

Going Concern - Q10.

10. Do you support the enhanced requirements and application material, as part of evaluating management's plans for future actions, for the auditor to evaluate whether management has the intent and ability to carry out specific courses of action, as well as to evaluate the intent and ability of third parties or related parties, including the entity's owner-manager, to maintain or provide the necessary financial support?

Q10 - Agree

1. Monitoring Group

International Association of Insurance Supervisors (IAIS)

The IAIS also supports the application material included in A47-A51 that guides auditors in evaluating management's plans for future actions and determining whether management has the intention and ability to carry out the specific courses of action. The introduction of the additional application material ensures that ISA 570 can be implemented more consistently worldwide.

2. Regulators and Audit Oversight Authorities

Botswana Accountancy Oversight Authority (BAOA)

Yes, we support the enhanced requirements and application material as it allows the auditor to obtain sufficient and appropriate audit evidence to inform conclusions on management's intent and ability to carry out specific courses of action or intent and ability of third parties or related parties, including the entity's owner -manager, to maintain or provide the necessary financial support. The proposed requirement is key as in certain instances, management's assumptions are entirely based on the occurrence of future events or commitment to support the entity by third parties e.g. shareholders or parent companies.

Financial Reporting Council (FRC)

YES. We strongly support the elevation of the application material in extant ISA 570 to the requirement in paragraph 27 as it should lead to a more robust assessment of going concern.

3. Jurisdictional and National Auditing Standard Setters

Public Accountants and Auditors Board Zimbabwe (PAAB)

The PAAB supports enhanced the requirements and application material. The provision of for when finance providers are reluctant to confirm to an entity or the auditor that borrowing facilities will be renewed, will assist more consistency in exercising judgement especially in jurisdictions such as Zimbabwe where such instances are prevalent due to the prevailing economic circumstances.

4. Accounting Firms

Crowe Global (CROWE)

We support these enhanced requirements. They are consistent with the approaches taken in other recent standards such as ISA 540 (Revised).

Mo Chartered Accountants (MCA)

Yes, the enhanced requirements and application material is relevant and appropriate.

PKF International Limited (PKF)

We are supportive of these enhancements.

5. Public Sector Organizations

Office of the Auditor General New Zealand (OAGNZ)

Yes, we support this requirement. It aligns with considerations we apply in the public sector when financial support is sought from other government entities.

6. Member Bodies and Other Professional Organizations

Botswana Institute of Chartered Accountants (BICA)

We are supportive of the enhanced requirements and application material.

California Society of CPA (CALCPA)

Yes; We support the enhancement of the application material in extant ISA 570 to as it should lead to a more robust assessment of 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, we support them, we believe they are appropriate for the auditor to verify whether management's plans are feasible and if management has both the willingness and the ability to perform them.

CPA Australia (CPAA)

Yes.

Federation of Accounting Professions of Thailand (FAPT)

Yes.

Institute of Certified Public Accountants of Uganda (ICPAU)

We are supportive of the enhanced requirements and application material because we believe it will lead to a more robust approach to assessment of going concern.

Institute of Chartered Accountants of Scotland (ICAS)

Yes, we are supportive of these.

Institute of Chartered Accountants of Sri Lanka (ICASL)

Yes. The enhanced requirements and application material also have some practical benefits. For example, they provide auditors with a framework for documenting their understanding of management's plans for future actions and the intent and ability of management and third parties to carry out the plans. This documentation can be helpful in responding to audit inquiries and in defending the audit opinion in the event of an audit dispute.

Overall, we believe that the enhanced requirements and application material are a valuable addition to auditing standards. They will help auditors to improve the quality of their audits and to reduce the risk of material misstatement in accounting estimates that are dependent on management's intent and ability to carry out certain actions

Instituto de Auditoria Independente do Brasil (IBRACON)

Yes, we support the enhanced requirements and application material.

Instituto Mexicano de Contadores Publicos (IMCP)

We consider that the enhanced requirements and application materials are appropriate.

National Board of Accountants and Auditors of Tanzania (NBAA)

Yes, we do support the enhanced requirements and application material.

Q10 - Agree with comments

1. Monitoring Group

International Forum of Independent Audit Regulators (IFIAR)

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)

Paragraph A48 –

With regards to the prospective financial information, given the significant amount of judgment associated with auditing prospective financial information, we recommend the Board elevate these procedures to the requirements. We also recommend the Board link to the requirements in paragraph 19 regarding testing methods, assumptions and data.

We recommend the Board add a procedure to consider consistency with other information involving management's plans for future actions.

Yes, we are supportive of these enhanced requirements and application material.

Paragraph 19 – We believe the requirements in paragraph 19 should apply when evaluating management's assessment and when evaluating management's plans for future action when events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern. We, therefore, recommend the Board clarify the requirements apply to both evaluations.

2. Regulators and Audit Oversight Authorities

Committee of European Auditing Oversight Bodies (CEAOB)

Audit procedures

Paragraph 26 – In the audit procedures required when an event or condition that may cast significant doubt on the entity's ability to continue as a going concern, the IAASB should add that the evaluation of management's plans for future actions should include assessing the skills and resources available at entity level to appropriately implement the plans in the future.

Paragraph A48 – The CEOB believes that an auditor could understand from paragraph A48 that inquiry of management alone is sufficient to evaluate management's plans for future actions. The standard should clearly state that inquiries alone are not sufficient to evaluate management's plans for future actions.

Paragraph A50 explains that when finance providers are reluctant to confirm in writing that borrowing facilities will be renewed, the auditor may consider inquiring of external providers. However, inquiries, even if they are external, should be considered as less reliable than written confirmations. The CEOB is concerned by the fact that the application material seems to place written confirmation at the same level than inquiries in term of reliability.

The CEOB supports the additional provisions included in the ED (paragraphs 25 and 26) to ensure additional procedures are performed when events or conditions that may cast significant doubts are identified. Strengthening the requirements for the auditor to evaluate management's plans for future actions, including whether management has taken appropriate decisions and has the ability to carry out the specific courses of action, is a step forward to enhance auditors' scrutiny. (see also comment hereafter)

When reviewing management's action plan, the auditor should also be required to apply the section "Evaluating Management's Assessment" set out in paragraphs 19 to 25. A clear reference to ISA 540 should also be included. This is because when an event or a condition has been identified and the auditor has to evaluate management's plan for future actions the assessment of estimates is likely to be challenging.

Paragraph 27 – The paragraph refers to evaluating the 'intent and ability' with regard to financial support by third parties. The CEOB suggests including stronger wording than "intent", for example 'commitment'. The CEOB believes that only an 'intention' would not provide sufficient audit evidence of the financial support. Intentions may change, especially from third parties. In addition, the IAASB should make a clear distinction between (1) the intention of management regarding certain future actions, and (2) the intention of third parties/manager-owners. A clear distinction between these is relevant with regard to the audit evidence required. For third parties or related parties, stronger requirements should be used.

Independent Regulatory Board for Auditors (IRBA)

We support the enhanced requirements and application material, as part of evaluating management's plans for future actions, for the auditor to evaluate whether management has the intent and ability to carry out specific courses of action, as well as to evaluate the intent and ability of third parties or related parties, including the entity's owner-manager, to maintain or provide the necessary financial support.

To ensure a consistent application of ED-570 by auditors, the IAASB may want to consider describing further in the application material what is meant by "intent and ability", per the requirement in paragraph 27. Also, it should look at adding the following bullet point in paragraph A48 of ED-570:

Considering the consistency with other estimations in which management's plans for future actions (or a part thereof) are used.

Irish Auditing and Accounting Supervisory Authority (IAASA)

Paragraph A48 – An auditor could understand from paragraph A48 that inquiry of management alone is sufficient to evaluate management's plans for future actions. The standard should clearly state that this is not the case.

Paragraph A50 explains that when finance providers are reluctant to confirm in writing that borrowing facilities will be renewed, the auditor may consider inquiring of external providers. However, inquiries, even if there are external, should be considered as less reliable than written confirmations. The application material in the ED seems to place written confirmation on the same level as inquiries in terms of reliability.

IAASA also supports the provisions included in the ED (paragraphs 25 and 26) to ensure additional procedures are performed when events or conditions that may cast significant doubts are identified. Strengthening the requirements for the auditor to evaluate management's plans for future actions, including whether management has taken appropriate decisions and has the ability to carry out the specific courses of action will enhance auditors' scrutiny.

Paragraph 26 – In the audit procedures required when an event or condition that may cast significant doubt on the entity's ability to continue as a going concern has been identified, the IAASB should add that the evaluation of management's plans for future actions should include assessing the skills and resources available to appropriately implement these plans.

When reviewing management's action plan, the auditor should also be required to apply paragraphs 19 to 25 ("Evaluating Management's Assessment"). A clear reference to ISA 540 should also be included as, when the auditor has to evaluate management's plan for future actions, the assessment of estimates is likely to be challenging.

Paragraph 27 refers to evaluating the 'intent and ability' with regard to financial support by third parties. Stronger wording than "intent" should be used, for example 'commitment' as an 'intention' would not provide sufficient audit evidence of financial support. Intentions may change, especially from third parties. In addition, the ISA should make a clear distinction between (1) the intention of management regarding certain future actions, and (2) the intention of third parties/manager-owners with regard to the audit evidence required. For third parties or related parties, stronger requirements should be included in the ISA.

3. Jurisdictional and National Auditing Standard Setters

Australian Auditing and Assurance Standards Board (AUASB)

The AUASB supports enhanced requirements and application material as part of evaluating management's plans for future actions. We do, however, recognise feedback received that it is often challenging to gather audit evidence on intent and ability of management and third parties or related parties. Management's intent can be assessed based on the information available, however intention may change. Often third parties or related parties are reluctant to confirm their intention and ability, and the information received such as audited financial statements to support ability may not align to the going concern assessment period. Therefore, we encourage further application material to assist auditors on:

Gathering audit evidence on management's intent and ability where there is insufficient documentation and detailed plans.

The nature of work and the resulting impact when written confirmations from third parties cannot be obtained, or the time frames are not consistent with the going concern assessment period.

Procedures that may be performed when information provided by third parties is for periods shorter than the auditor's going concern assessment period.

Austrian Chamber of Tax Advisors and Public Accountants (KSW)

We welcome clarification on how to proceed in the audit if significant doubt on going concern exists and management presents plans to address this doubt. Some of the requirements however like evaluating the intent and ability of third parties will be challenging. We suggest to focus the guidance on practical audit procedures.

While ISA 570.26 (a) requires an assessment of the likelihood that the situation can be improved by the plan, A49-A53 now suggest explicit confirmations on the feasibility of the plans.

The going concern concept requires that when there are significant doubts, the existence of a related material uncertainty must be assessed. We suggest that this basis principle is not only stated in A51 but as a requirement by introduction of lit (d) in ISA 570.26 that reads "material uncertainty exists related to management's plans." This is necessary to clarify the phrase "improve" of ISA 570.26 (a).

Canadian Auditing and Assurance Standards Board (AASB)

We generally agree with the proposed requirements and application material on the auditor's evaluation of management's plans for future actions. However, we have a few concerns with the current drafting.

Reference to management's intent

Concern: We do not agree with the reference to management's intent in para. 26(c). Obtaining sufficient appropriate evidence on management's intent would be very challenging, if not impossible, given that intent is simply a desire to bring about a certain future outcome, which can easily change. We believe that this is why paragraphs 16(b) and (c) of existing ISA 570 do not refer to "management's intent". Further, in our view, the requirement in para. 26 for the auditor to evaluate management's plans for future actions already appropriately captures the concept of "management's intent".

Suggest: We suggest removing the references to "management's intent" in para. 26(c) (and in the related application material):

Management has both the intent and ability to carry out specific courses of action.

Application material re. procedures relating to management's plans for future actions

Concern: Field-testing of the Exposure Draft raised many questions on the auditor's procedures to comply with para. 26 and 27. We believe that application material should be enhanced to clarify several areas when the auditor is executing the procedures relating to management's plan for future actions.

Suggest:

Adding application material on appropriate "ring-fences" relating to audit evidence on the owner-manager's ability to fund the operations:

Audit evidence on the owner-manager's ability to fund the operations may include evidence that the entity has the funds (e.g., the funds have been transferred to the entity's bank account) and the entity is able to

use that fund (e.g., there is an agreement that the entity is not obligated to repay the loan in the near term). However, the owner-manager's bank account is outside the scope of the audit.

Clarifying existing application material on "inquiry of external financial providers" and what that inquiry is intended to achieve – Para. A50 provides an example of inquiry of external financial provider if the financial provider is unwilling to confirm that the borrowing facilities will be renewed. However, if the financial provider is unwilling to confirm that the borrowing facilities will be renewed, it is highly unlikely that inquiries would yield further information.

Adding application material dealing with special considerations for audits of public sector entities. For example, the IAASB may consider developing examples of how the auditor can obtain sufficient appropriate evidence on future funding in circumstances when draft legislation to provide (or cut) funding for certain types of organizations have been proposed but not passed.

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

We would like to be added in the application material that the auditor should remain alert to the entity's credit rating, especially when the rating is downgraded. Downgraded credit ratings are usually discussed at the Board and at the Audit Committee of the entity and, unfortunately, they often lead to a downfall of the entity by increasing the cost of its financing or, even worse, by preventing its access to finance. Downgraded credit ratings are often a bad signal that the auditor may consider carefully.

We believe that the requirement in paragraph 27 (financial support by third parties or related parties, including the entity's owner-manager), should be enhanced by requesting the auditor to exercise professional skepticism when verifying the reliability and binding nature of the letter of support. For an example, a support granted by the Board of the parent company to the Board of the entity may be more enforceable than a support letter sent by the parent company to the auditor of its subsidiary,

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

It is sometimes unclear when the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern are being considered before or after consideration of management's plans for future actions.

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 support the direction of the enhanced requirements in paragraphs 26 and 27 and related application material for the auditor to evaluate (as part of evaluating management's plans for future actions) whether management has the intent and ability to carry out specific courses of action as well as the intent and ability of third parties or related parties, including the entity's owner-manager, to maintain or provide the necessary financial support. However, in line with our response to Question 6, we believe that clarification should be provided that management's planning for future actions is part of management's assessment because such an assessment includes management's addressing business risks relating to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (see our response, to Question 6, regarding the requirement in paragraph 12 (g)). In addition, clarification needs to be given that the auditor only needs to evaluate management's plans for future actions when, in the auditor's judgment, the magnitude of the potential impact and likelihood of occurrence of the events or conditions are such that, before consideration of any related mitigating factors included in management's plans for future actions, the

entity may be unable to realize its assets and discharge its liabilities in the normal course of business,. This can be done by changing the words in the introductory sentence of paragraph 28 as follows:

“When, in the auditor’s judgment, the magnitude of the potential impact and likelihood of occurrence of identified events or conditions are such that, before consideration of any related mitigating factors included in management’s plans for future actions, the entity may be unable to realize its assets and discharge its liabilities in the normal course of business, the auditor shall evaluate management’s plans for future actions to respond to those events or conditions, including whether: ...”

Japanese Institute of Certified Public Accountants (JICPA)

We agree except for the following point.

Paragraph A50 states that the auditor may consider inquiring of external finance providers regarding the evaluation of management’s plans for future action when written confirmation cannot be obtained from the external finance providers that the borrowing facility will be maintained or renewed. We understand this statement intends to mean that, even when written confirmation cannot be obtained, inquiries of external finance providers and an assessment of other surrounding circumstances may provide sufficient audit evidence that there are no material uncertainties.

However, the last sentence of paragraph A50, which states that “If alternative strategies or sources of financing are not available, then a material uncertainty may exist.” could lead to the misinterpretation that even when sufficient audit evidence is obtained through inquiries of external finance providers, a material uncertainty exists if there is lack of alternative strategies or sources of financing. To avoid such misinterpretation, we suggest clarifying the last sentence of paragraph A50 to state “If sufficient audit evidence cannot be obtained through inquiries of external finance providers and an assessment of other surrounding circumstances and alternative strategies or sources of financing are not available...”.

New Zealand Auditing and Assurance Standards Board (NZAuASB)

We generally support the enhanced requirements and application material on the auditor’s evaluation of management’s plans for future actions.

We agree that as part of evaluating management’s plans for future actions, it is important for the auditor to understand the intent and ability of other parties to maintain or provide the necessary financial support. The evaluation of intent should also extend to the extent to which other parties will provide financial support. However, from a practical perspective, we are aware that other parties are often not willing to provide written confirmation of their intent to provide financial support, as suggested in paragraph A52.

We therefore encourage the IAASB to develop additional application material to clarify the nature of work and the impact when sufficient appropriate audit evidence about other parties’ intent cannot be obtained.

Royal Dutch Institute of Chartered Accountants (NBA)

We have some concern with the requirement in paragraph 26 (a). We are of the view that the current proposal is too weak, and we suggest to clarify that management’s plans for future actions in relation to going concern should sufficiently alleviate or remediate the events and conditions that cause doubts about the entity’s ability to continue as a going concern.

With respect to the related application material in paragraph A48 we suggest to clarify that inquiry of management or those charged with governance without inspection, review, or conformation of underlying information cannot be sufficient to fulfill the requirement properly.

Finally, we propose that the wording around ‘intent’ of future financial support are worded more soundly. This is because intent is too weak in situations where such financial support would be needed. We therefore suggest to replace ‘intent’ in paragraphs 27 and A52 by a conformation by those who would provide the support for which a legal expert has assessed the enforceability of the undertaking.

4. Accounting Firms

Assirevi

The enhanced requirements comply with best practices already applied by audit firms and the new application material would definitely be of great help in defining exactly what an auditor can do in these circumstances. However, it might be difficult to obtain audit evidence from third parties. In this respect, the new explicit requirement of ED-570 provides the auditor with additional guidance in identifying a material uncertainty or the impossibility of obtaining sufficient appropriate audit evidence about a third party’s intent and ability when, for example, the third party refuses to reply to a request for written confirmation.

BDO International (BDO)

Yes, we support the enhanced requirements and application material.

We do however request the IAASB considers providing more specific illustrative examples as part of non-authoritative implementation guidance, to set out the nature and extent of audit evidence that may be deemed sufficient and appropriate, in certain common situations. Consider, for example, an entity in which, at the date of management’s assessment, events and conditions have been identified that may cast significant doubt about the entity’s ability to continue as a going concern and:

There is parent entity financial support (future funding, no plans to recall loans, etc.), or

There is parent entity financial support, through reliance on other group entities, or

Management’s plans involve significant changes (in structure, operational and/or financial matters, etc.).

CohnReznick LLP (CHR)

In addition to our overall observations below, we respond to some of the specific questions on which the PCAOB is seeking comment in the Appendix to this letter.

Overall, we are supportive of the explicit discussion of “intent” and “ability” and have noticed in practice in the United States that with the equivalent guidance introduced via SAS 132 to amend AU-C 570, auditors were better able to design appropriate audit procedures. We have concerns that ED-570 is not including certain requirements and application guidance that can be important for firms to properly apply ISA 570. Due to going concern being a “forward looking” consideration as opposed to historical, some practitioners may inappropriately rely, or over rely on less-than-persuasive audit evidence that is not verifiable such as loose oral assertions. To mitigate this, we recommend the IAASB replace ED-570.27 with AU-C 570.17 and the related application guidance. In particular, we believe:

Evidence of “intent” should be in writing. Auditors in the US environment using AU-C 570 have noted that requiring written evidence of intent by a third party/owner-manager, such as a support letter or an executed

contract, can result in contradictory audit evidence when the third party/owner-manager refuses to provide evidence in writing. This contradictory evidence can lead to a determination that there is a material uncertainty. If auditors are not required to obtain such evidence in writing, it is possible that an auditor incorrectly concludes a material uncertainty does not exist.

Illustrative Support Letters. Having illustrative support letters, such as those in AU-C 570.A36, contributes to audit quality. There is likely significant diversity in practice across jurisdictions and amongst practitioners as to what constitutes evidence of intent by the third party/owner manager. Providing illustrative support letters in application guidance helps provoke consideration amongst auditors and entities about how to appropriately word such letters.

Deloitte Touche Tohmatsu Limited (DTTL)

DTTL has been highly supportive of the IAASB's project in this area and the expansion of procedures performed by the auditor related to going concern, especially related to strengthening the auditor's evaluation of management's assessment of an entity's ability to continue as a going concern (further referred to as "management's assessment").

We support the enhanced requirements and application material related to management intent and ability, as well as to evaluate the intent and ability of third parties and related parties. We suggest that the IAASB consider including additional application material to paragraph A52 for the auditor to consider the business rationale of third parties or related parties providing financial support even when written confirmation of intent is obtained from them.

Ernst & Young Global Limited (EY)

We support the enhanced requirements in paragraphs 26 and 27 of ED-570 for the auditor to, as part of evaluating management's plans for future actions, evaluate whether management has the intent and ability to carry out specific courses of action, as well as to evaluate the intent and ability of third parties or related parties to maintain or provide the necessary financial support.

Overall, we are also supportive of the enhancements made to the application material. However, we have the following specific suggestions related to the application material related to evaluating management's plans for future actions:

Paragraph A48 of ED-570: We have concerns about the inclusion of the following example procedure in the bullet point list in paragraph A48, as we believe this procedure may imply that an agreement to provide support is required to be legally binding and enforceable and as such would go further than what is required by paragraph 27 of ED-570 and the supporting application material in paragraph A52 to A54:

Confirming the existence, legality and enforceability of arrangements to provide or maintain financial support with third parties or related parties, including the entity's owner-manager and evaluating the financial ability of such parties to provide additional funds (also see paragraphs A49–A51).

We suggest that supporting application material regarding financial support by third parties or related parties, including the entity's owner-manager be confined to the supporting application material section that supports paragraph 27 (i.e., we suggest that the bullet point be removed from the bullet list in paragraph A48) and that appropriate linkages be made between A48 and paragraph 27 and its supporting application material in A52 to A54.

Paragraph A50 of ED-570: We believe that the application material regarding obtaining sufficient appropriate audit evidence that borrowing facilities will be renewed should be expanded to clarify that the auditor considers the rationale for the finance provider refusing to provide a confirmation in determining whether inquiries of the finance provider alone is sufficient. When the rationale is specific to the circumstances of the entity, the auditor may need to also make inquiries of management about alternative strategies or sources of financing that may mitigate the significance of identified events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. In making this determination, the auditor may consider whether:

The entity is dependent on borrowing facilities shortly after renewal

Correspondence between the lender and the entity indicates that the last renewal of facilities was agreed with difficulty

Since the last review of facilities, the lender has imposed additional conditions as a prerequisite for continued lending

The entity has breached the terms of borrowing covenants, or there are indications of potential breaches

The availability of credit in the market has deteriorated since the entity last obtained financing

We also have the following specific suggestions related to the application material related to financial support by third parties or related parties, including the entity's owner-manager:

Paragraph A52 of ED-570: Regarding the third party or related parties' intent to provide financial support described in paragraph A52, we believe that specific considerations for evaluating the third party or related parties' intent when the support being provided is not legally binding should be included in the application material. Specifically, the auditor should consider the business rationale for the third party or related party to provide (and continue to provide) such support. The use of letters of support (i.e., a commitment to provide support that is not legally binding) is widely used in practice and providing additional specific considerations and the extent of evidence needed to support those considerations will assist in driving consistency in practice.

Paragraph A53 of ED-570: Regarding the procedures the auditor may perform to obtain sufficient appropriate audit evidence about the ability of the third parties or related parties to provide financial support, we believe that:

Additional guidance is needed on the extent of evidence that the auditor should obtain, specifically:

The extent of evidence that is needed to support the ability of third parties to provide financial support, taking into consideration that the auditor's access to financial and non-financial information about the third party providing the support may be limited to what is publicly available and that third parties or others that are not part of the entity are not required to respond to inquiries made by the auditor.

Factors the auditor may consider in determining the extent to which inquiries made of management should be corroborated.

Clarification about who inquiries should be directed to, specifically as it relates to inquiries about the business rationale for the financial support and the basis on which such support is established (first bullet point in A53) and the ability to provide the financial support in a timely manner for the entity to meet its obligations (second bullet point in A53).

Additional guidance is needed on procedures the auditor may perform when information provided by others is for periods that are shorter than the auditor's going concern assessment period. Commitments to provide support are often obtained from a holding company in the form of a letter of support. The auditor of the entity that is providing the support would have performed an evaluation of management's assessment of the entity providing the support's ability to continue as a going concern, however, due to different approval dates, the period of assessment is unlikely to be the same. Guidance on procedures to be performed on the remaining period by either the auditor or to be requested to be performed by the auditor of the supporting entity would help drive consistency in practice.

Grant Thornton International Limited (GT)

We support requirements for the auditor to evaluate whether management has the intent and ability to carry out specific courses of action. This is, to a large extent, reflective of current practice. However, we are of the view that further guidance is needed on the extent of procedures to be undertaken by the auditor in certain circumstances. For example:

Management's assessment of the entity's ability to continue as a going concern includes assumptions about its ability to obtain additional finance, say 10 months from when the financial statements are dated. As acknowledged in paragraph A50, a financial institution may be unwilling to provide a confirmation, either in writing or orally, that it will extend finance; in the current economic climate, it may be unlikely that past experience would be a reliable indicator of future expectations, and it is unclear what is expected of the auditor in such circumstances.

For an owner-managed entity, the assessment of the entity's ability to continue as a going concern includes an assumption that the owner-manager will finance a projected liquidity need during the assessment period. It is not clear whether, in such circumstances, it is sufficient for the auditor to obtain a guarantee from the owner-manager that finance will be provided when the need arises, or whether it is expected that the auditor would need to obtain additional evidence, such as a statement of net worth for that individual in order to prove ability.

Further, we note that paragraph 26(a) requires the auditor to evaluate, in respect of management's plans for future actions in relation to the going concern assessment, whether 'the outcome of these plans is likely to improve the situation.' However, the associated application material uses the term 'mitigate.' We suggest that consistent terminology be used in the requirement and the application material to avoid confusion.

KPMG International Limited (KPMG)

We support the inclusion of the enhanced requirement at paragraph 26, and related application material, for the auditor to evaluate whether management has the intent and ability to carry out specific courses of action. We consider this to be a critical part of the evaluation of management's plans and whether these will mitigate an event or condition that may cast significant doubt on the entity's ability to continue as a going concern, and we consider that the addition of this requirement, and the related application material will help to drive appropriate focus on this area by the auditor.

We recommend that the application material place greater emphasis on the extent to which such plans are within or outside of the control of management, as well as factors to consider where these are outside the control of management.

We are also supportive of the new requirement and related application material to evaluate the intent and ability of third parties and related parties to provide necessary financial support. However, these

focus on written confirmation, and we recommend greater consideration of steps the auditor may take when such written confirmation is unlikely to be forthcoming, e.g., in respect of financing arrangements. The material at A50 suggests making inquiries of a third-party provider, and notes that a lack of written confirmation may constitute a scope limitation, but we suggest this could also explore other steps in relation to considering the intent and ability of the third party, such as considering their historical actions, their current lending abilities, and taking account of the economic situation more generally (e.g., if there is a liquidity crunch). We also highlight that receiving written confirmation from a third or related party is not usually legally binding, and we recommend the application material clarify this, i.e. that there are jurisdictional differences in terms of such confirmations, with these being binding commitments that would be legally enforceable in certain jurisdictions, and statements of intent that are not binding and could be rescinded in others. The application material should clarify whether and when the latter would be considered to represent sufficient appropriate audit evidence, and explain that in making this assessment, the auditor would need to use professional scepticism and professional judgement, and consider the interrelationship between intent and ability. Similarly, the application material could discuss scenarios such as group audits in which the parent entity provides confirmations in the form of letters of support to several components – as to whether the parent would have the ability to provide such support concurrently to all of these components, e.g., in challenging economic circumstances.

We also recommend that the application material is more clearly linked to the requirement at paragraph 38 regarding written representations. Furthermore, we recommend that the application material at A51 more clearly guide the auditor as to how these considerations affect their evaluation of whether a material uncertainty may exist. For example, if management plans are feasible, likely to improve the situation and are within management's control, it is more likely that both management and the auditor would conclude that the residual uncertainty is sufficiently low that no material uncertainty exists. However, there may be situations where the plans are fully or partly outside management's control, and although audit evidence points towards the likely outcome improving the situation (e.g. when a letter of support is obtained from a parent company, and the parent company is assessed as having the intent and ability to support the entity), or when it appears likely that loan financing will be extended, the outcome of these events falls along a spectrum of certainty/uncertainty. Furthermore, there may be circumstances in which there are several different outcomes in respect of a single plan, or there may be various plans and alternatives, and considerations of feasibility need to focus on most likely outcomes, whilst considering reasonably plausible downside scenarios. The ED remains unclear in terms of providing guidance to auditors as to how to consider feasibility in such circumstances, and that, having evaluated management's plans for future actions, there may be circumstances when the residual uncertainty may still rise to the level of a material uncertainty. For example, if the auditor believes it is probable that management's plans will be realised, but that there is still a reasonable possibility that they may not be realised, then it is possible that the residual uncertainty may still constitute a material uncertainty. However, as drafted, some may reach the conclusion that there is no MURGC, as the most likely outcome is management's plans will be implemented and are likely to improve the situation.

We also recommend that the standard explicitly clarify that in circumstances where events and conditions that may cast significant doubt are identified and management's plans for future actions are not feasible, this may indicate that the entity may have no realistic alternative but to cease operations, in which case the going concern basis of accounting itself may not be appropriate. Please also refer to our response to Question 5.

Mazars (MZ)

We support the rationale of the proposals; however, we do have reservations about the auditor's ability to evaluate the "intent" of management, and even more difficult to assess for third parties or others.

Clarification about the types of audit evidence that is deemed to be sufficient and appropriate for purposes of the auditor's evaluation of "intent" would be helpful.

We acknowledge application material suggesting written confirmation from relevant parties to obtain sufficient appropriate audit evidence about their intent to provide the necessary financial support. However, we are concerned about the subjectivity of such representations. For example, the degree of the credibility of the "intent" may be evaluated as reliable at the time of providing the confirmation, however, the reliability may vary based on the facts and circumstances (events and conditions) as time progresses.

We believe it may be helpful to enhance the application material by including practical guidance in relation to how the auditor "shall remain alert" for information about events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. For example:

How to obtain information about the financial or solvency position of an entity, including, for example, ratings of an entity by central banks and financial analysts (etc.). This may be achieved by including specific requests in a bank confirmation letter, or developing guidance to promote more focused discussions with TCWG about the entity's financial forecasts or projections.

Factors that may affect or support the auditor's exercise of professional skepticism in mitigating risks of over-reliance on written confirmations or representations.

MNP LLP (MNP)

Yes. We believe that evaluating management's intent and ability adds more insight to the feasibility of management's specific plans for future actions. However, we also foresee practical implementation challenges. For example, audit evidence through a written confirmation of third-party's "intent" can be obtained however we may be unable to obtain audit evidence on their "ability" to support management's plan. In addition, intent can change depending on circumstances and is therefore difficult to audit and highly subjective, not to mention somewhat unreliable.

We acknowledge the valuable insight provided in paragraph A50, which emphasize the possibility of conducting "inquiry of external financial providers" to compensate for the lack of written confirmation from the third-party; however, if the financial provider is unwilling to affirm the occurrence of the financing arrangement, it is highly unlikely that inquiries alone will provide sufficient and appropriate audit evidence. In our experience, financial providers are not agreeable to making these representations.

We believe that clarification and additional application material is required.

Nexia Australia Pty Ltd (NAPL)

We are supportive of the proposal, subject to the IAASB making the following clarifications.

The requirements of an IAASB Standard are expressed using the word "shall" to denote the obligations an assurance practitioner is required to comply with in achieving the objective or objectives stated in the standard. Paragraphs 16, 17, 18, and 19 of the ED identify actions and procedures that an auditor "shall" perform. Of particular concern are those matters listed in paragraph 19 of the ED that must be performed.

In many cases, management's and the auditor's assessment of the entity's ability to continue as a going concern may be straightforward because the business activities are simple or the entity has significant cash reserves. In these cases, management may not perform a detailed cash flow forecast that extends at least twelve months from the date of the auditor's report.

Similarly, those charged with governance and the auditor may assess that the business is not affected by events or conditions that may cast significant doubt on the entity's ability to continue as a going concern – for example, in the case of a self-managed superannuation fund.

Nevertheless, paragraph 19 requires the auditor to evaluate management's methods, calculations, data, and assumptions in assessing the entity's ability to continue as a going concern. Although application paragraphs A30 and A31 indicate that management may not always be obliged to perform a detailed analysis, and A31 and A38 attempt to provide scalability, the remaining A33 – A37 are written in the context of management preparing detailed forecasts and the auditor performing a detailed evaluation of those forecasts in all cases.

To improve clarity and consistency in application of the standard, we recommend that the Board redraft paragraphs 16 – 19 and A30 – A38 to clarify those elements that are mandatory in all cases and those capable of modification by the auditor should they not be considered necessary in the circumstances.

Moreover, paragraph 23 and its related application paragraph A43 places the responsibility on the auditor where management is unwilling to make a formal assessment of the entity's ability to continue as a going concern. In the absence of management's formal assessment regarding the ability of the entity to continue as a going concern, the auditor is required to either perform its own assessment or issue a modified opinion.

In our opinion, greater responsibility should lie with management to formally assess and document their assessment relating to going concern. (refer also Question 13, below). Such matter cannot be resolved through amendments to auditing standards and should be dealt with through revisions to AASB 101 Presentation of Financial Statements.

PriceWaterhouseCoopers (PwC)

We support the revised requirements, which are best practice today. It is an important aspect of exercising professional scepticism to critically evaluate whether management's plans for future actions are realistic and achievable.

We also support the enhanced focus on assessing the intent and ability of third parties or related parties, including the entity's owner-manager, to provide the necessary financial support. However, we note there are often challenges in obtaining evidence from third parties. Paragraph A52 focuses on obtaining written confirmation from relevant parties to obtain sufficient appropriate audit evidence about their intent to provide the necessary financial support. In many cases, third parties are unwilling to provide such confirmations, or may provide informal indications that are not contractually binding. We believe further application material should be included to address the auditor's consideration of what may constitute persuasive evidence in such circumstances (noting that past experience alone is not sufficient). This may involve seeking alternative sources of information or corroborating the available information through other means, such as independent research or discussions with other stakeholders who may have insights into the financial support provided by these parties. This is a common situation encountered in practice.

We also suggest the application material explicitly address the implications when the auditor concludes they are unable to obtain sufficient appropriate audit evidence regarding the intent to support, i.e., that a material

uncertainty exists. Including reference to the importance of communicating with those charged with governance about any such limitations in evidence relating to third parties also seems appropriate – this may also be considered as an addition to paragraph 39.

RSM International Limited (RSM)

We are supportive of the enhanced requirements and application material for the auditor to evaluate whether management has the ability to carry out specific courses of action when evaluating management's plans for future actions. We also support the requirements and application material for the auditor to evaluate the intent and ability of third parties or related parties, including the entity's owner-manager, to maintain or provide the necessary financial support.

However, we do not support the requirement for the auditor to evaluate whether management has the intent to carry out specific courses of action and instead recommend this be included as a factor to consider within application guidance. We are appreciative of the examples within paragraphs A48 and A52, but in some cases, such as when the timing of such actions is well into the future or contingent on other circumstances, the only evidence of management's intentions may be through inquiry with management. In such cases, the reliability of the audit evidence obtained may be low. If this is intended to be acceptable, we recommend clarifying that the extent of audit evidence obtained over management's intentions may vary and should be based on the facts and circumstances.

5. Public Sector Organizations

Office of the Auditor General of Canada (OAGC)

Yes, we support the enhanced requirements and application material, as part of evaluating management's plans for future actions, for the auditor to evaluate whether management has the intent and ability to carry out specific courses of action, as well as to evaluate the intent and ability of third parties or related parties, including the entity's owner-manager, to maintain or provide the necessary financial support.

We believe the application material can be further expanded to include more flexibility and/or provide further clarification for public sector entities dependent on annual funding. In Federal public sector entities, management's plans for future actions typically include financial resources approved through an annual funding process.

The timing of the annual approval of these financial resources may differ from the 12-month going concern assessment period, and therefore it may be difficult to evaluate if necessary financial support is in place. This is because many Federal public sector entities have a year-end of March 31 and typically have their annual funding approved closer to, but after the start of the next fiscal year. For example, if the March 31, 20X0 financial statements are approved on June 30, 20X0, and funding approved is for the period April 1 20X0 to March 31 20X1, then management's going concern assessment will only include approved financial resources for 9 months at which point the funding will lapse. Therefore, this leaves a gap in management's going concern analysis of 3 months.

UK National Audit Office (UKNAO)

We welcome the enhanced requirements and application material, as part of evaluating management's plans for future actions, for the auditor to evaluate the intent and ability of third parties or related parties to maintain or provide necessary financial support. These requirements will address a risk which may have

previously existed of auditors seeking to rely on a letter of support provided by a third party without adequately considering whether that third party were able to provide this support.

We consider that there are some particular UK specific considerations in how these requirements are applied to support provided by UK government entities to companies and other entities, given that the UK's constitutional requirements limits the ability of UK government bodies to provide such support without the consent of the UK Parliament. However, we believe that these nuances may be considered separately within the UK's national implementation of the standard.

6. Member Bodies and Other Professional Organizations

Accountancy Europe (AE)

Yes, overall, we support the requirements of paragraphs 26 and 27. Relevant application material (A48) should highlight that inquiries of management or those charged with governance would not be sufficient on their own to fulfil these requirements.

In addition, paragraph 26(a) should clarify that the auditor needs to evaluate whether management's plans for future actions could sufficiently alleviate or remediate the events and conditions that cause doubts about the entity's ability to continue as a going concern.

Some of the new requirements will be challenging in practice, such as evaluating the intent and ability of the third parties (as per paragraph 27 of the ED) when their support is part of management's plans. Auditors will need more guidance and specific examples since some of the examples given in the ED ISA 570, such as inspecting the latest available audited financial statements, would not be helpful in evaluating the intent.

Center for Audit Quality (CAQ)

We support the proposed requirements, as part of evaluating management's plans for future actions, for the auditor to evaluate whether management has the intent and ability to carry out specific courses of action, as well as to evaluate the intent and ability of third parties or related parties, including the entity's owner-manager, to maintain or provide the necessary financial support. We believe that further application material related to the evaluation of "ability" would be beneficial for auditors.

We also believe that additional application material related to the evaluation of the feasibility of management's plans for future actions would be beneficial for auditors in applying the requirements of paragraph 26(b).

Chamber of Auditors of the Czech Republic (CA CR)

Yes, but we would like to amend the guidance as follows.

We propose that ED par. 26 should clarify that the auditor needs to evaluate whether management's plans for future actions could sufficiently alleviate or remediate the events and conditions that cause doubts about the entity's ability to continue as a going concern.

The new requirements to evaluate the intent of the third party when its support is part of the management's plan could be challenging in practice. The guidance provided in ED par. A52 will be very hard to apply in practice. We do not believe that it is even possible to obtain such confirmation of intent from an unrelated third party. Therefore, auditors need more feasible guidance on how to achieve the requirement without obtaining written confirmation.

Further, we believe that it will be helpful to state explicitly that if the auditor is unable to obtain sufficient audit evidence about the intent of the third party to provide the financial support, then a material uncertainty typically exists.

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

While we are not against the enhanced requirements and application material, our stakeholders expressed concerns about the practicalities of having to assess the intent as per para 27 and the ability of third parties to maintain/provide financial support and what the auditor should do if they cannot obtain sufficient appropriate evidence. We suggest that the IAASB provides guidance, including practical examples, on how to evaluate the intent and the ability of third parties to maintain/provide financial support.

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

In general, we do support them. However, some procedures alone, such as inquiries of management and those charged with governance, may not be sufficient to evaluate the management's plans for future action, which should obtain a formal approval (i.e., by those charged with governance).

European Federation of Accountants and Auditors for SMEs (EFEAA)

We support in general the proposals.

We believe it is not completely clear what procedures are expected to be carried out to evaluate the intent and ability of management, third parties and related parties to provide financial support. Assessing the intent of both management and third parties is challenging and subjective so its inclusion may create practical challenges. Such an evaluation might only be able to give negative assurance in that there is nothing to suggest there is an inability or clearly no intent to support.

Institute of Singapore Chartered Accountants (ISCA)

We are supportive of the enhanced requirements. Based on our understanding, in practice, auditors are already evaluating the intent and ability as part of their evaluation of management's plans. Hence, it is good for the standard to formalise the requirements and include related application material.

Guidance on when to assess legality and enforceability of commitments

Paragraph A52 of the ED states that written confirmation to provide evidence about the intent of third party or related party financial support providers may include, when applicable, the legality and enforceability of the commitments. It would be useful for the standard to provide guidance on situations that require the auditor to assess legality and enforceability, as these aspects are not typically covered in standard audit procedures.

For instance, in cases where the financial support provider is a related party, such as a parent company with strong financials and has historically been providing financial support when needed, it may not be necessary to assess legality and enforceability. Rather, the auditor should consider the business rationale for the related party to provide such support. In contrast, when the financial support provider is an individual and the entity in question faces a high going concern risk, enforceability of the commitment becomes more critical.

Korean Institute of Certified Public Accountants (KICPA)

We support the intention of ED-570 in requiring the auditor to evaluate the intent and ability of management and third parties. However, the auditor faces difficulties in obtaining sufficient and appropriate evidence to evaluate the ability of third parties to provide support. Such challenges are compounded especially when the third party is a private entity or an individual. In this light, we suggest that more specific and detailed guidelines and other materials should be added with regard to the evaluation of the intent and ability of third parties in paragraphs A52~54 of ED 570.

Malaysian Institute of Accountants (MIA)

Yes. The requirements set forth should already be best practice and the proposed new supporting application guidance is likely helpful in setting out what is practically possible in these circumstances. With respect to third parties, there may be challenges in obtaining audit evidence. The new explicit requirement therefore provides additional support for auditors in concluding that a material uncertainty exists when there is an inability to obtain sufficient appropriate audit evidence about intent and ability, for example, a third party may refuse to respond to a written request.

In any situation that the auditors cannot assess or agree with the appropriateness of the management's assessment of going concern, the auditors may modify or disclaim the audit opinion in accordance with ISA 705.

However, we would like to draw attention on the possible practical limitation of the following matters for consideration of the IAASB:

One of the procedures listed in 570.A48 is confirming the existence, legality and enforceability of arrangements to provide or maintain financial support with third parties or related parties, including the entity's owner-manager and evaluating the financial ability of such parties to provide additional funds. In this regard, we would like to clarify whether the intention is for the auditor to consider each of these 3 factors (i.e., existence, legality and enforceability) on a scalable basis how they (individually or in combination) might be relevant to the circumstance when such financial support is assessed, rather than as a precondition that all 3 factors must be met to obtain appropriate audit evidence. If the latter is expected, this may have unintended consequences as financial support letters may not always be a legally binding contract but serve as a constructive intention and commitment.

Considering the likelihood of external finance provider being reluctant to confirm in writing to an entity or their auditor that borrowing facilities will be renewed, we suggest that the IAASB consider extending the application material (ED570.A51) to clarify that the auditors consider the rationale for the external finance provider refusing to confirm in writing in determining whether inquiring from the external finance provider alone is sufficient. There may be legal impediments or other customary restrictions on the external finance provider to provide such a written confirmation. However, there may be other evidence of communication or alternative indication by the external finance provider to the audit client that the negotiated funding is substantively agreed or negotiated for which the auditor may be able to obtain sufficient appropriate audit evidence.

Malaysian Institute of Certified Public Accountants (MICPA)

We support the enhance and new requirements and application material on the auditor's responsibilities in evaluating management's plans for future actions. Nevertheless, we suggest the IAASB provide guidance on what is considered "feasible" in Paragraph 26(b) of ED-570 in respect of the management plan and how

to assess if the management's plan is feasible. Examples to illustrate Paragraph A51 on the existence of material uncertainty will be helpful.

Nordic Federation of Public Accountants (NRF)

While recognizing some challenges related to evaluating the intent and ability of third parties, we support the enhanced requirements and application material as part of evaluating management's plan for future actions.

Pan-African Federation of Accountants (PAFA)

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

South African Institute of Chartered Accountants (SAICA)

We agree with the requirement of par 27 for the auditor to evaluate the intent and ability of third parties to maintain or provide financial support. We however have significant reservations regarding the articulation of paragraph A52.

The articulation of paragraph A52 appears to imply that the auditor may need to consider requesting confirmation from third parties prior to management having obtained documented evidence that they have obtained the necessary financial support for the entity to continue operating as a going concern. The articulation of the paragraph appears to imply that the auditor's written confirmation would be the primary determinant of the terms of conditions of the commitment, the legality and enforceability of the commitments and the period/date over which third parties intended to provide the financial support.

Paragraph A52 also references legality and enforceability. In our experience, most letters of financial support are not legally binding. Paragraph A52 appears to imply that the auditor would be precluded from considering a letter of financial support as audit evidence unless it is legally binding. If this is the intention of the application guidance, we suggest that this should be more explicitly articulated. We are of the view that a letter of support, if not legally binding, would not be precluded from being considered as audit evidence, although we agree that this would have an impact on the reliance that the auditor would be able to place thereon.

The last bullet in paragraph A53 makes reference to audited financial statements. It is often the case that the latest audited financial information is out of date compared to when the entity relying on the support is issuing its financial statements. It is not clear whether the auditor would be able to consider unaudited financial information as audit evidence at all.

The Malta Institute of Accountants (TMIA)

We are in support of the enhanced requirements and application material, although these procedures should already be best practice under the extant ISA. However, in instances where owner managers are involved, although written support may be more easily obtained, the difficulty remains in assessing an individual's ability to continue to provide the support. An example is given in A54:

Example:

The continuance of a smaller or less complex entity in financial difficulty may be dependent on the owner-manager subordinating a loan to the entity in favor of banks or other creditors, or the owner-manager supporting a loan for the entity by providing a guarantee with the owner-manager's personal assets as

collateral. In such circumstances, the auditor may obtain appropriate documentary evidence of the subordination of the owner-manager's loan or of the guarantee. Where an entity is dependent on additional support from the owner-manager, the auditor evaluates the owner-manager's ability to meet the obligation under the support arrangement. In addition, the auditor may request written confirmation of the terms and conditions attaching to such support and the owner-manager's intention or understanding.

Hence, while the MIA welcomes the new requirements when management's plans for future actions include financial support by third parties or related parties, including the entity's owner-manager, more clarity, possibly supported by examples, should be provided when the auditor is required to evaluate the intent and ability of those parties to maintain or provide the necessary financial support. It is very difficult to evaluate the intention of others and more clarified application material needs to be provided in this area.

Q10 - Disagree

3. Jurisdictional and National Auditing Standard Setters

Hong Kong Institute of Certified Public Accountants (HKICPA)

It is unclear what extent of procedures is required to evaluate the intent and ability of third parties or related parties to provide the necessary financial support. For example, it is unclear whether guarantees or letters of support with terms such as "unconditional support" or "fully supportive" of the entity's operations and financial obligations would be sufficient and appropriate to establish the intent of their support. Additionally, it is unclear whether the auditor should assess the going concern of those parties that are entities to establish their ability to support the going concern of the auditee.

We are also mindful that, due to confidentiality or other legitimate reasons, third parties or owner-managers (who may be natural persons) may not provide their financial information or answer the auditor's inquiries as suggested in paragraph A53 of ED-570. Moreover, it is unclear how far auditors should go in verifying a third party's intent and ability to support the entity, such as whether due diligence exercises or anti-money laundering related procedures should be conducted to verify the validity of their sources of financial support. Therefore, we urge the IAASB to clarify the extent of procedures required and provide guidance for auditors to address the potential uncertainties and practical difficulties that may arise.

5. Public Sector Organizations

Provincial Auditor Saskatchewan (PAS)

No, the proposed enhanced requirements and application material are not appropriate. Specifically, it is not clear how the auditor can evaluate the ability of third party or related parties to maintain or provide the necessary financial support. This implies that the going concern assessment extends beyond the agency being audited to assessing going concern for a third party agency.

Also, as noted in the response to Question 1, the proposed standard has not appropriately considered the public sector environment. For example, governments may not be willing to confirm the intent and ability to maintain or provide the necessary financial support to public sector agencies.

6. Member Bodies and Other Professional Organizations

IFAC SMP Advisory Group (SMPAG)

The SMPAG notes that generally, it is unclear what extent of procedures are expected to be carried out to evaluate the intent and ability of management, third parties and related parties to provide financial support.

Assessing the ability of management to carry out specific courses of action may be possible, but assessing the intent of both management and third parties is more challenging and subjective, so its inclusion in paragraphs 26 and 27 may create practical challenges. Without detailed information as to management's or a third party's potential commitments or financial objectives, despite there being ready access to funding, assessing what such funding may be used for is likely to be challenging or even impossible for the auditor. The auditor can request information from third parties, but they are ultimately under no obligation to provide evidence supporting their supposed intent. For instance, it may be difficult to encourage a bank to disclose their future intention to provide support to an entity if such a decision has not yet been taken by the bank, and if making such a declaration creates risks for the bank. The refusal of the bank to provide information does not therefore necessarily indicate any heightened risks to going concern, so it is difficult to determine how an auditor could conclude in such circumstances.

The use of third-party information like financial statements can also at times be counter-productive to a going concern assessment. Third party accounts for an entity suggesting it will provide financial support to a related company may show funds being present that could theoretically be used for support. However, the ability to support may not be genuine as those funds could be needed for other activities. Similarly, statements of support from a third-party conveying intention to support may be challenging to validate as there would be a benefit of claiming to support, but ultimately business decisions will determine if this will eventually be forthcoming. As such, these methods would only really give negative assurance in that there is nothing to suggest there is an inability or clearly no intent to support, which will always be of limited value.

Saudi Organization for Chartered and Professional Accountants (SOCPA)

While the proposals in ED-570 provide more comprehensive guidelines in relation to evaluating management's plans for future actions, we believe an extensive coverage of this aspect could result in a "performance gap". The requirement for an auditor to evaluate management's future actions, which may reduce the possible existence of material uncertainty, could expand the audit expectation gap (specifically the "performance gap"), taking into consideration the significant challenges associated with auditing estimates and judgments. Evaluating the "intent" and "ability" of management's plan (future actions) could impair auditors' practice of sound professional judgment, taking into consideration expected management's tendency to support their judgment. We think this issue resembles a compound uncertainty where auditors would be required to make a professional judgment about two types of management judgment: management assessment of the entity's going concern matter and its plan for future actions.

Taking into consideration our concern expressed in the previous paragraph, we think that the drafting of the requirement to evaluate management's plans for future actions when they include financial support by third or related parties is better as it more directly explains the approach to do the evaluation (focusing on "the intent" and "the ability") (e.g., para. 27 and related application materials). Therefore, we think the drafting of para. 26 could be enhanced to match the drafting approach utilized in para. 27 and explain the matters that auditors should focus on when evaluating management's plans for future actions in relation to its going concern assessment.

8. Individuals and Others

Altaf Noor Ali Chartered Accountants (ANA)

No.

We support that the auditor evaluates management's plans for future actions and the intent and its ability to carry out specific courses of action. However, we do not support extending the requirement to the auditor to evaluate the intent and ability of third parties or related parties, except the entity's owner-manager, to maintain and provide the necessary financial support.

The principle we follow is that the more remote third party and related party, the more difficult it is for the auditor to evaluate through objective means the intent and ability to provide the necessary financial support. One exception to this rule is the role of owner-manager.

We find it onerous for the auditor to find the intent and ability of third parties to carry out a specific course of action. R10

Q10 - No specific comments

1. Monitoring Group

Basel Committee on Banking Supervision (BCBS)

2. Regulators and Audit Oversight Authorities

Canadian Securities Administrators Chief Accountants Committee (CAC)

National Association of State Boards of Accountancy (NASBA)

3. Jurisdictional and National Auditing Standard Setters

American Institute of Certified Public Accountants (AICPA)

4. Accounting Firms

Crowe LLP (CROWE LLP)

5. Public Sector Organizations

Office of the Auditor General of Manitoba (OAGM)

6. Member Bodies and Other Professional Organizations

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

We limit our comments to the questions for which we are of the view that the extant research literature may meaningfully contribute. Specifically, we comment on Questions 2, 3, 4, 5, 6, 8, 9, 11, 13, 14, 15 and 16.

ASEAN Federation of Accountants (AFA)

Institute of Chartered Accountants in England and Wales (ICAEW)

7. Academics

RMIT University (RMU)

8. Individuals and Others

Colin Semotiuk (CS)

Question 10 intentionally left blank.

Kazuhiro Yoshii (KY)