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International Auditing and Assurance Standards Board (IAASB)
529 Fifth Avenue
New York, NY
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24 August 2023

Dear Sirs,

Exposure Draft: ISA 570 (Revised), (ED-570) Going Concern

PKF International Limited ("PKFI"), administers the PKF Global network of 214 separate and legally independent member firms, operating in 150 countries providing assurance, accounting, and business advisory services. PKF International Limited is a member of the Forum of Firms and is dedicated to consistent and high-quality standards of financial reporting and auditing practices worldwide. This letter represents the observations of PKF International Limited, but not necessarily the views of any specific member firm or individual.

We welcome the opportunity to comment on the International Auditing and Assurance Standards Board's (IAASB's) Exposure Draft: ISA 570 (Revised), (ED-570), Going Concern. Our responses to the Request for Comments on the clarity, understandability and practicality of application of the requirements and related application material of ED-570 are appended to this letter.

We would like to thank the Chair of the taskforce and the IAASB, including the various task forces and IESBA for the coordinated efforts and consultations during the development of this exposure draft.

If you would like to discuss any of our comments, please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Jamie Drummond", with a stylized flourish at the end.

Jamie Drummond
Director of Global Assurance
PKF International Limited

Request for Comments

Overall Questions

Question 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?

Response

Yes, we are supportive of the proposals within ED-570.

In our view, the proposals appropriately address and respond to the public interest.

Question 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?

Response

We are supportive of the proposals and believe that collectively, they should strengthen the work performed in respect of going concern, including judgments made by the auditor.

In our view, the proposals will also facilitate enhanced transparency regarding the auditor's responsibilities and work relating to going concern.

Question 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?

Response

From an overall perspective, we believe the IAASB's intent is clear and that ED-570 is sufficiently scalable.

Question 4

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

Response

In our view, ED-570 should explicitly mention professional skepticism within the main body of ED-570 as well as more specific requirements for the auditor to apply professional skepticism in relation to going concern procedures.

The IAASB may want to consider the following:

- An up-front general requirement on the exercise of professional skepticism in respect of going concern, similar to that of ED-500.
- A going concern “stand-back” requirement.

Alternatively, or in addition to the above, the IAASB may want to consider strengthening some of the existing requirements by including procedures that require specific consideration of professional skepticism.

For example, where management has not performed an assessment of an entity's ability to continue as a going concern and the auditor is required to request that management do so (requirement 16). We would suggest adding another requirement for the auditor to enquire why an assessment has not been performed and to evaluate the response, while applying professional skepticism. In our view, it is important for the auditor to evaluate the reason for why an assessment has not been performed and consider whether this has any impact on the auditor's risk assessment and audit plan (e.g., consideration of fraud risk, control risk, etc).

Another area for consideration is the role that professional skepticism plays when assessing events or circumstances that “may cast significant doubt” on an entity's ability to continue as a going concern. Linking to our comment in question 5, where we recommend that a definition of “may cast significant doubt” is included up-front in the main body of ED-570. We also recommend that ED-570 explicitly states that the auditor should apply professional skepticism when assessing situations and circumstances that “may cast significant doubt” by enhancing all of the existing requirements where this applies.

Specific Questions

Question 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”?

Response

In our view, the new definition of material uncertainty enhances the standards understandability and should help to support consistent application.

However, we would suggest that the definition of “may cast significant doubt”, described in paragraph A5 of the application material, should be promoted to the definitions section within the main body of ED-570.

We feel that this definition should have equal prominence to that of “material uncertainty” to ensure a clear understanding of and consistent application of the proposed standard.

Question 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? EXPLANATORY MEMORANDUM TO THE EXPOSURE DRAFT FOR PROPOSED ISA 570 (REVISED 202X), GOING CONCERN 36

Response

Yes, we believe that the IAASB have achieved the right balance between including the requirements of ISA 315 (Revised 2019), with specific reference to “going concern”, while avoiding repeating material that is already in ISA 315 (Revised 2019).

In our view, the requirements and application material that have been included should help to facilitate a more robust risk assessment.

Question 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)?

Response

We are generally supportive of the change in the commencement date of the twelve-month period of management’s assessment of going concern.

However, we would suggest that the IAASB also considers the following:

1) Definition of “approval”

The term “*approval of financial statements*” may be interpreted as the date of Board approval of the financial statements. However, in other jurisdictions this may be interpreted entirely differently (e.g., the financial statements may not be formally approved until they are subject to a shareholder vote at an AGM).

To ensure consistency of application of the term “approval” across the different jurisdictions, we recommend that the IAASB include a definition of the term “approval” within ED-570.

2) Restatement of prior period financial statements

We recommend that the IAASB consider whether the proposed standard adequately addresses the circumstances of a restatement of prior period financial statements and whether there could be a consequence to the audit of restated periods relating to the proposed date change in ED-570.

Specifically, can the IAASB clarify whether, in the event that a restatement is required for a prior period, a revised going concern assessment would be required for that prior period through to the date of approval of the current period’s financial statements.

In most cases, where the entity is a going concern, this would seem unlikely to have any consequence on the audit, since the auditor is already required to perform a going concern assessment for the entity in the current period through to the approval of the financial statements.

However, where an entity has effectively lost its going concern status between the date of the prior period financial statements (now restated) but before the approval of the current period’s financial statements, it is unclear what the responsibilities of the auditor are in this situation and whether the restated prior period needs to be prepared on a basis other than as a going concern. We recommend that the IAASB offer further guidance on this situation.

Question 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?

Response

Yes, we agree with the enhanced approach for the auditor to assess management’s assessment of going concern in all circumstances.

We must ensure that we distinguish between the responsibilities of management and that of the auditor and, in our experience, all too often the auditor may find themselves inadvertently supporting management’s assessment at the time of the audit in order to rectify the lack of detailed analysis by management.

The extant ISA allowed for flexibility, where circumstances were appropriate, for the auditor to conclude on management’s use of the going concern basis of accounting, without a detailed analysis having been performed by management. This new requirement ensures a more robust approach to applying ED-570 and removes the element of judgment regarding whether it is appropriate for the auditor to conclude on going concern basis of preparation without a detailed assessment having been prepared by management.

Question 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?

Response

Yes, we agree that ED-570 has appropriately captured the concepts from ISA 540 (Revised).

Question 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?

Response

We are supportive of these enhancements.

Question 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?

Response

We are supportive of the enhanced requirements and application material but would challenge whether more could be done to encourage early dialogue and to align with the risk assessment.

For example, a specific requirement to communicate at the planning stage of the audit would help identify any events or circumstances that may cast significant doubt on the entity's ability to continue as a going concern and would support the risk assessment. ED-570 suggests that the auditor should use professional judgment to determine the appropriate stages of the audit to communicate with TCWG regarding going concern but presumably the requirement is inherent in any discussions with TCWG and we believe that this should be explicit in the requirements.

Question 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?

Response

Yes, we support this new requirement.

Question 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?

Response

Overall, we support the requirements and application material in ED-570 in respect of transparency within the auditor’s report.

However, while we hope that the proposals ensure greater consistency and comparability across auditor’s reports globally we are concerned that there could be wide variations in the extent of information disclosed by auditor’s of listed entities regarding how they have evaluated management’s assessment of the entity’s ability to continue as a going concern. We propose that that the IAASB may want to consider providing examples or issuing more guidance in this respect.

Question 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? EXPLANATORY MEMORANDUM TO THE EXPOSURE DRAFT FOR PROPOSED ISA 570 (REVISED 202X), GOING CONCERN 37

Response

We support the requirements and application material that facilitate further enhanced transparency about the auditor’s responsibilities and work relating to going concern but as set out in our response to Question 13, we suggest that the IAASB provide examples to demonstrate the extent of the descriptions that could be provided by firms.

At this point in time, we do not support the extension of this requirement to audits of financial statements of entities other than listed entities.

Question 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.

Response

In our opinion, it is clear that ED-570 addresses all implications for the auditor’s report in respect of going concern.

Question 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.

Response

No other comments.

Request for General Comments

Question 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.*

Response

No comment.

- (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.*

Response

We believe that an effective date of 18 months after approval of the final standard would provide a sufficient period, and agree that earlier application should be permitted and encouraged.