

Going Concern – Question 8

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?

Q08 - Agree**1. Monitoring Group****Basel Committee on Banking Supervision (BCBS)**

The Committee agrees with the proposed enhancements to the revised standard, including the time period for going-concern assessments, the definition of material uncertainty, the assessment requirements and disclosures about situations of significant doubt but no material uncertainty, and increased transparency in the auditor’s report.

International Association of Insurance Supervisors (IAIS)

The IAIS supports the requirement to design and perform audit procedures to evaluate management’s assessment of going concern (para 17) as well as application material in A31 of ISA 570, which provides examples of how the evaluation of management’s assessment of going concern can be carried out in a scalable way.

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.

International Organization of Securities Commissions (IOSCO)

Yes, we are supportive of the enhanced approach to require the auditor to design and perform audit procedures to evaluate the appropriateness of management’s use of the going concern basis of accounting in the preparation of the financial statements and any related disclosures 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.

2. Regulators and Audit Oversight Authorities**Botswana Accountancy Oversight Authority (BAOA)**

We are in agreement of the proposal that the auditor performs procedures to evaluate management’s assessment of going concern 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. This ensures that the auditor’s conclusion is informed and supported not only by management’s assessment but by the auditor’s procedures as well.

3. Jurisdictional and National Auditing Standard Setters

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

We agree.

4. Accounting Firms

CohnReznick LLP (CHR)

We support of the requirement for 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.

Ernst & Young Global Limited (EY)

Yes, we support the 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.

PKF International Limited (PKF)

Yes, we agree with the enhanced approach for the auditor to assess management's assessment of going concern in all circumstances.

We must ensure that we distinguish between the responsibilities of management and that of the auditor and, in our experience, all too often the auditor may find themselves inadvertently supporting management's assessment at the time of the audit in order to rectify the lack of detailed analysis by management.

The extant ISA allowed for flexibility, where circumstances were appropriate, for the auditor to conclude on management's use of the going concern basis of accounting, without a detailed analysis having been performed by management. This new requirement ensures a more robust approach to applying ED-570 and removes the element of judgment regarding whether it is appropriate for the auditor to conclude on going concern basis of preparation without a detailed assessment having been prepared by management.

5. Public Sector Organizations

Office of the Auditor General New Zealand (OAGNZ)

We also agree with requiring specific risk assessment procedures that link to ISA 315 (Revised 2019), and requiring more rigorous procedures to challenge management's assumptions and judgements in making their assessment of the entity's ability to continue as a going concern.

Yes, we support the requirement to evaluate management's assessment in all circumstances.

We also agree that management should be asked to make an assessment if they have not done so, or extend an assessment if the period of the assessment does not cover 12 months.

6. Member Bodies and Other Professional Organizations

Botswana Institute of Chartered Accountants (BICA)

We support the enhanced approach that require the auditor to design and perform audit procedures to evaluate the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements and any related disclosures 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.

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.

Colombia's National Institute of Public Accountants (INCP)

Yes. The auditor must apply more stringent procedures to appropriately call into question management's assumptions and judgments on which their assessment of the entity's ability to continue as a going concern is based.

Federation of Accounting Professions of Thailand (FAPT)

Yes.

Institute of Certified Public Accountants of Uganda (ICPAU)

ICPAU is supportive of 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 and conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern. This is because we believe that this will ensure a robust process of understanding the management process of assessing going concern and the identification of events and conditions that influence going concern status. We believe that this enhanced transparency in going concern assessment will increase public confidence in audits of financial statements of entities.

Institute of Chartered Accountants of Scotland (ICAS)

Yes, we are supportive of the proposed enhanced approach.

Institute of Chartered Accountants of Sri Lanka (ICASL)

Yes. We believe that it is important for auditors to be proactive in their evaluation of going concern, and to consider the implications of going concern even when there are no obvious signs of problems because going concern is a fundamental assumption underlying financial reporting and have a significant impact on the financial statements.

The enhanced approach in ED-570 would improve the quality of audits and help to ensure that the financial statements provide a fair presentation of the entity's financial position and results of operations, ensuring greater trust and confidence in the independent auditor's report.

However, the enhanced approach would place additional demands on auditors. They would need to have a deeper understanding of the entity's business, operations, and financial position. They would also need to be

more proactive in their evaluation of going concern notwithstanding the management's assessment of going concern.

Instituto Mexicano de Contadores Publicos (IMCP)

We agree with this requirement. The fact that management would not have identified events or conditions that may cast a significant doubt is insufficient for the auditor to stop conducting tests to evaluate the assessment. Professional skepticism must prevail.

Korean Institute of Certified Public Accountants (KICPA)

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.

National Board of Accountants and Auditors of Tanzania (NBAA)

Yes, we do support enhanced approach in ED-570.

South African Institute of Chartered Accountants (SAICA)

We support the proposal as this may assist auditors in timeously identifying events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

We are also of the view that users of the auditor's report may, and rightly so, expect the performance of audit procedures in all circumstances on consideration that the auditor's conclusions will, in terms of the proposals, be reflected in the auditor's report. Obliging the auditor to design and perform audit procedures may assist in reducing the expectation gap regarding the auditor's assessment of the going concern assumption.

8. Individuals and Others

Altaf Noor Ali Chartered Accountants (ANA)

Yes.

We fully support that the auditor designs and performs audit procedures to evaluate management's assessment of going concern in all circumstances. In case none is provided or one that is not satisfactory, the fact may be reported by the auditor.

Management is responsible to discharge this duty every year. Corporate planning considers internal and external conditions existing at the time is important for all entities. A five-year rolling corporate plan may be a part of solution. We expect the auditor to play a major role in such issues for its small clients.

Here I recall my experience as Job Incharge that while reviewing my working papers of a financial institution, I was asked if I have seen any corporate plans for continuity? No, I said. I reverted to the client to ask for one. I was made fun of. I was told that there are many divisions of the Bank, which one would I like to see? Where is it mentioned that doing this is important?

I went back to the office with the same question. The higher up in Finance was phoned to provide a copy of plans of selected credit lines availed from foreign financial institutions as a pre-condition of a signed audit report. The scrupulous in us checked continuity plan since long. Good its official now!

The above shows that the concerns of the auditor about the going concern are addressed at the last of the outstanding issues whereas it is not a side topic.

Q08 - Agree with comments

1. Monitoring Group

International Forum of Independent Audit Regulators (IFIAR)

Evaluating management's assessment

IFIAR recommends that application material is added to the requirement in paragraph 16 to make it clear that where the auditor has requested management to perform an assessment of the entity's ability to continue as a going concern, in the circumstances where management refuses to do so, the auditor modifies the audit opinion. This could draw on language used in paragraph 4 that even where there is no explicit requirement for management to make a specific assessment, the preparation of the financial statements requires management to assess the entity's ability to continue as a going concern.

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

The auditor's evaluation of management's assessment of going concern, 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. In our 2021 Response Letter, we observed that the step between deteriorating financial conditions of an entity and a situation of significant doubt about the entity's ability to continue as a going concern may be significant. Accordingly, as the auditor is required by ED-ISA 570 to evaluate management's decisions – which are underpinned by judgments and assumptions – as to whether there are events and conditions that may cast significant doubt on the entity's ability to continue as a going concern, the auditor may, therefore, be in a position to identify the presence of early indicators of potentially significant financial distress.

2. Regulators and Audit Oversight Authorities

Committee of European Auditing Oversight Bodies (CEAOB)

Audit procedures

The CEAOB also supports the enhancement of the audit procedures to be performed by the auditor to evaluate management's assessment of the entity's ability to continue as a going concern (paragraphs 17 and 19).

Paragraph 25 – The CEAOB believes that the auditor should be required not only to “determine whether it is necessary” to request management to revise its going concern assessment in any case where the auditor identifies events or conditions that cast significant doubt on the entity's ability to continue as a going concern but also to request the revision from management once the determination has been made.

Paragraph 20 – If management disclose events or conditions beyond the period of their assessment that may cast significant doubt on the entity's ability to continue as a going concern, the auditor should be required to make further enquiries of management and evaluate if this information is significant for the auditor's going concern evaluation.

Further enhancements to be integrated in the application material

Paragraph A41 – The CEAOB believes that these provisions are too weak. When events or conditions have been identified in the period beyond management’s assessment, the auditor should at least communicate and encourage management to revise the period of assessment beyond twelve months after the approval date.

Financial Reporting Council (FRC)

We also urge the IAASB to reconsider the wording in paragraph 25 to make the work effort more robust where the auditor identifies events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern that management has not previously identified or disclosed. Currently, it would appear that the auditor could be in a position having completed the requirements in (a)-(c), where they are not required to undertake any further audit procedures apart from discussions with management. In ISA (UK) 570, the auditor is required to “perform additional audit procedures relating to the newly identified events or conditions”.

YES, we strongly support this approach. The FRC introduced similar requirements in our revision of ISA (UK) 570 for the auditor to ensure that they have obtained a more robust understanding of the process management applies when assessing going concern, ensuring that the auditor is considering all aspects of the entity and its environment, the applicable financial reporting framework and the system of internal control in order to identify events and conditions. A threat to the ability to continue as a going concern should not be assessed as low based only on clearly visible factors as there may be events and conditions that are only identified through the auditor’s risk assessment process.

Independent Regulatory Board for Auditors (IRBA)

We 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. This is because the going concern basis of accounting is a fundamental principle and/or assumption in the preparation of financial statements.

Therefore, it may be helpful for the IAASB to put forward minimum audit procedures that should be performed on management’s assessment of going concern, including cash flow forecasts where applicable, while incorporating scalability into those procedures. This will assist in achieving consistent application of paragraphs 17 and 18 of ED-570.

Further, in respect of paragraph 19 and related application material in ED-570, the IAASB may want to consider clarifying that the nature, timing and extent of procedures to be performed should be responsive to the assessed risk of material misstatement(s).

The IAASB may also want to expand on paragraph A31 concerning the applicability of scalability in the requirement of paragraph 17, in addition to the example provided in paragraph A31 of ED-570.

Irish Auditing and Accounting Supervisory Authority (IAASA)

Paragraph 20 – If management disclose events or conditions beyond the period of their assessment that may cast significant doubt on the entity’s ability to continue as a going concern, the auditor should be required to make further enquiries of management and evaluate if this information is significant for the auditor’s going concern evaluation.

Paragraph 25 – The auditor should be required not only to “determine whether it is necessary” to request management to revise its going concern assessment in any case where the auditor identifies events or conditions that cast significant doubt on the entity’s ability to continue as a going concern but also to request revision from management once the determination has been made.

Audit procedures

IAASA supports the enhancement of the audit procedures to be performed by the auditor to evaluate management's assessment of the entity's ability to continue as a going concern (paragraphs 17 and 19).

Further enhancements to be integrated in the application material

Paragraph A41 – When events or conditions have been identified in the period beyond management's assessment, the auditor should at least communicate and encourage management to revise the period of assessment beyond twelve months after the approval date.

Further enhancements to be integrated in the requirements for audit procedures

Paragraph 25 – The auditor should be required not only to “determine whether it is necessary” to request management to revise its going concern assessment in any case where the auditor identifies events or conditions that cast significant doubt on the entity's ability to continue as a going concern but also to request revision from management once the determination has been made.

3. Jurisdictional and National Auditing Standard Setters

Austrian Chamber of Tax Advisors and Public Accountants (KSW)

We support the fundamental requirement for auditors to include going concern in the risk assessment. However, we note that, in our view, this requirement already arises from ISA 315 and therefore there is no need for new regulations. However, it should be specified under which conditions no further procedures are required for risk assessments. This is particularly necessary for reasons of scalable application of the ISAs for less complex entities.

Canadian Auditing and Assurance Standards Board (AASB)

We generally support the enhanced approach. However, we believe that additional guidance is necessary to address circumstances when it is obvious that there are no going concern issues.

Required work effort when it is clear the entity is a going concern

Concern: We are concerned that the proposed requirement may result in overly onerous work effort for both management and the auditor in cases when it is obvious that there are no going concern issues. We believe that a simple evaluation of management's going concern assessment is sufficient in certain cases, for example:

Scenario 1: The entity has profitable operations and no liquidity concerns (or intention to liquidate). The entity has an adequate risk assessment process in place to identify, assess and address events or conditions. Management did not identify events or conditions.

Scenario 2: The public sector entity is expected to operate in perpetuity and there is no evidence to the contrary (i.e., the going concern presumption is appropriate)

Suggest: The IAASB may consider developing application material on how the auditor may perform simple evaluations of management's going concern assessments in the above 2 scenarios:

Scenario 1: The auditor may be able to conclude on management's assessment that there are no events or conditions (and therefore no MURGC) if, based on the auditor's understanding of the entity and its environment, the auditor is satisfied that the entity has profitable operations, no liquidity concerns (or intention to liquidate) and adequate risk assessment process in place to identify events or conditions.

Scenario 2: The auditor may be able to conclude on management's assessment that there are no events or conditions (and therefore no MURGC) if, based on the auditor's understanding of the entity and its environment, the auditor has already concluded that the going concern presumption for the public sector entity is appropriate.

Japanese Institute of Certified Public Accountants (JICPA)

We support the enhanced approach in ED-570 except for the following points. We appreciate the flexibility provided in paragraph A30 of the application material regarding paragraphs 17 and 19 and think that such application material allows us to 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.

Comment on the structure of paragraphs 16 and 17 and the reference to paragraph A30

Paragraph A30 contains descriptions of when management's assessment of the going concern lacks a detailed analysis, which is relevant not only to paragraph 17 but also to paragraph 16. In addition, paragraph 16 is a requirement for exceptional circumstances where the management has not yet performed an assessment of the entity's ability to continue as a going, while paragraph 17 is a general requirement to design and perform audit procedures to evaluate management's assessment. We think that it is difficult to understand the structure of the requirements. Therefore, we propose to switch the order of paragraphs 16 and 17, and then merge the paragraphs, and have a reference to paragraph A30 from the merged paragraph.

New Zealand Auditing and Assurance Standards Board (NZAuASB)

Overall, we support the proposed additional requirements in ED-570 to enhance the auditor's evaluation of management's going concern assessment. However, we believe further guidance on work effort is necessary so that the required audit procedures are proportionate to the assessed risks. Guidance regarding the need to consider systemic risks to the sector may also be helpful.

We encourage the IAASB to clarify, in application material, if and how the work effort may be adjusted to be proportionate to the audit clients' going concern risk scenarios. For example, to clarify the extent of work effort where the entity is clearly a going concern.

The example scenarios and related work effort as illustrated in the IFRS Foundation educational material on Going Concern – a focus on disclosure may be useful. These illustrations consider the following scenarios:

No significant doubts about going concern.

Significant doubts about going concern but mitigating actions judged sufficient to make going concern appropriate. Entity determines no material uncertainties.

Significant doubts about going concern but mitigating actions judged sufficient to make going concern appropriate. Material uncertainties about going concern remain after considering mitigating actions.

We recommend the IAASB develop similar scenarios for going concern from an auditor's perspective, to clearly illustrate the work effort based on the going concern risk relevant to the entity.

Public Accountants and Auditors Board Zimbabwe (PAAB)

The PAAB support the enhanced approach 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. This approach will have a positive impact on audit quality and appropriateness of the audit opinion.

The PAAB recommends that in the formulation of the education material for the final standard, there is need for the incorporation of how to adopt professional scepticism and deal with estimation uncertainty, subjectivity, complexity and inherent risk in determining the appropriateness of the going concern assumption/basis.

Royal Dutch Institute of Chartered Accountants (NBA)

We agree with the proposed approach as a principle. As noted before, we suggest that the standard should provide better guidance on situation where the entity's ability to continue as a going concern is almost self-evident, and how auditors could in such circumstances fulfill the requirements of the standard in an appropriate and straightforward manner.

4. Accounting Firms

Assirevi

We agree with the approach set out in ED-570 requiring an 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.

However, we believe that ED-570 should provide clear guidance about such audit procedures to be designed and performed by the auditor in situations where an audit risk related to going concern matters is not identified.

Specifically, paragraph 19 on the method, assumptions and data used in management's assessments and paragraph A38 on scalability do not provide guidance or examples on how the auditor is to respond to situations where events or circumstances suggesting that going concern risks exist are not identified.

In this respect, IAS 1.26 establishes that "In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. [Refer: IAS 10 paragraphs 14–16] The degree of consideration depends on the facts in each case. When an entity has a history of profitable operations and ready access to financial resources, the entity may reach a conclusion that the going concern basis of accounting is appropriate without detailed analysis. In other cases, management may need to consider a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate". In the circumstances highlighted in bold above, we believe that the lack of an explicit clarification in ED-570 about the procedures to be performed by the auditor to comply with the requirements of paragraph 19 could lead to inconsistent approaches being taken when the auditing standard requires procedures to be performed on matters that the audited entity is not required to explore.

BDO International (BDO)

We support the enhanced approach which also builds on the ISA 315 (Revised) changes. However, we have the following comments:

The IAASB considers revising paragraph 17 to include a reference to the linking of the assessed risk when requiring the auditor to design and perform further audit procedures.

The application material in paragraphs A29 to A31 in ED-570, is helpful - especially the example given for profitable clients, however we believe non-authoritative implementation guidance will be important in these circumstances to ensure that practitioners understand and apply it appropriately in practice in both less and more complex circumstances (i.e., scalability).

We question how practitioners would comply with the requirement in paragraph 17 to ‘design and perform audit procedures to evaluate management’s assessment of the entity’s ability to continue as a going concern’; with the current wording of the examples noted in paragraphs A30 and A44. In order to not require further audit procedures or to consider the effect on the audit report, we would recommend adding the following wording, in blue text, to the example in paragraph A30:

“A30. It is not the auditor’s responsibility to rectify a lack of analysis by management. In some circumstances, however, a lack of detailed analysis by management to support its assessment may not prevent the auditor from concluding whether management’s use of the going concern basis of accounting is appropriate in the circumstances. For example, when the entity has profitable operations, there are no liquidity concerns and the auditor has not obtained new information or audit evidence from risk assessment procedures and related activities which might indicate the existence of events or conditions that that may cast significant doubt about the entity’s ability to continue as a going concern, management may make its assessment without detailed analysis. In this example the auditor may be able to obtain sufficient appropriate audit evidence that supports their professional judgment about the appropriateness of management or those charged with governance’s assessment of the use of the going concern basis of accounting, without detailed analysis by management. However, in situations when, in the auditor’s professional judgment, management has not performed an appropriate assessment, this may be an indicator of a deficiency in internal control in accordance with ISA 265.”

We have provided in our response to question 7 recommended wording for paragraph A44, to make the application material clearer regarding the circumstances.

Crowe Global (CROWE)

The enhanced approach is a consequence of the public interest taken in going concern. There are concerns about additional procedures being required when doubts have not been identified, but the inclusion of these procedures in all circumstances meets the expectations of stakeholders. There is a role for the implementation material to support the scalable application of this new requirement.

Deloitte Touche Tohmatsu Limited (DTTL)

We believe it is appropriate to design and perform audit procedures to evaluate management’s assessment in all cases and even when events or conditions have not been identified that may cast significant doubt. However, we believe the edits we have proposed to paragraph 19 in our response to question 9 are necessary to enhance the scalability of the proposed standard to allow the auditor appropriately to use professional judgment in determining the nature and extent of audit procedures necessary to evaluate management’s assessment.

Grant Thornton International Limited (GT)

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

required when events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, irrespective of whether mitigating or remedial actions have been identified.

KPMG International Limited (KPMG)

We also highlight that required procedures in respect of prospective financial information (PFI) are placed earlier in ED-570 (as part of the evaluation of management's assessment) versus their placement in the extant standard (as part of the evaluation of management's plans when events or conditions are identified that may cast significant doubt on going concern, and PFI is significant to management's plans and the auditor evaluates these in determining whether there is a MURGC). Without additional clarification, we have concerns that this revision is likely to require the auditor to direct significant work effort to these areas in circumstances when it is not necessary to respond to the assessed risks of material misstatement as no events or conditions that may cast significant doubt on the entity's ability to continue as a going concern have been identified, e.g. when the entity is clearly profitable, and there are no liquidity concerns, and this is not expected to change in the foreseeable future. We believe this would drive the auditor to perform and document procedures that may not be necessary in respect of obtaining sufficient appropriate audit evidence, to respond to the assessed risks of material misstatement. We recommend that the standard clarify that the nature, timing and extent of audit procedures that would be appropriate to evaluate the relevance and reliability of PFI for the purpose of evaluating management's assessment when no events or conditions have been identified would be significantly less than the required work effort when events and conditions have been identified and PFI is significant to management's plans to respond to these events or conditions.

We highlight that the auditor's procedures in respect of going concern are premised on the presumption that 'management goes first' and that it is critical that management perform a suitably robust risk identification and assessment. We therefore recommend that the standard more clearly emphasise that the auditor's evaluation focus on whether management's assessment is appropriate/proportional to the size and complexity of the entity and its circumstances, to better align with ISA 315 (Revised) and with the risk-based nature of an audit. (Please see our response to Question 6 for further details).

We support the intentions underpinning the enhanced approach that requires the auditor to design and perform audit procedures to evaluate management's assessment of going concern in all circumstances, irrespective of whether events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern.

We believe that, in general, the changes made to the requirements and related application material will drive the auditor to make a more robust evaluation of management's assessment, including their identification of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, considering whether their assessment is fit for purpose, and we are supportive of the continued inclusion of the two components to the assessment, i.e. whether the going concern basis of preparation is appropriate, and whether there is a MURGC. We are also supportive of the changes to the consideration of whether there is a MURGC, to include consideration of events or conditions that the auditor has identified and which management may not, as well as a more robust approach to making the evaluation – please see our response to Question 9.

However, we note that, in certain circumstances, an entity may not have made a detailed assessment of its ability to continue as a going concern, e.g., when it is profitable and there are no liquidity concerns, or when the entity is small and less complex, with less formalised governance structures and policies and procedures, including in respect of forecasting of information. In these circumstances, the explicit requirement to "design and perform audit procedures" to evaluate management's assessment of going concern, and the granular

nature of these requirements, as set out at paragraph 19, may create challenges for the auditor when applied to entities with less robust/detailed analyses. We believe it is unclear as to the extent of work that would be considered to be appropriate in these scenarios, and whether the auditor would need to obtain audit evidence by performing alternative procedures in the event the budgets/forecasts did not cover the entire period of the assessment, or whether the lack thereof would potentially be considered a scope limitation.

We recommend, therefore, that the requirements, in particular, at paragraph 19, and related application material, be amended to clarify that the nature, timing and extent of procedures to be performed should be responsive to the assessed risks of material misstatement, and the requirement itself should be more clearly linked to the risk identification and assessment procedures set out earlier in the standard. The material at A30 appears to acknowledge this in noting that “a lack of detailed analysis by management may not prevent the auditor from concluding whether management’s use of the going concern basis of accounting is appropriate in the circumstances” and cites the example of when “an entity has profitable operations and there are no liquidity concerns”, in which case “management may make its assessment without detailed analysis”. We recommend that the standard address this more clearly, as in paragraph A12 of the extant standard, including acknowledgement that the auditor’s procedures may be more inquiry-based, directed at key individuals with in-depth knowledge of the entity, and provide more guidance to auditors regarding how to ensure such inquiries and discussions are robust and appropriately challenge management, and exercise professional skepticism in doing so. We also suggest that the standard provide clearer guidance as to the circumstances where it may be possible to obtain sufficient appropriate audit evidence in the absence of a detailed analysis by management; the factors that the auditor would need to consider, and how this would comply with the requirements when the auditor does not consider that there is a significant risk in this area, with a focus on the use of professional skepticism and professional judgement to be used by the auditor in making this determination.

Additionally, we recommend that the auditor’s evaluation of management’s assessment focus on whether management’s assessment is appropriate/proportional to the size and complexity of the entity and fit for purpose, with application material to address the form of management’s ‘assessment’ and the fact that this may vary in terms of the level of detail included.

We also highlight that required procedures in respect of prospective financial information (PFI) are placed earlier in the ED (as part of the evaluation of management’s assessment) versus their placement in the extant standard (as part of the evaluation of management’s plans when events or conditions are identified that may cast significant doubt on going concern, and PFI is significant to management’s plans and the auditor evaluates these in determining whether there is a MURGC). Without additional clarification, we have concerns that this revision is likely to require the auditor to direct significant work effort to these areas in circumstances when it is not necessary to respond to the assessed risks of material misstatement as no events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern have been identified, e.g. when the entity is clearly profitable, and there are no liquidity concerns, and this is not expected to change in the foreseeable future, i.e. is driving the auditor to perform and document procedures that may not be necessary in respect of obtaining sufficient appropriate audit evidence, to respond to the assessed risks of material misstatement.

We recommend that the standard clarify that the nature, timing and extent of audit procedures that would be appropriate to evaluate the relevance and reliability of PFI for the purpose of evaluating management’s assessment when no events or conditions have been identified (as well as to validate the non-identification of going concern-related events and conditions) would be significantly less than the required work effort when events and conditions have been identified and PFI is significant to management’s plans to respond to these

events or conditions. We also have concerns with respect to the nature of the procedures in paragraph 19, which require the auditor to evaluate the method, assumptions and data used in management’s assessment. We recommend that the focus of the standard should be on robust challenge of management’s significant assumptions and judgements, regarding whether these are reasonable/supportable, and consideration of the relevance and reliability of the underlying information, as opposed to evaluating whether the methods, assumptions and data are appropriate in the context of the applicable financial reporting framework, in particular because financial reporting frameworks generally do not establish prescriptive requirements with respect to management’s assessment.

We also highlight that the more granular requirements in respect of estimates, e.g., consideration of changes in methods, assumptions and data from prior periods, are not necessarily relevant to an assessment of going concern, given that the assessment should be responsive to the current environment and events and conditions that may arise, and may change over time. We recommend that the standard focus on an overall evaluation, and the application material provide factors that the auditor may consider in evaluating relevance and reliability of the information. (Please refer to our response to Question 9 for more detail).

In connection with the above, we also recommend that the IAASB consider whether the structure of the extant standard is more appropriate in this area, i.e. that the auditor first performs procedures to identify whether there are events or conditions that may cast significant doubt on an entity’s ability to continue as a going concern and that more extensive work effort over prospective financial information be required only in the event that such events or conditions are identified. We believe this would be more appropriate and better aligned with the risk-based nature of an audit, as well as the drive to identify events or conditions on a gross basis initially. We recommend that the standard clarify that any risk assessment procedures in respect of budgets, consideration of headroom etc. would be different in nature, timing and extent to those required by paragraph 26, which involve evaluating management’s plans for future action when events or conditions are identified, would address more detailed consideration of prospective financial information, which would require a more robust evaluation of the relevance and reliability of such information, consideration of multiple possible outcomes, sensitivity analyses etc. with the auditor needing to exercise professional skepticism and professional judgement in evaluating management’s future plans, significant assumptions and judgements. This would be in line with the placement of paragraph 16(c) in the extant standard.

(Please also refer to our response to Question 6, in which we recommend that the requirements for the auditor to evaluate management’s assessment (at paragraph 17-19), and the requirement at paragraph 15, for the auditor to determine whether one or more control deficiencies in respect of management’s assessment have been identified, explicitly focus on whether the assessment is appropriate/proportional to the size and nature of the entity, and its circumstances, i.e. to risks related to going concern, and is fit for purpose. As we also note in our response to Question 6, we recommend that the structure and flow of the standard are such that the focus is on higher level considerations in respect of prospective financial information as part of risk assessment procedures and the evaluation of management’s assessment of going concern, and that more detailed procedures in respect of such prospective financial information are only required when events or conditions that may cast significant doubt on an entity’s ability to continue as a going concern are identified. This is the approach taken in the extant standard).

Mo Chartered Accountants (MCA)

Yes, we are in support of this. What needs to be incorporated in auditor training is how to adopt professional scepticism and deal with estimation uncertainty, subjectivity, complexity and inherent risk in determining the appropriateness of the going concern assumption/basis.

PriceWaterhouseCoopers (PwC)

Evaluating management's assessment (scalability)

We agree in principle with the proposed enhanced work effort requirements, including the need to evaluate the method, assumptions and data used in management's assessment of going concern (paragraph 19). However, we believe the following revisions are necessary to result in an appropriately scalable requirement:

Clarifying the impact of the guidance in paragraph A30 (that a "lack of detailed analysis by management to support its assessment may not prevent the auditor from concluding whether management's use of the going concern basis of accounting is appropriate in the circumstances") on the expected audit procedures required by paragraph 19 with respect to evaluating the method, assumptions and data used by management in their assessment.

Explicitly highlighting that when no (or limited) events or conditions have been identified (for example, for large multinational corporations with significant liquidity reserves) the extent of the auditor's procedures to evaluate the method, assumptions and data may be more limited (i.e., taking into account the auditor's risk assessment); and

Consistent with ISA 540 (Revised), we believe the scope of requirement 19(b) should be restricted to significant assumptions. It appears unduly onerous for the auditor to have to consider and document every assumption used, including those that are not significant.

In principle, yes. However, please see our response to question 3 regarding ensuring appropriate scalability of the requirements when there are no (or limited) events or conditions identified.

5. Public Sector Organizations

UK National Audit Office (UKNAO)

We agree with the principle that the auditor should always design and perform audit procedures to evaluate management's assessment of going concern, irrespective of whether events or conditions have been identified that may cast significant doubt on the ability of the entity to continue as a going concern.

In circumstances where going concern risk is limited or restricted to when events or conditions occur, such as where the continued provision of service approach is applied in the UK public sector, the procedures performed by the auditor should reflect this limited risk. We consider that paragraph A31 in the application guidance provides sufficient guidance to adopt a more proportionate approach in these circumstances. However, it would be helpful to include an example of a simpler scenario which did not refer to reviewing cash flow forecasts, as this is not as relevant in the public sector context where the continued provision of service approach applies.

6. Member Bodies and Other Professional Organizations

Accountancy Europe (AE)

In this sense, we welcome the IAASB's proposals enhancing auditors':

work effort in terms of considering the wider context in evaluating management's assessment

Yes, we support the proposed approach as a principle although it is not scalable enough. As noted above, the standard should provide more guidance with examples on cases where the entity's ability to continue as a going concern is almost self-evident, and how auditors could achieve the objectives of the standard in an appropriate and proportionate manner.

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

In summary, we feel that the proposed standard;

appropriately extends requirements for auditors to design and perform audit procedures to evaluate management's assessment of going concern in all circumstances, and not just when events or conditions have been identified (see our response to Question 8),

We support the enhanced approach requiring auditors to design and perform audit procedures to evaluate management's assessment in all circumstances in that doing so should result in auditors more robustly challenging management's assessment that the entity will continue as a going concern. We note, however, that the benefits of this enhanced approach are constrained by the proposed differential auditor reporting requirements.

Auditors face incentives to support management's assumptions (e.g., Kadous et al. 2003) and this can result in conscious and subconscious bias in the search for and evaluation of evidence relating to these assumptions (Kunda 1999). Extant auditing standards, by truncating the requirement for auditors to perform audit procedures where events or conditions have not been identified, likely discourages auditors from concluding that events or conditions are present in 'close call' situations, and limits auditor accountability in that further procedures that may challenge the client's preferred position are not required.

White (2011) discusses the process by which auditors decide that they have collected sufficient evidence (i.e., evidential stopping rules) and the enhanced approach requiring the performance of procedures in all circumstances will produce a more comprehensive evidence set, thereby limiting conscious and subconscious biases favouring evidence in support of management's preferred outcome (Kunda 1999; Austin et al. 2020). In this setting, it is more likely that evidence contradictory to management's assessment will be collected and considered, thereby subjecting management's assessment to a more robust evaluation.

We further note that the benefits of the enhanced approach proposed in paragraph 17 are reinforced by the enhanced reporting requirements and transparency in the auditor's report, but note that the realisation of the benefits of the enhanced requirements in paragraph 17 are constrained by the proposed differential requirements for listed and non listed entities. We note in our response to Question 14 that the enhanced reporting should apply to all entities, not just listed entities, such that the enhanced approach reflected in paragraph 17 can fully realise its audit quality enhancing potential.

ASEAN Federation of Accountants (AFA)

Enhanced approach that requires the auditor to design and perform audit procedures to evaluate management's assessment of going concern in all circumstances [Q8]

We recognise the proposal's objective to ensure the auditor has obtained a more robust understanding of the process which management applies when assessing going concern, especially in identifying threats to the ability to continue as a going concern. However, we believe the Board needs to consider how this requirement may lead to potential inconsistencies with the concept of risk assessment, where the extent of work performed should be commensurate to risks assessed. Entities with low risk of going concern typically do not require a very robust going concern assessment to be performed by management and subsequently reviewed by the auditor. Such a requirement can lead to substantial additional costs without effectively addressing the underlying problem.

California Society of CPA (CALCPA)

Yes, but we believe this evaluation of management's assessment should only for the listed companies. Users of financial statements for private companies have significantly more ability to interact with management and conduct their own assessments; the cost versus benefit of having non-listed companies design audit procedures around management's assessment of going concern irrespective of whether events or conditions have been identified appears to be very onerous and may not be consistent with audit risk assessment.

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

We find that, while the enhanced approach proposed in ED-570 is sensible for listed/PIEs, it does not appear to be sensible for small or less complex entities. For these entities, it is often not complex for auditors, based on the audit evidence and their professional skills and judgement to form a view that the use of the going concern basis is appropriate. Our stakeholders therefore questioned the necessity to go through the proposed requirements in para 16-25 in such cases given the auditor is aware that there are no issues with management's assessment of going concern as the costs will likely outweigh the benefits. We therefore suggest that the IAASB provides examples regarding the work effort required for small or less complex entities.

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

In general, we do support such approach. However, we believe that ED-570 could have specified the cases posing slight risks on going concern and, consequently, the related procedures to be adopted.

European Federation of Accountants and Auditors for SMEs (EFEAA)

Furthermore, there is little value in evaluating management's assessment of going concern if the risk of going concern is assessed as low or insignificant. A risk-based approach seems to be more appropriate since this would avoid directing effort and attention to areas that do not add value and away from areas where the assessed risk may justify further work.

We support the approach in principle.

We believe that this may create challenges in some entities. Many clients of SMPs are not able, nor do they need, to complete detailed forecasting, so management's assessment is less formal than the proposed changes envision. This is especially true in smaller owner-managed businesses which monitor going concern without using formal forecasts or management reporting typically found in larger entities. There may also be resistance to producing such information as its relevance to going concern is not well understood or accepted, or where management is confident that there are no going concern issues to warrant expending the time and resources to do so. This may present challenges for SMPs when making this evaluation.

IFAC SMP Advisory Group (SMPAG)

Furthermore, 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 disproportioned to the value obtained in such circumstances. 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.

The SMPAG notes that this may create challenges in some entities, many clients of SMPs are not able to complete detailed forecasting, so 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. There is often also resistance to producing such information as the relevance to going concern is not well understood or accepted, or where management is confident that there are no going concern issues to warrant expending the time and resources to do so. This could create practical challenges for SMPs, when making this evaluation. Ethically the auditor is precluded from assuming a management role.

Instituto de Auditoria Independente do Brasil (IBRACON)

Yes, we support the enhanced approach in accordance with the requirements of ISA 315 (Revised). We believe, however, that further guidance would be helpful to clarify the extent of auditor's documentation when an entity is profitable.

Malaysian Institute of Accountants (MIA)

We support the approach. Each requirement in isolation seems reasonable (and indirectly may also serve to drive a more rigorous focus by management in these areas).

Please refer to response in question (3) above with respect to the scalability of the proposals as a whole and the depth of work is necessary in circumstances when no events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern.

Malaysian Institute of Certified Public Accountants (MICPA)

Although additional work done need to be performed by the auditors, a more robust approach that requires the auditor to design and perform risk assessment procedures to obtain audit evidence that provides an appropriate basis for the identification of events or conditions relevant to the auditor's conclusion to evaluate management's assessment of the entity's ability to continue as a going concern.

However, we suggest that the ED-570 include the expected risk assessment requirements in a scenario where there are no events or conditions, and where events or conditions exist.

Pan-African Federation of Accountants (PAFA)

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.

Saudi Organization for Chartered and Professional Accountants (SOCPA)

We support the enhanced approach in ED-570 to require the auditor to design and perform audit procedures to evaluate management's assessment of the going concern. Although the idea of conducting such procedures to evaluate management's assessment in all circumstances may lead, in our opinion, to unreasonable expectations regarding an auditor's responsibilities ("performance gap"), this concern has been

touched on in the drafting of ED-570. For instance, A.30 in ED-570 specifically clarifies the limitations of the auditor's responsibility in relation to the evaluation of management's assessment of going concern, indicating that "it is not" the auditor's responsibility to rectify a lack of analysis by management. The drafting of ED-570 was appropriate in painting the message that assessing the entity's going concern is the responsibility of management, whereas the auditor's responsibility is only to evaluate management's assessment (with particular consideration of signs of management's bias) through designing and performing audit evidence in an unbiased manner. However, we think this message could be more enhanced in order to prevent misinterpretation (interpretation gap) leading to varied practices.

The Malta Institute of Accountants (TMIA)

The extant ISA 570R (Para 16) requires the auditor to perform additional audit procedures only where events or conditions are identified. The new requirements will require additional work and documentation (at a higher cost) even in those areas where specific risk has not been identified (and therefore this requirement seems to depart from a risk-based approach).

Questions arise with respect to the scalability of the proposals as a whole. As recognised in the ED-570, when performing the audit of less complex entities procedures and processes are likely to be less formal and, hence, the scalability of such evaluation will need to be taken into consideration, particularly in cases where it is clear that no events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern. Comments on our concerns of scalability and proportionality have been included in our response to question 3, above.

8. Individuals and Others

Colin Semotiuk (CS)

We agree that it should be required for the auditor to design and perform audit procedures to evaluate management's assessment of going concern, however we think that IAASB should clearly determine whether the going concern assumption and disclosures in the financial statements are a significant class of transaction, account balance or disclosure in all circumstances. We also believe the IAASB should request the IASB and IPSASB to make it clear that the financial statements include going concern disclosures whether or not events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern. The IAASB should not issue a revised ISA-570 until IASB and IPSASB have updated their standards.

Q08 - Disagree

3. Jurisdictional and National Auditing Standard Setters

American Institute of Certified Public Accountants (AICPA)

Building on our concerns expressed in our response to Question #3 regarding the lack of scalability of procedures in response to the risks assessed, we recommend paragraph 17 be amended (additions are marked as underlined and deletions are shown in strikethrough). Corresponding changes to referenced application material will also be required.

17. In response to the risk assessment performed in paragraph 11, tThe auditor shall design and perform audit procedures to evaluate management's assessment of the entity's ability to continue as a going concern. (Ref: Para. A29–A31)

Australian Auditing and Assurance Standards Board (AUASB)

The AUASB supports the intention to enhance and strengthen the auditor's judgements and work relating to

going concern in an audit of financial statements. However, we consider the requirement to design and perform audit procedures to evaluate management's assessment in all circumstances is not consistent with ISA 315.

ED-570 paragraph 11 requires the auditor to design and perform risk assessment procedures to obtain audit evidence that provides an appropriate basis for the identification of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. This enhances the work effort required by auditors in all circumstances. If based on the risk assessment procedures the auditor has not identified any events or conditions that may cast significant doubt, and management and TCWG also have not identified any events or conditions that may cast significant doubt, the auditor should still perform work but should be able to use their professional judgement to determine the extent of work they need to perform under paragraphs 17 to 19 particularly where an entity is clearly a going concern. The application material in paragraphs A30 and A44 also acknowledges that in some circumstances the auditor may be able to conclude whether management's use of the going concern basis is appropriate without a detailed assessment by management. Also, the form and detail of management's assessment will affect the ability of the auditor to perform procedures in relation to paragraph 19. The AUASB considers that the requirements in paragraphs 17 to 19 should be amended to be based on the auditor's risk assessment and consistent with paragraphs A30 and A44.

Where management have not yet performed an assessment of the entity's ability to continue as a going concern, paragraph 16 of ED-570 requires the auditor to request management to make its assessment. IAS 1 details that the degree of consideration required in management's assessment depends on the facts in each case, and if an entity has a history of profitable operations, for example, a detailed analysis may not be necessary. Also, as detailed above, paragraph A30 acknowledges that it is not the auditor's responsibility to rectify a lack of analysis by management, and that a lack of detailed analysis by management to support its assessment may not prevent the auditor from concluding whether management's use of the going concern basis is appropriate in the circumstances. Furthermore, paragraph 23 and related application material contemplates that the auditor may not consider it necessary for management to make an assessment.

Therefore, we recommend that the IAASB:

Amend the requirements in paragraphs 17 to 19 to enable the auditor to use professional judgement based on the results of their risk assessment procedures to determine the extent of work to be performed.

Provide an example of the work effort required by the auditor when there are clearly no events or conditions which may cast doubt as to an entity's ability to continue as a going concern and management has not prepared a detailed assessment.

Consider outlining the consequences where management has not prepared a detailed assessment, including where there may be a limitation on scope.

Evaluation of management's Assessment of Going Concern

The AUASB supports the IAASB's objective to strengthen the auditor's evaluation of management's assessment of going concern. However, the proposals in ED-570 are not consistent with ISA 315 and ISA 330 as it requires the performance of procedures where there is no risk of material misstatement despite application guidance to the contrary. We consider that the requirements in ED-570 should articulate the extent of work effort required by the auditor in circumstances where the entity has not prepared a detailed assessment of going concern, and in instances where the entity is clearly a going concern. Refer to our responses to Question 3 and Question 8 in Attachment 1 below for further details.

The AUASB supports the IAASB's efforts to strengthen the auditor's evaluation of management's assessment of going concern and improve transparency of the auditor's responsibilities and work related to going concern through targeted revisions of ISA 570.

Hong Kong Institute of Certified Public Accountants (HKICPA)

The risk-based approach of ISAs recognizes a spectrum of risk for auditors to design and perform appropriate audit procedures specific to the risk rather than its categorization. For example, paragraph 21 of ISA 330 requires greater auditor effort for significant risks, while paragraph 28 of ISA 600 (Revised) requires the group engagement partner to specifically consider areas of higher assessed risks of material misstatement, significant risks, and areas involving significant judgment.

When there is no material uncertainty or significant doubt on the entity's ability to continue as a going concern, it is unclear what objective is to be achieved by performing in-depth procedures to evaluate management's assessment of going concern. Applying the enhanced approach in these circumstances would be no different from performing a no-purpose test, which is not consistent with the risk-based approach of an audit engagement. It would also increase the auditor's work effort, even though the conclusion may be the same as what would have been determined under the extant standard.

Accordingly, we do not support the enhanced approach as it appears excessive. Instead, we suggest that the IAASB retain the current approach, where auditors design and perform audit procedures to evaluate management's assessment of going concern only when they identify events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, which is consistent with the risk-based approach.

We also have concerns on the enhanced requirements for auditors to evaluate management's assessment of going concern in all circumstances, regardless of whether events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern. This appears to deviate from the risk-based approach of ISAs and could increase the auditor's work effort, even though the conclusion may be the same as what would have been determined under the extant standard.

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

This lack of a clear distinction between management and auditor responsibilities appears to result from a very narrow interpretation of what a management assessment of going concern entails and from not attaching it to management's risk assessment process. As a result, some important considerations are not dealt with and the conditional nature of some of the requirements, with the attendant effects on scalability, has not been emphasized enough. This also has an impact on when the proposed reporting in auditors' reports for audits of financial statements of listed entities ought to take place.

That being said, we also have some concerns with the requirements and guidance in the draft. In summary, we have concerns with the following major issues:

We do not 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.

As we set forth in our response to Question 6, management's assessment encompasses not only the use of the method, assumptions and data to assess the entity's ability to continue as a going concern (see the requirement in paragraph 19), but also management's identification of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. This identification by management

therefore becomes subject to the performance of audit procedures by the auditor to evaluate management's assessment. For this reason, auditors must always evaluate management's assessment. However, if neither management nor the auditor has identified events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, clarification is needed within paragraph 17 that auditors then need not design and perform audit procedures to evaluate the rest of management's assessment (i.e., auditors need not evaluate the method, assumptions and data used to assess events or conditions that individually or collectively may cast significant doubt on the entity's ability to continue as a going concern— since there aren't any such event or conditions; and need not evaluate management plans for future actions – since these aren't relevant if there are no such events or conditions). We suggest a second sentence to paragraph 17 along the following lines:

“When the audit procedures performed on management's identification of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern indicate that no such events or conditions have been identified, the auditor need not perform the evaluations set forth in paragraphs 19, 26 and 27.”

4. Accounting Firms

Crowe LLP (CROWE LLP)

A: No. As stated in our General Observations and our response to specific Question 3 above, we believe that the auditor's procedures should be scalable based on the auditor's understanding of management's going concern assessment and the auditor's assessment of the risk of material misstatement in the financial statements, related to going concern. The auditor is required to comply with paragraphs 12 (Obtaining an Understanding of the Entity and Its Environment, the Applicable Financial Reporting Framework and the Entity's System of Internal Control), 13 (Remaining Alert Throughout the Audit for Information about Events or Conditions), and 14 (Events or Conditions not Previously Identified or Disclosed by Management) in the Proposed Standard. We believe that there could be situations where, after complying with the requirements in paragraphs 12 through 14, it may not be necessary for the auditor to design and perform audit procedures to evaluate management's assessment of the entity's ability to continue as a going concern, as required by proposed paragraph 17. For example, when no events or conditions have been identified that may cast significant doubt, management may not need to prepare a detailed going concern assessment. Further, the auditor likely will not identify a risk of material misstatement in the financial statements related to going concern. We believe that proposed paragraph 17 could be improved by clarifying that the requirement is applicable only in response to an assessed risk of material misstatement.

We note that paragraph .A30 in the proposed standard notes that “when the entity has profitable operations and there are no liquidity concerns, management may make its assessment without detailed analysis”. It would be helpful to include guidance in the proposed standard to clarify what constitutes a “detailed analysis.” For example, the proposed standard could be clarified to reflect that an appropriate management's assessment of going concern could, in some cases, be limited to a statement that no events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern.

Mazars (MZ)

We believe the scalability of such requirements in all circumstances could be significantly improved, as discussed in our response to question 3. In particular, we believe it would be helpful to incorporate, in the requirements, the role of the auditor's risk assessment procedures when exercising judgment about the nature and extent of the auditor's procedures in evaluating management's assessment of going concern. Such clarification may be particularly helpful in circumstances where no risks, events or conditions have been identified by management or the auditor.

MNP LLP (MNP)

We do not support the enhanced approach that requires the auditor to design and perform audit procedures to evaluate management's assessment of going concern in all circumstances.

We feel that this proposal goes against the risk-based auditing principles and may not add value to certain audits. With the proposal to enhance the risk assessment procedures, the auditor should be able to obtain an understanding of the entity and its environment, the accounting framework and the system of internal controls, from the going concern perspective. With this robust understanding, events or conditions that may cast significant doubt may become evident. The costs of performing an evaluation of management's assessment will significantly outweigh the benefits when there has been no heightened risk of material misstatement to warrant such an evaluation.

Further, many less-complex entities may have no formal process to identify, assess and address events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. We believe that guidance is necessary to understand how to make this requirement scalable as management's close involvement with the business operations should compensate for the lack of a formal process to identify events or conditions.

RSM International Limited (RSM)

We do not support the enhanced approach as outlined in ED-570. We believe the proposals are counter to the risk-based approach to an audit. We believe the auditor should read and obtain an understanding of management's assessment of going concern in accordance with paragraphs 12(d) and 12(e) and related application material as part of risk assessment procedures performed. However, we believe that the auditor should design and perform further audit procedures, which may include a more extensive evaluation of management's assessment of going concern, in response to the assessed risk in accordance with ISA 330, The Auditor's Responses to Assessed Risks.

5. Public Sector Organizations

Office of the Auditor General of Canada (OAGC)

No, we do not 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.

ED-570 indirectly proposes a requirement on preparers to create a going concern assessment, however preparers are responsible for preparation of the financial statements in accordance with their applicable reporting framework, not ISA 570. We therefore prefer that each accounting framework include explicit requirements for the preparation of management's going concern assessment, where relevant.

Office of the Auditor General of Manitoba (OAGM)

We do not 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.

Generally, going concern is not a significant issue for public sector entities. The increased requirements of the Exposure Draft will result in additional audit work being performed on management's assessment that has not been previously performed. There will be limited benefit to this additional work in the public sector.

We feel that additional audit procedures to evaluate managements' assessment of going concern should only be required if events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern.

Provincial Auditor Saskatchewan (PAS)

No, the proposed enhanced approach is not appropriate. See response to Question 1.

6. Member Bodies and Other Professional Organizations

Center for Audit Quality (CAQ)

In order to further enhance the scalability of ED-570, we believe that the requirement to design and perform audit procedures to evaluate management's assessment of going concern should be explicitly linked to the auditor's risk assessment. Auditors should be permitted to use professional judgment in order to determine the nature and extent of audit procedures commensurate with the auditor's assessment of the risks of material misstatement at the financial statement level related to going concern. In our response to question 9, we suggest modifications to paragraph 19 that we believe more directly link the nature, timing, and extent of audit procedures to the auditor's risk assessment.

Chamber of Auditors of the Czech Republic (CA CR)

No.

We believe that where no events or conditions have been identified that may cast significant doubt about the entity's ability to continue as a going concern (i.e. there is no risk of inappropriate usage of going concern basis in the financial statement or inadequate disclosure on material uncertainty relating to going concern) the auditor should not be required to perform a detailed evaluation of management's assessment. Therefore, we propose to make requirements in ED par. 19 applicable only to situations when such events or conditions have been identified.

Further, requirements in ED par. 19 are too extensive and detailed. The work performed by the auditor should respond to identified risks and circumstances. For example, in the less complex entities, no detailed plans or calculations may exist, and therefore requirements in ED par. 19 a(ii) will often be irrelevant. However, since it is included in the requirements section, the regulators may expect such procedure (or documentation) in every audit. This may force auditors to produce unnecessarily extensive documentation just to document why such requirement is not applicable under the circumstances. Therefore, we propose to move the examples of audit procedures to the application section of the standard.

The standard should also provide more guidance with examples of cases where the entity's ability to continue as a going concern is mostly self-evident, and how auditors could achieve the objectives of the standard in an appropriate and proportionate manner. As stated above we believe that no such extensive work as required in ED is needed in these cases.

CPA Australia (CPAA)

Broadly, we are supportive of the proposed additional requirements in the ED-570 to enhance the auditor's evaluation of management's going concern assessment.

However, we disagree with the proposal 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. If no events or conditions have been identified and the risk of going concern is assessed as low or

insignificant, there is little value in further evaluating management assessment of going concern. The costs incurred will be disproportionate to the benefits (if any) when the risk of going concern is insignificant.

In our view, the language and the tone used between accounting and auditing standards when addressing going concern are not aligned. Currently the phrasing in IAS 1 states that, "An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading or has no realistic alternative but to do so." Therefore, for an entity that is assessed as very low risk of not being a going concern, management may reach a conclusion that the going concern basis of accounting is appropriate without any detailed assessment. Furthermore, there is no specific requirement for management to include a statement that the financial statements have been prepared on a going concern basis. ED-570 proposes an implied secondary opinion by the auditor on the entity's going concern status without the corresponding specific disclosures in the financial statements.

Institute of Singapore Chartered Accountants (ISCA)

We do not support the enhanced approach, as it would be inconsistent with the fundamental principle of a risk-based audit approach.

Enhanced approach inconsistent with the concept of risk assessment

The requirement for the auditor to design and perform procedures in all circumstances is inconsistent with the concept of performing risk assessment, where the extent of audit work performed should commensurate with the risks assessed.

Such a requirement can lead to substantial increase in costs for entities with low risk of going concern. Drawing reference to IAS 36 Impairment of Assets, an entity first identifies indications of impairment before proceeding with an impairment assessment, rather than performing the assessment outright. Similarly, entities with low risk of going concern typically do not require a very robust going concern assessment to be performed by management and subsequently reviewed by the auditor.

To avoid excessive audit work performed, in the case of an entity with a low risk of going concern because of huge profits and strong operating cash flows, the standard should provide more clarity on the extent of work required. For example, whether limited procedures such as inquiries with management would be sufficient.

Consideration of mitigating factors

We would like to clarify if the requirements under paragraphs 16–19 apply before the consideration of mitigating factors under paragraphs 26–27. In our view, it may be too conservative and premature to proceed with a full-scale testing without considering mitigating factors.

Reinforcing management and directors' responsibilities over going concern

For the auditors to be able to carry out the evaluation under all circumstances, management must correspondingly prepare the going concern assessment under all circumstances. Hence, the importance of performing and documenting such assessment needs to be reinforced to management and directors. In addition, incorporating going concern assessment as part of internal controls over financial reporting would be beneficial for entities from a risk management perspective. This could be reinforced through communication with those charged with governance.

Nordic Federation of Public Accountants (NRF)

We believe that in situations where there are risks related to going concern the requirements regarding enhancing the risk assessment procedures, considering the wider context in evaluating management's assessment and some of the transparency proposals could be helpful.

We understand this proposal is intended to address the request to strengthen the standard by providing for more rigorous procedures to appropriately challenge management's assumptions and judgements underpinning its assessment of the entity's ability to continue as a going concern. However, we are not convinced that making this a general requirement instead of taking a risk-based approach strikes the right balance from a cost-benefit perspective.

If this general approach were to remain, we believe more needs to be done both in terms of proportionality and scalability. Especially, there is a need to clarify expected work efforts in situations both where there are no uncertainties related to going concern and in SME/LCE audits.

Q08 - No specific comments

2. Regulators and Audit Oversight Authorities

Canadian Securities Administrators Chief Accountants Committee (CAC)

National Association of State Boards of Accountancy (NASBA)

4. Accounting Firms

Nexia Australia Pty Ltd (NAPL)

6. Member Bodies and Other Professional Organizations

Institute of Chartered Accountants in England and Wales (ICAEW)

7. Academics

RMIT University (RMU)

8. Individuals and Others

Kazuhiro Yoshii (KY)