International Organization of Securities Commissions
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المنظمة الدولية لهيئات الأوراق المالية

25 July 2023

Technical Director
International Auditing and Assurance Standards Board
529 Fifth Avenue, 6th Floor
New York, NY 10017 U.S.A.

Our Ref: 2023/O/C1/IAASB/PM/113

Subject Line: ***Proposed International Standard on Auditing (ISA) 570 (Revised), Going Concern and Proposed Conforming and Consequential Amendments to Other ISAs***

Dear Willie:

The International Organization of Securities Commissions' (IOSCO) Committee on Issuer Accounting, Audit and Disclosure (Committee 1 or we) appreciates the opportunity to comment on the International Auditing and Assurance Standards Board's (the IAASB or the Board) Exposure Draft: *Proposed International Standard on Auditing (ISA) 570 (Revised), Going Concern and Proposed Conforming and Consequential Amendments to Other ISAs* (the Paper or ED 570). As an international organization of securities regulators representing the public interest, IOSCO is committed to enhancing the integrity of international markets through the promotion of high-quality accounting, auditing and professional standards, and other pronouncements and statements.

Members of Committee 1 seek to further IOSCO's mission through thoughtful consideration of accounting, disclosure and auditing concerns, and pursuit of improved global financial reporting. Unless otherwise noted, the comments we have provided herein reflect a general consensus among the members of Committee 1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

Overall Comments

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

We recognize the Board's time and effort on this project and we appreciate the positive evolution of the Paper compared to the extant standard. We appreciate the opportunity to comment on the Paper and have outlined our views regarding certain topics in the responses to the Board's specific questions below. In addition, we would like to draw the Board's attention to our main observations which are summarized below:

- **Management's assessment of going concern (see question 7):** We support the Board's objective to promote consistent practice and behavior by auditors across all audit engagements conducted in accordance with the ISAs, including the proposed timeline over which the going concern assessment is made. This proposed assessment period is not inconsistent with the requirements of certain applicable financial reporting frameworks such as the International Financial Reporting Standards (IFRS). We do, however, believe that these enhanced requirements should focus on the responsibilities of the ***auditor***. We have included an alternative approach for the Board's consideration to achieve the Board's stated objective.

- **Reporting requirements (see question 13):** We support the Board's objective to enhance transparency and consistency in auditor reporting. However, we believe the Board's proposed, explicit statements may imply to some that an opinion on a specific matter in the audit is being expressed in addition to an opinion on the financial statements taken as a whole. We have included an alternative approach for the Board's consideration.

Specific Questions

5. *Do you support the definition of Material Uncertainty (Related to Going Concern)? In particular, do you support the application material to the definition clarifying the phrase "may cast significant doubt"?*

Yes, we are supportive of the proposed definition of Material Uncertainty (Related to Going Concern) and the clarification of the phrase "may cast significant doubt." We believe a clear understanding of the phrase "may cast significant doubt" is critical to the consistent execution of the requirements. Further, due to the importance of this understanding, we recommend elevating the definition of significant doubt from the application material to paragraph 10.

6. *Does ED-570 appropriately build on the foundational requirements in ISA 315 (Revised 2019) in addressing risk assessment procedures and related activities, to support a more robust identification by the auditor of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern?*

We believe the proposed revisions to enhance the requirements of risk assessment procedures and related activities within paragraphs 11 through 15 are helpful and will assist auditors in determining the nature and extent of risk assessment procedures to be performed. Additionally, we are supportive of the Board's effort to include enhanced application guidance to reflect the auditor's use of technology in the risk assessment process and when evaluating the method, assumptions and data used by management.

As discussed in the Paper, the Board's objective was to "*incorporate the key concepts, as well as the structural elements from ISA 315 (Revised 2019) related to performing risk assessment procedures to improve the relationship and integration between ISA 315 (Revised 2019) and extant ISA 570 (Revised)*". It is unclear how the Board determined which key concepts from ISA 315 (Revised 2019) to incorporate into ED 570. For example, we noted the important requirements related to the information system and communication (ISA 315.25) and control activities (ISA 315.26) 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 315 (Revised 2019) or strengthen the linkage to these requirements in ISA 315 (Revised 2019).

7. *Do you support the change in the commencement date of the twelve-month period of management's assessment of going concern, from the date of the financial statements (in extant ISA 570 (Revised)) to the date of approval of the financial statements (as proposed in paragraph 21 of ED-570)? When responding consider the flexibility provided in paragraphs 22 and A43–A44 of ED-570 in circumstances where management is unwilling to make or extend its assessment. If you are not supportive of the proposal(s), what alternative(s) would you suggest (please describe why you believe such alternative(s) would be more appropriate and practicable)?*

Recent market conditions have brought to light heightened risks pertaining to the auditor's responsibilities and work related to management's assessment of an entity's ability to continue as a going concern, as well as inconsistencies among auditors in the assessment period used and in effectively identifying events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. We believe these matters could potentially be addressed by enhancements to the ***auditor's*** responsibilities with respect to going concern.

To achieve the Board's stated objective to promote consistent practice and behavior, we are supportive of the proposed commencement date of the twelve-month period from the date of approval of the financial statements as defined in ISA 560. We do, however, believe the requirement should be for the ***auditor to obtain sufficient appropriate audit evidence*** for a period of at least twelve months from the date of approval of the financial statements as defined in ISA 560, and conclude:

- on the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements;
- 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; and
- on the adequacy of the financial statement disclosures, if any.

We believe this approach is consistent with the requirements in certain applicable financial reporting frameworks, such as International Accounting Standard (IAS) 1 *Presentation of Financial Statements*, that require management to take into account all available information about the future as described in ED 570 paragraph A42 and related footnote 24. Furthermore, education material[1] issued by the IFRS Foundation to support the consistent application of the requirements in IAS 1 states: "*When assessing whether to prepare financial statements on a going concern basis, IAS 1 requires management to look out* ***at least*** *(emphasis added)12 months from the end of the reporting period—but emphasizes that the outlook is not limited to 12 months…. Considering time periods longer than 12 months is not inconsistent with the requirements in IAS 1, which establishes a minimum period, not a cap.*" We also observe that the IFRS Foundation's education material further states that "*Paragraph 14 of IAS 10 Events after the Reporting Period explains that management's assessment of the use of a going concern basis of preparation needs to reflect the effect of events occurring after the end of the reporting period up to the date that the financial statements are* ***authorised for issue*** *(emphasis added).*"

The audit procedures may include testing of management's assessment to obtain sufficient and appropriate audit evidence to meet this proposed requirement. Consistent with the example provided in ED 570 paragraph A44, if the auditor's assessment period differs from management's assessment period under the applicable financial reporting framework, the auditor should first assess any additional information that can be used as audit evidence to conclude on the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements. If, after evaluating the sufficiency and appropriateness of

[1] See "Going concern – a focus on disclosure". Education material issued by the IFRS Foundation to support the consistent application of requirements in IFRS Standards (January 2021).

audit evidence obtained, the auditor believes it is necessary for management to extend its assessment period in order to obtain sufficient appropriate audit evidence to meet the auditor's requirement, the auditor should then request management to do so. We believe this construct allows the auditor to request management to extend its assessment period only when the auditor believes it is necessary for management to do so for the auditor to obtain sufficient appropriate audit evidence consistent with ISA 200.A2 (c)(ii) which states "*…an audit in accordance with ISAs is conducted on the premise that management and, where appropriate, those charged with governance have acknowledged and understand that they have responsibility to provide the auditor with additional information that the auditor may request from management and, where appropriate, those charged with governance for the purpose of the audit…*".

However, we note that the requirement in ED 570 paragraph 21 requires the auditor to request management to extend its assessment period to at least twelve months from the date of approval of the financial statements in *all* instances. If the Board's intention is that the auditor only be required to request management to extend its assessment period when the auditor is not otherwise able to obtain sufficient appropriate audit evidence to conclude on the appropriateness of management's use of the going concern basis of accounting in the preparation of financial statements, we believe the Board should update ED 570 paragraph 21 to reflect this intent.

Alternatively, if the Board's intention is that the auditor request management to extend its assessment period in all instances then we are concerned that this would be imposing requirements on management that go beyond an auditor's responsibility to obtain sufficient appropriate audit evidence to meet their requirements, which is beyond the Board's remit. ISA 200.4 states: "*The financial statements subject to audit are those of the entity, prepared by management of the entity with oversight from those charged with governance.* ***ISAs do not impose responsibilities on management or those charged with governance and do not override laws and regulations that govern their responsibilities*** *(emphasis added)*."

In instances where management is unwilling to extend its assessment period, and the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall determine the implications for the audit by revising the assessment of the risks of material misstatement and modifying planned audit procedures in accordance with ISA 315 (Revised 2019) and consider the implications for the auditor's report in accordance ISA 705 (Revised).

Similarly, the auditor should obtain sufficient appropriate audit evidence regarding, and conclude on, the adequacy of management's disclosures in the financial statements. For example, management may be required to make certain disclosures in accordance with the applicable financial reporting framework in instances where events or conditions exist beyond management's assessment period that may cast significant doubt upon the entity's ability to continue as a going concern but is mitigated by management's plans and, therefore, no material uncertainty exists[2].

We encourage the IAASB to continue discussions with the International Accounting Standards Board regarding public interest matters pertaining to going concern evaluation and reporting. We further encourage the IAASB to consider development of guidance, referencing relevant accounting standards, Interpretations Committee agenda decisions, and education material as well as the relevant application material in ED 570, in order to promote understanding and dialogue among stakeholders to address the consequences of potential diversity in assessment periods. Furthermore, as part of the IAASB's outreach and due process related to ED 570, we believe it is crucial to obtain feedback from various stakeholders, in particular preparers and investors.

8. *Do you support the enhanced approach in ED-570 that requires the auditor to design and perform audit procedures to evaluate management's assessment of going concern in all circumstances and irrespective of whether events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern?*

Yes, we are supportive of the enhanced approach to require the auditor to design and perform audit procedures to evaluate the appropriateness of ***management's use of the going concern basis of accounting in the preparation of the financial statements*** and any related disclosures in all circumstances and irrespective of whether events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern.

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?*

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

[2] See "Disclosure requirements relating to assessment of going concern (IAS 1 Presentation of Financial Statements) - July 2014"

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.

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?*

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

11. *Will the enhanced requirements and application material to communicate with TCWG encourage early transparent dialogue among the auditor, management and TCWG, and result in enhanced two way communication with TCWG about matters related to going concern?*

Yes, we believe the enhanced requirements and application material to communicate with TCWG encourage transparent dialogue among the auditor, management and TCWG. We are supportive of such communications that can result in enhanced two-way communication with TCWG about matters related to going concern.

13. *This question relates to the implications for the auditor's report for audits of financial statements of all entities, i.e., to communicate in a separate section in the auditor's report, under the heading "Going Concern" or "Material Uncertainty Related to Going Concern", explicit statements about the auditor's conclusions on the appropriateness of management's use of the going concern basis of accounting and on whether a material uncertainty has been identified.*

    Do you support the requirements and application material that facilitate enhanced transparency about the auditor's responsibilities and work relating to going concern, and do they provide useful information for intended users of the audited financial statements? Do the proposals enable greater consistency and comparability across auditor's reports globally?

We support the Board's objective to enhance transparency and consistency in reporting with respect to the auditor's responsibilities and work related to going concern. However, we believe the Board's proposed explicit statements about the auditor's conclusions on the appropriateness of management's use of the going concern basis of accounting and on whether a material uncertainty has been identified may imply to some that the auditor is expressing an opinion on a specific matter in the audit in addition to the opinion on the financial statements taken as a whole. ISA 200.5 states: *"As the basis for the auditor's opinion, ISAs require the auditor to obtain reasonable assurance about whether the* ***financial statements as a whole*** *are free from material misstatement, whether due to fraud or error."* Furthermore, ISA 701.A47 and ED 570.A75 caution against *"discrete opinions on separate elements of the financial statements."* As a result, we recommend the Board reconsider the proposed statement in the auditor's report. The Board should consider the following alternative language for paragraph 33.(a) that leverages the concepts within ISAs 700 and 701[text ~~deleted~~ and added]:

Paragraph 33. (a) State that ~~the auditor~~:

(i) In the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, the auditor concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate and

(ii) Based on the audit evidence obtained, the auditor has not identified a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

Illustrative report:
Going Concern

In the context of our audit of the financial statements as a whole, and in forming our opinion thereon, we have concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

14. *This question relates to the additional implications for the auditor's report for audits of financial statements of listed entities, i.e., to also describe how the auditor evaluated management's assessment of going concern when events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern (both when no material uncertainty exists or when a material uncertainty exists).*

    Do you support the requirements and application material that facilitate further enhanced transparency about the auditor's responsibilities and work relating to *going concern? Should this be extended to also apply to audits of financial statements of entities other than listed entities?*

Other than our comments shared in Question #13 above, we are supportive of the requirements and application material that facilitate further enhanced transparency about the auditor's responsibilities and work relating to going concern for publicly traded entities/public interest entities.

15. *Is it clear that ED-570 addresses all implications for the auditor's report relating to the auditor's required conclusions and related communications about going concern (i.e., auditor reporting is in accordance with ED-570 and not in accordance with ISA 701 or any other ISA)? This includes when a material uncertainty related to going concern exists or when, for audits of financial statements of listed entities, events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained, the auditor concludes that no material uncertainty exists.*

It is clear that ED 570 addresses implications for the auditor's report relating to the auditor's required conclusions and related communications about going concern, other than the instances where the auditor is unable to conclude on the appropriateness of management's use of the going concern basis of accounting and whether a material uncertainty exists which results in a disclaimer of opinion in accordance with ISA 705.

16. *Are there any other matters you would like to raise in relation to ED-570? If so, please clearly indicate the requirement(s) or application material, or the theme or topic, to which your comment(s) relate.*

Listed entities – We observed the use of the term "listed entities" in ED 570 and recommend the Board consider the recently completed project of the International Ethics Standards Board for Accountants' (IESBA) definition of "publicly traded entity" or "public interest entity" and consider whether the incremental requirements within ED 570 should apply to publicly traded entities or public interest entities as part of the IAASB's Listed entity and Public interest entity – Track 2 project.

References to financial reporting frameworks – We believe the auditor's responsibility related to going concern should be accounting framework neutral and references to any particular framework, for example references to International Financial Reporting Standards, may give rise to inconsistencies in the auditor's interpretation of the requirements as it could be interpreted as the auditor's responsibility being different depending on the applicable financial reporting framework.

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

Paragraph 7 – *"….cannot be viewed as ~~a guarantee as to~~ absolute assurance on [text ~~deleted~~ and added] the entity's ability to continue as a going concern."* We recommend this update to more closely align with the terminology used in ISA 200. We believe the reference to ISA 200 (reference #47) should be paragraphs A45 and A51, not A53-54.

Paragraph 14 – *"…the auditor shall determine whether ~~the~~ audit evidence obtained ~~from risk assessment procedures and related activities~~[text ~~deleted~~] indicates the existence of 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 to the auditor."* We recommend this requirement not only be limited to audit evidence obtained from risk assessment procedures and related activities, but audit evidence obtained more broadly.

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.

Paragraph 25 – We recommend including a requirement, or reference to paragraph 15, to also consider whether there are any control implications when 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 to the auditor.

Written Representations – We recommend the Board also include a requirement to obtain written representation when events and conditions have ***not*** been identified that may cast significant doubt on the entity's ability to continue as a going concern.

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

Paragraph 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.

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

Thank you for the opportunity to comment on the Paper. If you have any questions or would like to discuss these matters further, please contact Nigel James at phone number: +1 (202) 551- 5394 or email address: JamesN@sec.gov or myself. In case of any written correspondence, please mark a copy to me.

Sincerely,

Paul Munter

Paul Munter
Chair, Committee on Issuer Accounting, Audit and Disclosure
International Organization of Securities Commissions