

Chair

Via IAASB's website

Mr Thomas Seidenstein
Chairman
International Auditing and Assurance Standards Board
529 Fifth Avenue, 6th Floor
New York, New York

24 August 2023

Exposure draft – Proposed International Standard on Auditing (ISA) 570 (Revised), Going Concern

Dear Mr Seidenstein

The Basel Committee on Banking Supervision (the Committee) welcomes the opportunity to comment on the International Auditing and Assurance Standards Board's (IAASB's) exposure draft on *Proposed International Standard on Auditing 570 (Revised), Going Concern* (ISA 570).

As the Committee has a strong interest in promoting high-quality auditing and ethical standards for auditors, it is supportive of the work of the IAASB in setting such standards, which help to promote the safety and soundness of the financial system.

Overall comments

Going concern is highly relevant to bank audits, as the Committee stated in its response to the IAASB Discussion Paper *Fraud and going concern in an audit of financial statements*. In addition, the requirements and work undertaken in relation to going concern affect banks' borrowers or their financial counterparties. When companies and their auditors fail to identify going-concern risks, confidence in financial reporting could potentially be undermined. The Committee is therefore supportive of the IAASB's proposed amendments to ISA 570, which should strengthen the work required by the auditor and enhance the quality of reporting to users of financial statements.

The Committee notes that disclosures required by prudential frameworks and stress testing requirements applicable to banks can provide useful information that is relevant to the assessment of going concern. However, prudential frameworks are not identical across jurisdictions, and such disclosures may not be subject to assurance.

As such, the Committee welcomes the proposed improvements and new requirements for auditors to obtain sufficient appropriate audit evidence to assess whether any material uncertainty exists as to the appropriateness of management's use of the going-concern basis of accounting in preparing financial statements. This includes requirements for designing and performing risk assessment procedures to identify events and conditions that may cast doubt on the entity's ability to continue as a going concern, for evaluating management's going-concern assessment, and for clearer and more consistent reporting.

The Committee notes the requirement to obtain an understanding of an entity's business model (paragraph 12) with guidance pointing to certain regulatory requirements. We believe that the proposed standard should also require the auditor to explicitly consider regulatory factors, as these may be relevant to an assessment of going concern. The IAASB could incorporate language on risk assessment from ISA 315, *Identifying and Assessing the Risk of Material Misstatement*, paragraph 19(a)(ii), which requires the auditor to perform risk assessment procedures to obtain an understanding of "industry, regulatory and other external factors".

The Committee agrees with the proposed enhancements to the revised standard, including the time period for going-concern assessments, the definition of material uncertainty, the assessment requirements and disclosures about situations of significant doubt but no material uncertainty, and increased transparency in the auditor's report. With respect to transparency in the auditor's report, banks may fall within the definition of "public interest entities", and therefore the Committee encourages the IAASB to consider extending the enhanced auditor reporting for listed entities to also include public interest entities (paragraph 33(b)).

The Committee supports the new requirement and application material for the auditor to report to an appropriate authority outside the entity where law, regulation or relevant ethical requirements require or establish responsibilities or grant the auditor the right to undertake such reporting (paragraph 40). The examples and factors for the auditor to consider when reporting to an appropriate authority are viewed as helpful (paragraphs A90–93).

We also recommend that the IAASB add "Establish responsibilities or **provides the auditor with the right under...**" to paragraph 40(b) and clarify in paragraph A91 (or its example) that when an auditor considers including a separate section with a heading "Material Uncertainty Related to Going Concern" in their report or considers issuing a modified opinion in respect of going-concern matters, they communicate this and engage with any applicable regulatory, enforcement, supervisory or other authority prior to the issuance of their audit report.

The proposal, if adopted, may result in auditor requirements that are more prescriptive and extensive than what management is currently expected to consider in going-concern assessments under IFRS accounting standards. We encourage alignment between the IASB and IAASB in terms of going-concern requirements for management and auditors and due consideration and coordination on timing of changes to going-concern requirements in both accounting and auditing standards.

The Committee supports the linkage of ISA 570 to other ISAs, especially ISA 540, *Auditing Accounting Estimates and Related Disclosures*. ISA 540 is an important standard in the audit of the financial statements of banks due to their significant use of estimates, in, inter alia, expected credit loss estimates in accordance with IFRS 9, *Financial Instruments*, and similar national accounting requirements. While the Committee welcomes the linkages to ISA 540, and the application guidance in paragraphs A33–37, additional guidance could be added to note that further elements of ISA 540 may be relevant to the auditor's work, given that management's going-concern assessment will probably involve significant estimates.

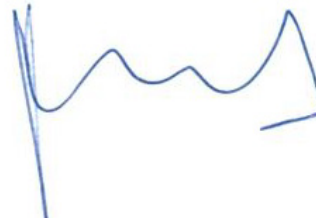
The Committee agrees with the IAASB that there are parties other than the IAASB that play an important role in contributing to high-quality financial reporting and public interest. The Committee encourages the IAASB to continue its dialogue with its Task Forces, Working and Consultation Groups, the International Ethics Standards Board for Accountants (IESBA) and accounting standard setters that may be able to enhance requirements for preparers of financial statements and those charged with governance, including the disclosures required on going concern.

Finally, while the Committee is supportive of the IAASB's proposals for ISA 570, it encourages the IAASB to consider the unique nature of going-concern matters in the banking industry – in particular, the potential implications for the safety and soundness of a bank, potential contagion effects through the financial system and financial stability that could be brought about by overly cautious reporting, or reporting of "Material Uncertainty Related to Going Concern" or an auditor's issuing of a modified opinion in respect of going-concern matters, where the auditor has not sufficiently engaged with the relevant supervisory authority.

This letter has been prepared by the Committee's Accounting and Audit Expert Group, chaired by Katherine Tilghman Hill, Head of Supervisory Policy and Strategy, Federal Reserve Bank of New York.

If you have any questions regarding these comments, please contact Lushendren Pather at the Basel Committee Secretariat (lushendren.pather@bis.org / +41 61 280 8268).

Yours sincerely



Pablo Hernández de Cos