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Mr. Willie Botha
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International Auditing and Assurance Standards Board
529 Fifth Avenue, 6th floor
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Exposure Draft: Proposed International Standard on Auditing 570 (Revised 202X), Going Concern, and Proposed Conforming and Consequential Amendments to Other ISAs

Dear Mr. Botha:

Ernst & Young Global Limited, the central coordinating entity of the Ernst & Young organization, welcomes the opportunity to offer its views on the Exposure Draft, *Proposed International Standard on Auditing 570 (Revised 202X), Going Concern, and Proposed Conforming and Consequential Amendments to Other ISAs* (ED-570), issued by the International Auditing and Assurance Standard Board (IAASB).

We support the IAASB's issuance of ED-570 as we believe there are valuable enhancements that can be made to modernize and strengthen the auditor's work and reporting related to going concern. However, because there is an interrelationship with accounting frameworks as it relates to addressing auditor responsibilities for going concern, we recommend that the IAASB continue to engage with the International Accounting Standards Board (IASB) on the importance of commencing a project to clarify going concern requirements in IFRS. Although we agree with many of the proposals to enhance auditor responsibilities related to going concern independently of how it is dealt with in the financial statements, enhancements to accounting frameworks would facilitate a more robust basis for the auditor's responsibilities related to going concern, particularly to establish a more robust foundation for increased transparency in the auditor's report.

As stated in our response to Q13, we continue to have concerns about requiring the auditor to make explicit statements in the auditor's report when the equivalent conclusions are not required to be explicitly stated by management in the financial statement disclosures. Fundamentally, if management is not required to make explicit statements regarding the entity's ability to continue as a going concern under the applicable financial reporting framework, we question whether it is appropriate for the auditor to do so. However, if the statements are to be added, we believe additional explanatory wording (related to the auditor's inherent limitations to predict future effects of events or conditions) accompanying these statements is needed to avoid any potential misunderstanding by users.

Finally, as stated in our response to Q4, while we agree that for intended users of audited financial statements of listed entities there is a public interest benefit in providing more informational content about the auditor's work and inclusion of additional commentary about the auditor's evaluation of management's assessment of the entity's ability to continue as a going concern in the auditor's report, we feel strongly that the reporting requirements for the auditor need to be more closely tied to the reporting requirements of management, consistent with our comments above. We see a significant risk of unintended consequences, including widening the expectation gap[1], should auditor reporting requirements be expanded in a manner that would put the auditor in the position of disclosing information about the entity's viability that is not required to be included in the financial statements. Therefore, we suggest that there is an opportunity for greater alignment between auditor and management responsibilities by using the requirements of ISA 701, *Key Audit Matters* as the foundation for the auditor reporting requirements in these circumstances.

Our other substantive concerns with ED-570 include:

- We believe the new description of the phrase "may cast significant doubt" may unintentionally narrow the scope of events and conditions the auditor is required to identify to only those that the auditor is certain will require remedial actions. (Refer to our response to Q5).
- We do not believe the standard sufficiently acknowledges the analysis and judgment needed by the auditor to identify events and conditions that may cast significant doubt. We believe, for consistency with ISA 315 (Revised 2019), that the auditor needs to apply an appropriate analysis to events and conditions identified through risk assessment procedures and think about them through the lens of which events and conditions could be relevant to going concern in order for the auditor to properly identify the "events and conditions that may cast significant doubt on the entity's ability to continue as a going concern". However, we don't believe this analysis is clear in paragraph 11 (or in the related application material) of ED-570. (Refer to our response to Q6).

Our responses to the specific questions on which the IAASB is seeking feedback are set out below.

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[1] As described in the IAASB Discussion Paper on *Fraud and Going Concern in an Audit of Financial Statements*, the audit expectation gap is "the difference between what users expect from the auditor and the financial statement audit, and the reality of what an audit is" (page 11).

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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?

We agree that the proposals in ED-570 are responsive to the public interest as set out in Appendix 1, except as explained in our specific responses to the following questions:

- Q5 as it relates to AB.4: "Material Uncertainty Related to Going Concern" and Other Terminology in ISA 570 (Revised)
- Q6 as it relates to AB.1: Risk Identification and Assessment
- Q13 and A14 as they relate to C.10: Transparency About Going Concern in the Auditor's Report

Q2. 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?

We believe the proposals in ED-570 will enhance and strengthen the auditor's judgments and work related to going concern in an audit of financial statements. However, in our view and consistent with our response to Q14 below, enhancements to the ISAs alone are not likely to have a substantial effect on enhancing transparency about going concern or in eliminating the expectation gap.

As we included in our response to the IAASB's *Discussion Paper on Fraud and Going Concern in an Audit of Financial Statements* (dated 01 February 2021), we believe an information gap exists between the information that an entity is required to disclose about its going concern assessment and the information stakeholders need to understand the viability of an entity, because the threshold for disclosures specific to going concern is quite high. We believe this is a strong contributor to the expectation gap that exists with respect to the auditor's responsibilities for going concern.

We acknowledge and appreciate that the IAASB has engaged with the IASB on multiple occasions about potential enhancements to IFRS related to going concern. We also are appreciative that the IASB issued educational material that is helpful to explain the application of IFRS requirements to material uncertainties related to going concern. Nevertheless, we continue to believe that the accounting standards are in need of enhancement.

To address these gaps, and because there is an interrelationship with accounting frameworks as it relates to addressing auditor responsibilities for going concern, we recommend that the IAASB continue to engage with the IASB on the importance of commencing a project to clarify going concern requirements in IFRS. We believe that robust management assessments are essential to the auditor being able to perform robust evaluations of those assessments, and both are essential to high levels of transparency about an entity's ability to continue as a going concern.

Considering recent economic developments and uncertainties, we believe it is increasingly important for the IASB to revisit the IFRS requirements that address going concern. In that case, the following may be considered:

- The difference between the material uncertainty threshold and liquidation basis of accounting threshold. Currently, perceptions may exist that the disclosure of a material uncertainty may become a self-fulfilling prophecy of an entity's failure.
- The threshold(s) for when disclosures about the entity's ability to continue as a going concern, and management's assessment thereof, are required.
- The location of the going concern disclosures, in particular, whether there is a need to present in one place all information relevant to the going concern assessment.
- The entity-specific information to disclose about going concern (e.g., events and conditions identified, significant assumptions).
- The period covered by the going concern assessment.

To effectively address user needs for information about an entity's ability to continue as a going concern, greater transparency in the financial statements about management's assessment is necessary first, in our view, for the auditor to substantially increase transparency about the work performed to evaluate that assessment. We see a significant risk of unintended consequences, including widening the expectation gap, should auditor reporting requirements be expanded in a manner that would put the auditor in the position of disclosing information about the entity's viability that is not included in the financial statements, or is not included in the context of going concern (refer also to our response to Q14 for our concerns regarding the current auditor reporting proposals for audits of listed entities).

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?

Yes, we believe the proposed standard is scalable.

Q4. Do the requirements and application material of ED-570 appropriately reinforce the auditor's application of professional skepticism in relation to going concern?

We believe the requirements and application material of ED-570 appropriately reinforce the auditor's application of professional skepticism in evaluating management's assessment of going concern and appropriately provide a link to the relevant requirements in ISA 315 (Revised 2019) and ISA 540 (Revised), except for the revisions we are suggesting to the application material to ED-570 paragraph 11 as part of our response to Q6. We believe a robust understanding of the entity and its environment and the auditor's identification of events or conditions related to going concern is essential to the auditor's ability to exercise appropriate professional skepticism when evaluating management's assessment of going concern.

Q5. 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"?

We support the definition of “Material Uncertainty (Related to Going Concern)” in ED-570.

However, we have concerns with the new application material in paragraph A5 of ED-570 that describes the phrase “may cast significant doubt” used in the definition of Material Uncertainty (Related to Going Concern). The explanation implies that the auditor needs to make a definitive determination about whether the entity will be unable to meet its obligations and continue its operations, and only when the auditor is certain that the entity will not be able to meet its obligations (without taking remedial actions) that the threshold of “may cast significant doubt” is reached. As a result, we have concerns that this new description of the phrase “may cast significant doubt” may have unintended consequences of inappropriately narrowing the scope of events and conditions the auditor is required to identify to only those that the auditor is certain will occur and therefore require remedial actions.

Acknowledging that the events and conditions that lead to a material uncertainty are often not certain to happen, but could happen, we suggest revising the wording in paragraph A5 of ED-570 as follows:

> For the purposes of this ISA, the phrase “may cast significant doubt” is used in circumstances when the individual or collective magnitude of identified events or conditions that have occurred or may occur, is such that the entity would ~~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.

In addition, we suggest that the IAASB consider adding application material to facilitate the auditor’s determination of when the entity “would be unable” to continue its operations as we believe that application material is necessary to help guide the auditor through this evaluation. In particular, we believe that how the auditor considers likelihood of the identified events and conditions occurring is important to this evaluation, and that considering whether there is a “reasonable possibility” of occurrence is the appropriate threshold.

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?

Generally, we believe that ED-570 appropriately builds on the foundational requirements in ISA 315 (Revised 2019) in addressing risk assessment procedures and related activities. We believe the proposed revisions improve the relationship and integration with ISA 315 (Revised 2019).

However, we have concerns that ED-570 has inappropriately narrowed the scope of events and conditions the auditor is required to identify to only those that the auditor is certain will occur and therefore require remedial actions (refer also to our response to Q5).

In addition to our concern about the definition of “may cast significant doubt”, we also do not believe that the standard sufficiently acknowledges the analysis and judgment needed by the auditor to identify events and conditions that may cast significant doubt. For consistency with ISA 315 (Revised 2019), we believe the auditor needs to apply an appropriate analysis to events and conditions identified through risk assessment procedures and think about them through the lens of which events

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and conditions could be *relevant* to going concern (including different scenarios or combinations of the identified events and conditions), in order for the auditor to properly identify the events and conditions that may (either individually or in some combination) cast significant doubt on the entity's ability to continue as a going concern.

We acknowledge that paragraph A6 of ED-570 states that "some events or conditions may not be significant when considered individually, however when considered collectively with other events or conditions they may cast significant doubt on the entity's ability to continue as a going concern." However, we don't believe this analysis is clear in paragraph 11, or the related application material, of ED-570.

To summarize, we believe that the auditor needs to perform a two-step analysis:

- First, as part of the risk assessment process, identify and accumulate events and conditions that are relevant to the assessment of the entity's ability to continue as a going concern.
- Second, evaluate the identified events and conditions and determine whether the individual or collective magnitude is such that the entity "would 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".

We also believe that paragraph A6 of ED-570 could be enhanced to acknowledge that the auditor may identify events and conditions relevant to going concern for evaluation and then may conclude that there is no individual or collective effect on the entity's ability to continue as a going concern (i.e., the auditor concludes there are no events and conditions that may cast significant doubt on the entity's ability to continue as a going concern).

We also suggest that the IAASB consider adding application material to clarify the documentation expectations related to this requirement. We believe documentation consistent with ISA 315 (Revised) paragraph 38(d) is appropriate (i.e., documenting the identified events and conditions that may cast significant doubt on the entity's ability to continue as a going concern and the rationale for the significant judgments made in their identification).

Q7. 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)?

Yes, we 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 to the date of approval of the financial statements. However, we acknowledge that the proposed change will create an inconsistency between the commencement date required by the auditing standards and the commencement date required by certain financial reporting frameworks. Refer to our response to Q2 regarding the importance of commencing a project to clarify going concern requirements in IFRS.

In the absence of alignment with the applicable reporting framework, we believe that guidance could be expanded to assist the auditors in situations where an extension of management's assessment is necessary for the auditor to comply with the auditing standards but may not be necessary for management to comply with the applicable financial reporting framework.

Specifically, the guidance should address the nature and extent of procedures the auditor requests management to undertake in extending their assessment as required by paragraph 21 of ED-570. When management has complied with the applicable reporting framework (e.g., IFRS) by completing their assessment taking into account all available information about the future, which is at least twelve months from the end of the reporting period (refer to paragraph 26 of IAS 1), and there is no further information identified by the auditor or management that suggests management's assessment would differ when extended to twelve months from the date of approval of the financial statements, we believe that no further procedures would be required of management or the auditor.

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?

Yes, we support the 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.

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?

We believe that the concepts from ISA 540 (Revised) are appropriately incorporated in ED-570 for the auditor's evaluation of the method, assumptions, and data used in management's assessment of going concern and are important to the auditor's evaluation of management's assessment. When events or conditions are identified that may cast significant doubt on the entity's ability to continue as a going concern, management applies estimation concepts in its assessment of going concern. Therefore, we believe the requirements in ED-570 paragraph 19 to evaluate the method, assumptions and data used by management are applicable.

Q10. 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?

We support the enhanced requirements in paragraphs 26 and 27 of ED-570 for the auditor to, as part of evaluating management's plans for future actions, 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 to maintain or provide the necessary financial support.

Overall, we are also supportive of the enhancements made to the application material. However, we have the following specific suggestions related to the application material related to evaluating management's plans for future actions:

- Paragraph A48 of ED-570: We have concerns about the inclusion of the following example procedure in the bullet point list in paragraph A48, as we believe this procedure may imply that an agreement to provide support is required to be legally binding and enforceable and as such would go further than what is required by paragraph 27 of ED-570 and the supporting application material in paragraph A52 to A54:

  > Confirming the existence, legality and enforceability of arrangements to provide or maintain financial support with third parties or related parties, including the entity's owner-manager and evaluating the financial ability of such parties to provide additional funds (also see paragraphs A49–A51).

  We suggest that supporting application material regarding financial support by third parties or related parties, including the entity's owner-manager be confined to the supporting application material section that supports paragraph 27 (i.e., we suggest that the bullet point be removed from the bullet list in paragraph A48) and that appropriate linkages be made between A48 and paragraph 27 and its supporting application material in A52 to A54.

- Paragraph A50 of ED-570: We believe that the application material regarding obtaining sufficient appropriate audit evidence that borrowing facilities will be renewed should be expanded to clarify that the auditor considers the rationale for the finance provider refusing to provide a confirmation in determining whether inquiries of the finance provider alone is sufficient. When the rationale is specific to the circumstances of the entity, the auditor may need to also make inquires of management about alternative strategies or sources of financing that may mitigate the significance of identified events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. In making this determination, the auditor may consider whether:

  - The entity is dependent on borrowing facilities shortly after renewal
  - Correspondence between the lender and the entity indicates that the last renewal of facilities was agreed with difficulty
  - Since the last review of facilities, the lender has imposed additional conditions as a prerequisite for continued lending
  - The entity has breached the terms of borrowing covenants, or there are indications of potential breaches
  - The availability of credit in the market has deteriorated since the entity last obtained financing

We also have the following specific suggestions related to the application material related to financial support by third parties or related parties, including the entity's owner-manager:

- Paragraph A52 of ED-570: Regarding the third party or related parties' intent to provide financial support described in paragraph A52, we believe that specific considerations for evaluating the third party or related parties' intent when the support being provided is not legally binding should be included in the application material. Specifically, the auditor should consider the business rationale for the third party or related party to provide (and continue to provide) such support. The use of letters of support (i.e., a commitment to provide support that is not legally binding) is widely used in practice and providing additional specific considerations and the extent of evidence needed to support those considerations will assist in driving consistency in practice.
- Paragraph A53 of ED-570: Regarding the procedures the auditor may perform to obtain sufficient appropriate audit evidence about the ability of the third parties or related parties to provide financial support, we believe that:
  - Additional guidance is needed on the extent of evidence that the auditor should obtain, specifically:
    - The extent of evidence that is needed to support the ability of third parties to provide financial support, taking into consideration that the auditor's access to financial and non-financial information about the third party providing the support may be limited to what is publicly available and that third parties or others that are not part of the entity are not required to respond to inquiries made by the auditor.
    - Factors the auditor may consider in determining the extent to which inquiries made of management should be corroborated.
  - Clarification about who inquiries should be directed to, specifically as it relates to inquiries about the business rationale for the financial support and the basis on which such support is established (first bullet point in A53) and the ability to provide the financial support in a timely manner for the entity to meet its obligations (second bullet point in A53).
  - Additional guidance is needed on procedures the auditor may perform when information provided by others is for periods that are shorter than the auditor's going concern assessment period. Commitments to provide support are often obtained from a holding company in the form of a letter of support. The auditor of the entity that is providing the support would have performed an evaluation of management's assessment of the entity providing the support's ability to continue as a going concern, however, due to different approval dates, the period of assessment is unlikely to be the same. Guidance on procedures to be performed on the remaining period by either the auditor or to be requested to be performed by the auditor of the supporting entity would help drive consistency in practice.

Q11. 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 believe the enhanced requirements and application material strengthen the communication among the auditor, management and TCWG and encourage early transparent and two-way communication with TCWG when events or conditions that may cast significant doubt on the entity's ability to continue as a going concern are identified.

However, we recommend that the communication required by paragraph 39(b) of ED-570 be revised to be more consistent with the required external communication in the auditor's report (as required by paragraph 33(a)(i) of ED-570). We recommend the following revisions:

> 39. Unless all those charged with governance are involved in managing the entity, [FN 12 excluded] the auditor shall communicate with those charged with governance events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern. Such communication with those charged with governance shall include the following: (Ref: Para. A87–A88) …
>
> (a) Whether, based on the audit evidence obtained, the auditor concluded that the events or conditions constitute a material uncertainty;
>
> (b) The auditor's conclusion as to w~~W~~hether management's use of the going concern basis of accounting is appropriate in the preparation of the financial statements; …

Q12. 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 are supportive of 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.

Q13. This question relates to the implications for the auditor's report for audit 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?

In general, we continue to have concerns about requiring the auditor to make explicit statements in the auditor's report when the equivalent conclusions are not also required to be explicitly stated by management in the financial statement disclosures. Fundamentally, if management is not required to make explicit statements regarding the entity's ability to continue as a going concern under the applicable financial reporting framework, we question whether it is appropriate for the auditor to do so.

However, we acknowledge that the two explicit statements within the new requirement in paragraph 33(a) of ED-570 address matters that are implicit in management's preparation of the financial statements (i.e., management's preparation of financial statements in accordance with the going concern basis of accounting implies that management has determined that basis is appropriate; and the lack of disclosure of a material uncertainty related to going concern implies that management has not identified such a material uncertainty). We also acknowledge that the "Auditor's Responsibility for the Audit of the Financial Statements" section of the auditor's report includes responsibilities related to going concern that are consistent with the explicit statements proposed. For these reasons, we generally support the inclusion of the two explicit statements for audits of all entities whereby the auditor's conclusions about going concern are explicitly communicated in a separate section on Going Concern in the auditor's report. However, we believe additional explanatory wording accompanying these statements is needed to avoid any potential misunderstanding by users, which could lead to widening of the expectation gap.

To address our concerns, and to make it clear that the auditor's responsibility regarding the conclusion as to whether a material uncertainty exists has inherent limitations, we believe that explanatory wording similar to that in paragraph 7 of ED-570 should also be required to be included in the Going Concern section of the auditor's report for all entities, as follows:

> <u>Nevertheless, the auditor cannot predict future events or conditions. Accordingly, the absence of a reference in our auditor's report to an identified material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern cannot be viewed as a guarantee as to the entity's future ability to continue as a going concern.</u>

Adding this language also creates greater alignment with the statement required to be included in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of the auditor's report in accordance with ISA 700 (Revised), *Forming and Opinion and Reporting on Financial Statements* paragraph 39 (b)(iv) that "future events or conditions may cause an entity to cease to continue as a going concern".

As an alternate to the suggestion above, and to reduce repetition, the IAASB could consider accumulating all of the statements related to going concern in the auditor's report (i.e., management's responsibilities, the auditor's responsibilities and the auditor's conclusions) to be presented collectively in the Going Concern section of the report.

Finally, we agree that standardizing the statements in the auditor's report that apply to all entities will enable greater consistency and comparability across auditor's reports globally.

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 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 agree that for intended users of audited financial statements of listed entities there is a public interest benefit in providing more informational content about the auditor's work and inclusion of additional commentary about the auditor's evaluation of management's assessment of the entity's ability to continue as a going concern in the auditor's report. However, we feel strongly that the reporting requirements for the auditor need to be more closely aligned to the reporting requirements of management, consistent with our overarching view expressed in our response to Q2 and as further explained below.

We continue to believe that the accounting standards are in need of enhancement. If users desire more information than what we support in our response below about an entity's ability to continue as a going concern for listed entities or for all entities, enhancements are first needed to the disclosure requirements for the financial statements. Increasing management's disclosure responsibilities will also provide appropriate context for the auditor to further increase transparency about the work performed to evaluate events or conditions that may cast significant doubt on an entity's ability to continue as a going concern.

When a material uncertainty exists (listed entities)

When a material uncertainty exists, we support the inclusion of a description in the auditor's report of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern. In this circumstance, we believe the proposed requirement for the auditor to include more informational content in the auditor's report is aligned with management's responsibilities under applicable accounting frameworks to disclose material uncertainties related to events or conditions that may cast significant doubt about the entity's ability to continue as a going concern.

When no material uncertainty exists (listed entities)

We agree that users are seeking more information about the auditor's work in relation to 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, but no material uncertainty exists. However, we believe that addressing this requires consideration of the disclosure requirements of the applicable accounting framework that address this circumstance.

We see a significant risk of unintended consequences, including widening of the expectation gap, should auditor reporting requirements be expanded in a manner that would put the auditor in the position of disclosing information about the entity's viability that is not required to be included in the financial statements. In other words, when the auditor has evaluated the disclosures in the financial statements about the events or conditions that may cast significant doubt to be adequate in view of the requirements of the applicable financial reporting framework (in accordance with paragraph 31 of ED-570), the auditor should not be required to disclose information about the entity's ability to continue as a going concern that is not included in management's disclosures. Further, the auditor should not be placed in the position of referring in the auditor's report to information related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern that is disclosed in the financial statements but is not described in the context of its relevance to management's going concern assessment.

As stated in paragraph 83 of the Explanatory Memorandum to ED-570, we acknowledge and agree with the IAASB's consideration of the agenda decision of the IFRS Interpretations Committee and the

IFRS Foundation education material that clarify and address the going concern disclosure requirements in IAS 1 in developing the application material for ED-570. We note that these materials highlight (emphasis added) "that if, after considering planned mitigating actions, management's conclusion that there are no material uncertainties involves *significant judgement*, then the disclosure requirements in paragraph 122 of IFRS IAS 1, *Presentation of Financial Statements* (IAS 1) would apply to the judgements made in concluding that no material uncertainties remain…".

Therefore, when management's conclusion that a material uncertainty does not exist represents a significant judgment, the disclosures within IFRS financial statements should include a description of the judgments made in the context of management's going concern assessment. When management's conclusion does not represent a significant judgment, the events and conditions identified are not required to be disclosed in the context of management's going concern assessment. Instead, such events and conditions are subject to disclosure requirements that apply based on their nature (e.g., disclosures related to debt, capital management, uncertain estimates, contingent liabilities).

When management is not required to disclose events and conditions in the context of their applicability to their going concern assessment, we strongly believe the auditor's disclosure of such events and conditions in the Going Concern section of the auditor's report is a form of original information. We acknowledge that the ISAs are not written in the context of IFRS but believe this is a relevant example to illustrate the strong possibility of the auditor's disclosures in the auditor's report including information that is appropriately not disclosed, or not disclosed in the context of going concern, in the financial statements.

We believe that misalignment between management's disclosures and the auditor's disclosures in the auditor's report will cause increased misunderstanding among users of the auditor's report (i.e., widening of the expectation gap). Because of the risk of widening the expectation gap, we agree with the new application guidance that was added to ED-570 to draw attention that it is appropriate for the auditor to seek to avoid providing original information about the entity in the auditor's report when describing how the auditor evaluated management's assessment about going concern (see paragraphs A76–A77 of ED-570). However, we don't believe this application material is enough to effectively remove the risk of the auditor being in a position of providing original information given the proposed requirements in ED-570.

To remove the risk of providing original information and our related concerns expressed above, we believe the IAASB should revise the reporting requirements to achieve greater alignment between auditor and management responsibilities by using the requirements of ISA 701, *Key Audit Matters,* as the foundation for the auditor reporting requirements in these circumstances.

Due to the close alignment with IAS 1 paragraph 122, we agree with the concept in the new application material that was added in paragraph A62 of ED-570 that clarifies that, in view of the requirements of the applicable financial reporting framework, "significant management judgment" is an appropriate threshold 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.

Areas of significant management judgment are often areas of significant auditor judgment as evidenced by paragraph 9 of ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*, which requires that (emphasis added):

> The auditor shall determine, from the matters communicated with those charged with governance, those matters that required significant auditor attention in performing the audit. In making this determination, the auditor shall take into account the following: (Ref: Para. A9–A18) …
>
> (c) Significant auditor judgments relating to areas in the financial statements that involved significant management judgment, including accounting estimates that are subject to a high degree of estimation uncertainty. (Ref: Para. A23–A24) …

In summary, we believe that the IAASB should revise the requirement in ED-570 paragraph 33(b), and the related application material, to align the auditor's reporting requirements for situations when, for an audit of financial statements of a listed entity, 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, to require additional information in the auditor's report only in situations when the auditor has applied *significant auditor judgment* in making that conclusion.

Other than listed entities

We do not support extending this requirement to also apply to audits of financial statements of entities other than listed entities. We agree with the IAASB (as stated in paragraph 73 of the Explanatory Memorandum to ED-570) that intended users of financial statements of entities other than listed entities may have access to this type of information through direct interaction with management and those charged with governance, thereby obviating the need for the additional commentary in the auditor's report. Regardless, because reporting key audit matters is currently not required for other than listed entities, we don't believe expanded reporting on going concern to other than listed entities should be required at this time. (However, if the expansion of key audit matters to other than listed entities is considered in the future, then the expansion of reporting on going concern could also be considered).

Q15. 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.

If our suggestions in Q14 are not taken, we believe it is 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. We believe that the consequential amendments proposed to clarify the relationship between ED-570 and ISA 700 (Revised), ISA 701, ISA 705 (Revised) and ISA 706 (Revised) effectively clarify that ED-570 is applicable when reporting matters related to going concern.

However, we suggest in our response to Q14 that the IAASB revise the auditor's reporting requirement for situations when, for an audit of financial statements of a listed entity, events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but the auditor concludes that no material uncertainty exists, to require additional information in the auditor's report only in situations when the auditor has applied *significant auditor judgment* in making that conclusion. If this suggestion is implemented, further enhancements to the application material will likely be needed to clarify the relationship of the revised reporting requirement with ISA 701.

Q16. 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.

Our additional comments relating to ED-570 include:

- We strongly suggest that the IAASB provide application material to paragraph 30 of ED-570 to explain the thought process the auditor should follow in concluding whether a material uncertainty exists, consistent with the IAASB's decision to include additional guidance to help the auditor conclude on "event and conditions that may cast significant doubt" in paragraph A5. We note that there is some guidance in paragraph A62 explaining management's considerations when deciding whether a material uncertainty exists, but we feel it is very important to include similar application guidance from the auditor's perspective.
- We noted that there are no specific documentation requirements in ED-570. While we acknowledge that the overarching documentation requirements in ISA 315 (Revised), ISA 500 and ISA 230 apply to the requirements in ED-570, we believe it's important to clarify in ED-570 the auditor's responsibilities to document:
  - The identified events and conditions that may cast significant doubt on the entity's ability to continue as a going concern and the rationale for the significant judgments made in their identification (refer also to our response to Q6); and
  - The auditor's significant judgments in concluding whether a material uncertainty exists related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern.
- As it relates to the example in paragraph A6 of ED-570 regarding a cyber-attack, we note that often entities experience attempts, or attacks, to gain unauthorized access to an entity's IT systems and information in them that are not successful as a result of the entity's cybersecurity measures. It is not until an attack is successful, or a cyber breach occurs, that the entity may experience operational or financial disruption. We suggest that the example be revised as follows:

  Significant or sustained business interruption due to a <u>successful</u> cyber-attack (e.g., denial of access to information or inability to provide service).

  We also note that while this example considers the operational implications of a successful cyber-attack, it is important for the auditor to consider the potential financial implications as well. We suggest that the bullet be expanded to consider the financial implications. For example, a successful cyber-attack may directly impact the financial position of the entity (e.g., due to a change in key financial ratios as a result of the theft of cash; pending litigation, contingent liabilities or fines and penalties resulting from the loss of personal data; or deterioration in the value of compromised assets such as intellectual property) or may indirectly impact the financial position of the entity (e.g., due to negative cash flows resulting from reputational damage or loss of customers).

- We suggest the following revision to the first sentence of paragraph A9 of ED-570:

  > The risk assessment procedures and related activities assist the auditor in determining whether the existence of a material uncertainty ~~management's use of the going concern basis of accounting~~ is likely to be an important issue and its impact on planning the audit."

  In our view, the risk of a material uncertainty existing is more likely to have a greater impact on the audit than the risk of the going concern basis of accounting being inappropriate. This suggested revision aligns with the auditor's responsibility, as defined in paragraph 6 of ED-570, "to conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern."

- Paragraph A12 of ED-570 includes the following example:

  > Applying predictive models to assess an entity's financial condition or to understand the impact of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (e.g., models for bankruptcy prediction).

  In our view, the auditor is unlikely to use predictive models when designing and performing risk assessment procedures. This example would be more appropriate as an example to paragraph A36 of ED-570 where the auditor considers and evaluates management's methods and assumptions. Additionally, we suggest the following revisions to the example:

  > Applying predictive models to ~~assess~~ evaluate an entity's financial condition or to understand the impact of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (e.g., models for ~~bankruptcy~~ prediction of bankruptcy or insolvency).

- Illustration 2 of the Appendix to ED-570 includes the following example:

  > Going Concern
  >
  > We draw attention to Note X in the financial statements, which describes the political and economic uncertainties faced by the Company and the range of mitigating actions that have been deployed to address the effects on the Company's business activities.

  In our view, this example includes an unlikely scenario as political and economic uncertainties are more likely to be addressed in other information rather than financial statement disclosures and does not present a realistic example for which management may take mitigating actions. We believe the example should be revised to a more likely scenario, such as an upcoming material debt refinancing, to better describe the intended circumstance.

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- In the Conforming and Consequential Amendments Arising from Proposed ISA 570 (Revised 202X), we suggest the following revision to the penultimate bullet point in paragraph A24 of ISA 210, *Agreeing the Terms of Audit Engagements*:

  … For an audit of financial statements of a listed entity, t~~T~~he 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). [FN 8 omitted]

We also have the following editorial comments for the IAASB's consideration:

- We suggest the following revision to the first sentence of paragraph 3 of ED-570:

  Some financial reporting frameworks contain an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern, and include standards regarding matters to be considered…"

- We suggest the following revision to paragraph 32(a) of ED-570:

  …to continue as a going concern and management's plans for future actions to ~~deal with~~ address these events or conditions; and…

- We suggest the following revision to paragraph 32(b) of ED-570:

  …to continue as a going concern and, therefore, that ~~it~~ the entity may be unable to realize its assets and discharge its liabilities in the normal course of business.

Q17. 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.

No comment.

(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.

We believe that an effective date for periods beginning on or after 15 December 2026 would provide a sufficient period to support effective implementation if the final revised ISA 570 is approved as targeted in December 2024. Should the approval date be deferred and occur later than June 2025, we believe that an effective date of audits of periods beginning on or after 15 December 2027 may be more appropriate.

We also believe the IAASB should consider the effective date of the final revised ISA 570 in the context of its other standard-setting projects and the planned effective dates of other new and revised standards, such as ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial*

Statements due to the implications on auditor's reporting. Consideration needs to be given to the required collective amount of time that is appropriate to effectively implement the suite of standards that are planned to be finalized over the next 24 months in determining the appropriate effective dates for each of the respective standards.

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We would be pleased to discuss our comments with members of the International Auditing and Assurance Standards Board or its staff. If you wish to do so, please contact Eric Spiekman, Global Professional Practice (Eric.Spiekman@ey.com).

Yours sincerely,

Ernst & Young Global Limited