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International Auditing and Assurance Standards Board
International Federation of Accountants
529 Fifth Avenue
New York, NY 10017

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Via IAASB website at www.iaasb.org

Dear Board Members and Staff:

Grant Thornton International Ltd appreciates the opportunity to provide input on the International Auditing and Assurance Standard Board's (IAASB) Proposed International standard on Auditing 570 (Revised 202x) Going Concern and Proposed Conforming and Consequential Amendments to Other ISAs (ED-570).

We attach our detailed responses to the questions posed regarding ED-570. We would be pleased to discuss our comments with you. If you have any questions, please contact Sara Ashton at sara.ashton@us.gt.com or at +1 646 825 8468.

Sincerely,

R. Trent Gazzaway

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Enc: Responses to Proposed International standard on Auditing 570 (Revised 202x) Going Concern and Proposed Conforming and Consequential Amendments to Other ISAs

Responses to IAASB's Proposed International standard on Auditing 570 (Revised 202x) Going Concern and Proposed Conforming and Consequential Amendments to Other ISAs

The following provides our detailed response to the IAASB's request for comments to Proposed International standard on Auditing 570 (Revised 202x) Going Concern and Proposed Conforming and Consequential Amendments to Other ISAs.

OVERALL QUESTIONS

Q1. 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 are of the view that it is in the public interest to facilitate the consistent application of rigorous audit procedures relating the auditor's evaluation of, and conclusions on, management's assessment of an entity's ability to continue as a going concern. This involves the performance of risk assessment procedures and developing an audit response that appropriately responds to the identified and assessed risk of material misstatement; it is not in the public interest to perform audit procedures that do not appropriately respond to the identified and assessed risk of material misstatement. In this respect, we are of the view that the proposals in ED-570 are, only in part, responsive to the public interest considering the qualitative standard-setting characteristics and project objectives supporting the public interest as set out in Appendix 1. Detailed below are our views on each of the project objectives:

A. *Project Objective: Promote consistent practice and behavior and facilitate effective responses to identified risks of material misstatement related to going concern.*

We are of the view that the explicit requirements regarding the risk assessment procedures the auditor is required to perform will serve the public interest by facilitating a more consistent application across firms of all sizes and jurisdictions, of the requirements of ISA 315 (Revised 2019)[1], when applying its requirements to the assessment of the risk of material misstatement related to an entity's ability to continue as a going concern. A consistent and effective risk assessment provides a better foundation for effective responses to the identified risks of material misstatement related to going concern.

B. *Project Objective: 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*

We are of the view that the proposed requirements meet the objective of strengthening the auditor's evaluation of management's assessment of going concern, however as detailed in our responses below, we are concerned that the requirements are not scalable to entities of all sizes and complexity, or further guidance will be needed to achieve consistency in practice. In particular, as noted in our response to question 8, we are of the view that the evaluation of management's assessment of going concern should be responsive to the method used by management to perform the analysis and be based on the auditor's risk assessment.

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1 ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

We agree that there is increased emphasis on the application of professional skepticism regarding the evaluation of management's assessment of the entity's ability to continue as a going concern. However, as noted in our response to question 4, to serve the public interest better, we are of the view that more guidance is needed on its practical application, in particular how auditors appropriately demonstrate that they have applied professional skepticism in the performance of the audit.

C. *Project Objective: Enhance transparency with respect to the auditor's responsibilities and work related to going concern where appropriate, including strengthening communications and reporting requirements*

We are supportive of the intent to enhance transparency regarding going concern considerations; however, we question whether it serves the public interest to require such disclosures absent similar requirements in the financial reporting frameworks used by entities in the preparation of the financial statements and the notes thereto. We are concerned that the required disclosures proposed will be misinterpreted by stakeholders or may suggest that the auditor has a greater responsibility for assessing and concluding on an entity's ability to continue as a going concern than management of that entity, thereby not achieving the objectives of increased transparency.

Q2. Do you believe that the proposals in ED-570, considered collectively, will enhance and strengthen the auditor's judgments and work related to going concern in an audit of financial statements, including enhancing transparency through communicating and reporting about the auditor's responsibilities and work?

We are of the view that the proposed requirements relating to the procedures to be performed by the auditor in assessing the risk of material misstatement and responding to that risk are largely reflective of the appropriate application of the ISAs, such as ISA 315 (Revised 2019). Incorporating into ED-570 may therefore facilitate consistency in approach across firms of all sizes and jurisdictions. However, we question whether the enhancements to transparency through communicating and reporting will significantly affect the procedures performed by the auditor or the professional judgments made. As we noted when the auditor was first required to report key audit matters in accordance with ISA 701[2], the auditor's work in relation to those matters and the judgments reached were likely not affected by the requirement to report such.

Q3. Do you believe the proposed standard is scalable to entities of different sizes and complexities, recognizing that general purpose financial statements are prepared using the going concern basis of accounting and that going concern matters are relevant to all entities?

We are concerned that certain proposed requirements in the standard do not sufficiently take into account the requirements of the underlying financial reporting framework or the assessed risk of material misstatement and consequently include requirements that may require the auditor to perform procedures that are disproportionate to the assessed risk.

Financial reporting frameworks may not include specific requirements for management in relation to how management is required to assess an entity's ability to continue as a going concern. Therefore, based on the size and complexity of the entity, management's assessment may range from a very informal undocumented assessment, where the entity is highly profitable and has sufficient cash flow, to a formally documented complex assessment involving cash flow analyses and scenario modelling. Further, we note that ED-570, itself, acknowledges in paragraph A30 that management may not perform a detailed analysis of the entity's ability to continue as a going concern, yet paragraph 19 still includes detailed requirements regarding

2 ISA 701, *Communicating Key Audit Matters in the Auditor's Report*

the auditor's evaluation of the method, assumptions and data used by management in making its assessment of the entity's ability to continue as a going concern.

We are of the view that scalability of the standard could be improved by amending paragraph 19 to be a conditional requirement as discussed further in our response to question 8 below.

We further caution the IAASB against creating requirements for auditors that indirectly create requirements for management that are not in the financial reporting framework used by management in the preparation of the financial statements.

Q4. Do the requirements and application material of ED-570 appropriately reinforce the auditor's application of professional skepticism in relation to going concern?

We agree that the requirements and application material of ED-570 reinforce the auditor's application of professional skepticism in relation to going concern. However, we are of the view that additional guidance is needed on how auditors appropriately demonstrate that they have applied professional skepticism in the performance of the audit. This could be in the form of guidance around the circumstances in which documentation is expected and the form and content of that documentation.

OVERALL QUESTIONS

Q5. 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?

We are supportive of the introduction of a definition of material uncertainty (Related to Going Concern) in ED-570, along with the clarification of the phrase "may cast significant doubt" and find the related application material helpful. We have the following recommendations to provide clarity to the proposed definition and related application material:

- Period of time – We are of the view that it would be beneficial to include the period of time for which the events or conditions are to be evaluated, either in the definition itself or in the application material associated with the definition. In this respect, we recommend that the IAASB consider an approach similar to that used in the American Institute of Certified Public Accountants (AICPA)'s auditing standard on going concern, AU-C 570[3], which limits the evaluation to a "reasonable period of time" and defines what is considered a reasonable period of time.
- Remedial actions – Paragraph A5 includes examples of remedial actions that management might take to remediate a material uncertainty related to going concern. These examples are clearly not within the control of management, so there is a definite material uncertainty. It is less clear, however, if a material uncertainty would exist, if the actions available to management are within management's control, for example, if management withdrew budgeted bonus payments or reduced the entity's headcount. We would therefore recommend that this be clarified in the application material related to the proposed definition.

Q6. Does ED-570 appropriately build on the foundational requirements in ISA 315 (Revised 2019) in addressing risk assessment procedures and related activities, to support a more robust identification by the auditor of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern?

We are of the view that the proposed requirements in ED-570 that build on the foundational requirements in ISA 315 (Revised 2019) are appropriately tailored to how risk assessment

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3 AU-C 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*

procedures are applied to going concern in an audit. Although we believe that these requirements are somewhat duplicative of ISA 315 (Revised 2019) and largely reflective of risk assessment procedures in relation to going to concern that are currently performed by auditors, specific requirements may help to promote consistency across different jurisdictions and firms.

Q7. 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)?

Period of assessment

We do not 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 to the date of approval of the financial statements. We are of the view that this proposed change is effectively setting requirements for management relating to the preparation of the financial statements. Setting such requirements falls outside of the remit of the IAASB. Further, if the financial reporting framework requires that management make an assessment of the entity's ability to continue as a going concern that is shorter than the period required by the auditing standards, this imposes a greater responsibility on auditors than on management for the assessment of the entity's ability to continue as a going concern.

We therefore recommend that the IAASB consider whether it would be beneficial to consider whether further discussions with the monitoring group, regulators and the International Accounting Standards Board (IASB) could help to create alignment between international auditing standards and international accounting standards such that auditor responsibilities and management responsibilities are appropriately aligned.

Management unwilling to make or extend its assessment

We support the additional flexibility provided by paragraphs 22, 23 and A43 - A45, however, we are of the view that additional clarification is needed regarding the implications for the auditor in circumstances where management is unwilling to make or extend its assessment of the entity's ability to continue as a going concern. For example, consider the following two scenarios:

- The applicable financial reporting framework requires an assessment period that is shorter than that proposed by ED-570 and the entity has little or no going concern risk, therefore management does not believe it is necessary to extend the going concern assessment.
- The applicable financial reporting framework requires an assessment period that is shorter than that proposed by ED-570 and, whilst no material uncertainty that casts significant doubt on the entity's ability to continue as a going concern has been identified, there are significant assumptions within the entity's assessment of its ability to continue as a going concern. However, management does not believe it is necessary to extend the going concern assessment.

The existing guidance provided, whilst helpful, does not include clarification of the actions that the IAASB intends the auditor to take in such, or similar, scenarios. Absent further guidance in this respect, we are of the view that this may lead to inconsistencies in the application of this requirement in practice.

Q8. 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?

We agree with requirements for the auditor to design and perform audit procedures to evaluate management's assessment of going concern in all circumstances. However, we are of the view that the nature and extent of the procedures performed should be based on the auditor's risk assessment. In circumstances where an entity clearly has little or no going concern risk, (e.g., it is consistently profitable, has cash reserves and little or no debt and no other going concern risks have been identified), paragraph 19 would still require the auditor to perform procedures around the method, assumptions and data used by management in its assessment of the entity's ability to continue as a going concern. In such circumstances, management may not perform, or need to perform, a formal assessment. We therefore recommend that paragraph 19 is made conditional based on the risk associated with the assessment of the entity's ability to continue as a going concern and only be required when events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, irrespective of whether mitigating or remedial actions have been identified.

Q9. 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?

As noted in our response to question 8 above, and as recognised in paragraph A30, we note that there may be circumstances when the evaluation of the method, assumptions and data used by management in its assessment of the entity's ability to continue as a going concern does not require extensive audit procedures, including in circumstances where:

- The auditor's assessment of the risk of material misstatement does not identify risks that warrant extensive evaluation procedures, for example, when no events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, irrespective of potential mitigating activities.
- Management's assessment of the entity's ability to continue as a going concern does not include a model with methods and assumptions, for example because the entity is highly profitable and has no liquidity issues.

Further, financial reporting frameworks do not necessarily specify how management is required to make its assessment of the entity's ability to continue as a going concern. The requirements in paragraph 19 presupposes that management will be using a model that includes explicit assumptions. This either has the result of imposing accounting requirements for management through auditing standards or requires the auditor to report explicitly on implicit assumptions.

We therefore reiterate our view that proposed paragraph 19 is made a conditional requirement.

Q10. 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?

We support requirements for the auditor to evaluate whether management has the intent and ability to carry out specific courses of action. This is, to a large extent, reflective of current practice. However, we are of the view that further guidance is needed on the extent of procedures to be undertaken by the auditor in certain circumstances. For example:

- Management's assessment of the entity's ability to continue as a going concern includes assumptions about its ability to obtain additional finance, say 10 months from when the financial statements are dated. As acknowledged in paragraph A50, a financial institution may be unwilling to provide a confirmation, either in writing or orally, that it will extend finance; in the current economic climate, it may be unlikely that past experience would be a reliable indicator of future expectations, and it is unclear what is expected of the auditor in such circumstances.
- For an owner-managed entity, the assessment of the entity's ability to continue as a going concern includes an assumption that the owner-manager will finance a projected liquidity need during the assessment period. It is not clear whether, in such circumstances, it is sufficient for the auditor to obtain a guarantee from the owner-manager that finance will be provided when the need arises, or whether it is expected that the auditor would need to obtain additional evidence, such as a statement of net worth for that individual in order to prove ability.

Further, we note that paragraph 26(a) requires the auditor to evaluate, in respect of management's plans for future actions in relation to the going concern assessment, whether 'the outcome of these plans is likely to improve the situation.' However, the associated application material uses the term 'mitigate.' We suggest that consistent terminology be used in the requirement and the application material to avoid confusion.

Q11. 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?

We agree that the enhanced requirements and application material to communicate with TCWG will encourage transparent dialogue among the auditor, management and TCWG. The auditor's evaluation of, and conclusion on, management's assessment of an entity's ability to continue as a going concern often involves significant professional judgments that are important to be communicated with TCWG. As such, a requirement that reminds auditors of this responsibility will be beneficial.

Q12. 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?

We are of the view that requirements 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 should be addressed by ISA 250 (Revised)[4] with an appropriate link from ED-570 to ISA 250 (Revised).

Q13. 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

[4] ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*

statements? Do the proposals enable greater consistency and comparability across auditor's reports globally?

We do not support the proposals related to the disclosure of going concern matters in the auditor's report. Our principal concern lies in the requirement for the auditor to include a conclusion, in a Going concern section of the auditor's report, that the going concern basis of accounting is appropriate. We are of the view that this statement is unnecessary and may actually have the adverse consequence of widening the expectations gap regarding the auditor's responsibilities relating to going concern for the following reasons:

- The auditor is already required to provide an opinion on the financial statements as a whole. This includes the appropriateness of the preparation of the financial statements on the going concern basis of accounting. If the going concern basis of accounting was determined to be inappropriate, this would be reflected in that opinion.
- The statement may be viewed by users of the financial statements as a guarantee that the entity will continue as a going concern. The auditor is not in a position to be able to predict what will happen in the future, the auditor can only make an evaluation based on evidence available at the time of the assessment. Further, as no time period is specified, there is the potential for this to be interpreted as a guarantee that exists into perpetuity.
- The statement is likely to become a standard disclosure that users will expect to be included in the auditor's report and this increases the potential for this section of the auditor's report to be overlooked in circumstances when there is something to report that requires users' attention.
- It adds additional length to an already long and growing auditor's report, reducing the likelihood that users will read the entire report and increasing the potential for other important information to be overlooked.

Further, we note that ISA 700 (Revised)[5] already requires the auditor's responsibilities to be disclosed in the auditor's report, including the specific responsibilities related to going concern.

Q14. This question relates to the additional implications for the auditor's report for audits of financial statements of listed entities, i.e., to also describe how the auditor evaluated management's assessment of going concern when events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern (both when no material uncertainty exists or when a material uncertainty exists).

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

We support increased transparency regarding going concern matters, however, we have concerns with the proposals in ED-570 as follows:

Close call situations

In situations where events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, after considering management plans to deal with these events or conditions, management and the auditor conclude that no material uncertainty exists (close call situations), the proposals require disclosures in the section entitled 'Going concern'. Under the proposals in ED-570, this section will also be used to make certain

5 ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements, paragraph 39*

positive statements about the going concern basis of accounting. We are of the view that the dual use of this section under a generic heading may cause confusion and may lead to the disclosures being misinterpreted or overlooked. Further, if the financial reporting framework does not require the entity to make disclosures in the financial statements regarding the close call, this requirement could potentially result in the auditor being in the inappropriate position of disclosing original information.

Disclosures about the auditor's work related to going concern

ED-570 includes a proposed requirement for the auditor to include a description of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern. We are concerned that such disclosures may effectively provide a roadmap of how fraud could be committed. Further, we question how meaningful this information is to users of the financial statements in understanding the extent and sufficiency of the work performed by the auditor in forming an opinion on the financial statements.

Q15. 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.

We agree that it is clear that ED-570 addresses all implications for the auditor's required conclusions and related communications about going concern, including when a material uncertainty exists or in close call situations. However, as noted in our response to question 14, we do not agree that close call situations should be disclosed in the Going concern section of the auditor's report. We are of the view that it is more appropriate for close call situations to be disclosed in the auditor's report when they meet the definition of a key audit matter and in the key audit matters section of the auditor's report and that such disclosures comply with the requirements of ISA 701.

Q16. 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.

We note that some stakeholders have expressed an increased interest in sustainability matters and their potential impact on an entity's financial condition and results of operations. While it might be rare for sustainability matters to lead to required going-concern disclosures in accordance with IAS 1, it is nevertheless important for companies and auditors to consider such risks in their respective going-concern evaluations. Therefore, it might be helpful to include, in the guidance for ED-570, a specific reference to sustainability risks along with other risks that should be considered.

REQUEST FOR GENERAL COMMENTS

Q17. The IAASB is also seeking comments on the matters set out below:

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

We did not identify any translation issues.

(b) Effective Date—Given the need for national due process and translation, as applicable, and the need to coordinate effective dates with the fraud project, the

IAASB believes that an appropriate effective date for the standard would be for financial reporting periods beginning approximately 18 months after approval of the final standard. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISA.

We agree, in principle, with the proposed implementation date of 18 months after approval of the final standard. However, to avoid constant amendments to auditor's reports, which could create confusion for users over a series of years, we recommend that the IAASB consider other current projects that may result in amendments to the auditor's report and work to coordinate the effective dates of the revised standards resulting from those projects.