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24 August 2023

Mr. Willie Botha
IAASB Technical Director
International Auditing and Assurance Standards Board
International Federation of Accountants
529 5th Avenue
New York 10017
USA

Re: *Proposed International Standard on Auditing 570 (Revised 202X) Going Concern and Proposed conforming and Consequential Amendments to Other ISAs*

Dear Mr. Botha,

BDO International Limited¹ (BDO) is pleased to have the opportunity to comment on the International Auditing and Assurance Standards Board (IAASB) Exposure Draft (ED-570) in respect of *Proposed International Standard on Auditing 570 (Revised 202X) Going Concern and Proposed Conforming and Consequential Amendments to Other ISAs*.

Our responses below describe those areas where we agree with the IAASB's approach as outlined in ED-570, and those matters or terminology that may require some further consideration, or matters that may require application guidance or examples, or implementation support to provide for a successful implementation of the revised standard.

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Responses to Questions

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?*

We agree that ED-570 is responsive to the public interest, considering the qualitative standard-setting characteristics and project objectives that support it. We consider that the ED meets the IAASB objectives of ensuring that standards are consistently applied and are globally operable. In particular, we are pleased to see this draft standard emphasizes the enhanced risk assessment procedures that ISA 315 (Revised) requires.

We see two aspects as responding to the public interest.

As noted in answer to Question 2, we strongly support increasing transparency in the auditor's report of the auditor's responsibilities and the work performed in respect of going concern, as it aligns more with existing practice in several countries and will promote consistent global application.

As noted in answer to Question 7, we agree with the clarification of the extension of the period of entity management's assessment of the entity's ability to continue as a going concern, as this has been a contentious matter in practice. Providing this clarification assists users of the financial statements and further supports the public interest.

With their inclusion in the ED, both elements have the potential to be responsive to 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?*

Yes, we believe that by emphasizing the importance of auditors' judgments and clarifying the requirements placed on auditors, ED-570, considered collectively, may lead to improved consistency in the quality of work relating to going concern, during an audit of financial statements.

However, we believe that the timely assessment by entity management and/or those charged with governance of the use of the going concern as basis for preparation of the financial statements is essential to enhancing the quality of an auditor's judgments and work. We therefore would like to highlight the importance of communicating to entity management and/or those charged with governance their roles and responsibilities (including disclosure responsibilities in the financial statements) related to going concern and with specific considerations for entity management of less complex entities.

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?*

Overall, we believe ED-570 is scalable to entities of different sizes, circumstances, and complexities. One of the challenges is management of less complex entities often need to be reminded of their responsibility to provide an assessment of the entity's ability to continue as a going concern. Timely communication to management of less complex entities that the assessment period will be extended if the assessment covers less than twelve months from the date of approval of the financial statements will be essential.

We further support the IAASB's continued two-way communication with the International Accounting Standards Board (IASB) in ensuring overall consistency of requirements. Continuation of this dialogue to enable ongoing alignment of terminology and consistency of requirements is essential and beneficial to the public interest.

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

Yes, we agree that the requirements and application materials appropriately reinforce the auditor's application of professional skepticism. We specifically support inclusion of the concept of professional skepticism in several parts of ED-570. Examples include:

- During risk assessment procedures and related activities
- When evaluating management's assessment of going concern, and
- When evaluating whether sufficient appropriate audit evidence has been obtained.

Collectively, these examples help to emphasize the importance of auditors maintaining an attitude of professional skepticism throughout planning and performance of the audit.

However, we propose that paragraphs A57 to A60 of ED-570 would also benefit from referring to a heightened sense of professional skepticism which would be required when assessing indicators of possible management bias.

In addition, we request the IAASB provides guidance (whether application material, or specific illustrative examples), that specifically considers various types of unconscious auditor biases that may interfere with the exercise of professional skepticism. For example, explaining that the practitioner might be influenced by the anchoring bias when looking at management's forecasts, and therefore believe that it seems reasonable because it is similar to the current year (the anchor point), without considering all known future conditions, would be more beneficial than a reminder that auditors should remain aware of biases in their work. We believe that providing guidance and illustrations of how these types of biases may occur, by explicitly highlighting them, would create more alertness about them among auditors, and provide them with possible actions to mitigate them.

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”?*

Yes, we support the definition of Material Uncertainty (Related to Going Concern), though believe it could be clarified as follows:

“An uncertainty about the entity’s ability to continue as a going concern, arising from related to events or conditions that, individually or collectively, may cast significant doubt on the entity’s ability to continue as a going concern. A material uncertainty (related to going concern) exists when the magnitude of the potential impact of identified events and conditions and its likelihood of occurrence is such that, in the auditor’s professional judgment, appropriate disclosure of the nature and implications of the uncertainty is necessary for...”

We would further recommend that the IAASB provides additional examples in the application material, as we foresee that the auditor may be challenged when applying the definition in practice as well as the documentation thereof.

One specific area that would benefit from additional IAASB examples in the application material are those instances when both the magnitude of the potential impact of identified events and conditions and the likelihood of occurrence of their consequences need to be considered, such that there is a material uncertainty related to going concern. Specifically, the application material should illustrate the interplay between the magnitude of their potential impact and the likelihood of occurrence, and not only refer to magnitude of identified events or conditions.

We furthermore support the application material clarifying the phrase “may cast significant doubt”. However, since this was one of the specific areas highlighted in Appendix 1 of the Explanatory Memorandum to ED-570 as one of the proposed actions in the IAASB’s project proposal, we suggest that the following sentence be moved to the requirements of the standard, as opposed to the application material: “For the purposes of this ISA”, the phrase “may cast significant doubt” is used in circumstances when the individual or collective magnitude and likelihood 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 to mitigate the effects of these events or conditions.”

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?*

In our view, ED-570 appropriately builds on the foundational requirements in ISA 315 (Revised 2019). However, ED-570 does not provide a clear link between the relationship of the design and performance of risk assessment procedures (paragraph 11) and the design and performance of audit procedures (paragraph 17). We would appreciate clarity in ED-570 regarding this matter and acknowledge avoiding repetition of material already in ISA 315 (Revised 2019), but we do believe this is a key concept that requires clarification. We also mention the disconnect in the relationship between ISA 315 (Revised 2019) and ED-570 in question 8.

Additionally, we are concerned that if the auditor identifies events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern, the current ED-570 does not have any specific risk-related requirement(s) including the consideration of the assessed risks related to going concern or guidance with examples as to how auditors respond to the risk of material misstatement arising from these identified events or conditions.

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)?*

We agree with the change in commencement date, it is already common practice in several countries, and it will promote consistency of application globally. From a user of financial statements perspective, this will likely support the public interest.

The flexibility provided in paragraphs 22 and A43-A44 of the ED-570 is practical, but we would propose additional wording in paragraph A44 to make it clear that the auditor did not obtain new information or audit evidence from risk assessment procedures and related activities which might have indicated the existence of events or conditions that may cast significant doubt about the entity’s ability to continue as a going concern and the auditor obtained sufficient appropriate audit evidence that supports their professional judgment about the appropriateness of the management’s use of the going concern basis of accounting. The following wording, in blue text, is proposed to be included in paragraph A44:

“A44. Where management has chosen not to extend the period of assessment, management and those charged with governance may be able to provide additional information to support the appropriateness of management’s use of the going concern basis of accounting in the preparation of the financial statements. For example, this may be the case when the entity has profitable operations and has no liquidity concerns, and management or those charged with governance have not identified any events or conditions that may cast significant doubt beyond the period of assessment they have chosen. *The auditor has also not obtained new information or audit evidence from risk assessment procedures and related activities which might indicate the existence of events or conditions that may cast significant doubt about the entity’s ability to continue as a going concern. The additional information provided the auditor with sufficient appropriate audit evidence to support their professional judgment about the appropriateness of the management’s use of the going concern basis of accounting.*”

In addition, we would also request the IAASB provide in the example noted above the nature and extent of the ‘additional information’ that management or those charged with governance could provide to enable the auditor to form a professional judgment about the appropriateness of the going concern assumption.

We will also find it beneficial if the IAASB provide application guidance and/or examples of the relationship between Subsequent Events and Material Uncertainty (Related to Going Concern) and the importance of sufficient appropriate disclosures in the financial statements.

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?*

We support the enhanced approach which also builds on the ISA 315 (Revised) changes. However, we have the following comments:

- The IAASB considers revising paragraph 17 to include a reference to the linking of the assessed risk when requiring the auditor to design and perform further audit procedures.

- The application material in paragraphs A29 to A31 in ED-570, is helpful - especially the example given for profitable clients, however we believe non-authoritative implementation guidance will be important in these circumstances to ensure that practitioners understand and apply it appropriately in practice in both less and more complex circumstances (i.e., scalability).
 - We question how practitioners would comply with the requirement in paragraph 17 to ‘design and perform audit procedures to evaluate management’s assessment of the entity’s ability to continue as a going concern’; with the current wording of the examples noted in paragraphs A30 and A44. In order to not require further audit procedures or to consider the effect on the audit report, we would recommend adding the following wording, in **blue text**, to the example in paragraph A30:
 - “A30. It is not the auditor’s responsibility to rectify a lack of analysis by management. In some circumstances, however, a lack of detailed analysis by management to support its assessment may not prevent the auditor from concluding whether management’s use of the going concern basis of accounting is appropriate in the circumstances. For example, when the entity has profitable operations, there are no liquidity concerns **and the auditor has not obtained new information or audit evidence from risk assessment procedures and related activities which might indicate the existence of events or conditions that that may cast significant doubt about the entity’s ability to continue as a going concern**, management may make its assessment without detailed analysis. **In this example the auditor may be able to obtain sufficient appropriate audit evidence that supports their professional judgment about the appropriateness of management or those charged with governance’s assessment of the use of the going concern basis of accounting, without detailed analysis by management.** However, in situations when, in the auditor’s professional judgment, management has not performed an appropriate assessment, this may be an indicator of a deficiency in internal control in accordance with ISA 265.”
 - We have provided in our response to question 7 recommended wording for paragraph A44, to make the application material clearer regarding the circumstances.
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?*

We agree that ED-570 appropriately incorporates the concepts introduced from ISA 540 (Revised), however we have the following comments:

- We recommend the IAASB include another consideration in the application material paragraph A36 for the auditor’s evaluation regarding the assumptions on which management’s assessment is based:

“Whether the assumptions used by management in the prior year’s assessment of going concern were appropriate by comparing the prior year assumptions to the actual outcomes in the current year.”
- We recommend the IAASB cross references to ISA 540 (Revised) rather than using some extracts of ISA 540 (Revised) in the requirements and some extracts in the application material. Practitioners may find this confusing, specifically with regards to paragraphs 23 - 25 of ISA 540 (Revised).
- We recommend the IAASB includes a reference to possible management bias in paragraph A37 when the auditor evaluates the data on which management’s assessment is based. We propose to include a third bullet point in paragraph A37 noting the following: “Management selected only certain data for use in their going

concern assessment, and whether this indicates of possible management bias. (Also see paragraphs A57 - A60).”

- We question why the written representation requirement in ED-570 paragraph 38 is not similar to ISA 540 paragraph 37, considering the work effort required by ED-570 paragraph 19. We recommend adding another requirement in paragraph 38:
“(d) Whether the methods, significant assumptions and the data used in the going concern assessment and the related disclosures, if required, are appropriate and in accordance with the applicable financial reporting framework.”

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?*

Yes, we support the enhanced requirements and application material.

We do however request the IAASB considers providing more specific illustrative examples as part of non-authoritative implementation guidance, to set out the nature and extent of audit evidence that may be deemed sufficient and appropriate, in certain common situations. Consider, for example, an entity in which, at the date of management’s assessment, events and conditions have been identified that may cast significant doubt about the entity’s ability to continue as a going concern and:

- There is parent entity financial support (future funding, no plans to recall loans, etc.), or
- There is parent entity financial support, through reliance on other group entities, or
- Management’s plans involve significant changes (in structure, operational and/or financial matters, etc.).

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?*

We agree that the enhanced requirements and application material to communicate with TCWG will likely encourage early transparent dialogue and enhanced two-way communication. We believe that this greater transparency will help further support the public interest.

We note that paragraph 39 does not refer to timely and two-way communication, but rather the application material in paragraph A87 refers to those terms. We would recommend elevating ‘timely communication that results in enhanced two-way communication with TCWG about matters related to going concern’ to the requirement paragraphs in ED-570 to achieve the objective and to provide the prominence that it deserves. If not, at the very least, there should be a cross reference to ISA 260 similar to that included in ISA 540.

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?*

Yes, we support the new requirement and application material.

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?

Yes, we support the requirements and application material and in our view the proposals are likely to lead to improved consistency and comparability across different jurisdictions.

In addition, we propose the IAASB moves the requirement in paragraph 33(b)(i), which is to include a reference to the related disclosures(s), if any, in the financial statements, to the requirement in paragraph 33(a). We believe to include this reference is appropriate for all entities, not only listed entities, as it will 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?

We support the requirements and application material for listed entities, however at this time we do not propose the proposed requirements to be extended to also apply to audits of financial statements of entities other than listed entities. We believe the application material in paragraph A71 provides an option to practitioners which is sufficient.

At some future time when there is global agreement on the definition of public interest entities (and the associated interaction with the listed entity concept), the IAASB should revisit and reconsider any consequential impact, including which requirements within the body of professional standards may need to be extended from listed to public interest entities.

In addition, as noted in paragraphs 33 and 34 in ED-570, there are specific reporting requirements for listed entities. The IAASB may want to reconsider why the reporting requirement noted for listed entities in paragraph 34 (d) is not also required for paragraph 35:

- In paragraph 34, no modification to the opinion is proposed: the auditor concludes that the use of the going concern basis of accounting is appropriate, even though there is a material uncertainty about the entity's ability to continue as a going concern, and that the disclosure about the material uncertainty is appropriate.
 - Here, the auditor is required to describe how the auditor evaluated management's assessment of a listed entity's ability to continue as a going concern.
- In paragraph 35, a qualified or adverse opinion is expressed, and the auditor concludes that the use of the going concern basis of accounting is appropriate, even though the disclosure of the material uncertainty is not adequately made in the financial statements.
 - Here, there is currently no requirement for the auditor of a listed entity in these circumstances to describe how the auditor evaluated management's assessment of the entity's ability to continue as a going concern.

We recommend including the requirement of paragraph 34 (d) in paragraph 35 as well, so that in an audit of financial statements of a listed entity, the auditor's report should describe how the auditor evaluated management's assessment of the entity's ability to continue as a going concern when there is a material uncertainty related to going concern.

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.*

We believe it is clear that ED-570 addresses all implications for the auditor's report.

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.*

We would like to raise the following:

Item 1 - in the conforming and consequential amendments arising from the proposed ISA-570 (Revised 202x) section with regards to ISA 210 paragraph A24. The added second last bullet reads:

"The requirements for the auditor to describe how the auditor evaluated management's assessment of the entity's ability to continue as a going concern in accordance with ISA 570 (Revised 202X)."

We propose including in the sentence the following **blue text**:

*"The requirements for the auditor to describe **in the auditor's report** how the auditor evaluated management's assessment of the entity's ability to continue as a going concern in accordance with ISA 570 (Revised 202X)."*

This will ensure it is consistent with the wording in the last added bullet in that paragraph, regarding the communication of key audit matters in the auditor's report.

Item 2 - with regards to the consideration of the impact of cybercrime on the ability of an entity to continue as a going concern, we request the IAASB provides application material on how the auditor may consider the impact of information technology failures or cyberthreats as a result of cybersecurity threats, on an entity's ability to continue as a going concern. Globally, entities are threatened on an almost daily basis with cyberattacks, and thus an entity's vulnerability to these attacks, and the potential impact of these threats on an entity's ability to continue as a going concern assumption needs to be considered.

Item 3 - we would encourage a review of **how** the term 'material uncertainty' is used throughout the standard, as there appears to be inconsistencies in usage. For example, it is used:

- to describe what is in effect significant remaining doubt about the entity's ability to continue as a going concern (i.e., a conclusion which allows the auditor to highlight that there remains a material uncertainty about whether or not the entity is a going concern);
- to describe to the *consequence on the entity* of the existence of events and conditions that may cast significant doubt about the entity's ability to continue as a going concern, when these are either unmitigated or uncertain to be mitigated;
- to describe the degree of uncertainty about the outcome of identified events and conditions that exist at the assessment date, such that they *could result in the entity not being a going concern*; or
- to describe the *cause* of the existence of significant doubt about the entity's ability to continue as a going concern (e.g., paragraph 34 (c)).

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.*

Translations: We continue to support the IAASB’s efforts to make ISAs, and other pronouncements issued by the International Standard Setting Boards, accessible to users through effective and timely translation. Many of the auditing terms and concepts contained in ED-570 are present in other ISAs or defined in the ED, so at this stage, we do not foresee any immediate issues in respect of translation. To aid accessibility, we would continue to ask the IAASB to make their package of professional standards as accessible as possible through the e-International Standards online tool and would request that the most recent handbook (2021, published December 2022) be updated within this online tool as soon as possible.

Effective Date: We would support an Effective Date which has a minimum of 18 months from the point at which the final ISA is published. Although many firms may choose to adopt the new standard earlier, this timeframe would allow sufficient time for many audit firms’ methodologies, tools, guidance, and training materials to be updated.

We appreciate the opportunity to comment on ED-570. We hope that our comments and suggestions will be helpful to you in your deliberations and in the development of future recommendations.

Please contact me should you wish to discuss any of these comments.

Yours sincerely,
BDO International Limited

Daphna Smuckler
Global Head of Audit and Assurance