

# Agenda Item B.4 For Reference

**Please note: This is the IAASB Going Concern Issues Paper that will be discussed by the Board at the March 2023 IAASB quarterly meeting (Agenda Item 2). This paper is provided to the IAASB CAG Representatives in March 2023 for reference purposes.**

## Proposed ISA 570 (Revised 202X), *Going Concern – Issues*

### Objective:

The objective of the IAASB discussion in March 2023 is to approve the exposure draft of proposed ISA 570 (Revised 202X), and the related conforming and consequential amendments, as set out in **Agenda Item 2–B** and **Agenda Item 2–D**, respectively.

### *Approach to the Board Discussion:*

Board members are requested to communicate any significant matters to the Going Concern Task Force (GC TF) Chair and Staff by March 14, 2023. This request is intended to assist the GC TF Chair in planning for the turnaround of the exposure draft during the Board meeting. All significant matters should still be raised and discussed in the Board plenary session to ensure that such matters are on the public record.

The GC TF Chair will go through the questions in the order they are set out in this Agenda Item and, where applicable, will refer to the draft of proposed ISA 570 (Revised 202X) presented in **Agenda Item 2–B** and the proposed conforming and consequential amendments included in **Agenda Item 2–D**.

## Introduction

1. At the December 2022 IAASB meeting, the GC TF presented to the Board its recommendations for the remaining key issues and the related proposed actions identified in the [project proposal](#) for information from sources external to the entity and audit techniques – use of technology. In addition, the IAASB was presented with a first full draft of proposed ISA 570 (Revised 202X) and the proposed conforming and consequential amendments to other standards arising from the revision.
2. The IAASB broadly supported the GC TF proposals and provided specific comments for the topics discussed to be considered further in the development of the exposure draft for proposed ISA 570 (Revised 202X). The draft December 2022 IAASB meeting minutes are available in [Agenda Item 1](#) on the *IAASB Quarterly Board Meeting – March 20-24, 2023* webpage.
3. This paper sets out:
  - **Section I:** an explanation of key matters considered since December 2022, and significant changes made by the GC TF to *proposed ISA 570 (Revised 202X)*.
  - **Section II:** a description of the *proposed conforming and consequential amendments* to other ISAs as a result of the revisions to proposed ISA 570 (Revised 202X).
  - **Section III:** an overview of *other matters* relevant for the exposure draft of proposed ISA 570 (Revised 202X).
  - **Section IV:** relevant *matters for the Explanatory Memorandum* accompanying the exposure draft of proposed ISA 570 (Revised 202X).

*Materials Presented—Appendices, Other Agenda Items and Supplements Accompanying This Paper*

4. This Agenda Item includes the following appendices, other agenda items and supplements:

<b>Appendix 1</b>	GC TF members and update on activities since December 2022
<b>Appendix 2</b>	Mapping of proposed ISA 570 (Revised 202X) to the standard-setting actions and project objectives in the project proposal
<b>Agenda Item 2-A</b>	Explanation of other changes considered or made relating to proposed ISA 570 (Revised 202X) and the proposed conforming and consequential amendments to other ISAs since December 2022
<b>Agenda Item 2-B</b>	Proposed ISA 570 (Revised 202X), <i>Going Concern</i> (renumbered and marked from December 2022)
<b>Agenda Item 2-C</b>	Proposed ISA 570 (Revised 202X), <i>Going Concern</i> (clean version)
<b>Agenda Item 2-D</b>	Proposed conforming and consequential amendments arising from the revision of proposed ISA 570 (Revised 202X)
<b>Agenda Item 2-E (Supplemental)</b>	Comparison of proposed ISA 570 (Revised 202X) with extant ISA 570 (Revised), <i>Going Concern</i>

**Project Objectives that Support the Public Interest**

5. **Appendix 2** provides a table that compares the proposals made to enhance or clarify proposed ISA 570 (Revised 202X) to address the targeted standard-setting actions included in the project proposal. As the actions are directly related to the project objectives that support the public interest these have also been mapped.

**Section I – Proposed ISA 570 (Revised 202X)**

6. This section provides further explanation of the key matters considered and significant changes made by the GC TF to the draft of proposed ISA 570 (Revised 202X). **Agenda Item 2-A** discusses other changes considered or made relating to proposed ISA 570 (Revised 202X).

**Terminology**

*Use of the Phrase “Individually or Collectively”*

7. To address comments raised at the September 2022 Board Meeting that the phrase “individually or collectively” was not consistently used across the paragraphs in the standard, the GC TF removed the phrase from the definition of Material Uncertainty (Related to Going Concern) and from other instances in the requirements. The GC TF proposed to explain in the application material that the events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern are to be considered *either* individually or collectively or *both* individually and collectively.

8. In December 2022, the Board suggested that the phrase “individually or collectively” may still be relevant in some instances to provide appropriate emphasis for this concept. In response the GC TF

agreed it would be appropriate to reinstate the phrase back in the definition of Material Uncertainty (Related to Going Concern) (see paragraph 10 of **Agenda Item 2-B**). In doing so, the GC TF believes that this would make it explicit in the definition, preceding all other requirements of the standard, that the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern should be considered both individually, as well as in the aggregate. In addition, the phrase was reinstated in the lead in of paragraph A6 of **Agenda Item 2-B** preceding the non-exhaustive list of examples of identified events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

#### *Clarifying the Phrase "May Cast Significant Doubt"*

9. In December 2022, the Board was supportive of the GC TF proposals to clarify the term "significant doubt" in the application material to the definition of Material Uncertainty (Related to Going Concern) (see paragraph A5 of **Agenda Item 2-B**).
10. The GC TF discussed the term further and agreed that it is more appropriate for the application material to refer to the whole phrase "*may cast significant doubt*," rather than the term "significant doubt" alone. The GC TF believes this is necessary because the use of the whole phrase:
  - (a) Is reflective of the "threshold" for when the individual or collective magnitude of identified events or conditions is such that the entity will be unable to meet its obligations and continue its operations for the foreseeable future unless management takes remedial actions.
  - (b) Is better aligned with the use of the phrase in International Accounting Standards Board's (IASB) IAS 1, *Presentation of Financial Statements*, and the Financial Accounting Standards Board (FASB) definition for "Substantial Doubt about an Entity's Ability to Continue as a Going Concern"<sup>1</sup> (e.g., where the threshold of "probable" is used).
11. The GC TF also made minor amendments in the application material in clarifying the phrase "may cast significant doubt."

#### **Management's Assessment of Going Concern**

##### *Sequence of the Requirements in the Section for Evaluating Management's Assessment*

12. In December 2022, the Board made suggestions to improve the flow and connectivity of the requirements in the section for evaluating management's assessment of going concern, including by using a similar structure set out in ISA 540 (Revised).<sup>2</sup>
13. In response the GC TF propose the following key changes in **Agenda Item 2-B**:
  - (a) Moving the requirements to evaluate the method, assumptions and data used in management's assessment earlier in the flow of the requirements in the section (see paragraph 18).
  - (b) Restructuring the subheadings, including adding a new subheading for "*Requesting Management to Make or Extend its Assessment*" to precede the requirements for the period of management's assessment and when management is unwilling to make or extend its assessment (see paragraphs 20–23).

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<sup>1</sup> See the FASB glossary of Accounting Standards Update Subtopic 205-40, *Presentation of Financial Statements—Going Concern*.

<sup>2</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*, paragraph 22

- (c) Moving the requirement for the "*Period Beyond Management's Assessment*" to precede the requirements for "*Requesting Management to Make or Extend its Assessment*" (see paragraph 19).

#### *Information Used in Management's Assessment*

- 14. In December 2022, the Board expressed views that it may be too onerous for the auditor to be required to design and perform *additional* audit procedures to evaluate management's revised assessment of going concern without first understanding the magnitude and impact of the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern that have not been previously identified or disclosed to the auditor.
- 15. In response, the GC TF added an explicit requirement for the auditor to first discuss the matter with management to understand the effects of those events or conditions on management's assessment and to determine on this basis whether it is necessary to request management to revise its assessment to address the events or conditions (see paragraph 25 of **Agenda Item 2-B**).

#### **Timeline Over Which the Going Concern Assessment is Made**

##### *Period of Management's Assessment Not Specified in the Applicable Financial Reporting Framework*

- 16. The GC TF simplified the requirement in paragraph 21 of **Agenda Item 2-B** by removing bullet (b) (*when the applicable financial reporting framework does not specify the period to be covered by management in its assessment of going concern*) as the requirement clearly conveys that the period used by management to make its going concern assessment should cover a period of not less than twelve months from the date of approval of the financial statements. The application material explains that the requirement also applies when the applicable financial reporting framework does not specify the period to be covered by management's assessment (see paragraph A42 of **Agenda Item 2-B**).

#### **Transparency About Going Concern in the Auditor's Report**

##### *Use of the Going Concern Basis of Accounting is Appropriate and No Material Uncertainty Exists*

- 17. The GC TF discussed that the requirements that set out the implications to the auditor's report when the going concern basis of accounting is appropriate and no material uncertainty exists, were not sufficiently clear in terms of the following aspects:
  - (a) The applicability of the requirements was not obvious i.e., when the conditions apply to an audit of financial statements of a listed entity versus an audit of financial statements of all entities.
  - (b) Using different descriptions in the headings and subheadings for the requirements inadvertently created confusion i.e., by implying that for an entity other than a listed entity, events or conditions that may cast significant doubt on the entity's ability to continue as a going concern would not exist.
  - (c) There was certain repetition in the structure of the requirements that lead to unnecessary complexity.

In addition, comments were made that by requiring a statement in the auditor's report for an audit of financial statements of a listed entity that the opinion is not modified with respect to the matter, added unnecessary confusion and implied similarities with an Emphasis of Matter paragraph. Suggestions were made to consider making the requirement more distinct from the requirements in ISA 706

(Revised).<sup>3</sup>

18. The GC TF formed the view that it is appropriate to revise the requirement to address the matters outlined above (see paragraph 35 of **Agenda Item 2-B**). This also included alignment changes for the related application material, for the illustrative auditor’s reports 1-2 in the Appendix of proposed ISA 570 (Revised 202X) and for those of other ISAs addressed in **Agenda Item 2-D**.

*Adequacy of Disclosures When Events or Conditions Have Been Identified but No Material Uncertainty Exists*

19. The GC TF agreed that it may be appropriate to provide further guidance in respect of the requirement in paragraph 33 of **Agenda Item 2-B** for the auditor to evaluate whether, in view of the requirements of the applicable financial reporting framework, the financial statements provide adequate disclosures about events or conditions. The GC TF believes that such guidance will help clarify the intended scope of the requirement in paragraph 35(b) of **Agenda Item 2-B**, i.e., to provide transparency in a “close call” situation rather than for *all circumstances* where events or conditions exist that may cast significant doubt about the entity’s ability to continue as a going concern, but no material uncertainty exists.
20. In this regard, the GC TF considered the IASB Interpretations Committee Agenda Decision<sup>4</sup> and the IFRS Foundation [education material](#) that clarify and address the going concern disclosure requirements in IAS 1. These materials explain a circumstance where management has considered events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern, but having considered all relevant information, including the feasibility and effectiveness of any planned mitigation, management concluded that there are no material uncertainties that require disclosure. The Interpretations Committee further observed that in certain circumstances, in reaching the conclusion that there was no material uncertainty, this involved significant judgment by management. In such situations, the Interpretations Committee noted that the disclosure requirements of paragraph 122 of IAS 1 would apply to the judgments made by management when concluding that there remain no material uncertainties related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern.
21. Based on this guidance, the GC TF propose new application material in paragraph A60 of **Agenda Item 2-B**, to clarify that, in view of the requirements of the applicable financial reporting framework, “significant management judgement” is an appropriate concept to apply when determining if disclosure(s) should be made about events and conditions that may cast significant doubt on the entity’s ability to continue as a going concern.

*Considerations When the Auditor Disclaims an Opinion on the Financial Statements*

22. In December 2022, some Board members noted concerns regarding the prohibition of a separate section on Going Concern or Material Uncertainty Related to Going Concern when the auditor disclaims an opinion.
23. Upon further deliberation, the GC TF remains of the view that the inclusion of separate sections may imply that the financial statements as a whole are more credible in relation to such matters and be inconsistent with the disclaimer of opinion on the financial statements as a whole. The requirement in

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<sup>3</sup> ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report*

<sup>4</sup> See [IFRIC-Update-July-2014.pdf \(ifrs.org\)](#).

paragraph 38 of **Agenda Item 2-B** is consistent with paragraph 29 of ISA 705 (Revised)<sup>5</sup> and the previous decisions taken by the IAASB in respect of communicating Key Audit Matters in accordance with ISA 701<sup>6</sup> and Other Information in accordance with ISA 720 (Revised),<sup>7</sup>.

24. However, the GC TF believes it is helpful to add new application material (see paragraph A81 of **Agenda Item 2-B**) to:
- (a) Explain why it is appropriate not to require a separate section on Going Concern or Material Uncertainty Related to Going Concern in the auditor's report when a disclaimer of opinion is provided.
  - (b) Draw attention to the consequential amendment to paragraph 19 of ISA 705 (Revised) in **Agenda Item 2-D** that requires the auditor to state in the Basis for Disclaimer of Opinion section of the auditor's report that the auditor is unable to conclude on the appropriateness of management's use of the going concern basis of accounting and whether a material uncertainty exists.

**Matter for IAASB Consideration:**

1. The Board is asked for its views on the proposed changes to the draft of proposed ISA 570 (Revised 202X) in **Agenda Item 2-B**, including on the matters discussed above.

## Section II – Proposed Conforming and Consequential Amendments

### Auditor's Responsibilities for the Audit of Financial Statements Section of the Auditor's Report

#### *Previous IAASB Discussion*

25. In December 2022, the GC TF noted its intent to further deliberate whether any consequential amendments are necessary for the Auditor's Responsibilities for the Audit of Financial Statements section of the auditor's report as required by paragraph 39(b)(iv) of ISA 700 (Revised).<sup>8</sup> This included consideration as to whether it is appropriate to acknowledge in this section of the auditor's report that for a listed entity, the revisions to proposed ISA 570 (Revised 202X) also require a description of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern.

#### *GC TF Discussion and Recommendation*

26. The GC TF formed the view that the Auditor's Responsibilities for the Audit of Financial Statements section of the auditor's report remains appropriately aligned with the auditor's obligations stated in the objectives in paragraph 9 of proposed ISA 570 (Revised 202X) and does not give rise to inconsistencies with the revisions being proposed. In addition, the GC TF notes that it is not necessary to propose consequential amendments in this regard given that the Auditor's Responsibilities for the Audit of Financial Statements section of the auditor's report does not need to state every aspect addressed in the requirements of the ISAs.

<sup>5</sup> ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

<sup>6</sup> ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

<sup>7</sup> ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

<sup>8</sup> ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

## Conforming and Consequential Amendments to Other IAASB Standards

### *Previous IAASB Discussion*

27. In December 2022, the GC TF proposed, and the Board supported, not to pursue conforming and consequential amendments for the affected requirements in ISRE 2400 (Revised),<sup>9</sup> as the revisions to proposed ISA 570 (Revised 202X) are being developed in view of stakeholder feedback relevant to the auditor’s work and responsibilities relating to going concern in an audit of financial statements.

### *GC TF Discussion and Recommendation*

28. In view of the IAASB decision not to pursue amendments to the requirements of ISRE 2400 (Revised), and to avoid the perception that inconsistencies with proposed ISA 570 (Revised 202X) have been addressed through the proposed alignment amendments to the affected application material, the GC TF removed from **Agenda Item 2-D** the illustrative drafting presented to the Board in December 2022 for ISRE 2400 (Revised) and the alignment for terminology in paragraph A57 of ISRS 4410 (Revised).<sup>10</sup>

#### **Matter for IAASB Consideration:**

2. The Board is asked for its views on the conforming and consequential amendments, as presented in **Agenda Item 2-D**, including on the matters discussed above.

## Section III – Other Matters

### **Exposure Period and Timing of Completion**

29. The targeted approval of the exposure draft of ISA 570 (Revised 202X) is as envisaged in the preliminary project timetable outlined in paragraph 45 of the project proposal. Subject to the Board’s approval in March 2023, it is expected to publish the exposure draft of proposed ISA 570 (Revised 202X) and the conforming and consequential amendments in May 2023 for a 120-day comment period as per IAASB’s due process.
30. Based on that date, responses would be due early September 2023. This comment letter deadline will allow Staff time to analyze the responses received, including coordinating as needed with Staff supporting the Fraud Task Force and identifying other circumstances affecting the planning for the IAASB’s forward agenda of projects.<sup>11</sup>
31. The final pronouncement is expected to be completed to allow for the possible alignment of the effective dates of the revised going concern and fraud standards.

### **Proposed Implementation Period**

32. The GC TF propose to include in the Explanatory Memorandum a proposal for an implementation period of approximately 18 months after approval by the IAASB of proposed ISA 570 (Revised 202X).

<sup>9</sup> International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*

<sup>10</sup> International Standard on Related Services (ISRS) 4410 (Revised), *Compilation Engagements*.

<sup>11</sup> Including, but not limited to, creating additional capacity necessary to prioritize the completion of IAASB’s project on Sustainability Assurance, the sequencing of deliverables across active projects based on available staff and Board capacity and when certain deliverables “go to market.”

The GC TF is of the view that such period would allow sufficient time to implement the standard, including adoption and translation by jurisdictions, and incorporating the changes into firm methodologies, enablement tools and training materials.

33. A question will be asked in the Explanatory Memorandum about the expected implementation efforts and the appropriateness of the proposed implementation period.

### Effective Date Convention

34. Given that extant ISA 570 (Revised) was last revised as part of the Auditor Reporting project,<sup>12</sup> the convention applied then for the effective date paragraph of the standard was aligned with that commonly used for the ISAs of the 700-series (i.e., “periods ending on or after [month, day, year]”).
35. However, as the requirements of the standard apply from the planning and performing stages of the audit, the GC TF is of the view that it is more appropriate to use the convention “periods beginning on or after [month, day, year]” in the effective date paragraph. This would be consistent with the CUSP Drafting Principles and Guidelines<sup>13</sup> and align with the convention used for other ISAs of the 500-series.

### Due Process Matters

36. In the GC TF view, the significant matters identified as a result of deliberations since the beginning of this project have been presented in the issues papers presented to the IAASB for discussion. In the view of the GC TF, there are no significant matters that have not been brought to the attention of the IAASB.
37. The GC TF does not believe that a consultation paper, field testing or a roundtable is needed at this stage of the project.

#### Matter for IAASB Consideration:

3. The Board is asked for its views on the above matters, in particular in relation to the exposure period and timing of completion, the proposed implementation period and the effective date convention.

## Section IV – Matters for the Explanatory Memorandum

38. Staff considered key matters it believes are relevant to address in the Explanatory Memorandum accompanying the exposure draft for proposed ISA 570 (Revised 202X). These include, but are not limited to:
- (a) The background to the decision to revise ISA 570 (Revised 202X), including the key issues identified to be addressed by the project, based on stakeholder input from the Discussion Paper, *Fraud and Going Concern in an Audit of Financial Statements: Exploring the Differences Between Public Perceptions About the Role of the Auditor and the Auditor’s Responsibilities in a Financial Statement Audit* and other research and information-gathering activities.
  - (b) The project objectives that support the public interest and how the proposed targeted revisions support the identified public interest objectives set out for the project (also see **Appendix 2**).
  - (c) Walkthrough of the auditor’s decision-making process in respect of whether a material

<sup>12</sup> See <https://www.iaasb.org/projects/auditor-reporting>.

<sup>13</sup> See Section 6.2 “Effective Date of an ISA” of the [CUSP Drafting Principles and Guidelines](#).

- uncertainty related to going concern exists, as reflected in the revised requirements of the enhanced or clarified standard.
- (d) Definition of the term “Material Uncertainty (Related to Going Concern)” and explaining the clarifications provided for other terminology (e.g., for the phrase “may cast significant doubt”).
  - (e) Overview of the more robust approach for performing risk assessment procedures as a basis for the auditor’s identification of events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern.
  - (f) Explanation of the proposed change in the commencement date of the twelve-month period of the auditor’s evaluation of management’s assessment of going concern.
  - (g) Explanation of the strengthened audit procedures to evaluate:
    - (i) Management’s assessment of going concern, including a more robust challenge of the method, assumptions and data used by management to make its assessment of going concern by leveraging concepts in ISA 540 (Revised).
    - (ii) Whether management has the intent to carry out specific actions in its plan for future actions and the ability to do so and the inclusion of a new requirement to evaluate the intent and ability of third or related parties, including the entity’s owner-manager, to maintain or provide necessary financial support.
  - (h) Description of the enhancements made to emphasize a more robust exercise of professional skepticism when performing procedures related to going concern and the consideration of indicators of management bias in the judgments and assumptions used by management in its assessment of a going concern.
  - (i) Outcomes of the IAASB deliberations and decisions related to enhanced transparency with respect to the auditor’s responsibilities and work related to going concern in relation to:
    - (i) Communication with those charged with governance (TCWG);
    - (ii) Communication with appropriate external parties; and
    - (iii) Transparency about going concern in the auditor’s report.
  - (j) Addressing matters related to scalability and proportionality in proposed ISA 570 (Revised 202X).
39. In developing the questions for respondents, due consideration will be given to the qualitative standard-setting characteristics<sup>14</sup> when soliciting stakeholder feedback to facilitate the IAASB in assessing the standard’s responsiveness to the public interest. See also **Appendix 2** that indicates how relevant qualitative standard-setting characteristics relate to the proposals in ISA 570 (Revised 202X), mapped to the actions and objectives in the project proposal.

**Matter for IAASB Consideration:**

4. The Board is asked whether there are any key matters, other than those noted above, that should be addressed in the Explanatory Memorandum.

<sup>14</sup> See paragraph 36 of the project proposal and the Public Interest Framework (PIF) included in the Monitoring Group report [Strengthening the International Audit and Ethics Standard-Setting System](#).

## Appendix 1

### GC TF Members and Update on Activities Since the December 2022 IAASB Meeting

#### GC TF Members

1. The GC TF consists of the following members:
  - Josephine Jackson, Chair
  - Edo Kienhuis
  - Wendy Stevens
  - Isabelle Tracq-Sengeissen
2. Information about the project can be found [here](#).

#### GC TF Activities

3. Since December 2022, the GC TF held 2 virtual meetings.

#### Outreach

4. Project specific outreach in January 2023 included the following:
  - The GC TF Chair and members, and IAASB Staff met with representatives from the American Institute of Certified Public Accountants (AICPA) and the AICPA's Auditing Standards Board. At the meeting, the AICPA provided an update of their research initiative aimed to gather perspectives and insights relevant to enhancing transparency in the auditor's report. This included sharing an overview of interview summaries from 26 US-based users and preparers that among other included aspects relevant to enhancing transparency about going concern.
  - IAASB Staff provided an update to the Staff of the International Public Sector Accounting Standards Board (IPSASB) on the key proposals made to enhance or clarify proposed ISA 570 (Revised 202X). In addition, an update was received on the ongoing scoping activities for the IPSASB project to revise IPSAS 1<sup>15</sup> and the intention to approve a project brief in quarter 2 or 3 of 2023.

#### Liaison and Engagement with IASB

5. In February 2023, the IASB provided the IAASB an update on its ongoing activities and projects. It was noted that, notwithstanding that the IASB did not add a project on going concern as part of its work plan, there has been ongoing engagement and discussion on the topic of going concern.

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<sup>15</sup> International Public Sector Accounting Standard (IPSAS) 1, *Presentation of Financial Statements*

## Appendix 2

### Mapping the Key Changes Proposed for Proposed ISA 570 (Revised 202X) to the Actions and Objectives in the Project Proposal that Support the Public Interest

1. This appendix maps the proposed revisions of ISA 570 (Revised 202X) to the actions and objectives in the project proposal that support the public interest. It also highlights what qualitative standard-setting characteristics were at the forefront, or of most relevance, when determining how to address each proposed action.
2. The qualitative characteristics considered when developing the targeted revisions to ISA 570 (Revised 202X), including why such characteristics are of importance for the proposals, are as follows:<sup>16</sup>
  - (a) *Scalability* – addresses both less and more complex circumstances, commensurate to the nature and circumstances of the entity (e.g., through the scalability examples provided in the application material).
  - (b) *Proportionality* – addresses the issues in a proportionate manner by considering the relative impact that the proposals may have on different users (e.g., by considering the differing needs or heightened expectations of intended users to appropriately identify those requirements that are specifically relevant to the audits of financial statements of listed entities).
  - (c) *Relevance* – focuses on responding to emerging issues, evolving stakeholder needs and perceptions and changes in business environments and technology (e.g., through robustly addressing the auditor’s identification of going concern-related events or conditions, the impact of events or conditions subsequent to the period of management’s assessment of going concern, and enhanced application material addressing the use of automated tools and techniques).
  - (d) *Clarity and conciseness*, including overall *understandability* – addresses minimizing the likelihood of differing interpretations (e.g., in relation to the proposed definition of Material Uncertainty (Related to Going Concern) and other clarifications proposed related to terminology, as well as providing clear and definitive direction on key matters such as the timeline of the going concern assessment, the auditors evaluation of management’s assessment, and communication and auditor reporting requirements).
  - (e) *Implementability* and ability of being *consistently applied and globally operable* – focuses on improving comparability and consistency across auditor reports globally about the auditor’s responsibilities and work related to going concern (e.g., by reporting going concern matters in the auditor’s report either in a section on Going Concern or Material Uncertainty Related to Going Concern and by reinforcing the reliance users have over going concern matters when addressing more current information in management’s assessment).

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<sup>16</sup> Qualitative characteristics from those outlined in paragraph 36 of the project proposal and those that arose as the development work progressed (see the PIF’s section on “What qualitative characteristics should the standards exhibit?” (on pages 22–23 of the Monitoring Group’s report, “*Strengthening the International Audit and Ethics Standard-Setting System*”).

- (f) *Coherence* – with the overall body of ISAs (e.g., by building appropriately on the foundational requirements in ISA 315 (Revised 2019)<sup>17</sup> and adequately articulating the concepts introduced from ISA 540 (Revised), such as in relation to the auditor’s evaluation of management’s method, assumptions, and data).

Proposed Actions in the <u>Project Proposal</u> (Ref. Section VI, paragraph 35)	Key Changes Proposed (Ref. Agenda Item 2-B)		Qualitative Standard-Setting Characteristics Considered <sup>18</sup>
	Paragraph	Description	
<p><b>A. Project Objective: Promote consistent practice and behavior and facilitate effective responses to identified risks of material misstatement related to going concern.</b></p> <p><b>B. Project Objective: Strengthen the auditor’s evaluation of management’s assessment of going concern, including reinforcing the importance, throughout the audit, of the appropriate exercise of professional skepticism.</b></p>			
<p><b>AB.1: Requirements and Application Material – Risk Identification and Assessment</b></p> <p><i>Enhance requirements and application material through making targeted revisions to ISA 570 (Revised) to drive the auditor to obtain information that is relevant to timely identification of events and conditions that may cast significant doubt on the entity’s ability to continue as a going concern.</i></p> <p>In doing so, more explicitly emphasizing the going concern aspects of the auditor’s understanding of the entity and the entity’s system of internal control (including how management undertakes the assessment of going concern) when identifying and assessing risks of material misstatement in accordance with ISA 315 (Revised 2019).</p>	Paras. 11–15	<p><i>Requirements</i></p> <p>Enhanced and new requirements to:</p> <ul style="list-style-type: none"> <li>• Enable a more robust approach for performing risk assessment procedures that will provide audit evidence to support an appropriate basis for the timely identification by the auditor of events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern.</li> <li>• Perform risk assessment procedures related to going concern matters to obtain an understanding about the entity and its environment, the applicable financial reporting framework and the entity’s system of internal control by building on the foundational requirements in ISA 315</li> </ul>	<ul style="list-style-type: none"> <li>• <i>Scalability</i></li> <li>• <i>Relevance</i></li> <li>• <i>Implementability, and ability of being consistently applied and globally operable</i></li> <li>• <i>Coherence</i></li> </ul>

<sup>17</sup> ISA 315 (Revised 2019), *Identifying and Assessing the Risk of Material Misstatement*

<sup>18</sup> The qualitative standard-setting characteristics listed are those that were at the forefront, or of most relevance, when determining how to address each proposed action.

Proposed Actions in the <u>Project Proposal</u> (Ref. Section VI, paragraph 35)	Key Changes Proposed (Ref. Agenda Item 2-B)		Qualitative Standard-Setting Characteristics Considered <sup>18</sup>
	Paragraph	Description	
		(Revised 2019).	
	Paras. A6–A28	<p><i>Application Material</i></p> <p>New application material to:</p> <ul style="list-style-type: none"> <li>• Address scalability. In particular, to provide examples that demonstrate where the nature and extent of the auditor's risk assessment procedures may vary based on the nature and circumstances of the entity.</li> <li>• Provide more current examples of identified events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.</li> <li>• Strengthen the link to ISA 240<sup>19</sup> where the identified events and conditions that may cast significant doubt on the entity's ability to continue as a going concern may also be indicative of fraud risk factors.</li> <li>• Provide guidance and examples in respect of the auditor's application of ISA 315 (Revised 2019) through a "going concern lens."</li> </ul>	

<sup>19</sup> ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

Proposed Actions in the <u>Project Proposal</u> (Ref. Section VI, paragraph 35)	Key Changes Proposed (Ref. Agenda Item 2-B)		Qualitative Standard-Setting Characteristics Considered <sup>18</sup>
	Paragraph	Description	
<p><b>AB.2: Requirements or Application Material – Timeline for Assessment</b></p> <p><i>Consider enhancing the requirements or application material to:</i></p> <ul style="list-style-type: none"> <li><i>Extend the timeline for the assessment period to at least twelve months from the date of approval of the financial statements, or the date the auditor’s report is signed.</i></li> <li><i>Evaluate the reasonableness of management’s assessment period based on conditions specific to the entity’s facts and circumstances, including subsequent events.</i></li> </ul> <p>In doing so, consider applicable financial reporting framework requirements that address the timeline for assessment.</p>	<p>Paras. 19–23; 28–29</p>	<p><i>Requirements</i></p> <ul style="list-style-type: none"> <li>Change in the commencement date of the period of the auditor’s evaluation of management’s assessment of going concern, from the date of the financial statements to the date of approval of the financial statements.</li> <li>Enhanced requirements to consider information that becomes available after (or subsequent) to the date that management made its assessment.</li> <li>Strengthened requirements when management is unwilling to make or extend its assessment.</li> </ul>	<ul style="list-style-type: none"> <li><i>Relevance</i></li> <li><i>Clarity and conciseness</i></li> <li><i>Implementability, and ability of being consistently applied and globally operable</i></li> </ul>
	<p>Paras. A39–A45; A54–A55</p>	<p><i>Application Material</i></p> <ul style="list-style-type: none"> <li>New application material to explain that management and those charged with governance (TCWG) may provide the auditor additional information to support the appropriateness of the period used by management in its assessment or about events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern.</li> <li>New application material in support of the proposed and strengthened</li> </ul>	

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	Paragraph	Description	
		<p>requirements, including emphasis when the auditor may consider requesting management to extend its assessment period beyond twelve months from the date of approval of the financial statements.</p> <ul style="list-style-type: none"> <li>Enhanced linkages to the requirements in ISA 560<sup>20</sup> when facts become known to the auditor after the date of the auditor's report but before the date the financial statements are issued.</li> </ul>	
<p><b>AB.3: Requirements or Application Material – Information from Sources External to the Entity</b></p> <ul style="list-style-type: none"> <li>Enhance application material to emphasize consideration of information from sources external to the entity (e.g., media releases, industry outlooks) when evaluating whether events or conditions exist that may cast significant doubt on the entity's ability to continue as a going concern.</li> <li>Enhance requirements or application material to clarify the considerations, including the intent and ability, related to when written evidence to provide financial support is obtained from a third-party, and for whether and in what circumstances this constitutes sufficient appropriate audit evidence.</li> </ul>	Para. 26–27	<p><i>Requirements</i></p> <ul style="list-style-type: none"> <li>New requirement for the auditor to evaluate the intent and ability of a third or related party, including the entity's owner-manager, when financial support by such parties is necessary to support management's assessment of going concern.</li> </ul>	<ul style="list-style-type: none"> <li>Scalability</li> <li>Relevance</li> </ul>
	Paras. A16; A25; A47–A53	<p><i>Application Material</i></p> <p>New application material to:</p> <ul style="list-style-type: none"> <li>Provide guidance for the auditor's consideration of requesting a written confirmation from third or related parties, including the entity's owner-manager, and</li> </ul>	

<sup>20</sup> ISA 560, *Subsequent Events*

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	Paragraph	Description	
		<p>for the terms and conditions of borrowing facilities, including scalability considerations.</p> <ul style="list-style-type: none"> <li>• Provide guidance when finance providers are reluctant to confirm to an entity or the auditor that borrowing facilities will be renewed.</li> <li>• Emphasize how information from sources external to the entity can be leveraged in the auditor’s work related to going concern.</li> </ul>	
<p><b>AB.4: Definitions and Application Material – “Material Uncertainty Related to Going Concern” and Other Terminology in ISA 570 (Revised)</b></p> <p><i>Consider if it is necessary to describe or define “Material Uncertainty Related to Going Concern” and enhance application material to clarify key concepts such as “significant doubt,” and other related terminology.</i></p> <p>In doing so, consider:</p> <ul style="list-style-type: none"> <li>• The importance of alignment between definitions and descriptions set out in financial reporting frameworks and the auditing standards.</li> <li>• How national standard setters (NSS) have addressed this issue at jurisdictional levels.</li> </ul>	Para. 10	<p><i>Definitions</i></p> <ul style="list-style-type: none"> <li>• A newly defined term – “Material Uncertainty (Related to Going Concern).”</li> </ul>	<ul style="list-style-type: none"> <li>• <i>Clarity and conciseness</i></li> <li>• <i>Implementability, and ability of being consistently applied and globally operable</i></li> </ul>
	Paras. A4–A5	<p><i>Application material</i></p> <ul style="list-style-type: none"> <li>• Repurposing previous application material and developing new application material to clarify the phrase “may cast significant doubt.”</li> </ul>	

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	Paragraph	Description	
<p><b>AB.5: Application Material – Technology</b></p> <p><i>Enhance application material in ISA 570 (Revised) to reflect the auditor’s use of technology to perform the auditor’s work related to going concern.</i></p> <p>In doing so, remaining mindful of maintaining a balance of not ‘dating’ the standard by referring to technologies that may change and evolve, including consulting with a technology expert(s) or the Technology Consultation Group, as needed.</p>	<p>Paras. A6; A12; A36; A38</p>	<p><i>Application Material</i></p> <ul style="list-style-type: none"> <li>Enhanced and new application material to incorporate examples of automated tools and techniques and emphasize the impact of technology on the auditor’s work related to going concern.</li> </ul>	<ul style="list-style-type: none"> <li><i>Relevance</i></li> </ul>
<p><b>AB.6: Requirements and Application Material – Management’s Assessment of Going Concern</b></p> <p><i>Enhance requirements and application material to strengthen the auditor’s evaluation of management’s assessment of going concern.</i></p> <p>In doing so, applying the concepts introduced in ISA 540 (Revised), such as in relation to the auditor’s evaluation of management’s method, assumptions and data, and recognizing circumstances when specialized knowledge or skill is needed.</p>	<p>Paras. 16; 18; 24–25</p>	<p><i>Requirements</i></p> <p>Enhanced and new requirements to:</p> <ul style="list-style-type: none"> <li>Perform audit procedures to evaluate management’s assessment of going concern, irrespective of whether events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern have been identified.</li> <li>Perform audit procedures to evaluate the method, assumptions and data used by management to make its assessment of going concern by leveraging concepts in ISA 540 (Revised).</li> <li>New requirement to explicitly request management to update its assessment and for the auditor to perform audit procedures,</li> </ul>	<ul style="list-style-type: none"> <li><i>Scalability</i></li> <li><i>Clarity and conciseness</i></li> <li><i>Implementability</i>, and ability of being <i>consistently applied and globally operable</i></li> <li><i>Coherence</i></li> </ul>

Proposed Actions in the <u>Project Proposal</u> (Ref. Section VI, paragraph 35)	Key Changes Proposed (Ref. Agenda Item 2-B)		Qualitative Standard-Setting Characteristics Considered <sup>18</sup>
	Paragraph	Description	
		when necessary, on such revised assessment when the auditor identifies events or conditions that may cast doubt on the entity’s ability to continue as a going concern that management has not previously identified or disclosed to the auditor.	
	Paras. A29–A31; A33–A38; A46	<p><i>Application Material</i></p> <p>New application material to:</p> <ul style="list-style-type: none"> <li>Address scalability. In particular, to provide examples that demonstrate how the auditor’s procedures may vary depending on the method, assumptions and data used by management to assess the entity’s ability to continue as a going concern.</li> <li>More robustly challenge the method, assumptions and data used by management to make its assessment of going concern.</li> </ul>	
<p><b>AB.7: Requirements and Application Material – Professional Skepticism</b></p> <p><i>Emphasize the robust exercise of professional skepticism when performing procedures related to going concern, through:</i></p> <ul style="list-style-type: none"> <li><i>Enhancing requirements and application</i></li> </ul>	Paras. 17; 30	<p><i>Requirements</i></p> <ul style="list-style-type: none"> <li>New requirement to emphasize the importance of professional skepticism when evaluating management’s assessment in a manner that is not biased towards obtaining audit evidence that may be corroborative or excluding audit evidence that may be</li> </ul>	<ul style="list-style-type: none"> <li><i>Relevance</i></li> <li><i>Coherence</i></li> </ul>

Proposed Actions in the <u>Project Proposal</u> (Ref. Section VI, paragraph 35)	Key Changes Proposed (Ref. Agenda Item 2-B)		Qualitative Standard-Setting Characteristics Considered <sup>18</sup>
	Paragraph	Description	
<p><i>material for the auditor to design and perform procedures that are not biased towards obtaining audit evidence that may be corroborative or towards excluding evidence that may be contradictory.</i></p> <ul style="list-style-type: none"> <li>• <i>Enhancing requirements and application material for the auditor to evaluate whether judgments made by management in making their assessment, even if they are individually reasonable, include indicators of possible management bias.</i></li> <li>• <i>Using action-oriented language in the revised standard.</i></li> </ul> <p>In doing so, take into account how the concept of professional skepticism has been incorporated in recently revised standards (e.g., ISA 315 (Revised 2019) and ISA 540 (Revised)).</p>		<p>contradictory.</p> <ul style="list-style-type: none"> <li>• New requirement to evaluate whether the judgments and decisions made by management in making its assessment of going concern, even if they are individually reasonable, are indicators of possible management bias.</li> </ul>	
	Paras. A10; A32; A56–A59	<p><i>Application Material</i></p> <ul style="list-style-type: none"> <li>• Enhanced link to the requirement in ISA 315 (Revised 2019) for the auditor to design and perform risk assessment procedures in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory.</li> <li>• New application material to emphasize that some degree of management bias is inherent in the judgments and assumptions management uses in its assessment and to emphasize the relevance of identifying indicators of possible management’s bias and the impact to the audit.</li> </ul>	

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	Paragraph	Description	
<b>C. Project Objective: Enhance transparency with respect to the auditor’s responsibilities and work related to going concern where appropriate, including strengthening communications and reporting requirements.</b>			
<b>C.8: Requirements and Application Material – Communication with TCWG</b>  <i>Enhance the requirements and application material to strengthen required communications with TCWG, including encouraging more appropriate two-way communication, addressing the timeliness of the communications, and emphasising the ongoing nature of communications with TCWG.</i>	Paras. 12(f); 41	<b>Requirements</b> <ul style="list-style-type: none"> <li>Strengthened communication requirements with TCWG to enhance transparency and timely, two-way communication throughout the audit when events or conditions are identified that may cast significant doubt on the entity’s ability to continue as a going concern.</li> <li>New requirement to obtain an understanding, as part of the risk assessment procedures and related activities, how TCWG exercise oversight over management’s assessment of going concern.</li> </ul>	<ul style="list-style-type: none"> <li><i>Relevance</i></li> <li><i>Clarity and conciseness</i></li> </ul>
	Paras. A19–A20; A85–A87	<b>Application Material</b> <ul style="list-style-type: none"> <li>New application material in support of the proposed requirements and added emphasis for circumstances when it may be appropriate to consider whether a significant deficiency in internal control related to going concern should be communicated to TCWG.</li> </ul>	

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<p><b>C.9: Requirements and Application Material – Communication with Appropriate External Parties</b></p> <p><i>Enhance the requirements and application material in ISA 570 (Revised) with respect to the auditor’s communications with external parties, including with relevant regulatory authorities (as applicable), when issues are identified relating to going concern, including instances when no further action is taken by management or TCWG.</i></p> <p>In doing so, monitor any implementation feedback for extended communication requirements made in certain jurisdictions and consider if similar changes on a global level would be useful.</p>	Para. 42	<p><i>Requirements</i></p> <ul style="list-style-type: none"> <li>New requirement for the auditor to consider whether law or regulation require or establish responsibilities under which reporting is required to an appropriate authority for circumstances when a Material Uncertainty Related to Going Concern is included in the auditor’s report or a modified opinion is issued.</li> </ul>	<ul style="list-style-type: none"> <li><i>Relevance</i></li> <li><i>Clarity and conciseness</i></li> </ul>
	Paras. A88–A91	<p><i>Application Material</i></p> <ul style="list-style-type: none"> <li>Examples and factors for the auditor to consider when reporting to an appropriate authority.</li> </ul>	
<p><b>C.10: Requirements and Application Material – Transparency About Going Concern in the Auditor’s Report</b></p> <p><i>Enhance the requirements and application material in ISA 570 (Revised), where appropriate, to increase transparency in the auditor’s report about the auditor’s responsibilities and work related to going concern.</i></p> <p>This includes considering enhancing auditor reporting for situations where:</p> <ul style="list-style-type: none"> <li>The auditor concludes that no material uncertainty exists, and management’s use of the going</li> </ul>	Paras. 35–39	<p><i>Requirements</i></p> <p>New requirements to:</p> <ul style="list-style-type: none"> <li>Provide explicit statements about going concern in a separate section in the auditor’s report when the basis of accounting is appropriate, and no material uncertainty exists.</li> <li>When events or conditions are identified that may cast doubt on the entity’s ability to continue as a going concern or when a Material Uncertainty Related to Going Concern section is provided, describing in</li> </ul>	<ul style="list-style-type: none"> <li><i>Proportionality</i></li> <li><i>Relevance</i></li> <li><i>Clarity and conciseness</i></li> <li><i>Implementability</i>, and ability of being <i>consistently applied and globally operable</i></li> </ul>

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<p>concern assumption is appropriate.</p> <ul style="list-style-type: none"> <li>Significant judgment was required to conclude that no material uncertainty related to going concern exists, after having identified events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern (i.e., “close call” situations).</li> <li>A "Material Uncertainty Related to Going Concern" paragraph is required (i.e., to expand the informational content of such paragraph to describe how the auditor addressed this matter in the audit).</li> </ul>		<p>the auditor’s report of a listed entity how the auditor evaluated management’s assessment of going concern.</p>	
	<p>Paras. A60; A66–A83</p>	<p><i>Application Material</i></p> <ul style="list-style-type: none"> <li>New application material, leveraging on ISA 701, to support consistent application of the proposed auditor reporting requirements.</li> <li>New application material to clarify the intended scope of the reporting requirements, including for when the auditor would expect disclosures in the financial statements (i.e., for those circumstances when there is a “close call” situations, rather than for all circumstances when events or conditions exist).</li> </ul>	