

Going Concern – Question 4

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

Q04 - Agree

1. Monitoring Group

International Association of Insurance Supervisors (IAIS)

The IAIS supports the enhancement proposed in ED-ISA 570 regarding the exercise of professional scepticism when evaluating management's assessment of the entity's ability to continue as a going concern (para 18) and evaluating the audit evidence obtained (para 29).

In the area of professional scepticism, the IAIS encourages the IAASB to continue its close coordination with the IESBA. Such coordination on ethical issues remains important in the area of going concern auditing, particularly the provisions relating to the auditor's duty to alert the relevant authorities at a sufficiently early stage, which requires the exercise of the auditor's professional judgment.

The IAIS welcomes the requirement under the revised ISA 570 for the auditor to perform audit procedures on management's going concern assumptions in a way that is not biased (para 18), thereby reinforcing the use of professional scepticism throughout the audit process. Professional scepticism is further supported by the requirements relating to the evaluation of audit evidence in para 29 and the application material in A32 and A57-60. This is also supported by the inclusion of the methods, assumptions and data outlined in application material A34-A37 (ED-ISA 570) for use in assessing management's going concern assessment.

2. Regulators and Audit Oversight Authorities

Botswana Accountancy Oversight Authority (BAOA)

Yes, the requirements and application material of ED-570 support the auditor in applying professional scepticism, for example, Paragraphs A34-37 requires the auditor to evaluate and challenge the method, assumptions and data used by management to make its assessment including consideration of the risk of management bias. ED-570 further emphasises the importance for the auditor to exercise professional scepticism throughout the audit process.

Committee of European Auditing Oversight Bodies (CEAOB)

Professional scepticism

The CEAOB expressed support for a strengthening of requirements regarding the exercise of professional scepticism and now welcomes the new language (included in paragraphs 18 and 29) regarding the evaluation and consideration of audit evidence that may indicate possible management bias or may be contradictory to the financial statements assertions. The CEAOB supports the emphasis proposed in the ED, requiring the auditor to take into account not only corroborative information but also contradictory information.

Irish Auditing and Accounting Supervisory Authority (IAASA)

Professional scepticism

IAASA supports the strengthening of requirements regarding the exercise of professional scepticism and the

new language included in paragraphs 18 and 29 regarding the evaluation and consideration of audit evidence that may indicate possible management bias or may be contradictory to the financial statements assertions. IAASA supports the emphasis placed in the ED on requiring the auditor to take both corroborative and contradictory information into account.

3. Jurisdictional and National Auditing Standard Setters

American Institute of Certified Public Accountants (AICPA)

We are supportive of some changes such as reinforcing professional skepticism and communicating with those charged with governance. We also believe that guidance provided in the application material could support the IAASB's objective to promote consistent practice.

Australian Auditing and Assurance Standards Board (AUASB)

The AUASB is of the view that the requirements and application material in ED-570 increase the work effort of auditors which will appropriately reinforce the auditor's application of professional scepticism when performing procedures related to going concern.

Canadian Auditing and Assurance Standards Board (AASB)

We agree that the requirements and application material appropriately reinforce the auditor's application of professional skepticism in relation to going concern. In our view, the enhanced understanding of the entity and other risk assessment procedures help the auditor to better exercise professional skepticism.

Compagnie Nationale des Commissaires aux Comptes and Conseil National de l'Ordre des Experts-Comptables (CNCC & CNOEC)

Regarding the objective to emphasize in the IAASB International Standards, the application of professional skepticism, we consider that the requirements and application material of ED-570 will help in reinforcing the exercise of professional skepticism.

Hong Kong Institute of Certified Public Accountants (HKICPA)

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

Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW)

We believe that the requirements and application material in the draft appropriately reinforce the auditor's application of professional skepticism in relation to going concern.

Japanese Institute of Certified Public Accountants (JICPA)

Yes. We agree that the requirements and application material of ED-570 appropriately reinforce the auditor's application of professional skepticism in relation to going concern.

New Zealand Auditing and Assurance Standards Board (NZAuASB)

Yes, we agree that ED-570 appropriately reinforces the auditor's application of professional scepticism.

Public Accountants and Auditors Board Zimbabwe (PAAB)

Yes, the PAAB agrees that ED570 reinforces the auditor to the application of professional scepticism when performing going concern assessments. The reinforcement will impact auditor's work positively in that there would be awareness of the need to look out for potential bias intentionally or unintentionally by both the auditor in conducting the audit or by management in carrying out their assessment of going concern.

Royal Dutch Institute of Chartered Accountants (NBA)

We welcome the fact that the standard assists the auditor in putting the appropriate challenges to management and requires the auditor to make the necessary assessments. Hence, we believe that this standard appropriately reinforces professional skepticism.

4. Accounting Firms

Assirevi

We feel that the requirements and application material of ED-570 appropriately reinforce the auditor's application of professional skepticism in relation to going concern. In this respect, we note that ED-570 specifically requires the auditor, when carrying out risk assessment procedures and evaluating management's assessment of going concern, to be unbiased towards obtaining audit evidence that may be corroborative versus excluding audit evidence that may be contradictory. This approach reinforces the auditor's awareness of the importance of a more skeptical approach to management's assessment of going concern.

CohnReznick LLP (CHR)

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

Deloitte Touche Tohmatsu Limited (DTTL)

Yes.

Mazars (MZ)

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

MNP LLP (MNP)

Yes, we agree that the requirements and application material appropriately reinforce the auditor's application of professional skepticism in relation to going concern.

PriceWaterhouseCoopers (PwC)

We support the additional focus on bias and the emphasis placed on considering all audit evidence, whether corroborative or contradictory, consistent with recent revisions to other ISAs. A critical assessment of the relevance and reliability of all audit evidence is particularly important when evaluating judgements made by management with respect to going concern, especially when there are events and conditions that may cast significant doubt on an entity's ability to continue as a going concern.

We believe that certain requirements in ED-570, specifically those outlined in paragraphs 18 and 29, are likely already best practice in high quality audits. As a result, their impact on auditor behaviour in such engagements may be more limited. Nevertheless, as key principles underpinning professional scepticism, these are important baseline requirements that warrant inclusion in the standard.

RSM International Limited (RSM)

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

5. Public Sector Organizations

Office of the Auditor General New Zealand (OAGNZ)

Yes, particularly the requirements in paragraph 29 and 30.

Office of the Auditor General of Canada (OAGC)

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

Provincial Auditor Saskatchewan (PAS)

Yes, application of professional skepticism is appropriately reinforced.

6. Member Bodies and Other Professional Organizations

Accountancy Europe (AE)

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.

Botswana Institute of Chartered Accountants (BICA)

The requirements and application material of ED-570 appropriately reinforce the auditor's application of professional scepticism in relation to going concern. In ED-570, the IAASB has incorporated the concept of professional scepticism in several parts of the standard. For example, paragraph A10 of ED-570 refers to the requirement in ISA 315 (Revised 2019) that the auditor should design and perform risk assessment procedures in an unbiased manner. This means that the auditor should not be biased towards obtaining audit evidence that supports management's assessment of going concern or excluding evidence that may be contradictory. By designing and performing risk assessment procedures in an unbiased manner, the auditor can identify potentially contradictory information and maintain professional scepticism.

Similarly, paragraph 18 of ED-570 leverages paragraph 18 of ISA 540 (Revised) and requires the auditor to design and perform audit procedures to evaluate management's assessment of going concern in an unbiased manner. This requirement ensures that the auditor critically assesses the evidence obtained and does not overlook information that may indicate possible management bias. The IAASB emphasizes the importance of obtaining audit evidence in an unbiased manner, which may involve obtaining evidence from multiple sources within and outside the entity. The auditor is not required to perform an exhaustive search for all possible sources of information, but they should consider contradictory and corroborative information. Contradictory information may include inconsistencies in assumptions used by management or indicators of deteriorating financial performance that are not adequately considered. Corroborative information may include publicly available information that is consistent with management's assessment of going concern.

In addition Paragraph 29 of ED-570 requires the auditor to evaluate whether management's judgments and decisions in making the assessment of going concern are indicators of possible management bias. The auditor is also required to "stand back" and consider all audit evidence obtained, regardless of whether it corroborates or contradicts the assertions in the financial statements. These requirements support the auditor's application of professional scepticism and help ensure that the auditor critically evaluates management's assessment of going concern. By reinforcing the application of professional scepticism, auditors can fulfil their responsibility to provide reliable and independent assurance on the entity's ability to continue as a going concern.

California Society of CPA (CALCPA)

Yes; We agree that ED-ISA 570 appropriately reinforces the importance of the auditor's application of professional skepticism into the requirements.

Chamber of Auditors of the Czech Republic (CA CR)

Yes.

Chartered Accountants Australia and New Zealand (CA ANZ) and the Association of Chartered Certified Accountants (ACCA)

Yes, we find that the requirements and application material will help reinforcing the auditor's application of professional scepticism.

Chartered Accountants Ireland (CAI)

We support steps to clarify and strengthen the process whereby auditors assess and report on the appropriateness of the use of the going concern basis of accounting. We consider that reassessment of the auditing standards in this area is in the public interest. The proposals will further align the standards internationally by reflecting requirements already in place in some jurisdictions including Ireland and the UK.

We have no comments on the proposed requirements.

Consiglio Nazionale dei Dottori Commercialisti e Degli Esperti Contabili (CNDCEC)

Yes, in general they do. The provisions in ED-570 reinforce the use of professional skepticism mainly within the evaluation of the management's assessments on going concern basis of accounting.

Federation of Accounting Professions of Thailand (FAPT)

Yes, they do.

Institute of Certified Public Accountants of Uganda (ICPAU)

We believe that the requirements and application material of ED-570 appropriately reinforce the auditor's application of professional skepticism in relation to going concern. We believe that proposals in the ED-570 will result in collection of more reliable audit evidence about management's assessment of going concern.

Institute of Chartered Accountants in England and Wales (ICAEW)

We consider that the proposed standard appropriately reinforces the auditor's application of professional scepticism in relation to going concern.

Institute of Chartered Accountants of Scotland (ICAS)

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

Institute of Chartered Accountants of Sri Lanka (ICASL)

Yes. The requirements and application material of ED-570 do appropriately reinforce the importance of auditor's application of professional skepticism in relation to going concern. The Exposure Draft specifically requires the auditor to:

Obtain an understanding of management's process for assessing going concern. This will help the auditor to identify any biases or assumptions that management may have made in their assessment.

Evaluate the reasonableness of management's assumptions about the future. This will require the auditor to use their professional skepticism to assess whether management's assumptions are realistic and there is no management bias.

It also emphasizes the need to assess and consider the likelihood of management plans being implemented. This will require the auditor to assess whether management has the ability and resources to implement their plans.

In addition, the Exposure Draft requires the auditor to:

Document their understanding of management's process for assessing going concern. This will help to ensure that the auditor's assessment of going concern is transparent and can be reviewed by others.

Communicate their findings and conclusions about going concern to those charged with governance. This will help to ensure that those responsible for oversight of the entity are aware of any risks to the entity's going concern status.

Overall, the requirements and application material of ED-570 provide the auditor with a framework for applying professional skepticism in relation to going concern. This will help the auditor to identify and assess risks of material misstatement related to going concern, and to report on the entity's going concern status in a fair and accurate manner.

Institute of Singapore Chartered Accountants (ISCA)

The requirements appropriately reinforce the auditor's application of professional skepticism through its linkage to other relevant standards such as ISA 315 (Revised 2019) and ISA 540 (Revised).

Instituto Mexicano de Contadores Publicos (IMCP)

The requirements and application material of ED-570 are designed to reinforce the auditor's application of professional skepticism in relation to going concern. The ED includes a series of new requirements that aim at strengthening the auditor's evaluation of the management's assessment related to going concern, and the application material provides guidance on how to put these requirements into practice.

Korean Institute of Certified Public Accountants (KICPA)

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

Malaysian Institute of Accountants (MIA)

Yes. We welcome the emphasis in the revised standard that reinforces the concept of professional skepticism by introducing new requirements to:

design and perform the audit procedures to evaluate management's assessment of going concern in an unbiased manner;

evaluate whether the judgments and decisions made by management in making its assessment of going concern, even if they are individually reasonable, are indicators of possible management bias; and

to consider all audit evidence obtained, including audit evidence that is consistent or inconsistent with other audit evidence, and regardless of whether it appears to corroborate or contradict the assertions in the financial statements (ED570.A10). The examples for corroborative or contradictory incorporated in ED570 to assist with application of professional skepticism in relation to going concern is helpful.

Malaysian Institute of Certified Public Accountants (MICPA)

We are of the view that the requirements and application material of ED-570 appropriately reinforce the auditor's application of professional skepticism in relation to going concern.

National Board of Accountants and Auditors of Tanzania (NBAA)

Yes, the requirements and application material reinforce application of professional skepticism.

Nordic Federation of Public Accountants (NRF)

Yes, we support a stronger emphasis on applying professional skepticism to challenge management in relation to going concern and we believe the proposals appropriately deal with this matter.

Pan-African Federation of Accountants (PAFA)

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.

8. Individuals and Others

Altaf Noor Ali Chartered Accountants (ANA)

Yes.

The ED-570 expresses that audit evidence may be corroborative or contradictory.

ISA 315 requires the auditor to design and perform risk assessment procedures in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory. Designing and performing risk assessment procedures in an unbiased manner may assist the auditor in identifying potentially contradictory information.

Similarly, ISA 210 Appendix 1 clearly says that the auditor will carry out one's responsibilities with professional skepticism. However, the meaning of the term not explained there.

We consider these to adequately reflect the concept.

Q04 - Agree with comments

1. Monitoring Group

International Forum of Independent Audit Regulators (IFIAR)

Building the concept of professional skepticism into the requirements so that the auditor is explicitly required to consider management bias as part of their going concern work and that the auditor designs and performs audit procedures in a manner that is not biased towards either including corroboratory or excluding contradictory audit evidence.

Professional skepticism

In our 2021 Response Letter, we suggested that professional skepticism needed to be further highlighted in the standard related to going concern, and as noted above, we support the additional focus on professional skepticism proposed in ED-ISA 570.

In addition, the IAASB may wish to consider:

In paragraph A32, including an example in relation to information from external sources also in the contradictory information section to highlight that information from external sources can also be contradictory to management's assertions.

The second bullet point in paragraph A58 may usefully be expanded to include the converse i.e., when there are no changes in methods or assumptions from period to period, but where significant changes in circumstances would indicate that a change should be necessary.

We strongly support the introduction of a more robust assessment of going concern as proposed by ED-ISA 570. In particular, we support:

International Organization of Securities Commissions (IOSCO)

Audit evidence – We encourage the Board to align any proposed requirements within ED 570, including paragraphs 29-30 and the associated application paragraphs, to the finalized ISA 500 (Revised), Audit Evidence.

Overall Comments

We have observed a heightened public interest by stakeholders in the auditor's responsibility related to going concern. We believe that enhancements to the extant ISA 570 (Revised) that promote consistent practice and behavior, and facilitate effective responses to identified risks of material misstatement, including inadequate disclosure, related to going concern, with the appropriate level of professional skepticism, can contribute favorably to audit quality.

Paragraph A32 – "Obtaining audit evidence in an unbiased manner may involve obtaining evidence from multiple sources within and outside the entity. However, the auditor is not required to perform an exhaustive search to identify all possible sources of information to be used as audit evidence." We recommend the Board delete this sentence as there is no requirement in the ISAs on the auditor to perform a search to identify all possible sources of information to be used as audit evidence, but rather to obtain sufficient appropriate evidence. This sentence may create confusion on what the requirements are and deter the auditor from performing procedures more proactively to identify events and conditions that may cast significant doubt on the entity's ability to continue as a going concern.

Paragraph A58 – We recommend adding an example where methods and assumptions have not changed from period to period despite significant changes in economic conditions.

2. Regulators and Audit Oversight Authorities

Financial Reporting Council (FRC)

YES. We agree that ED-ISA 570 appropriately reinforces the importance of the auditor's application of professional scepticism into the requirements in that the auditor is explicitly required to consider management bias as part of their going concern work and designs and performs audit procedures in a manner that is not biased towards either including corroboratory or excluding contradictory audit evidence.

However, in the UK, the auditor is specifically required to evaluate whether events or conditions that may cast significant doubt on the entity's ability to continue as a going concern give rise to a risk of management bias in the preparation of the financial statements. This requirement recognises that there is heightened risk of management bias when considering going concern in an audit of financial statements, as disclosures about going concern are often seen as being highly sensitive and management may be reluctant to make such disclosures. Paragraph A10 touches on this concept, but the IAASB may wish to consider including an extension to paragraph 29 of ED-ISA 570 or additional application material to highlight this specific risk.

In addition, the IAASB may wish to consider:

In paragraph A32, including an example in relation to information from external sources also in the contradictory information section to highlight that information from external sources can also be contradictory to management's assertions.

The second bullet point in paragraph A58 may usefully be expanded to include the converse i.e. when there are no changes in methods or assumptions from period to period, but where significant changes in circumstances would indicate that a change should be necessary.

Independent Regulatory Board for Auditors (IRBA)

In addition to the changes arising from our response to question 3 above, the requirements and application material of ED-570 could be strengthened to appropriately reinforce the auditor's application of professional scepticism in relation to going concern.

We recommend that more robust references to professional scepticism be considered by the IAASB in respect of:

Evaluating management's assessment when challenging their significant assumptions and judgments;

The appropriateness of the period of management's assessment;

The period beyond management's assessment. ED-570 focuses on making inquiries of management, acknowledging the limitations of the audit and the auditor's responsibilities regarding the period beyond management's assessment. Our recommendation is to make a more explicit reference to the exercise of professional skepticism by the auditor, considering their knowledge of relevant events or conditions;

The implications if management refuses to make an assessment or refuses to extend the period of assessment;

The evaluation of management's plans for future actions, and challenging management as to why these plans are feasible and are likely to mitigate the situation;

When doing the stand back overview consider overarching impact, across components of a group, and whether assumptions and judgments have been applied consistently across the group; and

In paragraph A55 of ED-570, regarding a delay between the date of the auditor's report and the date the financial statements are issued, when such delay relates to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. It would be critical to exercise professional scepticism in these circumstances, in considering the reasons for the delay, whether these may relate to going concern matters, and the implications.

Also, the IAASB may want to consider including in paragraph A32, under the section on contradictory information, an example relating to information from external sources, to highlight that information from these sources can also be contradictory to management's assertions.

3. Jurisdictional and National Auditing Standard Setters

Austrian Chamber of Tax Advisors and Public Accountants (KSW)

We refer to the cover letter and support to focus even more clearly on going concern.

4. Accounting Firms

BDO International (BDO)

Yes, we agree that the requirements and application materials appropriately reinforce the auditor's application of professional skepticism. We specifically support inclusion of the concept of professional skepticism in several parts of ED-570. Examples include:

During risk assessment procedures and related activities

When evaluating management's assessment of going concern, and

When evaluating whether sufficient appropriate audit evidence has been obtained.

Collectively, these examples help to emphasize the importance of auditors maintaining an attitude of professional skepticism throughout planning and performance of the audit.

However, we propose that paragraphs A57 to A60 of ED-570 would also benefit from referring to a heightened sense of professional skepticism which would be required when assessing indicators of possible management bias.

In addition, we request the IAASB provides guidance (whether application material, or specific illustrative examples), that specifically considers various types of unconscious auditor biases that may interfere with the exercise of professional skepticism. For example, explaining that the practitioner might be influenced by the anchoring bias when looking at management's forecasts, and therefore believe that it seems reasonable because it is similar to the current year (the anchor point), without considering all known future conditions, would be more beneficial than a reminder that auditors should remain aware of biases in their work. We believe that providing guidance and illustrations of how these types of biases may occur, by explicitly highlighting them, would create more alertness about them among auditors, and provide them with possible actions to mitigate them.

Crowe Global (CROWE)

The overall approach to the revision improves the application of professional scepticism by the auditor and represents developments in expectations since the issue of the extant standard.

The overall requirements and application material should support the auditor's application of professional scepticism in relation to going concern. It is important that timely, relevant, and practical implementation guidance and briefings follow the issue of the standard to support auditors with their understanding and application of professional scepticism.

Ernst & Young Global Limited (EY)

We believe the requirements and application material of ED-570 appropriately reinforce the auditor's application of professional skepticism in evaluating management's assessment of going concern and appropriately provide a link to the relevant requirements in ISA 315 (Revised 2019) and ISA 540 (Revised), except for the revisions we are suggesting to the application material to ED-570 paragraph 11 as part of our response to Q6. We believe a robust understanding of the entity and its environment and the auditor's identification of events or conditions related to going concern is essential to the auditor's ability to exercise appropriate professional skepticism when evaluating management's assessment of going concern.

Grant Thornton International Limited (GT)

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.

KPMG International Limited (KPMG)

In general, we consider that the requirements and application material included in ED-570 will appropriately reinforce the auditor's application of professional skepticism in relation to going concern and we welcome these enhancements to the standard. For example, paragraph 18 requires the auditor, in designing and performing the audit procedures, to evaluate management's assessment of the entity's ability to continue as a going concern, and to do so in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory. Paragraph 29 requires the auditor to evaluate whether judgements and decisions made by management in making its assessment of going concern are indicators of management bias, even if individually reasonable, and introduces a 'stand back' that requires the auditor to consider all audit evidence obtained, including audit evidence regardless of whether it appears to corroborate or contradict the assertions in the financial statements. Various application material refers to the concept of management bias and when this may be of particular concern.

However, we recommend that more robust references to professional skepticism be included in the standard in respect of the following:

Evaluating management's assessment, in particular, in robustly challenging their significant assumptions and judgements;

In considering the appropriateness of the period of management's assessment (i.e. that management does not automatically default to 12 months from the date of approval of the financial statements);

In considering the period beyond management's assessment. The ED focuses on making inquiries of management, acknowledging the limitations of the audit and the auditor's responsibilities regarding the period beyond management's assessment, however, we recommend that it make more explicit reference to the exercise of professional skepticism and challenge of management more robustly, including considering our knowledge of relevant events or conditions;

In considering the implications if management refuses to make an assessment or refuses to extend the period of assessment;

In evaluating management's plans for future actions, and robustly challenging management as to why these are feasible and are likely to mitigate the situation;

At the standback stage, including consideration holistically across components of a group, and whether assumptions and judgements have been applied consistently across the group (also see our comments in Question 3 relating to the standback); and

At paragraph A55 in respect of a delay between the date of the auditor's report and the date the financial statements are issued, when such delay relates to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. We believe it would be critical to exercise professional skepticism in these circumstances, in considering the reasons for the delay, whether these may relate to going concern matters, and the implications.

We also welcome proposed changes to enhance and embed professional skepticism throughout the audit in respect of going concern-related matters.

Mo Chartered Accountants (MCA)

It is trite that auditors are required to adopt professional scepticism and we believe its reiteration and emphasis in the ED is critical including challenge of management by all team members throughout the audit. Usually, the going concern numbers and data crunching is performed higher up the rank of the audit team but this should be part of the whole teams mandate as opposed to simply verifying numbers as they are fed to them.

PKF International Limited (PKF)

In our view, ED-570 should explicitly mention professional skepticism within the main body of ED-570 as well as more specific requirements for the auditor to apply professional skepticism in relation to going concern procedures.

The IAASB may want to consider the following:

- An up-front general requirement on the exercise of professional skepticism in respect of going concern, similar to that of ED-500.
- A going concern “stand-back” requirement.

Alternatively, or in addition to the above, the IAASB may want to consider strengthening some of the existing requirements by including procedures that require specific consideration of professional skepticism.

For example, where management has not performed an assessment of an entity’s ability to continue as a going concern and the auditor is required to request that management do so (requirement 16). We would suggest adding another requirement for the auditor to enquire why an assessment has not been performed and to evaluate the response, while applying professional skepticism. In our view, it is important for the auditor to evaluate the reason for why an assessment has not been performed and consider whether this has any impact on the auditor’s risk assessment and audit plan (e.g., consideration of fraud risk, control risk, etc).

Another area for consideration is the role that professional skepticism plays when assessing events or circumstances that “may cast significant doubt” on an entity’s ability to continue as a going concern. Linking to our comment in question 5, where we recommend that a definition of “may cast significant doubt” is included up-front in the main body of ED-570. We also recommend that ED-570 explicitly states that the auditor should apply professional skepticism when assessing situations and circumstances that “may cast significant doubt” by enhancing all of the existing requirements where this applies.

6. Member Bodies and Other Professional Organizations

Accounting and Finance Association of Australia and New Zealand (AFAANZ)

We believe that there are opportunities for the IAASB to further enhance the requirements and application material of ED-570 to reinforce the auditor’s application of professional scepticism. We encourage the IAASB to consider revising application material such that the auditor is not excessively focussed on management’s process and assumptions at the expense of alternate future scenarios that management may not have effectively considered. We further encourage the inclusion of references to auditor biases (and not just management bias), and for the IAASB to encourage the application of an ‘appropriate’ level of professional scepticism.

Research shows that the exercise of an elevated level of professional scepticism is associated with higher quality going concern judgments (e.g., Feng and Li 2014; Hardies et al. 2021) and we commend the IAASB on its focus on the reinforcement of the auditor’s application of professional scepticism in relation to going concern.

A significant threat to the appropriate exercise of professional scepticism is the adoption of an implemental as opposed to a deliberative mindset (e.g., Nolder and Kadous 2018). An implemental mindset focusses the auditor on the completion of the task whereas a deliberative mindset focusses the auditor more on the different dimensions (alternatives) inherent in the task and encourages critical thinking. The adoption of an implemental vs deliberative mindset has been shown to be associated with insufficient challenging of, and overreliance on, management's assumptions and processes (Griffith et al. 2015) and is more likely to be prompted in a going concern environment where auditors are required to evaluate management's assessment of the entity's ability to continue as a going concern. We believe that requirements in paragraph 18 and paragraph 19 (and associated application and explanatory material) go some way to prompting a more deliberative analysis of the entity's ability to continue as a going concern (and the exercise of an appropriate level of professional scepticism), but believe that it may still be too focussed on management's assumptions and processes at the expense of alternate scenarios that the auditor, but not the client, may envisage. As such management bias in the assessment of going concern may survive the audit.

We do not suggest that auditors be required to make a going concern assessment independent of management, but encourage the IAASB to consider providing further elaboration in paragraphs A32 to A37 with a view to suggesting that evaluating management's assessment in an unbiased manner may involve considering alternate scenarios that the auditor envisages independent of the client's assessment. While paragraph A36 briefly speaks to alternate assumptions, we do not believe that this is sufficient (see also our response to Question 9).

We further note that while ED-570 speaks to management bias, the proposed standard is essentially silent on auditor biases that have the potential to constrain the auditor's exercise of professional scepticism. We note that proposals associated with revisions to ISA500 speak to auditor biases that may threaten the auditor's exercise of professional scepticism and we believe that there is an opportunity for the IAASB to reinforce the exercise of professional scepticism by cross referencing to ISA500 when discussing an unbiased evaluation of management's assessment. We consider this to be especially important in light of research suggesting that the auditor's exercise of professional scepticism may be constrained when the auditor reports on work that was done (Asbahr and Ruhnke 2019). We do note, however, our comments on ED-500 which expressed concern that overconfidence bias (e.g., Pincus 1991) was not covered, and highlight the potential threat to the exercise of professional scepticism from overconfidence bias when evaluating going concern.

Finally, we note that the relationship between levels of professional scepticism and quality enhancing behaviours is not infinitely positive and elevated levels of professional scepticism are not always audit quality enhancing (e.g., Harding et al. 2016; Sun et al. 2022). Given that management's assessment is focussed on inherently uncertain future outcomes, and the auditor is making an assessment about the level of uncertainty, excessive levels of professional scepticism have the potential to inflate incidences of a material uncertainty relating to going concern which we believe would detract from the decision usefulness of such reporting in the Auditor's Report. We believe that this can be addressed with a revision to paragraph A16 to refer to auditors maintaining an 'appropriate' level of professional scepticism.

In summary, we feel that the proposed standard; could further reinforce the application of professional scepticism in relation to going concern (see our response to Question 4),

Colombia's National Institute of Public Accountants (INCP)

Yes, it explicitly requires the auditor to design and impartially apply more robust audit procedures to evaluate the assessment made by the company's management. Procedures must go beyond simple

investigation and discussion with management.

It is appropriate to include new material to support the auditor in identifying circumstances or conditions that may create fraud risks in this setting and that should be considered when addressing their risk assessment.

There is a new requirement to evaluate the method, assumptions and data used in management's assessment of going concern, which is more structured. However, this must be consistent with IAS 1 and IAS 10, so that management is clear about the process that they must execute to facilitate the related audit process.

Clarifications regarding the auditor's responsibilities to report a control deficiency in cases where management's assessment of going concern has not been properly supported are appropriate.

CPA Australia (CPAA)

Overall, we agree that the requirements and application material of ED-570 appropriately reinforce the auditor's application of professional scepticism in relation to going concern. However, we refer to comments made in Question 3 above in relation to scalability.

European Federation of Accountants and Auditors for SMEs (EFEAA)

Yes.

We believe that the requirements and application material reinforce the requirement to exercise professional skepticism. However, as mentioned above the forward-looking nature of going concern assessments and the accompanying inherent uncertainties are different to other aspects of audit work. Since there can be limited scope and ability to practically challenge management an initial focus on corroboration, in the absence of information to the contrary, may be more appropriate.

IFAC SMP Advisory Group (SMPAG)

The SMPAG believe that the requirements and application material reinforce the requirement to exercise professional skepticism. However, as noted earlier, the considerations made for going concern are different to general audit work due to the forward-looking nature of going concern assessments and the accompanying inherent uncertainties. There can be limited scope and ability to practically challenge management, so an initial focus on corroboration may be more appropriate in this area in the absence of contrary information received from the audit or of which the auditor is otherwise made aware. We also raise a query as to the extent of which additional documentation to evidence exercise of professional skepticism would add in cases where there are very little risks of going concern issues (e.g., due to the level of cash reserves and future commitments).

Instituto de Auditoria Independente do Brasil (IBRACON)

Yes, we agree that the requirements and application material appropriately strengthen the auditor's application of professional skepticism throughout planning and performance of the audit.

Including illustrative examples that refers to types of unconscious or conscious auditor biases that may impede the exercise of professional skepticism is good guidance that can be included in the application material. Another point refers to the person responsible in the engagement team for the evaluation of management's assessment of the going concern, as it would be expected to have someone with more experience and knowledge of the entity's operation to evaluate management's plans.

Saudi Organization for Chartered and Professional Accountants (SOCPA)

The drafting of the revised requirements and application material in ED-570 clearly acknowledges the need of auditors to practice professional skepticism when fulfilling their responsibilities in relation to auditing going concern matters. Different requirements and application material are drafted in ED-570 to emphasize the approach of being neutrally (“unbiased manner”) alert to obtain audit evidence, whether corroborative or contradictory, while designing and performing audit procedures (including assessing the risks) (e.g., paras. 18, 29, A10, A32). Although the proposals in ED-570 stress taking management bias into consideration when auditing management’s assessment of the entity’s ability to continue as a going concern, these proposals appear to support an auditor more to take a neutral stance while conducting audit procedures (e.g. considering alternative data, assumptions, methods, or explanations) and obtaining appropriate and sufficient audit evidence. Auditing literature presents valid evidence that auditors tend to exhibit a better practice of professional skepticism by focusing more on the possible existence of material misstatement (whether due to error or fraud), unreasonable or biased management’s assessment, or what has been described in auditing literature as “presumptive doubt.” This perspective has been used in drafting the professional skepticism requirements in ISA 240 (para. 13–15), but it should be noted that auditing literature shows that this perspective does not have to be limited to the idea of only acknowledging the possible existence of fraud. Accordingly, we found, for instance, that the proposals in ED-570 introduced in A.7, A.57–60, and A.32–34 persuade the “presumptive doubt” approach as they guide auditors to focus more on the possible existence of management bias. Thus, in order to encourage better practice of professional skepticism by auditors, the drafting of the proposals in ED-570 should more consistently embrace “presumptive doubt,” specifically that ISA 570 is regulating the audit of an area of uncertainty (estimate) where management could be more persuasive of their judgments.

Additionally, we observed that the enhanced requirements in ED-570 do not provide clear guidance on how auditors should exercise professional skepticism when evaluating the adequacy of going concern disclosures in the financial statements. This can lead to varying degrees of scrutiny when assessing whether management has appropriately disclosed the relevant uncertainties. We also think that the enhanced requirements and application material in ED-570 lack practical examples illustrating how professional skepticism should be applied in real-world scenarios related to going concern assessments. Practical examples can be instrumental in helping auditors better understand how to exercise skepticism effectively.

South African Institute of Chartered Accountants (SAICA)

Yes. While the application of professional scepticism is implied in the extant standard, the proposed standard contains references throughout that serve as reminders to the auditor that an attitude of professional scepticism should be maintained.

The IAASB may consider including an example in paragraph A32 where information from external sources was contradictory to assumptions used/assessments made by management.

The Malta Institute of Accountants (TMIA)

We note that ED-570 has been aligned with other ISAs e.g. ISA 540R, requiring the auditor to design and perform procedures in an unbiased manner. The requirement throughout to assess events individually and collectively reinforces the importance of ‘seeing the wider picture’. The auditor is also “required to “stand back” and consider all audit evidence obtained, including audit evidence that is consistent or inconsistent with other audit evidence, and regardless of whether it appears to corroborate or contradict the assertions in

the financial statements.” Although not explicitly stated, the need to be professionally skeptical is implied through these requirements.

Q03 - Disagree

Q04 - No specific comments

1. Monitoring Group

Basel Committee on Banking Supervision (BCBS)

2. Regulators and Audit Oversight Authorities

Canadian Securities Administrators Chief Accountants Committee (CAC)

National Association of State Boards of Accountancy (NASBA)

4. Accounting Firms

Crowe LLP (CROWE LLP)

Nexia Australia Pty Ltd (NAPL)

5. Public Sector Organizations

Office of the Auditor General of Manitoba (OAGM)

UK National Audit Office (UKNAO)

6. Member Bodies and Other Professional Organizations

ASEAN Federation of Accountants (AFA)

Center for Audit Quality (CAQ)

7. Academics

RMIT University (RMU)

8. Individuals and Others

Colin Semotiuk (CS)

Question 4 intentionally left blank.

Kazuhiro Yoshii (KY)