August 22, 2023

Mr. Willie Botha
Technical Director
International Auditing and Assurance Standards Board
529 Fifth Avenue
New York, NY 10017, U.S.A.

Re: Exposure Draft: Proposed International Standard on Auditing 570 (Revised), *Going Concern* and Proposed Conforming and Consequential Amendments to other ISAs

Thank you for the opportunity to comment on this Exposure Draft ("ED").

MNP LLP ("MNP") is one of Canada's largest chartered professional accountancy and business advisory firms. Our client base is focussed on small to mid-size businesses covering a broad range of industries including agriculture, agribusiness, retail and manufacturing as well as credit unions, co-operatives, Indigenous communities and businesses, medical and legal professionals, not-for-profit organizations, municipalities, government entities, and publicly traded companies. We believe that we are positioned well to provide feedback on this ED for the revisions to ISA 570, *Going Concern*.

Overall Questions

1. Do you agree that the proposals in ED-570 are responsive to the public interest, considering the qualitative standard-setting characteristics and project objectives that support the public interest as set out in **Appendix 1**?

   ED-570 was formulated against the backdrop of global corporate failure, which amplified the demand for enhanced transparency on going concerns. We believe that the proposal in ED-570 is responsive to these needs, and will likely enhance confidence in the capital markets which will benefit that specific element of the public interest. However, we would like to acknowledge that the proposal will impose inadvertent burdens to some private companies, such as less-complex entities, not-for-profit organizations and public sector entities where the going concern basis of financial reporting is of less significance and confidence in the capital markets does not directly influence their operations or financial statements.

2. Do you believe that the proposals in ED-570, considered collectively, will enhance and strengthen the auditor's judgments and work relating to going concern in an audit of financial statements, including enhancing transparency through communicating and reporting about the auditor's responsibilities and work?

   ED-570 may enhance and strengthen the auditor's judgements and work relating to going concern for certain audits, however, as noted above we believe that it will not add value to audits of certain entities such as less-complex entities, not-for-profit organizations or public sector entities. We also do not believe that the proposals will enhance transparency through communicating and reporting the auditor's responsibility and work. On the contrary, it may dilute the messages intended to be communicated in the audit report as too much information is required to be disclosed, especially when there is no material uncertainty relating to going concern. The readers may be distracted from information that is more relevant to the users of the financial statements. See further discussion in question 13.

ACCOUNTING › CONSULTING › TAX
2000, 330 - 5TH AVENUE SW, CALGARY AB, T2P 0L4
T: 403.444.0150 F: 403.539.6250 MNP.ca

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3. Do you believe the proposed standard is scalable to entities of different sizes and complexities, recognizing that general purpose financial statements are prepared using the going concern basis of accounting and that going concern matters are relevant to all entities?

   We recognize that the proposed standard has application material that provides more examples as to how the nature and extent of the procedures performed can be "less extensive", "straight forward", or "much simpler" for less-complex-entities. Nonetheless, procedures are required.

   We also recognize that going concern matters are relevant to all entities. However, for certain entities (e.g., not-for-profit organizations, municipalities, or indigenous communities) where the audit has been mandated by regulations, not capital market participation, performing procedures around management's assessment of going concern when no events or conditions has been identified does not add value to the users of the financial statements, however it does add cost.

   We believe Extant ISA 570 is more scalable in the context that an evaluation of management's assessment of going concern is required only when events and conditions that may cast significant doubt on the entity's ability to continue as going concern have been identified.

4. Do the requirements and application material of ED-570 appropriately reinforce the auditor's application of professional skepticism in relation to going concern?

   Yes, we agree that the requirements and application material appropriately reinforce the auditor's application of professional skepticism in relation to going concern.

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 support the definition of material uncertainty.

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?

   Yes, ED-570 does build on the foundational requirements of ISA 315 to support a more robust identification of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. However, some of the contents overlap and appear in both standards ISA 315 & ED-570. For example, ED-570 Paragraph A15 is very similar to ISA 315 Paragraph A64.

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)?

We do not 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 to the date of the approval of the financial statements. We believe that the assurance standards should be agnostic of the accounting standards and should not go above and beyond what the accounting standards require.

While the proposed change may have less impact on the audit of listed entities, it will create significant practical challenges for audits of less-complex entities as follows:

- The proposal may lead to delay in obtaining audit evidence as well as circular audit work in evaluating the twelve-months assessment period starting from the date of the financial statement approval date as this date can be fluid;
- The proposal may cause undue burden to certain entities as the information for a proposed assessment period that goes beyond the next fiscal year may not be readily available. It is important to recognize that even if management can provide the requisite information to comply with the standard requirements, such information may be highly subjective thus compromising its reliability and usefulness.

We believe that Extant ISA 570's requirement is clearer and is agnostic of the accounting framework and we suggest the revised standard not deviate from extant ISA 570, which states as follows: Paragraph 13: *"In evaluating management's assessment of the entity's ability to continue as a going concern, the auditor shall cover the same period as that used by management to make its assessment as required by the applicable financial reporting framework, or by law or regulation if it specifies a longer period."*

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?

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

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

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

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

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 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.

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?

   We agree that the enhanced requirements help promote two-way communication with TCWG.

12. Do you support the new requirement and application material for the auditor to report to an appropriate authority outside of the entity where law, regulation or relevant ethical requirements require or establish responsibilities for such reporting?

   We do not support the new requirement and application material for the auditor to report to an appropriate authority outside of the entity where laws, regulations or relevant ethical requirements require or establish responsibility for such reporting.

   We believe the above new requirement is written in ED 570 Paragraph 40, which is similar to Paragraph 29 of ISA 250-*Consideration of laws and regulations in an audit of financial statements*. According to ISA 250 Paragraph 29, the auditor is required to ascertain whether the applicable laws and regulations necessitate the reporting of identified or suspected instances of non-compliance. The new requirement in ED-570 treats the inclusion of the "Material Uncertainty Related to Going

Concern" section in the audit report in the same manner as identifying or suspecting of an instance of non-compliance with laws and regulations. This would be too onerous for the auditor.

If laws and regulations of certain jurisdictions require the auditor to report to a supervisory authority when a material uncertainty exists, the auditor's responsibility would be bound by the prevailing laws and regulations governing the jurisdiction in question. Explicitly mandating this action in ED-570 is not necessary.

We recommend that auditor's consideration of laws and regulations to be centralized within one standard, namely ISA 250.

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 do not support the requirements and application material intended to facilitate enhanced transparency about the auditor's responsibility and work relating to going concern. We do not believe it would always provide useful information for the intended users of the audited financial statements.

In our opinion, adding a separate section to communicate "going concern" basis of accounting on the auditor's report for all entities can be problematic such that it dilutes the importance of the going concern for those entities that do have a material uncertainty as users may become desensitized to seeing going concern language and may not pay attention in situations that indicate a going concern issue.

In addition, having a separate auditor's conclusion on going concern matters individually introduces the concept of "a piecemeal audit opinion". If the audit report includes conclusions on "an" audit standard, stakeholders may expect conclusions on other individual standards as well. We believe the slope is very slippery here.

We recognize the efforts in attempting to enhance transparency of the auditor's work relating to going concern, however, we believe that there is little or no benefit to these proposed requirements.

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).

We generally support the proposed auditor reporting requirement applicable to audits of listed entities, but we believe that these requirements discussed in paragraph 33(b) should be included in ISA 701 as Key Audit Matters.

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?

Further as noted in our response to question 2 we believe that when there is no material uncertainty or close call, that including this information in the audit report would add no value and dilute the audit report even for listed 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.

We believe that our response to question 14 above would enhance clarity on auditor reporting on going concern under the various scenarios:

- No material uncertainty – no additional reporting on going concern; and
- Close calls and Material Uncertainty for listed entities – additional reporting included in Key Audit Matters.

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.

Nothing further.

Request for General Comments

17. The IAASB is also seeking comments on the matters set out below:

(a) Translations—Recognizing that many respondents may intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED-570.

We are not aware of any issues related to the translation of the standards.

(b) Effective Date—Given the need for national due process and translation, as applicable, and the need to coordinate effective dates with the fraud project, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods beginning approximately 18 months after approval of the final standard. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISA.

We believe the 18-month effective date may be too short, especially considering translation requirements, firm's ability to develop and release additional methodology, as well as enablement, and training for the revised standard. A 24-month timeline would better benefit practitioners to allow time for effective change management, quality implementation guidance and sufficient training. We are also conscious of many other expected changes to standards upcoming that are making it difficult for practitioners and the public to keep pace with the changes. We encourage the IAASB to consider the pace of change in its strategic planning and only focus on those changes that are most critical.

We would be pleased to offer assistance to the IAASB in further exploring issues raised in our response or in finding alternative solutions.

Yours truly,

MNP LLP

Dana Ray

Dana Ray
Partner, Assurance Professional Standards Group