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

Comments – CA Sri Lanka

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**?

   Answer:
   We believe that the proposals in ED-570 are responsive to the public interest. The qualitative standard-setting characteristics and project objectives that support the public interest include:

   - ✓ Relevance: The proposals are relevant to the needs of users of financial statements. They will help users to assess the ability of an entity to continue as a going concern, which is a key factor in their decision-making.
   - ✓ Reliability: The proposals are reliable. They will be based on sound auditing principles and will be applied consistently by auditors.
   - ✓ Objectivity: The proposals are objective. They will not be influenced by the interests of any particular group, such as auditors or preparers of financial statements.
   - ✓ Timeliness: The proposals will be timely. They will be issued in a timely manner so that auditors can implement them in their audits.
   - ✓ Understandability: The proposals will be understandable. They will be written in clear and concise language so that users of financial statements can understand them.

   Appendix 1 clearly maps the proposed changes to the objectives in the Project Proposals that support the public interest.

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?

   Answer:
   We 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. The proposed changes will:

- Require the auditor to obtain a deeper understanding of management's process for assessing going concern. This will help the auditor to identify and assess risks of material misstatement related to going concern more effectively.
- Require the auditor to be more proactive in their evaluation of going concern. This will help the auditor to identify and address going concern issues earlier in the audit process.
- Require the auditor to be more transparent about their work related to going concern. This will help to ensure that users of the financial statements have a better understanding of the auditor's responsibilities and work related to going concern.

We believe that these changes will make the audit process more robust and will help to ensure that the financial statements are prepared on a going concern basis.

However, the proposed changes will require the auditor to communicate more effectively with those charged with governance and with users of the financial statements. But there is an inherent limitation of audit and assessing the prospective information is a challenge.

Therefore, we suggest that it should not be a mandatory requirement and should be based on the type and size of the entity subject to audit.

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?

Answer:

We agree with the proposed standard is scalable to entities of different sizes and complexities. The proposed standard also recognizes that going concern matters are relevant to all entities, regardless of their size or complexity. This is because all entities are subject to risks that could impact their ability to continue as a going concern, such as economic downturns, changes in regulations, or technological disruptions. Therefore, the proposed standard requires auditors to consider the going concern implications of all matters identified during the audit.

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

Answer:

Yes. The requirements and application material of ED-570 do appropriately reinforce the importance of auditor's application of professional skepticism in relation to going concern. The Exposure Draft specifically requires the auditor to:

Obtain an understanding of management's process for assessing going concern. This will help the auditor to identify any biases or assumptions that management may have made in their assessment.

Evaluate the reasonableness of management's assumptions about the future. This will require the auditor to use their professional skepticism to assess whether management's assumptions are realistic and there is no management bias.

It also emphasizes the need to assess and consider the likelihood of management plans being implemented. This will require the auditor to assess whether management has the ability and resources to implement their plans.

In addition, the Exposure Draft requires the auditor to:

- ✓ Document their understanding of management's process for assessing going concern. This will help to ensure that the auditor's assessment of going concern is transparent and can be reviewed by others.
- ✓ Communicate their findings and conclusions about going concern to those charged with governance. This will help to ensure that those responsible for oversight of the entity are aware of any risks to the entity's going concern status.
- ✓ Overall, the requirements and application material of ED-570 provide the auditor with a framework for applying professional skepticism in relation to going concern. This will help the auditor to identify and assess risks of material misstatement related to going concern, and to report on the entity's going concern status in a fair and accurate manner.

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"?

Answer:

We support the definition of Material Uncertainty (Related to Going Concern) in the Exposure Draft. The definition is clear and concise, and it provides a good framework for auditors to assess whether there are any material uncertainties that may cast significant doubt on an entity's ability to continue as a going concern.

The application material provides helpful guidance on how to interpret the phrase and how to assess whether there is a material uncertainty. Specifically, the application material clarifies that the phrase "may cast significant doubt" does not mean that the entity is definitely going to fail. Rather, it means that there is a realistic possibility that the entity may not be able to continue as a going concern.

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?

Answer:

The ED-570 includes a number of new requirements and guidance that are intended to strengthen the auditor's evaluation of going concern specifically in terms of the auditor's risk assessment of material misstatements related to going concern.

Overall, the ED-570 represents a significant improvement over the current ISA 570. The new requirements and guidance are designed to help auditors to identify and assess the risks of material misstatement related to going concern more effectively. This will help to ensure that auditors are able to provide a more robust opinion on the entity's ability to continue as a going concern.

In addition to the specific requirements mentioned above, the ED-570 also takes a more holistic approach to going concern. The standard emphasizes the importance of considering going concern throughout the audit process, rather than just at the end of the audit. This is in line with the revised ISA 315, which requires auditors to identify and assess risks of material misstatement at the financial statement level, the assertion level, and the overall audit level.

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)?

Answer:

We are in agreement with the suggestion. However, If the date of approval of the financial statements is taken there is a concern that if management delays in approving the financial statements the period that needs to be assessed will be longer, also sufficient information to assess the entity's ability to continue as a going concern may not be available.

Hence, this could be made mandatory only for Listed Entities and PIE's.

We support the change in the commencement date of the twelve-month period for listed entities and non – listed PIEs.

However, in the context of non-PIEs and smaller entities, such entities do not have regulatory filing requirements. There could be a significant gap between the balance sheet date and the date the financial statements are approved. This could result in greater subjectivity to financial forecasts used as part of the going concern assesment and introduce inefficiencies in getting the audit completed.

Accordingly, we believe change in the commencement date of the twelve-month period for non-PIEs and smaller entities should be encouraged, but not mandatory

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?

Answer:

Yes. We believe that it is important for auditors to be proactive in their evaluation of going concern, and to consider the implications of going concern even when there are no obvious signs of problems because going concern is a fundamental assumption underlying financial reporting and have a significant impact on the financial statements.

The enhanced approach in ED-570 would improve the quality of audits and help to ensure that the financial statements provide a fair presentation of the entity's financial position and results of operations, ensuring greater trust and confidence in the independent auditor's report.

However, the enhanced approach would place additional demands on auditors. They would need to have a deeper understanding of the entity's business, operations, and financial position. They would also need to be more proactive in their evaluation of going concern notwithstanding the management's assessment of 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?

Answer:

Yes. The Exposure Draft (ED)-570 does 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.

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?

Answer:

Yes. The enhanced requirements and application material also have some practical benefits. For example, they provide auditors with a framework for documenting their understanding of management's plans for future actions and the intent and ability of management and third parties to carry out the plans. This documentation can be helpful in responding to audit inquiries and in defending the audit opinion in the event of an audit dispute.

Overall, we believe that the enhanced requirements and application material are a valuable addition to auditing standards. They will help auditors to improve the quality of their audits and to reduce the risk of material misstatement in accounting estimates that are dependent on management's intent and ability to carry out certain actions.

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?

Answer:

Yes. The enhanced requirements and application material to communicate with TCWG are likely to encourage early transparent dialogue among the auditor, management, and TCWG. This is because the requirements are more specific and detailed, which will help to ensure that the communication is clear, concise and timely. Additionally, the application material provides examples of how the requirements can be applied in practice, which will help to further clarify the expectations.

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?

Answer:

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 is a positive development. It is important for auditors to have a clear understanding of their responsibilities in this area, and the new guidance provides much-needed clarity.

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?

Answer:
We support the new requirements for the auditor's report. We believe that they will enhance transparency and comparability across auditor's reports globally. They will also provide useful information for intended users of the audited financial statements.

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?

Answer:
We believe that the requirements and application material should be extended to audits of financial statements of entities other than listed entities. This is because all entities, regardless of their size or listing status, should be required to provide transparent information about their ability to continue as a going concern.

Therefore, we support the requirements and application material that facilitate further enhanced transparency about the auditor's responsibilities and work relating to going concern. It would be beneficial for both auditors and users of financial statements.

For auditors, it would provide them with a clear framework for carrying out their work and reporting on their findings. This would help to ensure that they are meeting their professional responsibilities and that their reports are accurate and informative.

For users of financial statements, it would provide them with a better understanding of the auditor's work and the factors that they consider when assessing an entity's ability to continue as a going concern. This would help them to make more informed investment decisions.

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.

Answer:
ED-570 provides comprehensive guidance on the auditor's responsibilities for assessing an entity's ability to continue as a going concern and the implications for the auditor's report. As such, it is 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.

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.

Answer:
The ED includes a number of new requirements and changes to existing requirements, which are intended to improve the auditor's assessment of an entity's ability to continue as a going concern. We believe that the ED could provide greater clarity on the distinction between a material uncertainty related to going concern and an event or condition that may cast significant doubt on the entity's ability to continue as a going concern.

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.

(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.