with companies, we believe that each party, including de facto the auditors, and the interactions amongst them, need to evolve to create a stronger ecosystem. Indeed, a stronger financial reporting ecosystem could enable entities to adopt preventative measures timely and better manage relevant risks.

In this sense, we welcome the IAASB's proposals enhancing auditors':

- risk assessment adaptability and agility
- work effort in terms of considering the wider context in evaluating management's assessment
- communication in the auditor's report and in general

We welcome that auditors will be communicating their conclusions on whether management's use of the going concern basis of accounting is appropriate in a separate section of the auditor's report.

The proposals, however, seem to address issues that are not within the remit of auditing standards, such as the period of management's assessment. We also have concerns about ED ISA 570's proportionality since it does not address cases where the risks related to going concern are trivial or do not exist.

Lastly, it remains difficult to eliminate the expectation gap as assessing an entity's ability to continue as a going concern has its inherent limitations which cannot be eliminated. This is because such assessment is based on forecasts about the future and thus always involves a level of uncertainty.

We thank you for the opportunity to comment. For further information on this letter, please contact Harun Saki on +32 488 55 25 76 or via email at harun@accountancyeurope.eu .

Sincerely,

Olivier Boutellis-Taft
Chief Executive

ABOUT ACCOUNTANCY EUROPE

Accountancy Europe unites 50 professional organisations from 35 countries that represent close to 1 million professional accountants, auditors and advisors. They make numbers work for people. Accountancy Europe translates their daily experience to inform the public policy debate in Europe and beyond.

Accountancy Europe is in the EU Transparency Register (No 4713568401-18).

ANNEX - REQUEST FOR COMMENTS

Overall Questions

1. *Do you agree that the proposals in ED-570 are responsive to the public interest, considering the qualitative standard-setting characteristics and project objectives that support the public interest as set out in Appendix 1?*

We believe that the corporate reporting ecosystem should evolve and become more effective at identifying issues on a timely basis with an entity's ability to continue as a 'going concern' and be equipped with mechanisms for dealing with them. Our publication (February 2021) presents recommendations to strengthen the ecosystem and re-examines the role of key parties to make the system more resilient: entity's management and those charged with governance, external auditors, standard setters, regulators and policymakers.

In this regard, we welcome IAASB's revisions to ISA 570 requiring a more proactive and focused audit approach, including specific risk assessment procedures, from auditors.

As noted in our publication, the period for going concern assessment should be clarified and harmonised between auditing and reporting frameworks. However, this is an issue for reporting standards in the first place and in principle, auditing standards should not establish implicit requirements for audited entities.

In addition, for entities where there are no or remote risks of material uncertainty related to going concern, proposed requirements will lead to further work and documentation from auditors while adding limited value for the users of the audit report. Therefore, we invite the IAASB to improve the scalability and proportionality of the standard by addressing the cases where the entity has clearly no risk related to going concern, e.g. when the entity has profitable operations and there are no liquidity concerns.

2. *Do you believe that the proposals in ED-570, considered collectively, will enhance and strengthen the auditor's judgments and work relating to going concern in an audit of financial statements, including enhancing transparency through communicating and reporting about the auditor's responsibilities and work?*

Yes, we believe that the proposals will enhance and strengthen the auditor's judgments and work in relation to going concern. However, the generic reporting requirement for auditors should be limited to cases where the entity discloses its going concern assessment as per the applicable financial reporting framework. In other cases, it should be up to the auditor's judgment as to whether additional information should be provided in the auditor's report with regards to going concern.

We observe that an entity's going concern is increasingly dependent on the continued operation of its information technology (IT) systems. We therefore suggest including in paragraph A15 the notion that IT-related risks may lead to business risks that may result in events or conditions affecting the entity's ability to continue as a going concern. Relevant application material should also be added to provide examples of IT-related events and conditions which might constitute material uncertainty.

3. *Do you believe the proposed standard is scalable to entities of different sizes and complexities, recognizing that general purpose financial statements are prepared using the going concern basis of accounting and that going concern matters are relevant to all entities?*

No, we believe that the scalability of the proposed standard could be improved. This could be done by referring to applicable financial reporting framework for the requirements on extending the assessment period and compulsory reporting in the auditor's report. Financial reporting standards are set, and revised as necessary, considering user expectations and public interest issues in relevant jurisdiction. Therefore, the auditing standards should build on, and be consistent with, these reporting standards.

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

Yes, we believe that this standard appropriately reinforces professional scepticism by providing guidance for the auditor's evaluation of the management assessment and performance of specific risk assessment procedures.

Specific Questions

5. *Do you support the definition of Material Uncertainty (Related to Going Concern)? In particular, do you support the application material to the definition clarifying the phrase "may cast significant doubt"?*

Yes, we are generally supportive of the definition and would like to note that in some cases, either the uncertainty's likelihood of occurrence or magnitude of its impact alone would lead the entity to provide appropriate disclosures. Relevant application material (A5) recognises this when describing the relationship between significant doubt and magnitude. However, it does not provide any guidance on how to consider likelihood which should also be explained.

6. *Does ED-570 appropriately build on the foundational requirements in ISA 315 (Revised 2019) in addressing risk assessment procedures and related activities, to support a more robust identification by the auditor of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern?*

ISA 315 is about obtaining an understanding of the entity and performing risk assessment procedures as a basis for the audit. Risks related to going concern, among other risks, need to be addressed throughout the audit. Requirements of the ISA 315 do not need to be repeated in the ED ISA 570 since ISAs should be considered as a single set of professional standards.

In addition, we are concerned with the level of detail in paragraph 12. Each of the items listed (a-i) in this paragraph might be considered as a separate requirement and thus a separate consideration and documentation could be expected from auditors irrespective of the engagement circumstances. ED ISA 570 should refer to the understanding required by ISA 315 and explain how that understanding may help the auditor in identifying and assessing risks related going concern.

Finally, paragraph 11 of the proposed standard requires the auditor to 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. his is primarily management's responsibility, and the auditors should be required to assess whether management has properly identified and, where relevant, reported on such events and circumstances. Accordingly, the risk assessment procedures in ISA 315 are supposed to be designed to provide an appropriate basis for the auditor's risk identification and assessment – which in the context of going concern, means to support the auditor's identification and assessment of risks of material misstatement due to management not having identified such events or conditions. Paragraph 11 therefore needs to be revised to properly reflect auditor responsibilities and to align with ISA 315. Furthermore, as pointed out below, paragraph 24 also requires revision in this regard.

7. *Do you support the change in the commencement date of the twelve-month period of management's assessment of going concern, from the date of the financial statements (in extant ISA 570 (Revised)) to the date of approval of the financial statements (as proposed in paragraph 21 of ED-570)? When responding consider the flexibility provided in paragraphs 22 and A43–A44 of ED-570 in circumstances where management is unwilling to make or extend its assessment. If you are not supportive of the proposal(s), what alternative(s) would you suggest (please describe why you believe such alternative(s) would be more appropriate and practicable)?*

It is generally in the public interest that management's going concern assessment period covers 12 months after the approval of the financial statements. However, public interest for the stakeholders of the reporting ecosystem cannot be achieved if this is addressed only in auditing standards. Hence, we encourage the IAASB, with support from the Monitoring Groups members, to engage with reporting standard-setters at global and local level to explain the issues created by the lack of clarity or consistency about the going concern assessment period in financial reporting frameworks.

In accordance with extant ISA 570, auditors already challenge management where necessary and ask them to extend their assessment when they deem it necessary based on their professional judgment and depending on the engagement circumstances. Revisions to ISA 570 should keep this conditional requirement and further elaborate in application material on the factors upon which such necessity may be warranted.

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?*

Yes, we support the proposed approach as a principle although it is not scalable enough. As noted above, the standard should provide more guidance with examples on cases where the entity's ability to continue as a going concern is almost self-evident, and how auditors could achieve the objectives of the standard in an appropriate and proportionate manner.

9. *Does ED-570 appropriately incorporate the concepts introduced from ISA 540 (Revised) for the auditor's evaluation of the method, assumptions, and data used in management's assessment of going concern?*

Yes, the ED 570 appropriately incorporates ISA 540 concepts. However, as mentioned in the application material (A8), in some cases, such as for SMEs, the going concern assessment does not involve complex methods or highly subjective assumptions.

10. *Do you support the enhanced requirements and application material, as part of evaluating management's plans for future actions, for the auditor to evaluate whether management has the intent and ability to carry out specific courses of action, as well as to evaluate the intent and ability of third parties or related parties, including the entity's owner-manager, to maintain or provide the necessary financial support?*

Yes, overall, we support the requirements of paragraphs 26 and 27. Relevant application material (A48) should highlight that inquiries of management or those charged with governance would not be sufficient on their own to fulfil these requirements.

In addition, paragraph 26(a) should clarify that the auditor needs to evaluate whether management's plans for future actions could sufficiently alleviate or remediate the events and conditions that cause doubts about the entity's ability to continue as a going concern.

Some of the new requirements will be challenging in practice, such as evaluating the intent and ability of the third parties (as per paragraph 27 of the ED) when their support is part of management's plans. Auditors will need more guidance and specific examples since some of the examples given in the ED ISA 570, such as inspecting the latest available audited financial statements, would not be helpful in evaluating the intent.

11. *Will the enhanced requirements and application material to communicate with TCWG encourage early transparent dialogue among the auditor, management and TCWG, and result in enhanced two-way communication with TCWG about matters related to going concern?*

Yes, we believe that the importance of two-way communication is better emphasized with the proposals. However, in practice, communication with management and those charged with governance is already made when deemed necessary by auditors.

12. *Do you support the new requirement and application material for the auditor to report to an appropriate authority outside of the entity where law, regulation or relevant ethical requirements require or establish responsibilities for such reporting?*

Paragraph 40 of ED ISA 570 refers to legal, regulatory and ethical requirements that the auditor needs to be aware of. Although it does not establish new requirements, we support this requirement and related application material as they underline an important consideration.

13. *This question relates to the implications for the auditor's report for audits of financial statements of all entities, i.e., to communicate in a separate section in the auditor's report, under the heading "Going Concern" or "Material Uncertainty Related to Going Concern", explicit statements about the auditor's conclusions on the appropriateness of management's use of the going concern basis of accounting and on whether a material uncertainty has been identified.*

    Do you support the requirements and application material that facilitate enhanced transparency about the auditor's responsibilities and work relating to going concern, and do they provide useful information for intended users of the audited financial statements? Do the proposals enable greater consistency and comparability across auditor's reports globally?

Yes, we support the requirement for explicit statements in the auditor's report in cases where management's explicit statement on going concern is required by the reporting framework. When this is not the case, the auditor should ask management to make explicit statements so that the auditor can report their conclusion accordingly. We believe that management disclosure on the basis of their going concern assumption should be mandatory even when no material uncertainty is identified. This will be in the public interest and requires a change in reporting standards. Such disclosure should include a summary of the rationale for how and why management reached their conclusions to support the going concern assumption.

In addition, the wording proposed to be included in the auditor's report pursuant to paragraph 33 (a) (ii) that the auditor, "based on the audit evidence obtained, has not *identified* a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern" could be (mis)understood as implying that the auditor had sought to identify material uncertainties that management had not identified or disclosed. We therefore urge the IAASB to clarify the wording so as to replace "identified" with "become aware of" in the auditor' report. This would serve to avoid potential misunderstanding and an expectation gap.

14. *This question relates to the additional implications for the auditor's report for audits of financial statements of listed entities, i.e., to also describe how the auditor evaluated management's assessment of going concern when events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern (both when no material uncertainty exists or when a material uncertainty exists).*

    Do you support the requirements and application material that facilitate further enhanced transparency about the auditor's responsibilities and work relating to going concern? Should this be extended to also apply to audits of financial statements of entities other than listed entities?

Please see our response to question 13.

We also would like to note the fact that the IAASB's Listed Entity and Public Interest Entity (PIE) project has not been finalised yet. At this point in time, it does not seem to be the best course of action to revise ISA requirements specific to listed entities.

15. Is it clear that ED-570 addresses all implications for the auditor's report relating to the auditor's required conclusions and related communications about going concern (i.e., auditor reporting is in accordance with ED-570 and not in accordance with ISA 701 or any other ISA)? This includes when a material uncertainty related to going concern exists or when, for audits of financial statements of listed entities, events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained, the auditor concludes that no material uncertainty exists.

Yes, the proposals are clear. Please also see our response to question 13.

16. Are there any other matters you would like to raise in relation to ED-570? If so, please clearly indicate the requirement(s) or application material, or the theme or topic, to which your comment(s) relate.

Within the consequential amendments, the illustrative examples (1 and 2) for ISA 800 include the wording about going concern as stipulated in ED 570, paragraph 33. The inclusion of this section in circumstances where ISA 800 is applicable should be conditional i.e., limited to cases where the special purpose statements are prepared under the going concern basis of accounting.

17. The IAASB is also seeking comments on the matters set out below:
(a) Translations—Recognizing that many respondents may intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED-570

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

(a) No comments.

(b) The proposals will have an impact on the format and content of the auditor's report. We believe that the effective date for the ED ISA 570 should be the same as other ongoing projects which may affect the format and content of the auditor's report.