Crowe LLP
Independent Member Crowe Global

August 24, 2023

International Auditing and Assurance Standards Board

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

To the Board:

Crowe LLP appreciates the opportunity to comment on Proposed International Standard on Auditing 570 (Revised 202X) *Going Concern* and Proposed Conforming and Consequential Amendments to Other ISAs (the Proposed Standard or the Proposal).

General Observations

We appreciate the Board's efforts to update this standard with the objectives of promoting consistency in practice, improving audit quality, and enhancing transparency.

<u>Scalability</u>
We believe that in order to achieve these objectives, the issued standard should be scalable to different entities and varying auditor risk assessments related to the use of the going concern basis of accounting and other going concern matters. Certain elements of the proposal do not appear to be sufficiently scalable or responsive to the auditor's risk assessment. For example, the Proposal requires the auditor to perform an assessment of management's going concern assessment, irrespective of whether conditions or events have been identified related to going concern. Further, the auditor's assessment is required to include the methods, assumptions, and data used by management in their going concern assessment, regardless of whether management's assessment (based on the specific facts and circumstances of the engagement) includes the application of methods, assumptions, and data. Overall, the auditor's procedures should be scalable based on the auditor's understanding of management's going concern assessment and the auditor's assessment of the risk of material misstatement in the financial statements, related to going concern. Please see our specific responses to Questions 3, 6, 8, and 9.

<u>Transparency</u>
We value the importance of transparency and providing relevant information to financial statement users to support their understanding and decision-making ability. We believe that some aspects of the Proposal include mandatory reporting that may not be understandable to financial statement users and could have an unintended consequence of widening the "auditor expectation gap." For example, the requirement to include a "Going Concern" section in every auditor's report when a material uncertainty has *not* been identified could have an unintended consequence of obscuring the importance of reporting when more significant going concern matters have been identified by the auditor (such as a material uncertainty). In addition, the required auditor statement on the appropriateness of the use of the going concern basis of accounting in the financial statements could be misunderstood by financial statement users as a positive affirmation or opinion on the viability of the entity to continue as a going concern.

The requirement (for audits of listed entities) to describe how the auditor evaluated management's assessment of going concern, specifically when a material uncertainty has not been identified by the auditor, is not sufficiently scalable to the auditor's risk assessment related to going concern. We believe this disclosure may not be understandable by a user in all cases. We believe that more useful and understandable information could be provided when, *in the auditor's judgment*, the going concern assessment involved significant judgment, driving disclosure in the report (for example, as a key audit matter). Further, in order to describe the auditor's going concern evaluation (whether or not a material uncertainty has been identified), the auditor may be in a position of disclosing original information that has not been disclosed by the entity. We recommend that additional transparency in this area should be driven first by management's financial statement disclosures. Please see our specific responses to Questions 13 and 14.

Overall Questions

Q1: *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?*

A: No. As a result of the scalability and transparency observations discussed above (as well as in our responses to Questions 3, 6, 8, 9, 13, and 14), we believe the Proposal may drive audit procedures that are not responsive to the auditor's risk assessment and disclosures in the auditor's report that may not be fully understandable to financial statement users, with the potential of increasing the auditor expectation gap.

Q3: *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?*

A: No. As discussed in our General Observations above, we do not believe the Proposed Standard is sufficiently scalable. We believe that the auditor's procedures should be scalable based on the auditor's understanding of management's going concern assessment and the auditor's assessment of the risk of material misstatement of the financial statements, related to going concern. Please see our specific responses to Questions 6, 8 and 9.

Specific Questions

Q6: *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?*

A: We appreciate the importance of risk assessment in the audit, including assessing the risk of material misstatement in the financial statements related to going concern. However, we believe paragraph 11 in the Proposed Standard drives the auditor to perform *further* risk assessment procedures, specifically related to the completeness of management's identification of events and conditions related to going concern, which may not be commensurate with the auditor's overall risk assessment related to going concern (performed in accordance with ISA 315 (Revised 2019)). We recommend the wording from extant ISA 570 (Revised) paragraph 10 be retained in place of proposed paragraph 11. Extant paragraph 10 requires the auditor to "consider whether events or conditions exist that may cast significant doubt on the entity's ability to continue as a going concern."

Q8: *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?*

A: No. As stated in our General Observations and our response to specific Question 3 above, we believe that the auditor's procedures should be scalable based on the auditor's understanding of management's going concern assessment and the auditor's assessment of the risk of material misstatement in the financial statements, related to going concern. The auditor is required to comply with paragraphs 12 (*Obtaining an Understanding of the Entity and Its Environment, the Applicable Financial Reporting Framework and the Entity's System of Internal Control*), 13 (*Remaining Alert Throughout the Audit for Information about Events or Conditions*), and 14 (*Events or Conditions not Previously Identified or Disclosed by Management*) in the Proposed Standard. We believe that there could be situations where, after complying with the requirements in paragraphs 12 through 14, it may not be necessary for the auditor to design and perform audit procedures to evaluate management's assessment of the entity's ability to continue as a going concern, as required by proposed paragraph 17. For example, when no events or conditions have been identified that may cast significant doubt, management may not need to prepare a detailed going concern assessment. Further, the auditor likely will not identify a risk of material misstatement in the financial statements related to going concern. We believe that proposed paragraph 17 could be improved by clarifying that the requirement is applicable only in response to an assessed risk of material misstatement.

We note that paragraph .A30 in the proposed standard notes that "when the entity has profitable operations and there are no liquidity concerns, management may make its assessment without detailed analysis". It would be helpful to include guidance in the proposed standard to clarify what constitutes a "detailed analysis." For example, the proposed standard could be clarified to reflect that an appropriate management's assessment of going concern could, in some cases, be limited to a statement that no events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern.

Q9: *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?*

A: We appreciate the incorporation of the concepts from ISA 540 (Revised) related to evaluating the methods, assumptions, and data used by management in their going concern assessment, as required by paragraph 19 in the Proposed Standard. However, we believe that management's going concern assessment may not always include the application of methods, assumptions, and data. For example, an entity may identify negative conditions and events, such as recurring losses and negative operating cash flows. However, management may determine that these events and conditions do not cast significant doubt on the entity's ability to continue as a going concern, because the entity has an incredibly significant cash balance on hand, based on recent equity contributions. In this example, management's going concern assessment will not likely be based on an estimate that involves the application of methods, assumptions, and data. We believe the auditor, as part of obtaining an understanding of the entity as required by paragraph 12 of the Proposed Standard, should determine *if* management's going concern assessment includes the use of methods, assumptions, and data. We then recommend that the requirement in paragraph 19 of the Proposed Standard, should be applied by the auditor only if it is *applicable or relevant*, based on management's assessment, and in response to an identified risk of material misstatement in the financial statements.

Q13: *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?

A: No. We do not believe that the requirements in paragraph 33(a) of the Proposed Standard, for the auditor to provide 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, provide useful and understandable information for financial statement users.

As stated above in our General Observations, we believe that the proposed requirement to always include a Going Concern section in the report could have an unintended consequence of obscuring the importance of reporting when more significant going concern matters have been identified by the auditor (such as a material uncertainty). We also note that, under accounting principles generally accepted in the United States of America, management is not required to disclose the appropriateness of the use of the going concern basis of accounting nor disclose that no material uncertainty has been identified. Therefore, the proposed required auditor statements on the appropriateness of the use of the going concern basis of accounting in the financial statements and the lack of an identified material uncertainty go beyond the disclosures required by management. Further, and more concerning, these statements could be misunderstood by financial statement users as a positive affirmation or opinion on the viability of the entity to continue as a going concern (which is not part of the auditor's objectives or responsibility), thus potentially widening the "auditor expectation gap." Finally, the proposed required auditor statement on the appropriateness of the use of the going concern basis of accounting in the financial statements could be particularly confusing to a reader, when the auditor also discloses that events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern.

If the proposed requirements in paragraph 33(a) are retained, we recommend some modifications. First of all, the required section heading "Going Concern" may create confusion or misconception about what the auditor is actually disclosing in this section of the report. To prevent the expansion of the auditor expectation gap, a section heading such as "Going Concern Basis of Accounting" may be clearer. Second, we recommend the inclusion of the words "Based on the audit evidence obtained" in proposed paragraph 33(a)(i), similar to what is included in proposed paragraph 33(a)(ii). This may reduce the risk of the user interpreting the auditor disclosure about the appropriateness of the going concern basis of accounting as the auditor providing assurance about the entity's ability to continue as a going concern.

We also note that, based on the proposal, every auditor's report (when no material uncertainty has been identified) will discuss going concern in three different sections of the report. First, as part of *Responsibilities of Management and Those Charged with Governance for the Financial Statements*; second, as part of *Auditor's Responsibilities for the Audit of the Financial Statements*; and third, within the new *Going Concern* section. This could be confusing to a user of the financial statements. As another alternative to consider, the new required *Going Concern* section could include a discussion of management's responsibility related to going concern (including management's determination that the going concern basis of accounting is appropriate), the auditor's responsibility related to going concern (including a statement that management's use of the going concern basis of accounting is appropriate and that the auditor has not identified a material uncertainty). In order to address the concern we expressed above related to a possible interpretation of the auditor's statement as assurance on the viability of the entity to continue as a going concern, we again recommend the inclusion of the words "based on the audit evidence obtained," in the discussion of the auditor's responsibilities. With this proposal, the extant going concern statements in the sections of the report on management's and auditor's responsibilities could be removed.

Q14: *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 and 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?

A: No. As stated above in our General Observations, we do not believe that the requirement in paragraph 33(b)(ii) of the Proposed Standard, for the auditor to describe how the auditor evaluated management's assessment of the entity's ability to continue as a going concern (when the auditor has concluded that no material uncertainty exists), is sufficiently scalable to the auditor's risk assessment related to going concern.

In addition, we believe such disclosure may not be understandable by a financial statement user in all cases, when the auditor has concluded that no material uncertainty exists. In these cases, there can be a wide range of scenarios. For example, for one entity, it may be fairly straightforward to evaluate the identified events and conditions and conclude that there is no material uncertainty. For another entity, this evaluation and conclusion may require significant auditor effort and judgment. For the auditor, these situations may be completely different in terms of the related risk assessment and extent of auditor judgment applied and further audit procedures performed. However, a user might not be able to discern these differences simply based on the auditor's description of their evaluation or understand the significance of the described audit procedures. We note that existing standards ISA 701 (key audit matters) and ISA 706 (Revised) (emphasis of matter) provide guidance on how an auditor may share additional information in the auditor's report, related to their going concern assessment. We believe that rather than requiring the report disclosure proposed in paragraph 33(b)(ii) in all cases, a better alternative is to allow the auditor to include additional information related to going concern in the report in accordance with ISA 701 or 706 when, *in the auditor's judgment*, additional information related to going concern would be useful and relevant to financial statement users.

Further, in order to describe the auditor's going concern evaluation, the auditor may be in a position of disclosing original information that has not been disclosed by the entity. We recommend that additional transparency in this area should be driven by management's financial statement disclosures. This also applies to the requirement in paragraph 34(d) in the Proposed Standard that requires the auditor to describe how they evaluated management's assessment of the entity's ability to continue as a going concern when a material uncertainty has been identified.

For these reasons, we do not believe that the proposed requirement to 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 and when a material uncertainty exists) enhances transparency in the auditor's report in a way that is understandable and meaningful to financial statement users.

Finally, we believe that these proposed requirements should <u>not</u> be extended to also apply to audits of financial statements of entities other than listed entities.

Request for General Comments

Q17(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.*

A: With anticipated issuance of the final standard in December 2024, we recommend that the effective date should be no earlier than for audits of financial statements with periods beginning on or after December 15, 2026.

We would be pleased to respond to any questions regarding our observations noted within this letter. If there are any other questions regarding this subject, please contact Matthew Schell at 202.779.9930 or matthew.schell@crowe.com or Linda Poeschel at 630.586.5268 or linda.poeschel@crowe.com.

Sincerely,

Crowe LLP

Crowe LLP