

Meeting: IAASB Consultative Advisory Group (CAG)

Meeting Location: New York, United States of America

Meeting Date: September 12–13, 2023

Agenda Item D

Going Concern – Cover and Report Back

Objective of Agenda Item

1. The objective of this Agenda Item is to report back on Representatives' comments made at the March 2023 IAASB CAG meeting.

Project Status

2. The [Exposure Draft of Proposed ISA 570 \(Revised 202X\)¹ and Conforming and Consequential Amendments to other ISAs](#) (ED-570) was approved by the IAASB at its March 2023 meeting.² The Exposure Draft was published on April 26, 2023 with a 120 day comment period. Stakeholders are invited to comment on ED-570 by August 24, 2023.
3. The proposed changes to ED-570 aim to:
 - Promote consistent practice and behavior and facilitate effective responses to identified risks of material misstatement related to going concern.
 - 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.
 - Enhance transparency with respect to the auditor's responsibilities and work related to going concern where appropriate, including strengthening communications and reporting requirements.
4. The **Appendix** to this paper provides a history of previous discussions with the IAASB CAG and the IAASB on this topic, including links to the relevant IAASB CAG documentation.

Way Forward

5. After the exposure period ends, the Going Concern Task Force will analyze the comments received. The Going Concern Task Force will present the Board with a summary of respondents' comments and a way forward at the June 2024 meeting.

¹ International Standard on Auditing 570 (Revised 202X), *Going Concern*

² The IAASB approved ED-570 for public comment with 17 affirmative votes out of 18 Board members in attendance. One member abstained from voting.

Report Back

6. Extracts from the approved March 2023 IAASB CAG meeting minutes relevant to going concern, as well as an indication of how the Going Concern Task Force or the IAASB has responded to the Representatives' comments, is included in the table below.

Report Back on the March 2023 IAASB CAG Meeting	
Representatives' Comments	Going Concern Task Force / IAASB Response
<i>Overall Responses</i>	
Mses. Vanich, Riggs, Meng, Messrs. Hansen, Rees and Dr. Cela acknowledged the progress and enhancements made since September 2022 and expressed support for the publication of the exposure draft of proposed ISA 570 (Revised 202X) for public comment.	Support noted.
<i>Liaison With the International Accounting Standards Board (IASB)</i>	
Mr. Ishiwata supported the importance of consistency and alignment between the requirements in the auditing standards and the accounting standards relating to management's responsibility for going concern and emphasized the need to continue the dialogue with the IASB on going concern in the post-exposure period.	Support noted. Ms. Jackson noted the ongoing engagement with the IASB to date on this topic and added that the liaison will continue as the final pronouncement for proposed ISA 570 (Revised 202X) is being developed.
Mr. Reese reiterated the importance of consistency between the proposed ISA 570 (Revised 202X) and the requirements in the IFRS Accounting Standards about management's responsibility to prepare financial statements on the going concern basis of accounting. He expressed the IASB's appreciation for the ongoing engagement and liaison with the IAASB on this topic, as well as that the ongoing dialogue is envisaged to continue as the IAASB develops the final pronouncement.	Point noted. In June 2023, the Going Concern Chairs (outgoing and incoming) and IAASB Staff provided an update to the IASB in relation to several topics addressed in ED-570 (i.e., for terminology, the timeline over which the going concern assessment is made and for transparency in the auditor's report in relation to going concern). IASB Representatives expressed support that the proposals in ED-570 remain aligned and consistent with IAS 1, <i>Presentation of Financial Statements</i> relating to management's responsibility for going concern.
Ms. Blomme emphasized that the proposals align in many respects with previous work undertaken by	Point noted.

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Accountancy Europe on going concern. ³ However, given that IASB had decided not to include a project on going concern in its workplan, the approach to the revisions does not address a “holistic approach” that would involve revisions to both the auditing and accounting standard standards to address matters relating to going concern.	Ms. Jackson acknowledged that while the IASB has not undertaken a project to revise the financial reporting requirements related to going concern, the IAASB has focused on clarifying and enhancing the standard for matters within its own standard-setting remit.
<i>Terminology</i>	
Ms. Meng expressed support for the Going Concern Task Force's proposals for clarifying the whole phrase “may cast significant doubt” rather than the term “significant doubt” alone.	Support noted.
<i>Timeline over Which the Going Concern Assessment is Made</i>	
Dr. Norberg acknowledged that the drafting for the proposed change in the commencement date of the period of management's assessment used as the basis for the auditor's evaluation is clear and understandable. However, he questioned whether by extending the commencement date of the management's assessment from the date of the financial statements to the date of approval of the financial statements, this may also lengthen the period for signing the auditor's report because there may be circumstances that could result in prolonging the completion of the audit.	Point noted. As reported back to the IAASB CAG in March 2023, the change in the commencement date of management's assessment is not intended to extend the period which management takes in preparing the financial statements, nor the auditor's reporting date. It means that when management prepares their assessment, they take into account all available information about the future when preparing the financial statements, which is at least, but is not limited to, twelve months from the end of the date of approval of the financial statements.
Ms. Blomme noted that there were mixed views among members of Accountancy Europe regarding the proposed change in the commencement date of the period of management's assessment. She explained there is support for the change in those	Point noted. Ms. Jackson acknowledged the mixed views on this topic and that further comments from respondents will be sought from stakeholders during exposure.

³ See <https://www.accountancyeurope.eu/publications/going-concern-recommendations-to-strengthen-the-financial-reporting-ecosystem/> and <https://www.accountancyeurope.eu/publications/responses-to-fraud-and-going-concern-recommendations-to-strengthen-the-financial-reporting-ecosystem/>

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jurisdictions that have already adopted a different commencement date (e.g., in the United Kingdom), while in other jurisdictions (e.g., countries of continental Europe), there was concern among some members whether the proposals would be practical or enforceable.	
Ms. Blomme and Dr. Cela supported that the proposed change in the commencement date is very relevant to audits of public interest entities (PIEs) given the significant public interest for such entities. However, they suggested that for small and medium sized entities (SMEs) and non-PIEs the commencement date should remain harmonized with the requirements in the IFRS Accounting Standards.	Point noted. Ms. Jackson explained that, as discussed with IASB staff, the commencement date is not inconsistent with IFRS Accounting Standards. In addition, the requirement had not been differentiated because feedback from roundtables and the discussion paper noted that going concern matters are relevant to entities of all sizes and complexities, including for SMEs and PIEs.
<i>Evaluating Management's Plans for Future Actions</i>	
Ms. Riggs highlighted the importance of prospective financial information when evaluating management's plan for future actions. She suggested elevating the relevant application material in paragraph A48 of proposed ISA 570 (Revised 202X) to a requirement for the performance of audit procedures when prospective financial information is particularly significant to management's plans for future actions.	Point noted. Consideration to this matter will be provided in the post-exposure period, given that the Explanatory Memorandum accompanying ED-570 includes a specific question that seeks responses from stakeholders in relation to the auditor's evaluation of management's going concern assessment, including whether ED-570 appropriately incorporates the concepts introduced from ISA 540 (Revised) ⁴ for the auditor's evaluation of the method, assumptions, and data used in management's assessment of going concern.
<i>Professional Skepticism</i>	
Mr. Ishiwata supported the enhancements for professional skepticism in proposed ISA 570 (Revised 202X). He emphasized the importance of ensuring that these requirements remain consistent with similar requirements included in	Point noted. Ms. Jackson acknowledged the need for consistency as well as that these matters are being considered through the ongoing coordination with

⁴ ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

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Representatives' Comments	Going Concern Task Force / IAASB Response
ISA 540 (Revised), those in proposed ISA 500 (Revised) ⁵ and enhancements being considered by the IAASB in its project on fraud.	the Professional Skepticism Consultation Group and other IAASB task forces.
<i>Information from Sources External to the Entity</i>	
Mr. Ishiwata suggested including examples when information from external sources provides contradictory information with the internal information used by management in its assessment of going concern, given this would provide useful guidance for the auditor how to address these situations.	Point noted. In the course of developing ED-570, the Going Concern Task Force has enhanced the application material to emphasize how information from sources external to the entity can be leveraged in the auditor's work related to going concern (see paragraphs A16, A25 and A47–A54 of ED-570). This also included providing examples where relevant.
<i>Communication with Those Charged with Governance (TCWG)</i>	
Ms. Vanich questioned whether certain discussions and inquiries of management required by proposed ISA 570 (Revised 202X) should also include communications with TCWG.	Point noted. Ms. Jackson noted that the Going Concern Task Force already included required discussions with TCWG, where appropriate, and strengthened the communication requirements with TCWG in proposed ISA 570 (Revised 202X). Ms. Jackson noted that the Going Concern Task Force would again look at the requirements related to communications with TCWG to ensure there was the right balance in terms of what is being communicated and when. In addition, the Explanatory Memorandum accompanying ED-570 will include a specific question seeking input from stakeholders on the enhancements proposed for communications with TCWG.
<i>Written Representations</i>	

⁵ Proposed ISA 500 (Revised), *Audit Evidence*

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Mr. Ishiwata noted the new requirement to request written representation whether management has the intent and ability to carry out specific courses of action in their plan for future actions. He highlighted that it is necessary for auditors to make this known to management in advance, given that a preparatory period may be necessary to implement the new requirement, as well as that management and TCWG should be made aware of the revised written representation requirement.	Point noted. Ms. Jackson highlighted that ISA 580 ⁶ sets out the overarching requirements and guidance that deals with the auditor's responsibility to obtain written representations and relevant communications with TCWG. The subject-matter specific requirement for written representations in proposed ISA 570 (Revised 202X) does not limit the application of ISA 580.
<i>Transparency About Going Concern in the Auditor's Report</i>	
Ms. Meng supported the application material aiming to reduce boilerplate and highlighted the relevance of including entity specific information in the descriptions provided in the auditor's report. She also supported the new application material to clarify that, in view of the requirements of the applicable financial reporting framework, "significant management judgement" is an appropriate concept to apply when determining if disclosures should be made about events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.	Support noted.
Mr. Hansen suggested considering further guidance for circumstances when different approaches are used to conclude that no material uncertainty exists related to the entity's ability to continue as a going concern by (a) management when developing its assessment, and (b) the auditor when evaluating management's assessment. For example, a situation in practice may arise when the auditor and management concluded that there is no material uncertainty related to going concern, however they arrived at this conclusion using different methods.	Point noted. Ms. Jackson explained that such situations are not unique to going concern and may occur, for example, when auditing accounting estimates and related disclosures (e.g., when the auditor develops their own point estimate using a different method from management but still arrives at the same conclusion as management). She noted that the auditor's objective is to obtain sufficient appropriate audit evidence to support management's assertion on going concern as a

⁶ ISA 580, *Written Representations*

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	basis for the auditor's conclusions and the descriptions provided in the auditor's report.
Ms. Riggs cautioned that the wording of the explicit statements in the auditor's report about the appropriateness of management's use of the going concern basis of accounting and whether a material uncertainty has been identified, may be perceived as providing absolute assurance versus reasonable assurance. She noted that notwithstanding that these statements remain aligned with the Auditor's Responsibilities for the Audit of Financial Statements section of the auditor's report as required by paragraph 39(b)(iv) of ISA 700 (Revised), ⁷ because they are stated as "conclusions" they may imply absolute assurance.	Point noted. Ms. Jackson explained that the Going Concern Task Force kept the wording of the statements aligned with the Auditor's Responsibilities for the Audit of Financial Statements section given this wording is already provided in the auditor's report, including the auditor's responsibility to "conclude" on these matters.
Ms. Landell-Mills emphasized that from an investor's perspective, transparency in the auditor's report about going concern is very important including the auditor providing relevant, entity-specific information, and taking an independent view beyond management on the financial statements. She questioned whether the concept of the auditor not providing original information in the auditor's report is a limitation in this regard and while recognizing this is a broader matter, suggested this to be further explored by the IAASB.	Mr. Botha explained that the application material in proposed ISA 570 (Revised 202X) already draws on material included in ISA 701 ⁸ which explains that original information is any information not made public by the entity. He noted that the commentary in the auditor's report does not ordinarily provide original information because the auditor discusses how the matter was addressed in the context of the audit. Mr. Botha noted that the application material serves as a reminder for the auditor not to go beyond the "original information threshold". Ms. Jackson also explained that in circumstances when the auditor expresses a modified opinion, the auditor is not precluded from providing information in the auditor's report to support the basis for the modified opinion, as may be the situation when management included disclosures in the financial statements which are materially misstated.

⁷ ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

⁸ ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

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<i>Other Matters</i>	
Dr. Cela expressed support for the examples in the application material to address scalability. He emphasized that the standard reflects a principle-based approach while addressing a complex topic such as going concern.	Support noted.
Ms. McGeachy conveyed concerns regarding the proposal for an implementation period of approximately 18 months after approval by the IAASB of proposed ISA 570 (Revised 202X), noting this may be problematic in certain jurisdictions where legislative provisions would need to be amended.	Point noted. Consideration to this matter will be provided in the post-exposure period, given that the Explanatory Memorandum accompanying ED-570 includes a specific question seeking views on the appropriateness of the implementation period.
Mr. Ruthman questioned whether conforming and consequential amendments are necessary to the Auditor's Responsibilities for the Audit of Financial Statements section of the auditor's report, including if there are any opportunities for simplifications by reducing repetition and duplication with the Going Concern section.	Point noted. As explained in the Explanatory Memorandum to ED-570, the IAASB considered, but decided against, amending the Auditor's Responsibilities for the Audit of Financial Statements section of the auditor's report. This is because the auditor's responsibilities section does not need to include every aspect addressed by the requirements of the ISAs and because it remains appropriately aligned with the auditor's obligations in the objectives in paragraph 9 of ED-570, nor does not give rise to inconsistencies with the revisions being proposed.
Mr. Yurdakul expressed views that in order to facilitate effective translation of proposed ISA 570 (Revised 202X) it is necessary to enhance the standards understandability (e.g., to shorten the phrases and sentences used in the text). In addition, he suggested instead of repeating material already included in other standards (e.g., ISA 315 (Revised 2019), ⁹ ISA 540 (Revised) and ISA 700 (Revised)) it would be more appropriate to	Point noted. Ms. Jackson explained that in developing the exposure draft for proposed ISA 570 (Revised 202X), an independent Complexity, Understandability, Scalability and Proportionality (CUSP) review was undertaken in October and November 2022 to ensure that the CUSP Drafting Principles and Guidelines have been consistently

⁹ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

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Representatives' Comments	Going Concern Task Force / IAASB Response
cross-reference to the relevant paragraphs of these ISAs.	applied in the development of the proposed standard.

Appendix

Project Details and History

Project: Going Concern

Link to IAASB Project Page: [Going Concern Page](#)

Task Force Members (From March 2023)

- Edo Kienhuis, IAASB Member and Task Force Chair
- Kai Morten Hagen, IAASB Member
- Greg Schollum, IAASB Member
- Wendy Stevens, IAASB Member

Task Force Members (Up to March 2023)

- Josephine Jackson, IAASB Vice-Chair and Task Force Chair
- Edo Kienhuis, IAASB Member
- Isabelle Tracq-Sengeissen, IAASB Member
- Wendy Stevens, IAASB Member

Summary

	IAASB CAG Meeting	IAASB Meeting
Information Gathering	September 2020 March 2021	August 2020 May 2021
Project Proposal	March 2022	March 2022
Exposure Draft	September 2022 March 2023	June 2022 September 2022 December 2022 March 2023

IAASB CAG Discussions: Detailed References

Information Gathering	<u>September 2020</u> See IAASB CAG meeting material (Agenda Item F)
	<u>March 2021</u> See IAASB CAG meeting material (Agenda Item C)
Project Proposal	<u>March 2022</u> See IAASB CAG meeting material (Agenda Item C)
Exposure Draft	<u>September 2022</u> See IAASB CAG meeting material (Agenda Item D) <u>March 2023</u> See IAASB CAG meeting material (Agenda Item B)