

**Going Concern – Question 9**

**9. Does ED-570 appropriately incorporate the concepts introduced from ISA 540 (Revised) for the auditor’s evaluation of the method, assumptions, and data used in management’s assessment of going concern?**

**Q09 - Agree****2. Regulators and Audit Oversight Authorities****Botswana Accountancy Oversight Authority (BAOA)**

Yes, the ED sufficiently incorporates the concepts from ISA 540 (Revised) for the auditor’s evaluation of the methods, assumptions and data used in management’s assessment of going concern as the ED incorporates the requirement for the auditor to design and perform audit procedures to evaluate management’s assessment of going concern. Whilst wording from paragraphs 23-25 of ISA 540 (Revised) have not been applied verbatim, the principles have been applied as intended.

**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 think that ED-570 appropriately incorporate the concepts introduced from ISA 540 (Revised).

**Hong Kong Institute of Certified Public Accountants (HKICPA)**

We agree that ED-570 appropriately incorporates the concepts from ISA 540 (Revised) for the auditor’s evaluation of the method, assumptions, and data used in management’s assessment of going concern.

**Japanese Institute of Certified Public Accountants (JICPA)**

Yes. We agree that ED-570 appropriately incorporate the concepts introduced from ISA 540 (Revised).

**New Zealand Auditing and Assurance Standards Board (NZAuASB)**

We agree that the concepts introduced from the estimates auditing standard are appropriately incorporated in ED-570.

**Public Accountants and Auditors Board Zimbabwe (PAAB)**

PAAB agreed that the concepts introduced from ISA 540 (Revised) for the auditor’s evaluation of the method, assumptions, and data used in management’s assessment of going concern have been appropriately incorporated without necessarily repeating requirements from ISA 540 (Revised) which is commendable.

**4. Accounting Firms****Crowe Global (CROWE)**

ED-570 does appropriately incorporate concepts introduced from ISA 540 (Revised).

**Ernst & Young Global Limited (EY)**

We believe that the concepts from ISA 540 (Revised) are appropriately incorporated in ED-570 for the auditor’s evaluation of the method, assumptions, and data used in management’s assessment of going concern and are important to the auditor’s evaluation of management’s assessment. When events or

conditions are identified that may cast significant doubt on the entity's ability to continue as a going concern, management applies estimation concepts in its assessment of going concern. Therefore, we believe the requirements in ED-570 paragraph 19 to evaluate the method, assumptions and data used by management are applicable.

#### **MNP LLP (MNP)**

We agree that ED-570 has appropriately incorporated the concepts from ISA 540 (Revised) for the auditor's evaluation of the method, assumptions, and data used in management's assessment of going concern.

#### **Mo Chartered Accountants (MCA)**

We agree with the new requirement in paragraph 19 to evaluate the method, assumptions and data used by management to make its assessment of going concern and that of application material paragraphs A34–A37 that facilitate the auditor to more appropriately challenge the method, assumptions and data used by management to make its assessment, including to consider the risk of management bias.

#### **PKF International Limited (PKF)**

Yes, we agree that ED-570 has appropriately captured the concepts from ISA 540 (Revised).

#### **RSM International Limited (RSM)**

Yes, we believe ED-570 appropriately incorporates the concepts introduced from ISA 540 (Revised) for the auditor's evaluation of the method, assumptions and data used in management's assessment of going concern.

### **5. Public Sector Organizations**

#### **Office of the Auditor General New Zealand (OAGNZ)**

Yes, we agree that the relevant information about methods, assumptions and data have been introduced into ED-570 for evaluating management's assessment.

#### **Office of the Auditor General of Canada (OAGC)**

Yes, ED-570 appropriately incorporates the concepts introduced from ISA 540 (Revised) for the auditor's evaluation of the method, assumptions, and data used in management's assessment of going concern.

#### **Provincial Auditor Saskatchewan (PAS)**

Yes, the concepts from ISA 540 (Revised) are appropriately incorporated.

### **6. Member Bodies and Other Professional Organizations**

#### **Botswana Institute of Chartered Accountants (BICA)**

ED-570 appropriately incorporate the concepts introduced from ISA 540 (Revised) for the auditor's evaluation of the method, assumptions, and data used in management's assessment of going concern.

The proposed ED-570 includes a new requirement in paragraph 19, which calls for the evaluation of the method, assumptions, and data used by management to make its assessment of going concern. It outlines the specific audit procedures required to evaluate the method, assumptions, and data used in management's assessment of going concern. These procedures include evaluating the appropriateness of the method selected, the accuracy of calculations applied, the appropriateness and consistency of assumptions, and the appropriateness of the data used. This requirement aligns with the principles outlined in paragraphs 23-25 of ISA 540 (Revised).

The IAASB has also included application material in paragraphs A34-A37 of ED-570 to facilitate the auditor in appropriately challenging the method, assumptions, and data used by management. This application material aims to support the auditor in maintaining professional scepticism when applying ED-570. For instance, it suggests that the auditor should consider whether management's rationale for the method selected is appropriate and whether any changes in the method from prior periods are reasonable. The auditor should also assess whether calculations are applied accurately and whether management has provided adequate explanations for advanced or complex calculations. When evaluating the assumptions on which management's assessment is based, the auditor should consider management's rationale for the selection of assumptions, their consistency with other areas of the entity's business activities, and whether alternative assumptions were considered. The auditor should also assess whether any changes in assumptions from prior periods are reasonable and based on new circumstances or new information. Regarding the data used in management's assessment, the auditor should evaluate its consistency with data used elsewhere by management in the preparation of financial statements. The auditor should also assess whether any modifications made to the data are appropriate and supported by management's rationale.

#### **California Society of CPA (CALCPA)**

Yes

#### **Chamber of Auditors of the Czech Republic (CA CR)**

Yes.

#### **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)**

We support the incorporation of the concepts introduced of ISA 540 (Revised) for the auditor's evaluation of the method, assumptions and data used for management's assessment of going concern, as this will allow the auditor's review to verify whether the selected method is appropriate, the calculations applied to the method are accurate, the assumptions used by management are consistent, and the data are adequate.

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

Yes, ED-570 appropriately incorporates the concepts introduced from ISA 540 (Revised).

#### **CPA Australia (CPAA)**

Yes, ED-570 appropriately incorporates the concepts introduced from ISA 540 (Revised) for the auditor's evaluation of the method, assumptions, and data used in management's assessment of going concern.

We are supportive of the enhancements made in ED-570 in relation to risk assessment procedures and the auditor's evaluation of the method, assumptions, and data used in management's assessment of going concern.

#### **Federation of Accounting Professions of Thailand (FAPT)**

Yes.

#### **Institute of Chartered Accountants of Scotland (ICAS)**

Yes, we believe that it does appropriately incorporate the concepts introduced from ISA 540 (Revised) for the auditor's evaluation of the method, assumptions, and data used in management's assessment of going concern. Similar concepts were introduced by the FRC into the UK standard in 2019.

#### **Institute of Chartered Accountants of Sri Lanka (ICASL)**

Yes. The Exposure Draft (ED)-570 does appropriately incorporate the concepts introduced from ISA 540 (Revised) for the auditor's evaluation of the method, assumptions, and data used in management's assessment of going concern.

#### **Instituto Mexicano de Contadores Publicos (IMCP)**

We agree with the incorporation of the mentioned concepts.

#### **Malaysian Institute of Accountants (MIA)**

Yes. The new detailed requirements in ED570 (including ED570.A19) is consistent with the approach taken in ISA 540 (Revised) to enhance the rigour of the auditor's evaluation of management's assessment of the entity's ability to continue as a going concern.

#### **National Board of Accountants and Auditors of Tanzania (NBAA)**

Yes, ED-570 appropriately incorporate the concepts introduced from ISA 540 (Revised).

### **Q09 - Agree with comments**

#### **1. Monitoring Group**

##### **Basel Committee on Banking Supervision (BCBS)**

The Committee supports the linkage of ISA 570 to other ISAs, especially ISA 540, Auditing Accounting Estimates and Related Disclosures. ISA 540 is an important standard in the audit of the financial statements of banks due to their significant use of estimates, in, inter alia, expected credit loss estimates in accordance with IFRS 9, Financial Instruments, and similar national accounting requirements. While the Committee welcomes the linkages to ISA 540, and the application guidance in paragraphs A33–37, additional guidance could be added to note that further elements of ISA 540 may be relevant to the auditor's work, given that management's going-concern assessment will probably involve significant estimates.

##### **International Association of Insurance Supervisors (IAIS)**

Linkage to other ongoing IAASB projects – eg ISA 315, ISA 330, ISA 540 and ISA 720

The IAIS supports the proposed linkage of ISA 570 to other ISAs, as this ensures continued relevance and coherence between the ISAs.

Linking to ISA 540 "Auditing Accounting Estimates and Related Disclosures" is welcome, as ISA 540 is crucial to the financial statements of insurers. In part, this reflects the significant judgements and estimates required in implementing IFRS 17 Insurance Contracts and applicable national financial reporting frameworks.

Additional links between ISA 570 and ISA 540 could be added by supplementing the supporting material for ISA 570 regarding 1) when auditors evaluate management's assessment of the entity's ability to continue as a going concern (ED-ISA 570 para 17-19); and 2) when auditors evaluate management's plans for future

action, if events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern (ED-ISA 570 para 26).

### **International Forum of Independent Audit Regulators (IFIAR)**

Method, assumption and data used in management's assessment

IFIAR supports the incorporation of concepts from ISA 540 (Revised) to evaluate the method, assumptions and data used in management's assessment of going concern. However, the IAASB should consider whether the use of such terms might lead the auditor to focus on mechanistic calculations or forecasts, and exclude consideration of other relevant and significant factors such as judgements made by management in the interpretation of key contracts or loan agreements relevant to going concern. For example, an entity may produce comprehensive forecasts with multiple scenarios and sensitivities; however, if the key driver behind the going concern assumption is whether an overseas government will grant mining rights to that entity, then the auditor needs to ensure that their evaluation focuses on this, alongside any supporting forecasts.

In addition, the IAASB may want to consider including an additional bullet point "Considering the consistency with other estimations in which management's plans for future actions (or a part of them) are used" in paragraph A48.

### **International Organization of Securities Commissions (IOSCO)**

We commend the Board for strengthening ED 570 as it relates to the auditor's evaluation of the method, assumptions, and data while avoiding repeating requirements from ISA 540 (Revised). As discussed in the Paper, the Board leveraged the requirements of paragraphs 23-25 of ISA 540 (Revised). It is, however, unclear how the Board determined which requirements from ISA 540 (Revised) to incorporate into ED 570. For example, we noted some important requirements related to data (ISA 540.25), in particular, the requirement related to the relevance and reliability of data (ISA 540.25(c)), have not been incorporated in ED 570. We, therefore, recommend the Board reconsider whether these concepts should also be incorporated in ED 570 to supplement the broader requirements of ISA 540 (Revised) or strengthen the linkage to these requirements in ISA 540 (Revised). We also recommend the Board strengthen the connection with the broader requirements of ISA 540 (Revised) by including "In applying ISA 540 (Revised)..." in paragraph 19.

## **2. Regulators and Audit Oversight Authorities**

### **Committee of European Auditing Oversight Bodies (CEAOB)**

Further enhancements to be integrated in the requirements for audit procedures

Paragraph 19 – When evaluating the methods and assumptions used in management's assessment of going concern, the auditor should be required to consider whether they are appropriate and reasonable in the context of the auditor's understanding of the entity.

However, the CEAOB is of the view that links with the provisions of ISA 540 should also be included in the revised ISA 570 to reflect the enhancements to the audit of estimates than can be applicable to assessment of going concern assumptions.

### **Financial Reporting Council (FRC)**

YES. The FRC introduced similar concepts into ISA (UK) 570 in September 2019 to evaluate the method, assumptions and data.

However, we would urge the IAASB to consider whether additional application material could be incorporated to explain what "method" might be appropriate in a range of different entities and circumstances.

We would also encourage the IAASB to consider whether there is a risk that the terminology of “Method, Assumptions and Data Used in Management’s Assessment”, alongside the supporting application material, might lead the auditor to overly focus on forecasts, sensitivity analyses or models, and overlook a critical event or condition (e.g., breaches of key conditions in an operator’s licence).

It may also be helpful to expand the requirement in paragraph 19(b) to include management’s judgments as well as management’s assumptions.

In addition, paragraph 19(c) requires the auditor to evaluate whether the data is appropriate in the context of the applicable financial reporting framework, and, if applicable, changes from prior periods are appropriate. We urge the IAASB to include additional application material that:

• Gives examples of factors to consider when considering whether changes in data from prior periods are appropriate.

• Reminds the auditor that the data is also subject to the requirements in ISA 500 paragraph 9 to evaluate whether the information is sufficiently reliable for the auditor’s purposes.

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”.

#### **Independent Regulatory Board for Auditors (IRBA)**

ED-570 appropriately incorporates the concepts introduced from ISA 540 (Revised) for the auditor’s evaluation of the method, assumptions and data used in management’s assessment of going concern.

However, we suggest that the IAASB considers whether the use of terms such as method, assumptions and data used in management’s assessment of going concern might lead the auditor to focus on mechanistic calculations or forecasts and exclude consideration of other relevant and significant factors, such as judgments made by management in the interpretation of key contracts or loan agreements relevant to going concern (i.e. qualitative factors may be relevant and important). For example, an entity may produce comprehensive forecasts with multiple scenarios and sensitivities. However, if the key driver behind the going concern assumption is whether an overseas government will grant mining rights to that entity, then the auditor needs to ensure that their evaluation focuses on this, alongside any supporting forecasts.

Also refer to the first bullet point under paragraph 12 above.

#### **Irish Auditing and Accounting Supervisory Authority (IAASA)**

However, links with the provisions of ISA 540 should also be included in the revised ISA 570 to reflect the enhancements to the audit of estimates that may be applicable to assessment of going concern assumptions.

Paragraph 19 – When evaluating the methods and assumptions used in management’s assessment of going concern, the auditor should be required to consider whether they are appropriate and reasonable in the context of the auditor’s understanding of the entity.

### 3. Jurisdictional and National Auditing Standard Setters

#### Australian Auditing and Assurance Standards Board (AUASB)

##### Method, Assumptions and Data Used in Management’s Assessment

We recommend that the IAASB should clarify that the requirements stipulated in paragraph 19 should apply both when evaluating management’s assessment and when evaluating management’s plans for future actions when events or conditions have been identified that may cast significant doubt on the entity’s ability to continue as a going concern.

The AUASB is of the view that ED-570 appropriately incorporates concepts from ISA 540 (Revised) with regards to the auditor’s evaluation of the method, assumptions, and data used in management’s assessment of going concern. As detailed in question 8 above, the AUASB encourages the IAASB to provide explanatory material and examples of the extent of audit effort required when management have not prepared a detailed assessment, and there are clearly no events or conditions which may cast significant doubt as to an entity’s ability to continue as a going concern.

#### Canadian Auditing and Assurance Standards Board (AASB)

We agree that ED-570 has appropriately incorporated the concepts from ISA 540 (Revised) for the auditor’s evaluation of the method, assumptions, and data used in management’s assessment of going concern.

##### Scalability considerations

Concern: The “methods for assessing going concern” may not be well-understood, particularly by many LCEs.

Suggest: It may be useful to include in application material some examples of common methods that LCEs may use in assessing going concern; for example, cash flow projections or budgets.

#### Institut der Wirtschaftspruefer in Deutschland e.V. (IDW)

We believe that the requirement in paragraph 19 and the related application material appropriately incorporate the concepts introduced from ISA 540 (Revised) for the auditor’s evaluation of the method, assumptions, and data used in management’s assessment of going concern. However, in line with our response to Question 6, we believe that the requirement should be augmented to align it with what an assessment of the identified events and conditions that may cast significant doubt on the entity’s ability to continue as a going concern entails, which is evaluating the potential impact and the likelihood of occurrence of those events or conditions. The current requirement does not clarify what the evaluation of the method, data and assumptions is supposed to achieve. Consequently, we suggest augmenting the introductory sentence of the requirement in paragraph 19 along the following lines:

“The audit procedures required by paragraph 17 shall include evaluating the potential impact and the likelihood of occurrence of identified events and conditions that may cast significant doubt on the entity’s ability to continue as a going concern through an evaluation of:...”

#### Royal Dutch Institute of Chartered Accountants (NBA)

Generally, we support the linkage between ED-570 and ISA540. We observe that the ED-570 singles out some but not all of ISA540’s requirements, and also that part of those references are made in the requirements whilst others are in the application material. The rationale for that distinction is not clear. We ask the IAASB to further clarify (in the Basis for Conclusions or in the application material) the rationale behind the approach, and in particular why IAASB deems certain requirements in ISA540 not relevant for going concern assessment.

## 4. Accounting Firms

### Assirevi

We feel that, overall, ED-570 appropriately incorporates the concepts introduced by ISA 540 (Revised) with respect to the auditor's evaluation of the method, assumptions and data used in management's assessment of going concern. The individual requirements are reasonable and can indirectly be of use to management in focusing on these areas in greater detail. However, the following two aspects would in our view require more attention.

Firstly, ED-570 establishes that the procedures to be performed by the auditor on management's assessment of going concern are substantially the same as those envisaged for management's estimates. This approach does not comply with the requirements requested of entities by, for example, IAS 1, to assess the going concern assumption. An audit approach to going concern aligned with that used for the estimates would only be appropriate when management's assessment of going concern is solely based on financial and business plans. Therefore, there is a risk that applying the procedures set out in paragraph 19 of ED-570 would end up being particularly difficult.

Secondly, as already mentioned in our response to question 8 above, another issue relates to the scalability of the planned procedures and, in particular, the extent of the work necessary when events or circumstances that would cast significant doubt on an entity's ability to continue as a going concern have not been identified. It could be appropriate to supplement ED-570 with guidelines and application material on these aspects (for example, by expanding the concepts in paragraph A30).

### BDO International (BDO)

We agree that ED-570 appropriately incorporates the concepts introduced from ISA 540 (Revised), however we have the following comments:

We recommend the IAASB include another consideration in the application material paragraph A36 for the auditor's evaluation regarding the assumptions on which management's assessment is based:

"Whether the assumptions used by management in the prior year's assessment of going concern were appropriate by comparing the prior year assumptions to the actual outcomes in the current year."

We recommend the IAASB cross references to ISA 540 (Revised) rather than using some extracts of ISA 540 (Revised) in the requirements and some extracts in the application material. Practitioners may find this confusing, specifically with regards to paragraphs 23 – 25 of ISA 540 (Revised).

We recommend the IAASB includes a reference to possible management bias in paragraph A37 when the auditor evaluates the data on which management's assessment is based. We propose to include a third bullet point in paragraph A37 noting the following: "Management selected only certain data for use in their going concern assessment, and whether this indicates of possible management bias. (Also see paragraphs A57 – A60)."

We question why the written representation requirement in ED-570 paragraph 38 is not similar to ISA 540 paragraph 37, considering the work effort required by ED-570 paragraph 19. We recommend adding another requirement in paragraph 38:

"(d) Whether the methods, significant assumptions and the data used in the going concern assessment and the related disclosures, if required, are appropriate and in accordance with the applicable financial reporting framework."

### **Crowe LLP (CROWE LLP)**

A: We appreciate the incorporation of the concepts from ISA 540 (Revised) related to evaluating the methods, assumptions, and data used by management in their going concern assessment, as required by paragraph 19 in the Proposed Standard. However, we believe that management's going concern assessment may not always include the application of methods, assumptions, and data. For example, an entity may identify negative conditions and events, such as recurring losses and negative operating cash flows. However, management may determine that these events and conditions do not cast significant doubt on the entity's ability to continue as a going concern, because the entity has an incredibly significant cash balance on hand, based on recent equity contributions. In this example, management's going concern assessment will not likely be based on an estimate that involves the application of methods, assumptions, and data. We believe the auditor, as part of obtaining an understanding of the entity as required by paragraph 12 of the Proposed Standard, should determine if management's going concern assessment includes the use of methods, assumptions, and data. We then recommend that the requirement in paragraph 19 of the Proposed Standard, should be applied by the auditor only if it is applicable or relevant, based on management's assessment, and in response to an identified risk of material misstatement in the financial statements.

### **Deloitte Touche Tohmatsu Limited (DTTL)**

We agree that it is beneficial to include concepts from ISA 540 (Revised) in the proposed standard; however, we do not believe the requirements in paragraph 19 are applicable in all circumstances because such requirements assume that management has used all three elements (methods, assumptions, and data) in assessing an entity's ability to continue as a going concern, which may not always be the case. We recommend that the content of the bullets (a) to (c) in paragraph 19 be moved to application material and the following edits to paragraphs 12 and 19 be made to allow for scalability of these requirements:

12. In applying ISA 315 (Revised), the auditor shall perform risk assessment procedures to obtain an understanding of: ...

The Entity's System of Internal Control

...

(h) How management identifies the relevant assesses the entity's ability to continue as a going concern, including whether their assessment involves the use of methods, assumptions and data that are appropriate in assessing the entity's ability to continue as a going concern

19. The audit procedures required by paragraph 17 shall include evaluating, as applicable to address the assessed risks of material misstatement, the method, assumptions and data used by management to assess the entity's ability to continue as a going concern.:

(a) The method used by management to assess the entity's ability to continue as a going concern, including whether the:

(i) Method selected is appropriate in the context of the applicable financial reporting framework, and, if applicable, changes from the method used in prior periods are appropriate; and

(ii) Calculations are applied in accordance with the method and are mathematically accurate. (Ref: Para. A35)

(b) Whether the assumptions on which management's assessment is based are:

(i) Appropriate in the context of the applicable financial reporting framework, and, if applicable, changes from prior periods are appropriate; and

(ii) Consistent with each other and with related assumptions used in other areas of the entity's business activities, based on the auditor's knowledge obtained in the audit.

(c) Whether the data is appropriate in the context of the applicable financial reporting framework, and, if applicable, changes from prior periods are appropriate.

#### **Grant Thornton International Limited (GT)**

As noted in our response to question 8 above, and as recognised in paragraph A30, we note that there may be circumstances when the evaluation of the method, assumptions and data used by management in its assessment of the entity's ability to continue as a going concern does not require extensive audit procedures, including in circumstances where:

The auditor's assessment of the risk of material misstatement does not identify risks that warrant extensive evaluation procedures, for example, when no events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, irrespective of potential mitigating activities.

Management's assessment of the entity's ability to continue as a going concern does not include a model with methods and assumptions, for example because the entity is highly profitable and has no liquidity issues.

Further, financial reporting frameworks do not necessarily specify how management is required to make its assessment of the entity's ability to continue as a going concern. The requirements in paragraph 19 presupposes that management will be using a model that includes explicit assumptions. This either has the result of imposing accounting requirements for management through auditing standards or requires the auditor to report explicitly on implicit assumptions.

We therefore reiterate our view that proposed paragraph 19 is made a conditional requirement.

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 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 note that the more granular requirements, 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 can 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 details).

We support the intention underpinning this requirement, noting that the enhanced requirement at paragraph 19, to evaluate the method, assumptions and data used by management to make its assessment of going concern, and the related application material, are attempting to drive a more robust evaluation of management's assessment of going concern, and to assist auditors in appropriately challenging management regarding the method, assumptions and judgements, and data it has used in making its assessment, also including consideration of management bias, supporting the auditor in exercising appropriate professional skepticism.

However, we highlight that financial reporting frameworks generally do not establish prescriptive requirements with respect to management's assessment, and therefore by including these matters as requirements, and referencing them in a more granular way in the application material, the standard may not be aligned with financial reporting standards, and the approach taken by management. In addition, we highlight that certain granular requirements, 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 can change over time. Instead, we recommend that the requirements focus on an overall evaluation, and consideration of the relevance and reliability of the information and whether management's assumptions are reasonable and supportable. The application material could discuss factors that the auditor may consider in evaluating the relevance and reliability of the underlying information, which could incorporate applicable concepts from ISA 540 (Revised), with clarification as to when these may be applicable, with an emphasis on the need for the auditor to use professional skepticism and professional judgement. (For example, in respect of relevance, whether information includes investing and financing cash flows, and forecast changes in working capital, and whether the information is sufficiently disaggregated (e.g., on a monthly or quarterly basis), and in respect of reliability, how the information is developed/constructed, the consistency of assumptions etc.). However, if the IAASB decides to retain paragraph 19 as currently drafted, we recommend that the requirements include qualifying language of 'as applicable'. We also highlight that the requirement to evaluate assumptions should refer to "significant" assumptions, in line with a risk-based audit approach.

We also note that although paragraph A38 discusses scalability and provides examples, there may be particular challenges in this area when auditing smaller and less complex entities which are likely to have a simpler assessment of going concern. We recommend, therefore, that the requirement at paragraph 19 and related application material are proportional to the circumstances, including addressing the level of detail of management's "assessment" in terms of ranging from full-scale budgets and forecasts versus less formal analyses, with a focus on whether this is appropriate and proportional to the entity's circumstances and the assessed risks of material misstatement. Please see our responses to Questions 6 and 8.

#### **Mazars (MZ)**

Subject to our comments on scalability, we support the incorporation of concepts from ISA 540 (Revised).

#### **PriceWaterhouseCoopers (PwC)**

With respect to the requirement to evaluate the method, data, and assumptions used by management in their assessment of going concern, 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; 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. Also, a going concern assessment will involve numerous assumptions. The auditor’s focus should be on those assumptions that are significant to the assessment, e.g., those that have a material impact or where the outcome is sensitive to changes in certain assumptions.

## 5. Public Sector Organizations

### UK National Audit Office (UKNAO)

Paragraph 19 of ED-570 seeks to incorporate concepts introduced in ISA 540 (Revised) into the auditor’s evaluation of going concern. We are supportive of this approach for most financial reporting frameworks where going concern is assessed based upon liquidity and other associated measures. In this context, using the framework in ISA 540 (Revised) to evaluate and review management’s forecasts and models is sensible and applies a methodology with which auditor’s should already be familiar. It also allows auditors to more explicitly consider consistency of assumptions applied in the going concern assessment with assumptions made elsewhere by management in the preparation of the financial statements.

In the context of the UK public sector, where the definition of going concern is largely predicated upon continued provision of service, we consider that the biggest driver of material uncertainty on going concern will not be liquidity but will instead be government policy change. In such circumstances, we do not consider that it will be necessary for management to prepare detailed forecasts, models or estimates to support their assessment of going concern.

The retention of paragraph A30 in ED-570 is key in this context, in highlighting that where management has not prepared a detailed forecast and going concern is simple, then there is no need for the auditor to either to request management to do so or to construct one themselves as it may be possible to evaluate management’s assessment of going concern purely on the basis of a simple assessment. We are supportive of the retention of this paragraph within the application guidance.

We also welcome the scalability content included within paragraph A38 of ED-570. However, this paragraph does not currently provide guidance on the circumstances where management does not provide a forecast, model or calculation to support their going concern assessment. In such circumstances and where the going concern assessment can be simple, we consider that it is possible for the auditor to conclude on going concern without performing the procedures required by paragraph 19a<sup>ii</sup> and 19b<sup>ii</sup> of ED-570.

## 6. Member Bodies and Other Professional Organizations

### Accountancy Europe (AE)

Yes, the ED 570 appropriately incorporates ISA 540 concepts. However, as mentioned in the application material (A8), in some cases, such as for SMEs, the going concern assessment does not involve complex methods or highly subjective assumptions.

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

could more effectively incorporate concepts introduced from ISA540 (Revised) including attention to alternate future scenarios that management may not have effectively considered and to make explicit reference to auditor's use of management's (and auditor's) experts (see our response to Question 9),

In summary, we feel that the proposed standard;

We are of the view that ED-570 broadly incorporates the concepts introduced from ISA540 (Revised) and will likely lead to higher quality auditor going concern judgments. We do, however, encourage the IAASB to reflect on whether current application material in paragraph A32 is sufficient to de-bias auditor focus on evidence addressing management's predictions and assumptions at the expense of alternate future scenarios that management may not have effectively considered. We further suggest reflection on whether reference to ISA500, and in particular, the auditor's use of a management's (and auditor's) expert, is warranted in proposed ISA570 (as is the case in extant ISA540).

As is the case with auditing accounting estimates, evaluating management's assessment of the entity's ability to continue as a going concern similarly involves a forward looking perspective, inherent subjectivity, and prediction uncertainty. With reference to auditing estimates, research (e.g., Dharmasiri and Phang 2023) shows that increased effort in collecting/assessing evidence (i.e., greater elaboration) results in higher quality judgments (see also Griffith et al. 2018). We, therefore, commend the IAASB in enhancing auditor requirements around evaluating management's assessment of going concern in all circumstances as we believe that this will enhance auditors' effort in elaborating information cues and result in higher quality going concern judgments.

However, we further note research highlighting auditors' excessive focus on management's assumptions, valuation models, and underlying data when auditing estimates and the potential for management optimism bias to survive auditor attention (e.g., Griffith et al. 2015; Glover et al. 2017). This threat to the quality of auditor judgments is especially salient in a going concern setting given the explicit objective of evaluating management's evaluation of going concern. In this regard, we commend the requirement (paragraph 18) for audit procedures to be designed so as to neither be biased towards obtaining corroborative nor contradictory evidence. We do, however, encourage the IAASB to consider whether application material in paragraph A32 is sufficient to ensure that 'evaluating management's assessment' is not interpreted (consciously or subconsciously) as meaning that the auditor should focus only on factors that management has considered (see also our response to Question 4).

Finally, we note research on threats to audit quality from the use of a management's expert when auditing complex estimates (e.g., Pyzoha et al. 2020). We note that ISA540 (Revised) makes reference to ISA500 when considering the work carried out by a management's expert and encourage the IAASB to reflect on whether similar references would be useful in the proposed revisions to ISA570.

### Center for Audit Quality (CAQ)

While we believe that ED-570 incorporates the concepts of ISA 540 (Revised) as it relates to the auditor's evaluation of the method, assumptions, and data used in management's assessment of going concern, we do not believe that the requirements set forth in paragraph 19 are applicable or appropriate in all circumstances based on the nature of management's assessment and the auditor's risk assessment. As stated in paragraph A30 in the application material, there may be instances where management has not performed a detailed analysis to support its assessment. In such situations, management's going concern assessment may not include a formal method, assumptions, or data. Although this concept is included within the application material, we believe that the requirements in ED-570 should specifically address scalability.

We recommend the following updates to ED-570 to make the requirements more scalable and directly linked to the auditor's risk assessment:

Suggested update to paragraph 12(h) as follows (additions are marked as underlined):

12. In applying ISA 315 (Revised 2019), [FN 4 excluded] the auditor shall perform risk assessment procedures to obtain an understanding of: (Ref: Para. A8–A14) [Paragraphs 12(a) through 12(g) excluded]

The Entity's System of Internal Control

(h) How management assesses the entity's ability to continue as a going concern, including whether their assessment involves the use of methods, assumptions and data. identifies the relevant method, assumptions and data that are appropriate in assessing the entity's ability to continue as a going concern. (Ref: Para. A21)

[Paragraph 12(i) excluded]

Suggested update to paragraph 19 as follows (additions are marked as underlined):

19. The audit procedures required by paragraph 17 shall include evaluating, as applicable to address the assessed risks of material misstatement: (Ref: Para. A30, A33, A38)

(a) The method used by management to assess the entity's ability to continue as a going concern, including whether the:

(i) Method selected is appropriate in the context of the applicable financial reporting framework, and, if applicable, changes from the method used in prior periods are appropriate; and (Ref: Para. A34)

(ii) Calculations are applied in accordance with the method and are mathematically accurate. (Ref: Para. A35)

(b) Whether the assumptions on which management's assessment is based are: (Ref: Para. A36).

(i) Appropriate in the context of the applicable financial reporting framework, and, if applicable, changes from prior periods are appropriate; and

(ii) Consistent with each other and with related assumptions used in other areas of the entity's business activities, based on the auditor's knowledge obtained in the audit.

(c) Whether the data is appropriate in the context of the applicable financial reporting framework, and, if applicable, changes from prior periods are appropriate. (Ref: Para. A37)

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

While we find that the concepts introduced from ISA 540 are appropriately incorporated, our stakeholders noted some concerns regarding the consistency of the requirements and application material between the

two standards. For example, para 24(b) of ISA 540 (Revised) states that in applying the requirements in para 22, with respect to significant assumptions, the auditor's further audit procedures shall address whether the adjustments made in selecting the significant assumptions give rise to indicators of possible management bias. This is not part of the requirements proposed in ED-570 but instead, is only found in the application material. We therefore suggest that the IAASB ensures that there is consistency between the requirements and application material of the two standards.

#### **Institute of Certified Public Accountants of Uganda (ICPAU)**

We believe that the ED-570 appropriately incorporates the concepts from ISA 540 (Revised) in the auditor's evaluation of management's assessment of going concern. We recommend that paragraph (b) be expanded to read include management's judgements and assumptions on which management's assessment is based in the context of the applicable financial reporting framework.

#### **Institute of Singapore Chartered Accountants (ISCA)**

The ED appropriately incorporates the concepts from ISA 540 (Revised) and the stronger linkage is a good development. However, similar to our response for Question 8, it may not be practical to proceed directly with the evaluation without first considering going concern indicators and mitigating factors.

#### **Gap between accounting and auditing standards**

This is another instance where there is a gap between the requirements of the accounting and auditing standards. In order for the auditor to perform audit procedures to evaluate management's assessment of going concern in all circumstances, including the methods, assumptions and data used, it is essential for the accounting standards to mandate that management prepares such assessment using proper method, assumptions and data in all circumstances.

Since accounting standards do not establish prescriptive requirements with respect to management assessment, we recommend that the standard be focused on the robust challenging of management's significant assumptions and judgements, regarding whether these are reasonable and supportable, as well as considering the relevance and reliability of the underlying information used in the assessment.

#### **Instituto de Auditoria Independente do Brasil (IBRACON)**

Yes, however, some paragraphs seem repetition of extracts of ISA 540 (Revised), such as paragraphs 23 to 25, and thus, we would recommend revising them.

#### **Korean Institute of Certified Public Accountants (KICPA)**

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

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

To help build a clear understanding of scalability, more specific and detailed examples are needed to describe how audit procedures related to the method, assumptions and data would change in different audit

circumstances. We need sufficient explanation and specific examples as to how to scale and apply the procedures related to the method, assumptions and data described in paragraph 19 to an entity where management may make assessment without detailed analysis because the entity has profitable operations and there are no liquidity concerns as described in paragraph A30 of ED-570.

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

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

#### **Malaysian Institute of Certified Public Accountants (MICPA)**

We agree that ED-570 appropriately incorporates the concepts introduced from ISA 540 (Revised) Auditing Accounting Estimates and Related Disclosures for the auditor’s evaluation of the method, assumptions, and data used in management’s assessment of going concern. However, the quantitative assessment may not be necessary in all circumstances. We suggest that the IAASB include in Paragraph 19(b) of ED-570 whether the assumptions are realistic and achievable in view of the entity’s circumstances and consistent with the general economic environment.

#### **Nordic Federation of Public Accountants (NRF)**

Yes, we believe ED-570 appropriately incorporates the concepts of ISA 540 (Revised), but they might be a bit over-engineered when dealing with SMEs.

#### **Pan-African Federation of Accountants (PAFA)**

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

#### **Saudi Organization for Chartered and Professional Accountants (SOCPA)**

In general, we think ED-570 has appropriately incorporated the concepts of ISA 540 (Revised) in relation to the procedures that an auditor should consider when evaluating management’s assessment of going concern. However, we believe an approach similar to the one used to incorporate the concepts of ISA 315 (Revised) by making explicit cross-referencing to ISA 315 (Revised) within the paragraphs and application material related to designing and performing risk assessment (e.g., para. 11, para. 12, and their related application materials) could enhance the incorporation of ISA’s 540 concepts.

In addition, SOCPA wishes to highlight that management is obligated by IFRS and other accounting frameworks to assess the viability of a business as a going concern. Nonetheless, these frameworks offer very limited guidance regarding the specific methods and extent of analysis necessary for conducting such an assessment. Stakeholders have expressed concerns regarding accounting standards, as they believe the accounting standards do not provide adequate guidance to the preparers of financial statements. We therefore believe the IAASB should work with the IASB to enhance IAS 1 in order to provide guidance concerning disclosures of material uncertainties about going concern and achieve convergence between accounting and auditing standards to provide a common understanding of material uncertainties relating to events or

conditions that may cast significant doubt on an entity's ability to continue as a going concern. This would ensure consistency in international auditing and accounting standards. It is most likely that an amendment to IAS 1 would also be replicated by most other accounting frameworks used around the world.

#### **South African Institute of Chartered Accountants (SAICA)**

Going concern assessment is typically performed by management by providing a cash flow forecast or a letter of financial support/subordination agreement. The example in paragraph A31, second bullet, explains that a cash flow forecast is a “method” as envisaged in ED 570. It may be useful to practitioners if the Application and Other Explanatory Material relating to paragraph 19 clarified whether letters of financial support/subordination agreements would be regarded as “methods” for assessing the going concern assumption. We suggest that the application material should clarify whether the reference to “method” in ED 570 has the same meaning as in ISA 540 (Revised).

Refer to the comments in question 5 above around evaluating “magnitude of its potential impact and likelihood of occurrence” of events or conditions. Given the uncertainty in its determination, focused audit work is required regarding these concepts.

A going concern assessment by definition is an evaluation of the “occurrence” and “existence” assertions over the business and aspects of the business and since it deals with “uncertainty”, it is necessary that some of the elements of ISA 540 (Revised) are brought into ISA 570. Moreover, having plans does not mean that the plans will be realised, thus making an evaluation of “intent and ability” of future actions important. This explicit requirement is a good enhancement.

#### **The Malta Institute of Accountants (TMIA)**

The MIA welcomes the more robust evaluation of management’s assessment, including evaluating the method, assumptions and data used by management – although for small audit engagements, the auditor should always be given the opportunity to scale down these procedures depending on the identified risks.

#### **Q09 - Disagree**

### **3. Jurisdictional and National Auditing Standard Setters**

#### **American Institute of Certified Public Accountants (AICPA)**

Building on our concerns expressed in responses to Questions #3 and #6 and our additional concern that the auditor would be required to perform audit procedures over the methods, assumptions, and data used in management’s assessment in all circumstances, irrespective of whether events or conditions that suggest going concern uncertainties had been identified, we recommend paragraph 19 be amended as follows (additions are marked as underlined and deletions are shown in strikethrough). Corresponding changes to referenced application material would also be required.

19. The audit procedures required by resulting from paragraph 17 shall include evaluating, based on the assessed risks of material misstatement, the following: (Ref: Para. A30, A33, A38):

- (a) [omitted]
- (b) [omitted]
- (c) [omitted]

### **Austrian Chamber of Tax Advisors and Public Accountants (KSW)**

We believe that ISA 570 appropriately incorporates the concepts introduced from ISA 540, however, we would like to point out that ISA 540 also contains sufficient requirements for going concern issues, so that, in our view, no additional requirements are necessary.

### **Q09 - Neither agree nor disagree**

### **6. Member Bodies and Other Professional Organizations**

#### **European Federation of Accountants and Auditors for SMEs (EFEAA)**

We have no comments.

We wonder whether the approach is over-engineered for SMEs.

#### **IFAC SMP Advisory Group (SMPAG)**

The SMPAG have no specific comments in relation to this question other than the approach identified seems over-engineered for SME clients that SMPs will primarily be dealing with.

### **Q09 - 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**

#### **CohnReznick LLP (CHR)**

#### **Nexia Australia Pty Ltd (NAPL)**

### **5. Public Sector Organizations**

#### **Office of the Auditor General of Manitoba (OAGM)**

### **6. Member Bodies and Other Professional Organizations**

#### **ASEAN Federation of Accountants (AFA)**

#### **Institute of Chartered Accountants in England and Wales (ICAEW)**

### **7. Academics**

#### **RMIT University (RMU)**

### **8. Individuals and Others**

#### **Altaf Noor Ali Chartered Accountants (ANA)**

We have not been able to come to with our views on this topic.

#### **Colin Semotiuk (CS)**

Question 9 intentionally left blank.

#### **Kazuhiro Yoshii (KY)**