

International Auditing and Assurance Standards Board (IAASB)
529 Fifth Avenue
New York, 10017
USA

31 July 2023

Comment letter relating to the IAASB's Proposed International Standard on Auditing 570 (Revised 202X) Going Concern

Dear Board Members,

1. The Irish Auditing and Accounting Supervisory Authority (IAASA) appreciates the opportunity to comment on the IAASB's Exposure Draft (ED) "Proposed International Standard on Auditing 570 (Revised 202X) Going Concern" issued in April 2023.
2. IAASA is the independent statutory body in Ireland responsible for oversight of the audit profession and adoption of standards on auditing, professional ethics and internal quality control, as well as the inspection and promotion of improvements in the quality of audits of public interest entities.
3. IAASA is committed to improving audit quality through the adoption of high-quality auditing and professional standards. In addition, IAASA seeks to ensure that audits appropriately meet the needs of the market.
4. In addition to broad support for the provisions in the ED (see "general comments"), IAASA recommends that the IAASB further enhances the provisions of the ED as set out in "recommended further enhancements".

GENERAL COMMENTS

Integrated approach and consideration of all the ISAs

5. IAASA welcomes the links with ISA 315 added in paragraphs 11, 12, 14, 15 of the ED. 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 than may be applicable to assessment of going concern assumptions.

Coordination between IESBA and IAASB

6. Coordination with the IESBA on ethical requirements is important in the area of going concern, especially the provisions dealing with early reporting of going concern issues to the relevant authorities (paragraph 40).

Further investigations by the auditor regarding material uncertainties

7. IAASA agree with expanding the auditor's role in relation to going concern.
8. Regarding the timeline to be considered when assessing the validity of the going concern assumption, the IAASB's proposal in paragraphs 21 to 23 is a workable solution, based on the aims of protecting the public interest and informing the public about a future material uncertainty arising after the twelve months period required as a minimum by International Accounting Standard (IAS1 – Presentation of Financial Statements) for the preparation of financial statements.
9. Asking management to extend the going concern assessment from the date of approval of the financial statements (paragraph 21) should enhance the basis on which the auditor concludes whether management's use of the going concern basis of accounting is appropriate and whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
10. It is also important for the IAASB to continue to engage with the International Accounting Standards Board (IASB) in order to have greater alignment between the IFRS framework and the ISAs regarding the period of management's assessment of going concern. This would be a step towards enhancing the public interest in going concern matters.
11. The IAASB should provide more extensive application material in paragraph A45, when management is unwilling to make or extend its assessment, to guide auditors in evaluating the wide range of situations that could arise in practice, including factors and circumstances where the unwillingness could potentially be indicative of going concern issues. The differences between an unwillingness to make and an unwillingness to extend management's assessment could also be considered.

Professional scepticism

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

Risk assessment procedures

13. IAASA supports the additional detail added for risk assessment procedures targeted at the going concern assumption, described in paragraph 12 of the ED, which aligns with ISA 315.

Audit procedures

14. IAASA supports the enhancement of the audit procedures to be performed by the auditor to evaluate management's assessment of the entity's ability to continue as a going concern (paragraphs 17 and 19).
15. 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.

Written representation

16. IAASA supports the provisions for a written confirmation request (in case of events or conditions that may cast significant doubt on going concern) introduced in paragraph 38. However the written representations could be further enhanced by including confirmation from management that all identified events or conditions that may cast significant doubt on the entity's ability to continue as a going concern have been considered in their assessment and disclosed to the auditor.

Communication with Those Charged With Governance (TCWG)

17. IAASA welcomes and supports the provisions aimed at enhancing communication between auditors and TCWG on any uncertainty and action plans to be put in place (paragraph 39), including the requirement for the auditor to provide TCWG with "an overview of the audit procedures performed and the basis for the auditor's conclusions, including the auditor's evaluation of management's plans for future actions".

Communications with relevant authorities to be expanded

18. IAASA supports the provisions requesting the auditor to inform relevant authorities of issues related to going concern.
19. However, the IAASB should require communication to relevant authorities regardless of whether it is required by national laws, regulation and ethical requirements applicable in the specific jurisdiction. Communication to authorities should be made, unless laws or regulations prohibit this communication. The determination of the relevant authorities will depend on the system in place at jurisdictional level and may require assessment by the auditor in the absence of jurisdictional provisions.

Definition of material uncertainty (related to going concern)

20. The ED defines a "Material Uncertainty (Related to Going Concern)" as "An uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern where the magnitude of its potential impact and likelihood of occurrence is such that, in the auditor's professional judgment, appropriate disclosure of the nature and implications of the uncertainty is necessary for: (a) In the case of a fair presentation financial reporting framework, the fair presentation of the financial statements, or (b) In the case of a compliance framework, the financial statements not to be misleading."
21. IAASA supports the proposal to clarify what a material uncertainty is in the ED to allow for further consistency in audit approaches. Since the ED phrasing implies that the auditor is the one who determines, through their professional judgement, what is, or is not, a material uncertainty, the IAASB should specify the basis on which this judgement shall be made.
22. The application material in paragraph A5 should be added to the definition to clarify the meaning of "may cast significant doubt". This concept is too important to be in the application material only.

Listed vs. public interest entities

23. Some requirements regarding the audit report relate to listed entities only (paragraphs 33 (b) and 34 (d)). The applicability of these provisions should be extended to public interest entities.

RECOMMENDED FURTHER ENHANCEMENTS

Further enhancements to be integrated in the requirements for risk assessment procedures

24. The information provided in paragraph A6, regarding the fact that the auditor's identification of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern is before consideration of any related mitigating factors included in management's plans for future actions, is of such importance that it should be included in the requirements section of the standard.

Further enhancements to be integrated in the requirements for audit procedures

25. 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.
26. Paragraph 20 – If management disclose events or conditions beyond the period of their assessment that may cast significant doubt on the entity's ability to continue as a going concern, the auditor should be required to make further enquiries of management and evaluate if this information is significant for the auditor's going concern evaluation.
27. Paragraph 25 – The auditor should be required not only to “determine whether it is necessary” to request management to revise its going concern assessment in any case where the auditor identifies events or conditions that cast significant doubt on the entity's ability to continue as a going concern but also to request revision from management once the determination has been made.
28. 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.
29. 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.
30. 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.
31. Paragraph 30 – It is unclear whether the auditor is required to consider all information, including information that does not meet the definition of ‘audit evidence’.

Further enhancements to be integrated in the application material

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

33. 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.
34. 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.
35. Paragraph A63 should be included in the requirements. In addition, the requirements of paragraph 31 regarding adequacy of disclosures should include where additional disclosures are necessary to achieve fair presentation. Example of such situations should also be provided in the application material.
36. Paragraph A77 should be included in the requirements. In addition, when information is determined to be necessary by the auditor, the auditor should be required to encourage management or those charged with governance to disclose such additional information (The ED currently uses the term “may encourage”.)

I hope that you find the comments useful. Please do not hesitate to contact me if you have any questions.

Yours faithfully



Kevin Prendergast

Chief Executive

Email: kevin_prendergast@iaasa.ie