

18 August 2023

International Auditing and Assurance Standards Board

To: Mr. Thomas Seidenstein (Chair)

529 Fifth Avenue

New York, NY 10017

USA

Submitted electronically

Subject: Comments on the IAASB's Exposure Draft on ISA 570 Going Concern

Dear Mr. Seidenstein,

1. The International Forum of Independent Audit Regulators (IFIAR) appreciates the opportunity to comment on the International Auditing and Assurance Standards Board (IAASB) request for input on its Exposure Draft for Proposed International Standard on Auditing 570 (Revised 202X) Going Concern and Proposed Conforming and Consequential Amendments to Other ISAs (ED-ISA 570) issued in April 2023. As an international organisation of independent audit oversight regulators that share the goal of serving the public interest and enhancing investor protection, IFIAR is committed to improving audit quality globally through the promotion of high-quality auditing and professional standards, as well as other pronouncements and statements.
2. IFIAR's objectives are as follows:
 - Sharing knowledge of the audit market environment and practical experience of independent audit regulatory activity, with a focus on inspections of auditors and audit firms.
 - Promoting collaboration and consistency in regulatory activity.
 - Initiating and leading dialogue with other policy-makers and organisations that have an interest in audit quality.
 - Forming common and consistent views or positions on matters of importance to its members, while taking into account the legal mandates and missions of individual members.
3. The comments we provide in this letter reflect the views expressed by many, but not necessarily all, of the members of the IFIAR. However, the comments are not intended to include, or reflect, all of the views that might be provided by individual members on behalf of their respective organisation.
4. Where we did not comment on certain specific matters, this should not be interpreted as either approval or disapproval by the IFIAR.

Overall comments

5. In our response letter to the IAASB's Discussion Paper on Fraud and Going Concern in an Audit of Financial Statements dated 1 February 2021 ("2021 Response Letter") we encouraged the IAASB to examine the benefits of strengthening ISA 570 (Revised) and we welcome the positive steps that the IAASB has taken to improve the quality of going concern assessments by auditors through issuing ED-ISA 570.
6. We strongly support the introduction of a more robust assessment of going concern as proposed by ED-ISA 570. In particular, we support:
 - The enhanced risk assessment requirements which require auditors to consider aspects of the entity and the environment more comprehensively as a basis for identifying those events and conditions which may cast significant doubt on an entity's ability to continue as a going concern.
 - The auditor's evaluation of management's assessment of going concern, 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. In our 2021 Response Letter, we observed that the step between deteriorating financial conditions of an entity and a situation of significant doubt about the entity's ability to continue as a going concern may be significant. Accordingly, as the auditor is required by ED-ISA 570 to evaluate management's decisions – which are underpinned by judgments and assumptions – as to whether there are events and conditions that may cast significant doubt on the entity's ability to continue as a going concern, the auditor may, therefore, be in a position to identify the presence of early indicators of potentially significant financial distress.
 - Building the concept of professional skepticism into the requirements so that the auditor is explicitly required to consider management bias as part of their going concern work and that the auditor designs and performs audit procedures in a manner that is not biased towards either including corroboratory or excluding contradictory audit evidence.
 - Enhanced communication requirements with Those Charged With Governance (TCWG), particularly the requirement for the auditor to communicate the auditor's conclusions, including the auditor's evaluation of management's going concern assessment. In our 2021 Response Letter, we recommended that where relevant, the auditor should be required to communicate to TCWG on going concern, including commenting on the quality of management's assessment and how they have evaluated relevant events and conditions.
 - The auditor's explicit statements about the auditor's responsibilities and work related to going concern in the auditor's report, including whether the auditor concluded that management's use of the going concern basis of accounting is appropriate and, where appropriate, that the auditor did not identify a material uncertainty.
7. In addition, IFIAR has recommendations in the following areas:

Definition of material uncertainty

8. IFIAR welcomes the introduction of a definition for "Material Uncertainty (Related to Going Concern)". Whilst we understand that the International Standards on Auditing (ISAs) are intended to be framework neutral, the IAASB's work to consider and align the definitions and terminology may serve to promote greater understanding and consistency across jurisdictions.

9. However, we encourage the IAASB to remove the phrase “in the auditor’s professional judgement” from the definition, so that, in the appropriate context, it can apply to both management and auditor. This would not affect the auditor’s responsibilities to “conclude whether, in the auditor’s professional judgment, a material uncertainty exists...” as this is clearly set out in paragraph 30.

Identification of events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern

10. IFIAR welcomes the IAASB’s efforts to clarify that 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 made before taking into account any related mitigating factors and that events or conditions need to be considered both individually and collectively.
11. However, we believe that the auditor’s consideration of such events or conditions would be strengthened if the language in paragraph A6 was incorporated directly into the requirement in paragraph 11.

Evaluating management’s assessment

12. IFIAR recommends that application material is added to the requirement in paragraph 16 to make it clear that where the auditor has requested management to perform an assessment of the entity’s ability to continue as a going concern, in the circumstances where management refuses to do so, the auditor modifies the audit opinion. This could draw on language used in paragraph 4 that even where there is no explicit requirement for management to make a specific assessment, the preparation of the financial statements requires management to assess the entity’s ability to continue as a going concern.

Method, assumption and data used in management’s assessment

13. IFIAR supports the incorporation of concepts from ISA 540 (Revised) to evaluate the method, assumptions and data used in management’s assessment of going concern. However, the IAASB should consider whether the use of such terms might lead the auditor to focus on mechanistic calculations or forecasts, and exclude consideration of other relevant and significant factors such as judgements made by management in the interpretation of key contracts or loan agreements relevant to going concern. For example, an entity may produce comprehensive forecasts with multiple scenarios and sensitivities; however, if the key driver behind the going concern assumption is whether an overseas government will grant mining rights to that entity, then the auditor needs to ensure that their evaluation focuses on this, alongside any supporting forecasts.
14. In addition, the IAASB may want to consider including an additional bullet point “Considering the consistency with other estimations in which management’s plans for future actions (or a part of them) are used” in paragraph A48.

Requesting management to extend its assessment

15. In our 2021 Response Letter, we commented that a greater impact on the quality of going concern assessments and the related audit procedures will be realised when both the accounting and auditing standards have been updated to better serve stakeholders. We urge the IAASB to continue to engage with the IASB to encourage consistency in the period of management’s assessment between the International Financial Reporting Standards (IFRSs) and the ISAs, recognising that a more robust assessment by management drives better audit quality.

16. Whilst IFIAR acknowledges that there are different timelines over which the going concern assessment is made dependent on both the jurisdiction and/or the applicable financial reporting framework, it is IFIAR's view that there is considerable public interest benefit from auditors being required to request management to extend their assessment of going concern so that it includes more current information.

Management Unwilling to Make or Extend its Assessment

17. We encourage the IAASB to consider whether the application material to paragraph 22 provides sufficient guidance to auditors in determining whether sufficient appropriate audit evidence has been obtained in the range of circumstances which might arise where management refuses to extend its assessment.

Evaluating the audit evidence obtained and concluding

18. IFIAR urges the IAASB to include additional application material to assist auditor's in determining whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (paragraph 30). In particular, we suggest that language encouraging auditors to consider significant doubt in terms of a spectrum rather than a specific point to be breached should be introduced.

Implications for the auditor's reports

19. IFIAR welcomes the introduction of a description of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern in the auditor's reports for listed entities.
20. However, we recommend that the IAASB also consider expanding this requirement to include public interest entities.
21. The IAASB should also consider whether the proposed conditionality in paragraph 33(b) to only include a description of the auditor's evaluation when events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern should be removed. Instead, IFIAR suggests that this description should be included for all listed entities (and public interest entities) to provide transparency for those entities in the public interest.

Written representations

22. Given the fundamental importance of going concern in the preparation of the financial statements, we urge the IAASB to strengthen the written representations provided by management by including an additional requirement (alongside paragraph 38) for the auditor to request management, and, where appropriate, those charged with governance to provide written representations that all identified events or conditions that may cast significant doubt on the entity's ability to continue as a going concern have been disclosed to the auditor and included as part of management's assessment of going concern.

Reporting to an appropriate authority outside of the entity

23. In our 2021 Response Letter, we encouraged the IAASB to enhance the role of the auditor by requiring additional communication to outside parties, including to relevant authorities, with a view to protecting the public interest. We are therefore supportive of the proposals in ED-ISA 570 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 would also encourage the IAASB to explore whether the auditor can be further encouraged to consider the public interest value of reporting significant going concern matters to an appropriate

authority, even where the auditor has no such responsibilities under law, regulation or relevant ethical requirements to make such a report.

24. The IAASB may also wish to consider including additional application material for the auditor to consider the timing of such a report, so as to encourage early reporting of relevant matters at the point where they are identified and not at the point when the auditor's report is issued.

Professional skepticism

25. In our 2021 Response Letter, we suggested that professional skepticism needed to be further highlighted in the standard related to going concern, and as noted above, we support the additional focus on professional skepticism proposed in ED-ISA 570.

26. In addition, the IAASB may wish to consider:

- In paragraph A32, including an example in relation to information from external sources also in the contradictory information section to highlight that information from external sources can also be contradictory to management's assertions.
- The second bullet point in paragraph A58 may usefully be expanded to include the converse i.e., when there are no changes in methods or assumptions from period to period, but where significant changes in circumstances would indicate that a change should be necessary.

Documentation

27. We encourage the IAASB to incorporate specific documentation requirements into ED-ISA 570 which clarify the application of ISA 230 to the auditor's work on going concern.

Outreach

28. Given the importance of going concern in an audit of financial statements and that ED-ISA 570 will have a potential impact on preparers as well as auditors, we encourage the IAASB to continue to seek balanced feedback from as wide a range of stakeholders as possible.

Please do not hesitate to contact me or James Ferris, Chair of the IFIAR Standards Coordination Working Group (SCWG), to discuss any of our comments.

Yours sincerely,



Takashi Nagaoka, IFIAR Chair

Cc: Kevin Prendergast, IFIAR Vice Chair
James Ferris, SCWG Chair,
Stacy Hammett, SCWG Vice Chair
Carl Renner, Executive Director