Financial Reporting and Standards Canada
277 Wellington Street West,
Toronto, ON Canada M5V 3H2
T. 416 204.3467 F. 416 204.3412
www.frascanada.ca

August 22, 2023

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

Dear Mr. Botha:

RE: IAASB Exposure Draft, *Proposed International Standard on Auditing 570 (Revised 202X) Going Concern and Proposed Conforming and Consequential Amendments to Other ISAs*

The Canadian Auditing and Assurance Standards Board (AASB)[1] is pleased to comment on the IAASB's Exposure Draft, *Proposed International Standard on Auditing 570 (Revised) Going Concern* and the related *Proposed Conforming and Consequential Amendments to Other ISAs.* In our response, "we" refers to the AASB.

In developing this response letter, we considered feedback from interested and affected parties in Canada. These parties included:

- academics;
- auditors from large accounting firms;
- auditors from small-medium firms;
- financial statement preparers;
- financial statement users;
- provincial accounting bodies;
- public sector auditors;
- regulators; and
- those charged with governance.

Our comments are set out under the following main headings:

A. Responses to Overall Questions
B. Responses to Specific Questions
C. Responses to Request for General Comments

[1] The AASB operates as an independent decision maker with the authority and responsibility for setting standards for quality management, audit, sustainability assurance, other assurance and related services engagements and guidance in Canada.

If you have any questions or require additional information, please contact me at bbosshard@aasbcanada.ca or Karen DeGiobbi at kdegiobbi@aasbcanada.ca.

Yours very truly,

Bob

Bob Bosshard, CPA, CA, ICD.D
Chair, Auditing and Assurance Standards Board (Canada)

c.c. Canadian Auditing and Assurance Standards Board members
Julie Corden, FCPA, FCA, IAASB Member
Eric Turner, FCPA, FCA, IAASB Member

Responses to Overall Questions

Q1. 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?

We generally agree that the proposals in ED-570 are responsive to the public interest. However, we identified two important public interest issues that must be considered when finalizing the revised ISA 570 in our consultations.

Inconsistencies between the financial reporting and audit standards

We believe that it is in the public interest for the IAASB to work with the International Accounting Standards Board (IASB) and the International Public Sector Accounting Standards Board (IPSASB) on topics of common interests, such as agreeing on the period to be covered by management's assessment of the entity's ability to continue as a going concern. Without aligning the financial reporting and auditing standards, auditors will be placed in a position when they are, in effect, imposing financial reporting requirements on the entity. We acknowledge the IAASB's efforts in engaging the IASB and the IPSASB. As indicated in our response to Q7, we believe further outreach with the IASB and IPSASB is required.

The expectation gap

As discussed in our response to Q13, results of our outreach indicate that many financial statement users may not be fully aware of the responsibilities of management and the auditor, and the going concern basis of accounting concept. The proposed auditor's communications in ED-570 do not increase that understanding and in fact may be exacerbating the user expectation gap. In our view, educating financial statement users may, to a larger extent, address the public interest issues relating to going concern rather than revising the auditor's report. We therefore encourage the IAASB to reconsider its current proposals around auditor reporting and continue to work with other parties in the financial ecosystem to address the broader public interest issues relating to going concern.

Q2. 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?

We agree that the proposals in ED-570 will enhance and strengthen the auditor's judgments and work relating to going concern.

As indicated in our responses to specific questions below, there are a number of areas where further examples and/or guidance would promote consistent practices and enhance the auditor's work relating going concern.

On enhancing transparency through the auditor's report, we have some concerns with the proposals. Our response to Q13 sets out our concerns and suggestions to address the concerns.

Q3. 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?

In our view, several changes need to be made for the proposed standard to be scalable to less-complex entities (LCEs) and not-for-profit entities (NPOs). Ensuring that the ISA is scalable and practicable helps to decelerate or curb the trend towards downgrading of audit engagements to reviews or compilation engagements. In addition, we identified several areas where there are specific considerations needed for audits of public sector entities.

As indicated in our response to Q7, the proposed management's going concern assessment period may pose challenges for many LCEs, NPOs and public sector entities. Further, our responses to Q6, Q8, Q9 and Q10 highlight other special considerations for audits of LCEs and NPOs, and our response to Q5 sets out other special considerations unique to audits of public sector entities.

Q4. Do the requirements and application material of ED-570 appropriately reinforce the auditor's application of professional skepticism in relation to going concern?

We agree that the requirements and application material appropriately reinforce the auditor's application of professional skepticism in relation to going concern. In our view, the enhanced understanding of the entity and other risk assessment procedures help the auditor to better exercise professional skepticism.

B. Responses to Specific Questions

Q5. 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"?

We do not support the definition of Material Uncertainty (Related to Going Concern) as currently drafted.

- **Concern:** The phrase "in the auditor's professional judgment" is not appropriate. Material uncertainty is, first and foremost, an accounting concept. It is unclear why the auditor's professional judgment (and not management's professional judgment) should be highlighted in the definition.
- **Suggest:** Amending the definition as follows:

> *Material Uncertainty (Related to Going Concern) — 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…*

We do however support the proposed application material to clarify the phrase "may cast significant doubt".

Special considerations for audits of public sector entities

- **Concern:** There is no application material to acknowledge certain unique characteristics of public sector accounting standards such as the "going concern presumption".
- **Suggest:** We suggest application material linked to the definition of Material Uncertainty (Related to Going Concern) to state that:

> *Many public sector accounting frameworks presume governments to be going concerns because of their powers, rights and abilities and their capacity to issue debt and raise resources. In many public sector accounting frameworks, this going concern presumption can only be rebutted by persuasive evidence to the contrary. The going concern presumption may also apply to other public sector entities. The auditor's procedures and reporting may need to be adapted as necessary when the going concern presumption applies.*

Our responses to Q8 and Q13 highlight when the auditor's procedures and reporting may need to be adapted when the going concern presumption applies.

AASB

Q6. 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 agree that the proposed risk assessment procedures and related activities in ED-570 build on the foundational requirements in ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatements*.

- It is appropriate that the auditor's responsibilities relating to one of the most important aspects of an audit be more rigorous than being based primarily on inquiries.
- Results of our outreach also indicate that most auditors are already performing the proposed risk assessment procedures and related activities in ED-570 currently when applying ISA 315 (Revised 2019).

Scalability considerations

- **Concern:** The application of para. 12(g) relating to obtaining an understanding of the entity's risk assessment process may not be well understood for audits of LCEs that do not have a 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.
- **Suggest:** The IAASB develop application material to provide guidance on how management's close involvement with the business operations in a LCE compensates for the lack of a formal process to identify events or conditions. This application material may leverage paragraph A113 of ISA 315 (Revised 2019) which provides guidance on risk assessment performed through the direct involvement of management or the owner-manager.

Key concept re. timing of the auditor's identification of events or conditions should be included in the main body of the ISA

- **Concern:** Para. A6 states that the "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 performed before consideration of any related mitigating factors included in management's plans for future actions". This statement reflects a key concept similar to the concept in paragraph 4 of ISA 315 (Revised 2019) that inherent risk is considered before consideration of controls. Similar to ISA 315 (Revised 2019), we believe that this key concept should be in the main body of the ISA instead of the application material.
- **Suggest:** We suggest incorporating the statement into para. 11.

Q7. 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?

Together with the ED-570 proposals for auditor reporting relating to going concern, management's going concern assessment period garnered the most significant discussions during our outreach. Based on these discussions, we have identified several concerns about the proposal.

Inconsistencies between the financial reporting and audit standards

- **Concern:** We recognize that many financial reporting frameworks establish a minimum period for going concern assessment, and that the proposed change does not contradict financial reporting framework requirements. Nonetheless, in our view, aligning the period covered by management's going concern assessment between financial reporting and auditing standards is in the public interest. Without aligning the financial reporting and auditing standards, auditors will be placed in a position when they are, in effect, imposing financial reporting requirements on the entity. Furthermore, auditors will have no recourse should management refuse to extend the going concern assessment period.
- **Suggest:** We acknowledge the IAASB's past efforts in engaging the financial reporting standard setters to undertake a project on going concern. However, given the strong call for alignment between the financial reporting and audit standards, and the public interest concerns of not doing so, we believe the IAASB should request that the IASB and the IPSASB consider limited scope amendments to align:
    - the minimum going concern assessment period; and
    - disclosure of the going concern assessment period.

Lack of transparency on the period covered by management's going concern assessment

- **Concern:** The proposed new requirements in ED-570 may result in different going concern assessment periods for each audit engagement depending on the approval date and whether management is able (and willing) to extend the going concern assessment period when requested to do so by the auditor. The going concern assessment period should be transparent to the financial statement users.
- **Suggest:** Transparency on the going concern assessment period should be provided by management.

    - As indicated in our comment regarding coordination with the IASB and IPSASB, the IAASB should request that the IASB and the IPSASB consider a limited scope amendment on going concern, which could include disclosure of the going concern assessment period.
    - In the absence of the financial reporting requirements on the disclosure of the going concern assessment period, the IAASB may consider developing application material for the auditor to encourage management to disclose the going concern assessment period.

Lack of clarity on the date of approval of the financial statements

- **Concern:** During the audit, management and the auditor may not know the date the financial statements would be approved. This requirement may present practical challenges for both management and auditors, particularly for audits of LCEs and many other non-listed entities.
- **Suggest:** To make the requirement more practicable, we suggest an application paragraph be added to assist the auditor in determining the expected approval date. For example, the auditor may discuss with management the expected financial statement approval date and may consider factors such as filing deadlines and past experiences on when the financial statements were approved.

Financial reporting frameworks may use different terminology to describe "the date of approval of the financial statements"

- **Concern:** Some financial reporting frameworks may use different terminology to describe the "date of approval of the financial statements", and there may be nuances surrounding that date. For example, IAS 10, *Events After the Reporting Period*, uses the term "date the financial statements are authorized for issue" and explains that, in some circumstances, the date of approval of the financial statements may not be the same as the date the financial statements are authorized for issue.
- **Suggest:** We suggest that the IAASB include an application paragraph similar to para. A4 to provide guidance on the different terminologies that may be used in the applicable financial reporting framework:

  The applicable financial reporting framework may use different terminology to describe the "date of approval of the financial statements". For example, IAS 10 uses the term "date the financial statements are authorized for issue" and explains that, in some circumstances, the date of approval of the financial statements may not be the same as the date the financial statements are authorized for issue. Regardless of the terminology used in the applicable financial reporting framework, if management's assessment of the entity's ability to continue as a going concern covers less than twelve months from the date of approval of the *financial statements as defined in ISA 560, the auditor is required by paragraph 21 to request management to extend its assessment period to at least twelve months from that date.*

Clarity on the flexibility intended in para. 22 and A44 needed

- **Concern:** We agree with the intended flexibility provided in paragraphs 22 and A44 as explained in the Explanatory Memorandum. However, auditors are worried about using the "flexibility" due to concerns about how to appropriately justify the use of the flexibility.
- **Suggest:** We suggest developing further examples of circumstances when it may be appropriate to limit the request to 12-months from the financial statement date. For example, this may be the case for not-for-profit and government organizations that are funded on an annual basis and management does not have an informed basis to perform a going concern assessment beyond that date.

Q8. 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 generally support the enhanced approach. However, we believe that additional guidance is necessary to address circumstances when it is obvious that there are no going concern issues.

Required work effort when it is clear the entity is a going concern

- **Concern**: We are concerned that the proposed requirement may result in overly onerous work effort for both management and the auditor in cases when it is obvious that there are no going concern issues. We believe that a simple evaluation of management's going concern assessment is sufficient in certain cases, for example:
  - Scenario 1: The entity has profitable operations and no liquidity concerns (or intention to liquidate). The entity has an adequate risk assessment process in place to identify, assess and address events or conditions. Management did not identify events or conditions.
  - Scenario 2: The public sector entity is expected to operate in perpetuity and there is no evidence to the contrary (i.e., the going concern presumption is appropriate)
- **Suggest:** The IAASB may consider developing application material on how the auditor may perform simple evaluations of management's going concern assessments in the above 2 scenarios:

- Scenario 1: The auditor may be able to conclude on management's assessment that there are no events or conditions (and therefore no MURGC) if, based on the auditor's understanding of the entity and its environment, the auditor is satisfied that the entity has profitable operations, no liquidity concerns (or intention to liquidate) and adequate risk assessment process in place to identify events or conditions.
- Scenario 2: The auditor may be able to conclude on management's assessment that there are no events or conditions (and therefore no MURGC) if, based on the auditor's understanding of the entity and its environment, the auditor has already concluded that the going concern presumption for the public sector entity is appropriate.

Q9. 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.

Scalability considerations

- **Concern:** The "methods for assessing going concern" may not be well-understood, particularly by many LCEs.
- **Suggest:** It may be useful to include in application material some examples of common methods that LCEs may use in assessing going concern; for example, cash flow projections or budgets.

Q10. 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?

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.

Q11. Will the enhanced requirements and application material to communicate with Those Charged with Governance (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 and the related application material help promote two-way communication with TCWG.

Q12. 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 support the new requirement. We believe that timely external reporting, when required by law or regulation, is particularly important for audits of banks and other deposit-taking institutions.

Q13. 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 proposed auditor reporting on going concern. We recognize the IAASB's efforts in attempting to enhance transparency of the auditor's work relating to going concern. However, when considering the public interest, we believe that the benefits of the proposed requirements do not outweigh the concerns.

Paragraph 71 of the IAASB's Explanatory Memorandum sets out the overarching principles in developing the proposed auditor reporting requirements, which include:

- Focusing on enhancements that would be most relevant for users of audited financial statements, increasing transparency about going concern matters in a concise and understandable manner.
- Proposing changes that would align with the requirements in the applicable financial reporting framework addressing management's disclosures for going concern.

In our view, the auditor's conclusion that "management's use of the going concern basis of accounting is appropriate and the statement that, based on the audit evidence obtained, the auditor has not identified any material uncertainty" required by paragraphs 33(a) and 34(a) do not meet the above objectives.

Concerns:

Enhancements do not increase transparency in a concise and understandable manner

We undertook outreach on this transparency statement, which included engagement with financial statement users. When shown the proposed auditor's statements required by paragraphs 33(a) and 34(a), some comments from financial statement users suggested they believe that the proposed statements in the auditor's report mean that the auditors are "doing more to prevent corporate failures" or that the auditor is "simply providing assurance" on the entity's ability to continue as a going concern.

Like the financial statement users we consulted, many others also view the auditor's statements required by paragraphs 33(a) and 34(a) as auditor's assurance on the entity's ability to continue as a going concern. This view is likely due to:

- The statement that "we have concluded that management's use of the going concern basis of accounting is appropriate" is misunderstood as the auditor's conclusion that the entity will be a going concern. This misunderstanding reinforces the false impression that the primary responsibility for assessing the entity's ability to continue as a going concern lies with the auditor. Further, many also do not understand that the use of the going concern basis of accounting simply means that management does not intend to liquidate the entity or to cease operations, or has no realistic alternative but to do so.
- The statement "we have not identified a material uncertainty" is a limited assurance engagement expression. It is not appropriate for the auditor to express such a statement when no assurance is intended.

For the reasons above, we are concerned that paragraphs 33(a) and 34(a) would exacerbate the expectations gap.

Enhancements are not relevant to users of audited financial statements

Setting aside the issue of exacerbating the expectations gap, as the required auditor's statements required by paragraphs 33(a) and 34(a) becomes expected, we believe that the statements would provide little or no information value. This is consistent with various academic studies which suggest that standardized wording have little or no information value.[2] Our outreach with financial statement users confirms these findings.

[2] ***The Disclosure and Consequences of U.S. Critical Audit Matters***, Burke, Hoitash, Hoitash, Xiao, The Accounting Review, Vol. 98, No. 2, March 2023; ***Consequences of Adopting an Expanded Auditor's Report in the United Kingdom***, Gutierrez, Minutti-Meza, Tatum, Vulcheva, Springer Science+Business Media, July 30, 2018; ***Why are***

They indicated that they only look for modifications to the auditor's opinion and indications of material uncertainty relating to going concern. Therefore, to meet the objective of enhancing the auditor's report in a manner that is relevant to financial statement users, auditor reporting on going concern matters should only be required in scenarios outside of what would be expected (i.e., the event of a "close call" or when there is a material uncertainty relating to going concern).

Enhancements do not align with certain financial reporting framework requirements

Some public sector accounting frameworks, including those in Canada, may consider a public sector entity to be a going concern even if the entity transfers its assets, liabilities and responsibilities to a recipient and the entity discontinues its operations and ceases to exist as part of a restructuring transaction. While not stated as explicitly, we understand that the International Public Sector Accounting Standard (IPSAS) 14, *Events After the Reporting Date*, may also be interpreted in a similar fashion. In such circumstances, the proposed statements in the auditor's report would appear to be misleading.

Suggest: For the reasons set out above, we recommend that proposed paragraphs 33(a) and 34(a) be removed.

Q14. This question relates to the additional implications for the auditor's report for <u>audits of financial statements of listed entities</u>, 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.

We generally agree with the proposed auditor reporting requirements applicable to audits of listed entities. In particular, we support requiring the auditor's report to communicate "close calls" (i.e., events or conditions have been identified but the auditor concluded that there is no MURGC).

While various academic studies indicate that the current auditor reporting on going concern has informational value[3], a 2009 study found that reporting only when a material

Expanded Audit Reports Not Informative to Investors? Evidence from the United Kingdom**,* Lennox, Schmidt, Thompson, Springer Science+Business Media, September 13, 2021; ***Communicating Key Audit Matters: A Post Implementation Review, Jones, Scott, The Atrium, September 2022.

[3] ***Measuring the Market Response to Going Concern Modifications: The Importance of Disclosure Timing***, Myers, Shipman, Swanquist, Whited, Springer Science+Business Media, July 24, 2018; ***Going Concern Opinions and the***

uncertainty has been identified, predicted only approximately 37% of corporate failures[4]. We believe that "close calls", which are expected to be communicated earlier than MURGC, would be informative.

However, we have a few suggestions on the proposed reporting requirements and application material.

The description of the auditor's evaluation of management's assessment should be placed in the Key Audit Matters (KAM) section

- **Concern:** The IAASB indicated in the Explanatory Memo that placing the description of the auditor's evaluation of management's assessment in the going concern section would promote global comparability and consistency by placing the discussion of all going concern matters in a separate section. However, it is important that the placement not be considered in isolation from other key areas of the audit.
  - First, moving the description of how the auditor addressed going concern matters from the KAM section to a separate Going Concern section would, inadvertently, decrease comparability and consistency within the audit report itself. The placement would no longer be consistent with how the auditor has addressed other key areas of the audit such as fraud risks.
  - Second, results of our outreach indicate that many find the description of the auditor's evaluation of management's assessment to be "contradictory" to the proposed auditor's statements required by paragraphs 33(a) and 34(a). Placing the proposed auditor's statements together with the description of the auditor's evaluation of management's assessment causes confusion about the auditor's message – it is unclear as to whether there is a going concern issue.
  - Most importantly, including auditor commentary in a separate Going Concern section when there is no material uncertainty relating to going concern would dilute the warning signal when there is a material uncertainty relating to going concern. The statement that there is a material uncertainty should stand on its own without further descriptions of how the auditor evaluated management's going concern assessment.
- **Suggest:** We suggest that the requirements in proposed paragraphs 33(b) and 34(d) and related application material be placed in ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*, through a consequential amendment.

Market's Reaction to Bankruptcy Filings, Chen, Church, The Accounting Review, Vol. 71, No. 1, January 1996; ***Investor Reaction to Going Concern Audit Reports***, Menon, Williams, The Accounting Review, Vol. 85, No. 6, 2010

[4] ***Going Concern Warnings Increasingly Less Accurate***, Chasan, Reuters, September 23, 2009

Auditor's considerations when drafting descriptions of how the auditor evaluated management's going concern assessment and examples of such descriptions and when providing supplemental information in the auditor's report

- **Concerns:**
    - Para. 33(b)(ii) and 34(d) require a description of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern. In the case of a close call or when a material uncertainty is identified, the description of how the auditor evaluated management's going concern assessment may diminish the "warning signal" intended by para. 33(b)(i) and para. 34(b) and (c). For example, if the description includes wording that appears to provide assurance on certain outcomes of management's plans, financial statement users may misinterpret the auditor's procedures included in the description as mitigating the going concern risk.
        - An example of such wording may be: "In evaluating management's assessment, we are satisfied with management's plan to obtain alternative funding."
    - Para. A72 discusses circumstances when the auditor may wish to supplement the information required by para. 33(b). Similar to the issue discussed directly above, there is a risk that the supplemental information may be seen as endorsing management's future plans or wording that appears to provide assurance on certain outcomes of those plans.
- **Suggest:** We recommend the IAASB consider:
    - Adding an application paragraph on the auditor's considerations when describing how the auditor evaluated management's going concern assessment or when providing supplemental information. The considerations may include avoiding wording that may be seen as endorsing management's future plans or wording that appears to provide assurance on certain outcomes of those plans; and
    - Replacing the references to *[Description of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern in accordance with ISA 570 (Revised 202X)]* in the illustrative auditor's reports with examples of such descriptions. As indicated above, the examples should be worded in a manner that do not diminish the attention drawn to the close call or material uncertainty. Further, to avoid examples from becoming "boilerplate", the IAASB may wish to develop a few examples to demonstrate that there is no "standard wording" for such descriptions.

Application of the differential requirements and application material to other entities

We agree that proportionality is appropriately considered in limiting the differential requirements and application material to listed entities for now. Looking forward, we note that the IAASB is working on a project to consider the definition of Public Interest Entities (PIEs) and the application of the existing differential requirements for listed entities to PIEs. We will consider the applicability of these differential requirements in the context of PIEs as the PIE Track 2 project progresses.

Q15. 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 recommendations to:

- remove the proposed auditor's statements required by para. 33(a) and 34(a) in Q13; and
- place the description of the auditor's evaluation of management's going concern in KAM in Q14,

would enhance clarity on auditor reporting on going concern under the various scenarios contemplated.

Q16. 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?

The following sets out our:

- Significant Comments; and
- Other Comments.

Significant Comments

Para. 28 may be misinterpreted as obligating the auditor to perform audit procedures after the date of the auditor's report in all cases

- **Concern:** While we understand that para. 28 is derived from para. 16 of the extant ISA 570, the words "shall consider" in para. 28 is unclear and may be misinterpreted as requiring the auditor to perform audit procedures after the date of the auditor's report beyond what is required by para. 10 of ISA 560, *Subsequent Events*. ISA 560.10 states that "the auditor has no obligation to perform any audit procedures regarding the financial statements after the date of the auditor's report", and only requires the auditor to take action "if, after the date of the auditor's report but before the date the financial statements are issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report."

- **Suggest:** We suggest redrafting para. 28 to achieve the intended auditor's responsibility in a manner that better aligns with ISA 560.10:

  > *~~The auditor shall consider whether any~~ If additional information has become available to the auditor after the date of the auditor's report but before the date the financial statements are issued that is related to management's assessment of the entity's ability to continue as a going concern that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report~~. If so~~, the auditor shall perform procedures in accordance with ISA 560.*

Para. 32(a) may require disclosures not required by financial reporting frameworks

- **Concern:** Para. 32(a) requires the auditor to determine whether the financial statements "adequately disclose the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans for future actions to deal with these events or conditions." Many financial reporting frameworks do not require disclosure of management's plans. We understand that this wording is carried forward from para. 19(a) of the existing ISA 570. However, results of our outreach indicate that, in such cases, para. 32(a) would, in effect, place a requirement on management to include disclosures that is otherwise not required by the financial reporting framework.

- **Suggest:** We suggest redrafting para. 32(a) as follows: *"… adequately disclose the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, to the extent required by the financial reporting framework, management's plans for future actions to deal with these events or conditions."*

Management representation

- **Concern:** ED-570 has many new requirements relating to the auditor's evaluation of management's going concern assessment. However, there are no corresponding requirements for the auditor to request management representations relating to their responsibilities to identify events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and to assess the entity's ability to continue as a going concern.
- **Suggest:** To emphasize management's responsibilities and to support other audit evidence, the IAASB should consider requiring the auditor to request management to provide written representations that:
    - management has informed the auditor of all events or conditions that may cast significant doubt on the entity's ability to continue as a going concern of which they are aware; and
    - these events or conditions are included in management's assessment of the entity's ability to continue as a going concern.

Conforming and consequential amendments – Going concern communications in comparative financial statements

- **Concern:** Illustration 4 of ISA 710 deals with comparative financial statements. Since an audit opinion is expressed for each period for which financial statements are presented, there is a need to clarify whether a material uncertainty existed in the prior period (i.e., one could have existed in the prior period but no longer exists in the current period).
- **Suggest:** Modifying the circumstances assumed as follows: "Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist ~~related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern~~ in accordance with ISA 570 (Revised 202X) for both the current period financial statements and the prior period financial statements.

Conforming and consequential amendments – Review engagements

- **Concern:** Many of the proposed principles and concepts in ED-570 may also apply to review engagements. For example, the requirement for the auditor to request management to perform a going concern assessment in all cases because preparing the financial statements on a going concern basis and concluding that there is no material uncertainty are, first and foremost, management's responsibility. Further, the inconsistent treatment of going concern between audit and review engagements such as the period of going concern assessment may cause confusion among financial statement users (e.g., a bank may not understand the inconsistency in going concern assessment period when requesting an audit versus a review engagement).

- **Suggest:** We therefore suggest that the IAASB consider a project to consider reflecting the key principles and concepts on going concern in its review engagement standard.

Other Comments

- **Para. 12(b) – Scalability guidance:** There may be challenges for less sophisticated entities to provide the auditor with information on "industry conditions, including the competitive environment, technological developments, and other external factors affecting the entity's financing." Some examples on how the nature and extent of the auditor's risk assessment procedures on understanding the industry conditions, competitive environment and technological developments may vary for an audit of a less complex entity would be useful.
- **Para. A13, A31 and A38 – Less complex vs. less extensive procedures:** Para. A13, A31 and A38 make references to the auditor's procedures being less (or more) ***extensive*** under various scenarios. In our view, the auditor's procedures would be less (or more) ***complex*** rather than being less (or more) ***extensive***. The IAASB may wish to reconsider the word "extensive" in the examples set out in para. A13, A31 and A38.
- **Para. A21 – Clarifying sentence:** To enhance clarity, suggest redrafting 2nd bullet point as follows: *"~~If~~ alternative methods, assumptions or data, if any, that were considered by management…"*
- **Para. A32 – Example of publicly available information may also serve as contradictory information:** Para. A32 provides publicly available information from external sources as an example of corroborative information. Publicly available information may also serve as an example of contradictory information.
- **Para. A48 – Analytical procedures on prospective information need not be conditional:** 2nd last bullet in para. A48 indicates that analytical procedures may be performed when prospective financial information is particularly significant. It is unclear why the condition "particularly significant" is needed for performing analytical procedures. Suggest simply stating: *"If management prepared ~~When~~ prospective financial information ~~is particularly significant to management's plans for future actions~~, performing analytical procedures by comparing…"*
- **Para. A58 – Lack of change may also be an indicator of management bias:** The second bullet in para. A58 provides an example of changes in the method or assumptions may be an indicator of management bias. It would be useful to add that lack of changes, when changes expected, may also be an indicator of management bias.

C. Responses to Request for General Comments

Q17. 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.

No specific issues were noted with the French translation of the Exposure Draft. However, we have heard challenges with translating long sentences in general. For example, the definition of material uncertainty relating to going concern consists of a long sentence of approximately 100 words. The IAASB may wish to consider use of shorter sentences throughout the ISA, and future ISA revisions to facilitate translation.

(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 suggest an effective date of approximately 24 months after the approval of the final standard in light of the following:

- **Sufficient time to educate interested and affected parties** – Unlike most other ISAs, this revised ISA is expected to have a direct impact on financial statement preparers, users and other parties. For example, management may need to update their information system to capture information for an extended going concern assessment period. Additional time is needed to develop guidance for different parties and for auditors to educate their clients on the changes. Consequently, we believe more time than the usual "18 months after the approval of the final standard" is necessary for effective implementation.
- **Coordination with other projects** – We understand that the IAASB will be coordinating the effective date with the Fraud and PIE Track 2 projects. We support this coordination. It is essential that the effective dates of the revised ISA 570, ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, and changes to other ISAs arising from the PIE Track 2 project be coordinated to avoid confusion that may result from inconsistencies in the auditor's reports (and potentially inconsistencies in the auditor's work efforts). Given that these projects follow the going concern project by approximately 6 months, an effective date of approximately 24 months after the approval of the final revised ISA 570 would

likely coincide with the effective dates of ISA 240 and changes to other ISAs arising from the PIE Track 2 project.