KICPA
The Korean Institute of
Certified Public Accountants

April 21, 2023
International Auditing and Assurance Standards Board
International Federation of Accountants
529 5th Avenue
New York, NY 10017, USA

■ KICPA's comments on "Proposed International Standard on Auditing 570 Going Concern and Proposed Conforming and Consequential Amendments to Other ISAs"

The KICPA is pleased to have an opportunity to comment on the Exposure Draft issued by the International Auditing and Assurance Standards Board for Accountants (IAASB), regarding the Proposed International Standard on Auditing 570, Going Concern. KICPA is a strong advocate of IAASB for your relentless efforts to serve the public interest by setting high-quality international standards for auditing, assurance, and other related standards, and by facilitating the convergence of international and national auditing and assurance standards.

Respondents are asked to comment on the clarity, understandability, and practicality of application of the requirements and related application material of ED-570, including, as appropriate, any concerns in this regard or suggestions for improvement. When a respondent agrees with proposals in ED-570, it will be helpful for the IAASB to be made aware of this view.

In general, the KICPA agrees with the proposed exposure draft. Please see below for our comments with regard to some specific issues.

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?**

   The KICPA agrees that the proposed exposure draft is responsive to the public interest, considering the qualitative standard-setting characteristics and project objectives.

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?**

   The proposed exposure draft is expected to enhance and strengthen the auditor's judgments and work relating to going concern, including enhancing transparency through communicating and reporting about the auditor's responsibilities and work.

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

   We believe that the proposed exposure draft is scalable to entities of different sizes and complexities. However, the scalability of some specific requirements needs to be improved further (See the answer for Q9).

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

   The ED-570 appropriately reinforces the auditor's application of professional skepticism in relation to going concern.

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”?**

   The term “Material Uncertainty (related to going concern)” is used across the proposed standard. Therefore, we support the relocation of the proposed definition to the Definition section in the standard and the relevant application material that further clarifies the phrase "may cast significant doubt ".

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?**

   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.

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)?**

   The KICPA doesn’t agree with the proposed change.

   The going concern assumption is one of approaches that can be taken in financial statement preparation. Thus, the requirements associated with going concern and the period of assessment should be defined by the relevant financial reporting framework. In fact, different national financial reporting frameworks prescribe different minimum periods of management’s assessment (e.g., 1 year from the date of financial statements under IFRS vs. 1 year from the data when financial statements are issued under US-GAAP)

   If auditing standards prescribe a change in the commencement date of the period of assessment of going concern as suggested by ED-570, this would effectively extend the minimum period of management’s assessment. This would make the auditing standards override the relevant financial reporting framework, resulting in imposing more obligations on management. Such inconsistency between auditing standards and financial reporting framework is likely to add confusion, including potential disagreement between the auditor and the audited entity. We believe that the auditing standards should only require to assess if the period of management's assessment follows the applicable financial reporting framework.

Under the paragraphs 15 and A14 of the extant ISA 570, the auditor shall perform additional audit procedures to obtain audit evidence if events or conditions are identified beyond the period of management's assessment that may cast significant doubt on the entity's ability to continue as a going concern. Considering that the auditor may perform additional procedures if deemed necessary beyond the period of management's assessment in accordance with the requirements described above, it doesn't seem necessary to define the commencement date of assessment in auditing standards to extend the period of assessment.

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?**

The KICPA supports 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. As highlighted by ED-570, management's assessment of the entity's ability to continue as a going concern is a key element in the auditor's achievement of audit objectives related to going concern. Therefore, it is necessary to enhance the auditor's procedures to evaluate management's assessment as proposed by ED-570.

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?**

The KICPA supports the introduction of the concepts from ISA 540 (Revised) for the auditor's evaluation of the method, assumptions, and data used in management's assessment of going concern. However, considering the needs to further enhance the scalability, the KICPA requests to consider enhancements as described below.

Paragraph A38 of ED -570 provides description of scalability, but only with general and intuitive examples. They are not sufficient to help the auditor understand specifically how they can adjust the procedures related to the method, assumptions and data. In addition, the complexity of method used by management is described by both paragraphs A38 and A31. However, it is not clear as to what are the differences in the examples and objectives of the two paragraphs.

To help build a clear understanding of scalability, more specific and detailed examples are needed to describe how audit procedures related to the method, assumptions and data would change in different audit circumstances. We need sufficient explanation and specific examples as to how to scale and apply the procedures related to the method, assumptions and data described in paragraph 19 to an entity where management may make assessment without detailed analysis because the entity has profitable operations and there are no liquidity concerns as described in paragraph A30 of ED-570.

In addition, the sentences related to scalability in paragraph A9 of the extant ISA 570 (*) are removed from ED-570. This may cause confusion and hinder understanding of scalability. We believe that those sentences should be added to paragraph A30 of ED-570 or other sentences that would otherwise enhance the understanding of scalability should be included.

(*) "In this case, the auditor's evaluation of the appropriateness of management's assessment may be made without performing detailed evaluation procedures if the auditor's other audit procedures are sufficient to enable the auditor to conclude whether management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate in the circumstances."

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?

We support the intention of ED-570 in requiring the auditor to evaluate the intent and ability of management and third parties. However, the auditor faces difficulties in obtaining sufficient and appropriate evidence to evaluate the ability of third parties to provide support. Such challenges are compounded especially when the third party is a private entity or an individual. In this light, we suggest that more specific and detailed guidelines and other materials should be added with regard to the evaluation of the intent and ability of third parties in paragraphs A52~54 of ED 570.

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?

The KICPA expects the enhanced requirements and application material of ED-570 to encourage transparent dialogue among the auditor, management and TCWG and result in enhanced two-way communication with TCWG about matters related to going concern.

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

The KICPA supports the proposed requirement and application material.

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

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

We disagree with the proposed requirement for the auditor to include the auditor's conclusions on the appropriateness of management's use of the going concern basis of accounting in a separate section in the auditor's report, under the heading "Going Concern", even when a material uncertainty does not exist.

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.

In this case, the information user may ignore the management's responsibility to assess the entity's ability to continue as a going concern and unreasonably hold the auditor accountable for any issue that may arise related to going concern.

The information user may not be able to clearly distinguish the concept of going concern from other similar concepts such as financial soundness or sustainability. As a result, they are more likely to misunderstand and to believe that the auditor's explicit statement guarantees the concerned entity's financial soundness or sustainability.

Under the extant ISAs, the auditor's responsibilities regarding the appropriateness of use of going concern assumption and material uncertainty related to ability to continue as a going concern are clearly described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of the auditor's report. This indicates that the transparency of the auditor's report and the auditor's responsibilities related to going concern are fully considered.

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?

The KICPA agrees with the proposed requirement to describe the above when a material uncertainty exists. There is a need to describe how the auditor responds to a material uncertainty because the material uncertainty is considered to be a KAM in all circumstances.

However, careful consideration is needed to require additional description when no material uncertainty related to going concern exists, after having identified events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (i.e., "close call" situations), for reasons listed below;

• Some close call situations may not be a KAM as they don't require significant auditor attention from the auditor depending on the nature of such situation.

• For the auditor to make a meaningful description of evaluation procedures conducted in close call situations, the entity should appropriately disclose such situation to allow the information user to gain a full understanding of such situation. However, in some countries, there is no explicit requirement for disclosure of close call situations under the applicable financial reporting framework, or entities may not be keen on disclosing information about such situations, or the auditor may face limitations in convincing the entity to disclose such from the perspective of fair disclosure. Therefore, as a pre-condition for the auditor to describe such in the auditor's report, the entity should be explicitly required to disclose close call situations under the financial reporting framework and others.

• The information user faces difficulties in clearly determining whether or not a material uncertainty related to going concern exists, after having identified events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. In this circumstance, highlighting the close call situation in the auditor's report may be interpreted as signaling a risk equivalent to a material uncertainty, distorting the information user's decision-making. As a pre-condition to prevent such distortion of decision making, the entity should fully disclose close call situations.

As an alternative, the KICPA proposes describing relevant details in a section under the heading "Going Concern" "when a close call situation is considered to be a KAM as set forth by ISA 701".

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.

ED-570 addresses all related implications.

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.

No. There are no other matters we would like to raise in relation to ED-570.

Request for General Comments

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.

The KICPA has no noteworthy issue.

(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.

The KICPA supports the effective date proposed by the IAASB.