



The Chairman
International Auditing and Assurance Standards Board (IAASB)
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Submitted electronically: [IAASB website](#)

COMMENTS ON THE IAASB'S PROPOSED INTERNATIONAL STANDARD ON AUDITING 570 (REVISED 202X), GOING CONCERN, AND PROPOSED CONFORMING AND CONSEQUENTIAL AMENDMENTS TO OTHER ISAs

PREFACE

The Pan-African Federation of Accountants ("PAFA", "we" and "our"), welcomes the International Audit and Assurance Standards Board (IAASB)'s publication of the Exposure Draft: Proposed International Standard on Auditing 570 (Revised 202X) *Going Concern* and Proposed Conforming and Consequential Amendments to Other ISAs.

PAFA represents Africa's professional accountants, and our objective is to accelerate the development and strengthen the voice of the accountancy profession within the continent and worldwide. In its unique regional capacity to work with Professional Accountancy Organisations and present a unified position for the profession, PAFA hereby presents its responses to the Exposure Draft.

We detail our responses to the overall and specific questions are provided in the appendix to the letter below. We hope that our comments will positively contribute to the IAASB future's deliberations. Should you have further concerns regarding our comments, please do not hesitate PAFA Director: Technical Excellence Ms Lebogang Senne on lebogangs@pafa.org.za

A. REQUEST FOR SPECIFIC COMMENTS AND RESPONSES

Overall Questions

Question 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**?

PAFA Response

We 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.

Question 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?

PAFA Response

We believe that the proposals in ED-570, considered collectively, will enhance transparency, however, we support the view that there will be a limited impact in strengthening the auditor's judgments and work in relation to going concern on the basis that the forward-looking nature of reviewing management's assessment of going concern makes the exercise of judgment challenging as there are numerous factors that can impact the company's position that are outside of the knowledge and control of management and the auditor at the point in time the financial statements are prepared, and the auditor's report signed. To manage expectations, it would be beneficial for the proposed revisions to further articulate the challenges in this area and explain why there is an added layer of complexity for judgements in relation to going concern.

Question 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?

PAFA Response

Yes, we 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. Consideration should, however, be given, for example in paragraphs 12, 17 and 29 of ED-570, to strengthening the scalability requirements and application material further for entities where there are no risks identified relating to the going concern basis of accounting of the entity, including the need for the auditor to exercise professional scepticism.

Question 4

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

PAFA Response

Yes, we believe that the requirements and application material of ED-570 appropriately reinforce the auditor's application of professional scepticism in relation to going concern.

Specific Questions

Question 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"?

PAFA Response

We support the definition for "Material Uncertainty (Related to Going Concern)" and the application material to the definition clarifying the phrase "may cast significant doubt", however, our recommendation is that, for auditors to consistently apply the concept of material uncertainty, the application material in the second sentence of paragraph A5 that describes "may cast significant doubt"

be moved to the requirements section of the standard and that the IAASB also consider defining or clarifying what is meant by “foreseeable future” as used therein.

Question 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?

PAFA Response

ED-570 appropriately builds 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.

Question 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)?

PAFA Response

We do not support the change in the commencement date of the twelve-month period to the date of approval of the financial statements as this change will create an inconsistency with financial reporting standards used in many jurisdictions. We would suggest leaving flexibility to allow a change in the commencement date if deemed appropriate based on assessed risks.

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?

PAFA Response

While in principle we support the enhanced approach in ED-570 however, we are concerned that this may create challenges for entities that are not able to complete detailed forecasting, where management's assessment is less formal than the proposed changes to the standard may envision. This is especially true in smaller owner-managed businesses where the going concern position is often monitored and understood without formal forecasts or management reporting found in larger entities.

Furthermore, it is our view that if the risk of going concern is assessed as low or insignificant, there is little value in evaluating management's assessment of going concern. Designing and performing audit procedures would incur costs that will be disproportionate to the value obtained in such circumstances. We believe that a risk-based approach would be more appropriate, as adding extra workload in areas that do not add value may result in such areas getting more attention than warranted, potentially taking resources away from those where the assessed risk may benefit from further work or documentation.

Question 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?

PAFA Response

We believe that ED-570 appropriately incorporates the concepts introduced from ISA 540 (Revised) for the auditor's evaluation of the method, assumptions and data used in management's assessment of going concern, although we do note that this may be complex in the context of SME auditees.

Question 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?

PAFA Response

While we believe that it may be possible to assess the ability of management to carry out specific courses we have concerns over the practicality of assessing the intent of both management and third parties as detailed in paragraphs 26 and 27 and foresee this being challenging and subjective.

Question 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?

PAFA Response

We believe that 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.

To this end, it may be worthwhile for the IAASB to include in the requirement of paragraph 39 that the timing of the auditor's communication with TCWG shall be throughout the audit engagement, as relevant. This is in line with paragraph A87 of ED-570 and paragraph A49 of ISA 260, *Communication with Those Charged with Governance*.

Further, the IAASB is encouraged to consider including application material highlighting that TCWG should have oversight over management's going concern assessment, for example, linking paragraphs 12(f), A19 and A20 in the application material to paragraph 40 of ED-570. This point also extends to questions 7 and 8 of ED-570.

Question 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?

PAFA Response

We support the proposals in ED-ISA 570 to report to an appropriate authority outside of the entity, where law, regulation or relevant ethical requirements require or establish responsibilities for such reporting.

It may be beneficial for the IAASB to include additional application material for the auditor to consider the timing of such a report, specifically to encourage early reporting of relevant matters when they are identified, not when the auditor's report is issued.

In addition, the IAASB is encouraged to consider referencing the International Ethics Standards Board for Accountants' non-compliance with laws and regulations requirements in the application material to paragraph 40 of ED-570, as it may be relevant, depending on the circumstances that the auditor encounters on an audit.

Question 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?

PAFA Response

We support the requirements and application material that facilitate enhanced transparency about the auditor's responsibilities and work relating to going concern. The proposals in ED-570 provide useful information for intended users of the audited financial statements and enable greater consistency and comparability across auditor's reports globally.

Furthermore, we recommend that the information provided in the auditor's report regarding going concern should be reinforced by including a statement that the scope of an audit does not include assurance on the future viability of the audited entity or to the efficiency or effectiveness with which management has conducted the affairs of the audited entity. This will help stakeholders, including investors, to better understand what the role of the auditor is in relation to going concern and, as a result, reduce the expectation gap.

Question 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?

PAFA Response

PAFA supports the requirements and application material that facilitate further enhanced transparency about the auditor's responsibilities and work relating to going concern for audits of financial statements of listed entities. However, we recommend that the IAASB expands the requirements in paragraphs 33(b) and 34(d) to extend to or include public interest entities (PIEs) or for laws and regulations to specify certain categories of PIEs, to provide transparency for those entities in the public interest.

We also recommend that the disclosure in the auditor's report required by paragraph 33(b)(ii) should not be required of the auditor until such time as management is required by the applicable financial reporting standards (e.g. IFRS Accounting Standards) to disclose an equivalent level of detail of their assessment in the financial statements. This is to ensure that the auditor does not provide original information about the entity in the auditor's report.

Question 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.

PAFA Response

Yes, we believe it is 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 with ISA 701 or any other ISA).

We suggest that further clarification, including illustrative examples, may be required to provide guidance on when an auditor would reach a conclusion of expressing a qualified or an adverse opinion due to going concern issues. Although addressed in other statements, it is not clear in those statements or in ED-570 how the auditor should determine whether an issue that relates to going concern is "fundamental" and "pervasive."

For clarity, we suggest that paragraph A1 be moved to the requirements section of ED-570, under paragraph 1. Further, we recommend that paragraph A1 be split into two, with the second paragraph starting from "... In addition ...".

Question 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.

PAFA Response

We do not have any other additional comments over and above those provided in response to the specific questions above.

Request for General Comments

Question 17(a)

Translations—Recognising 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.

PAFA Response

The ED makes use of long sentences which we believe will create a challenge when translating to other languages. Examples of sentences that are likely to be problematic include sentence 2 of paragraph 4, sentence 1 of paragraph 6, the opening sentence to paragraph 10 and the sentence in paragraph 31. A similar issue exists in the application material, for example the final sentence of A1.

Question 17(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.

PAFA Response

To allow for the translation of the standards and issue supporting material our view is that an effective date for financial reporting periods beginning at least 24 months after approval of the final standards would be more appropriate.