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Willie Botha — Program and Technical Director
International Auditing and Assurance Standards Board
International Federation of Accountants
529 Fifth Avenue, 6th Floor
New York, NY 10017

Dear Mr. Botha,

IAASB Exposure Draft of Proposed International Standard on Auditing 570, *Going Concern*

Deloitte Touche Tohmatsu Limited ("DTTL" or "we") is pleased to have the opportunity to provide comments on the Exposure Draft of Proposed International Standard on Auditing (ISA) 570, *Going Concern* ("the ED" or "the proposed standard"), issued by the International Auditing and Assurance Standards Board ("IAASB" or "the Board") in April 2023.

DTTL has been highly supportive of the IAASB's project in this area and the expansion of procedures performed by the auditor related to going concern, especially related to strengthening the auditor's evaluation of management's assessment of an entity's ability to continue as a going concern (further referred to as "management's assessment"). We also support the increased focus on risk assessment in the proposed standard, including new requirements in paragraph 12 that describe specific risk assessment procedures to be performed that focus on the identification of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

We appreciate and commend the IAASB's substantial endeavors that resulted in the release of the ED for comment. Specifically, DTTL believes that the holistic approach adopted by the IAASB to solicit the views of various stakeholders, commencing with the release in September 2020 of the Discussion Paper, *Fraud and Going Concern in an Audit of Financial Statements: Exploring the Differences Between Public Perceptions About the Role of the Auditor and the Auditor's Responsibilities in a Financial Statement Audit,* resulted in insights that led to the necessary advancement of standard-setting activities related to going concern.

We believe the enhancements and clarifications in the proposed standard will strengthen the auditor's efforts to drive further audit quality improvements when performing audit procedures related to going concern. We do, however, have some significant concerns about the proposed standard, which we have outlined below, in addition to more detailed comments provided in the Appendices to this letter.

SIGNIFICANT CONCERNS:

Description of "close calls" in the auditor's report when "events or conditions have been identified," even when no material uncertainty exists *(paragraph 33(b) in the proposed standard and question 14 in the "Request for Comments")*

> The proposed standard requires that, in the auditor's report for listed entities, the auditor include a description of how they evaluated management's assessment "when 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," i.e., including in situations when it did not require significant judgment on the part of the auditor to make that conclusion. We do not support the requirement to expand auditor reporting to include "close call" situations that did not require significant auditor attention and were not of most significance in the audit.
>
> First, while we understand that the intention is to provide transparency to users of the financial statements, we are concerned that this requirement could result in potentially confusing users instead of helping them. There can be a range of circumstances where "events or conditions exist" (e.g., those where it is simple to eliminate significant doubt such as through obtaining a debt covenant waiver) versus others where more significant judgment was necessary to make the determination that "events or conditions identified did not result in material

uncertainty." Requiring the same auditor reporting for what could be a broad range of circumstances is likely to result in user misunderstanding of the significance of an event or condition.

There may also be unduly adverse consequences for the entities being audited. For example, the description in the auditor's report may resemble a negative emphasis of matter or other matter paragraph and users may misinterpret the information to mean that the entity is in financial distress, when in fact, no material uncertainty exists. This could lead to a negative effect on management's ability to carry out its plans and future actions (e.g., the inclusion of such language could affect management's ability to obtain necessary funding going forward).

In addition, it is not clear if the term "event or condition" is referring to "any events or conditions that may have been identified throughout the year" or just to "an event or condition that exists as of the date of approval of the financial statements." This distinction is meaningful, for example, when an event or condition is identified during the audit, but the event or condition is fully resolved prior to the date the financial statements are approved[1]. Based on one interpretation of the new requirement, the auditor would nevertheless be required to add additional language to the auditor's report to comply with paragraph 33(b) – because an event or condition was identified <u>during the year</u>. Another interpretation would be that because the condition or event did not exist <u>as of the date of approval of the financial statements</u>, the requirement in paragraph 33(b) does not apply. We believe this lack of clarity could lead to inconsistent application of the requirement and confusion for auditors and users of the financial statements.

<u>Recommendations:</u>

Paragraph 80(a) of the Explanatory Memo accompanying the proposed standard describes that, even without the proposed requirements in paragraph 33(b) of this ED, the auditor can use ISA 701 to provide further transparency in a "close call situation." We believe that the key audit matter (KAM) requirements in ISA 701 offer the appropriate framework for the auditor to provide the desired transparency to users as it relates to the auditor's evaluation of going concern when events or conditions have been identified, but do not result in the existence of a material uncertainty, and when such evaluation requires significant auditor attention and is a matter of most significance in the audit. Increased transparency via a KAM is a mechanism that is well-understood by users. The use of KAMs for going concern matters could be enhanced by including guidance in the proposed standard indicating how the auditing of the existence of events or conditions when no material uncertainty exists could meet the definition of a KAM. This would enable communication in the auditor's report, when appropriate, instead of unnecessarily requiring communications about events or conditions which did not necessitate application of significant judgement to conclude that they did not result in a material uncertainty.

The IAASB's Fraud Task Force has proposed utilizing the existing KAM mechanism for providing increased transparency on fraud matters; we believe a similar approach could be taken for going concern, including providing additional application material in the proposed standard that highlights going concern matters as ones which are likely to meet the definition of a KAM. We believe consistency between the two standards would provide a helpful baseline for users when comparing audit reports, given that the same parameters would be considered by the auditor when reporting on both going concern and fraud.

Accordingly, we recommend deleting paragraph 33(b) and part of paragraph A1 of the proposed standard and instead including requirements similar to that being proposed by the IAASB's Fraud Task Force, as suggested below. The IAASB could also develop application material similar to that included by the Fraud Task Force. In the report illustration 2 (events or conditions have been identified but no material uncertainty exists), the sentence "[Description of 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).]" would also be removed.

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[1] For example, in June 2023 the auditor identifies that the entity has material debt coming due in May 2024 and does not have sufficient cash to repay the debt based on projected cash as of May 2024. In July 2023, the entity refinances its debt and extends the due date to 2030.

Implications for the Auditor's Report

Use of Going Concern Basis of Accounting Is Appropriate – No Material Uncertainty Exists

33. If the auditor concludes that the going concern basis of accounting is appropriate and no material uncertainty exists, the auditor shall include a separate section in the auditor's report with the heading "Going Concern", and~~:~~

~~(a)~~ ~~S~~s<u>s</u>tate that the auditor:

(i) *Concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and*

(ii) *Based on the audit evidence obtained, has not identified a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.*

~~(b) *For an audit of financial statements of a listed entity, if 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:*~~

~~(i) *Include a reference to the related disclosure(s), if any, in the financial statements; and*~~

~~(ii) *Describe how the auditor evaluated management's assessment of the entity's ability to continue as a going concern.*~~

<u>33A. When ISA 701 applies, the auditor shall determine whether any going concern related matters communicated with those charged with governance required significant auditor attention in performing the audit. This includes the identification of, and audit response to, events or conditions that may cast significant doubt on the entity's ability to continue as a going concern but that did not result in a material uncertainty. The auditor shall determine whether any such matters were of most significance in the audit of the financial statements of the current period and therefore are key audit matters.</u>

A1. ISA 701 deals with the auditor's responsibility to communicate key audit matters in the auditor's report. That ISA acknowledges that, when ISA 701 applies, a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern is, by its nature, a key audit matter. However, in such circumstances, the implications for the auditor's report are in accordance with this ISA. ~~In addition, for audits of financial statements of listed entities, if 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, this ISA requires the auditor to disclose under the heading of "Going Concern" within the auditor's report how the auditor evaluated management's assessment of the entity's ability to continue as a going concern.~~

International accounting framework should reflect more robust management responsibilities

DTTL believes that some of the current challenges related to going concern are due to a lack of clarity in the requirements in IFRS Accounting Standards. Management is responsible for the assessment of the entity's ability to continue as a going concern and the preparation of the financial statements in accordance with that assessment. Because of the lack of clarity in IAS 1, *Presentation of Financial Statements*, related to how management performs that assessment and what disclosures are required to be presented when there is a close call, auditors often look to requirements in the auditing standards to challenge management on the adequacy of management's assessment and related disclosures. Instead of accounting requirements being created indirectly via auditing standards, IFRS Accounting Standards should provide a clear framework which:

- Contains a more explicit requirement for the performance by management of an assessment of the entity's ability to continue as a going concern;

- Expands the time period of management's assessment to cover twelve months from the date of approval of the financial statements;
- Specifies that developments after the reporting date but before the financial statements are approved should, as necessary, be factored into the assessment of going concern even if they are not themselves adjusting events under the general requirements of IAS 10, *Events After the Reporting Period*;
- Defines "material uncertainty" (instead of having only a description) and provides guidance on when material uncertainties "may cast significant doubt" in a manner that aligns with the definition and application guidance included in this proposed standard; and
- Incorporates within IFRS Accounting Standards themselves the requirements to disclose the judgments made by management in "close calls" scenarios, which are currently encapsulated only in an IFRS Interpretation Committee Agenda Decision (July 2014) referring to the general requirements of paragraph 122 of IAS 1 on significant judgments made in the process of applying the entity's accounting policies.

Recommendation

We have conveyed our view on the importance of such changes to IFRS Accounting Standards as part of our September 2021 response to IASB's request for information *Third Agenda Consultation*[2]. We regret the IASB's decision not to add such a project to its work plan. We recommend that the IAASB, through the Monitoring Group and the Public Interest Oversight Board, continue to encourage the IASB to add to its agenda a project to align the timeline of the going concern assessment in IFRS Accounting Standards with the proposed change in commencement of management's assessment period, define clearly what is meant by "material uncertainty" and "significant doubt," and clarify within IFRS Accounting Standards themselves the requirement to disclose judgements made in "close call" scenarios. The application by management of a clear framework laid out in IFRS Accounting Standards related to going concern would help auditors evaluate more consistently management's assessment, plans, and disclosures. In addition, greater clarity on the disclosure required in case of "close calls" would provide financial statement users with more insights into an entity's future performance, which would serve the public interest.

Positive statement that "the use of the going concern basis of accounting is appropriate and the auditor has not identified a material uncertainty" *(paragraph 33(a) in the proposed standard and question 13 in the "Request for Comments")*

We support further transparency in the auditor's report as it relates to the auditor's conclusions related to going concern. However, we believe that it is also necessary to be transparent that the auditor's conclusion is not a guarantee of the entity's ability to continue as a going concern, because the auditor's conclusion is based on audit evidence obtained as of the date of our report and future events or conditions may negatively affect the entity's ability to continue as a going concern.

Recommendations:

We recommend moving the last two sentences of the auditor's responsibility related to going concern from the "Auditor's Responsibilities for the Audit of the Financial Statement" section of the auditor's report to the new section on going concern (or the "material uncertainty related to going concern" section when applicable). We believe this change will provide the important and necessary context for the auditor's conclusion, by clarifying that the absence of a material uncertainty related to going concern is not a guarantee about the entity's ability to continue as a going concern, and reminding the reader that the auditor's conclusion is based on audit evidence obtained as of the date of the auditor's report.

We recommend that Illustrations 1 and 2 in the ED be updated to include the following revisions (see also Appendix 3 for recommended consequential amendments to paragraphs 33 and 34, as well as other illustrations in the proposed standard):

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[2] See the DTTL comment letter posted on the IFRS website: IFRS - Request for Information and comment letters: Third Agenda Consultation. The IAASB's comment letter on the Third Agenda Consultation also expressed a recommendation that the IASB undertake a going concern research project.

Going Concern

Based on the audit evidence obtained, ~~W~~we have concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate~~. Based on the audit evidence obtained,~~ and we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. ***Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.***

Underlined or struck through = recommended change
Bold underlined = recommended addition taken from existing wording in the Auditor's Responsibility section of the report (note conforming amendments to ISA 700.39(b)(iv) may also be necessary)

Please see Appendix 1 – IAASB Request for Comments, Appendix 2 – Detailed Comments, including Editorial Comments, and Appendix 3 – Recommended Consequential Revisions Related to Auditor Reporting for further comments.

DTTL appreciates the opportunity to provide perspectives on the exposure draft and would be pleased to discuss this letter, including possible alternatives if the IAASB is not inclined to make any of the recommended changes described, with you or your staff at your convenience. If you have any questions, please contact me or Jen Haskell via email (mzietsman@deloitte.com or jhaskell@deloitte.com, respectively) or at +1 973-264-7153 or +1 203-451-4873, respectively.

Very truly yours,

Megan Zietsman

Megan Zietsman
Deloitte Global Audit & Assurance Quality, Risk and Regulatory Leader
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Appendix 1– IAASB Request for Comments

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?

Overall, we are supportive of the project, but have concerns with some of the proposals, as described in the Significant Concerns section of the cover note of this letter, as well as in our responses herein.

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?

Overall, we are supportive of the project, but have concerns with some of the proposals, as described in the Significant Concerns section of the cover note of this letter, as well as in our responses herein.

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?

We agree that going concern matters are relevant to all entities; however, we are concerned that some of the required procedures, specifically the evaluation of the methods, assumptions, and data used by management to perform its assessment, may not be scalable to entities of different sizes, and may not be relevant to all management assessments. See our responses to Questions 8 and 9 for our concerns and recommendations related to scalability. It would be helpful to provide some examples (as non-authoritative guidance supporting the proposed standard) of how this would look in practice for smaller entities.

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.

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"?

We support the inclusion of a definition of Material Uncertainty (Related to Going Concern), including the application material clarifying the phrase "may cast significant doubt" within the auditing standard. We believe it is also important for IFRS Accounting Standards to include a definition of Material Uncertainty (instead of a description currently provided in IAS 1, paragraph 25) as well as guidance on when material uncertainties "may cast significant doubt" in a manner that aligns with the definition and application guidance included in this proposed standard so that it is clear that the terms in the auditing and accounting standards mean the same thing. Please see the Significant Concerns section of the cover note of this letter for our recommendation for an IASB project on going concern matters.

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?

We support the increased focus on risk assessment in the proposed standard, especially the addition of the requirements in paragraph 12, which describe specific risk assessment procedures to be performed that focus on the identification of events or conditions that may cast significant doubt. However, paragraph 11 as drafted could be interpreted as requiring the auditor's risk assessment procedures to identify "all events or conditions that may cast significant doubt on the entity's ability to continue as a going concern," – which would not be possible. We recommend revising paragraph 11 as follows:

> *11. ~~In applying ISA 315 (Revised 2019), the auditor shall design and perform risk assessment procedures to obtain audit evidence that provides an appropriate basis for the identification of~~ __When designing and performing risk assessment procedures as required by ISA 315 (Revised 2019) and paragraph 12, the auditor shall consider whether audit evidence obtained indicates that__ events or conditions exist that may cast significant doubt on the entity's ability to continue as a going concern.*

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)?

Yes, we are fully supportive of the change in the commencement date of the twelve-month period of management's assessment in the proposed standard, as we believe it is a best practice that is in place in many jurisdictions today and it enables more current information to be considered in the assessment.

As noted in the Significant Concerns section of the cover note of this letter, we recommend that the IAASB, through the Monitoring Group and the Public Interest Oversight Board, continue to encourage the IASB to add to its agenda a project to align the timeline in IFRS Accounting Standards with this proposed change in commencement of management's assessment period. Not having the assessment periods be equivalent in the accounting and auditing standards puts the auditor in a difficult and unequal position to management, particularly when management is unwilling to change the commencement date of the twelve-month period to the date of approval or to extend their assessment.

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 believe it is appropriate to design and perform audit procedures to evaluate management's assessment in all cases and even when events or conditions have not been identified that may cast significant doubt. However, we believe the edits we have proposed to paragraph 19 in our response to question 9 are necessary to enhance the scalability of the proposed standard to allow the auditor appropriately to use professional judgment in determining the nature and extent of audit procedures necessary to evaluate management's assessment.

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 it is beneficial to include concepts from ISA 540 (Revised) in the proposed standard; however, we do not believe the requirements in paragraph 19 are applicable in all circumstances because such requirements assume that management has used all three elements (methods, assumptions, and data) in assessing an entity's ability to continue as a going concern, which may not always be the case. We recommend that the content of the bullets (a) to (c) in paragraph 19 be moved to application material and the following edits to paragraphs 12 and 19 be made to allow for scalability of these requirements:

> *12. In applying ISA 315 (Revised), the auditor shall perform risk assessment procedures to obtain an understanding of: …*

The Entity's System of Internal Control

…

*(h) How management ~~identifies the relevant~~ **assesses the entity's ability to continue as a going concern, including whether their assessment involves the use of** method**s**, assumptions and data ~~that are appropriate in assessing the entity's ability to continue as a going concern~~*

*19. The audit procedures required by paragraph 17 shall include evaluating**, as applicable to address the assessed risks of material misstatement, the method, assumptions and data used by management to assess the entity's ability to continue as a going concern.**~~:~~*

~~(a) The method used by management to assess the entity's ability to continue as a going concern, including whether the:~~

> *~~(i) Method selected is appropriate in the context of the applicable financial reporting framework, and, if applicable, changes from the method used in prior periods are appropriate; and~~*
>
> *~~(ii) Calculations are applied in accordance with the method and are mathematically accurate. (Ref: Para. A35)~~*

~~(b) Whether the assumptions on which management's assessment is based are:~~

> *~~(i) Appropriate in the context of the applicable financial reporting framework, and, if applicable, changes from prior periods are appropriate; and~~*
>
> *~~(ii) Consistent with each other and with related assumptions used in other areas of the entity's business activities, based on the auditor's knowledge obtained in the audit.~~*

~~(c) Whether the data is appropriate in the context of the applicable financial reporting framework, and, if applicable, changes from prior periods are appropriate.~~

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?

We support the enhanced requirements and application material related to management intent and ability, as well as to evaluate the intent and ability of third parties and related parties. We suggest that the IAASB consider including additional application material to paragraph A52 for the auditor to consider the business rationale of third parties or related parties providing financial support even when written confirmation of intent is obtained from them.

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 support the enhanced communication requirements with management and those charged with governance and believe they result in better communication between the auditor and TCWG.

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?

We do not oppose reporting requirements for those circumstances in which law, regulation, or relevant ethical requirements require such reporting; however, because requirements in such law, regulation, or ethical requirements already exist, not including them in the auditing standards would not remove the auditor's responsibilities to comply.

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?

> We recommend changes be made to the requirement so that the new section in the report on going concern also includes current content from the "Auditor's Responsibilities" section of the report stating the fact that the auditor's conclusion is based on audit evidence obtained as of the date of the report and that future events or conditions could have a negative effect on the entity's ability to continue as a going concern. See more details about our concerns as well as our recommendations in the Significant Concerns section of the cover note of this letter.

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 do not support the requirement in paragraph 33 <u>when no material uncertainty exists</u> as we believe it will result in confusion to users because of the broad range of circumstances that may require additional reporting. We believe that the KAM mechanism is more appropriate for additional reporting in situations involving significant judgment (i.e., those requiring significant auditor attention and that were of most significance to the audit) to determine that identified events or conditions do not result in a material uncertainty. See more details about our concerns as well as our recommendations in the Significant Concerns section of the cover note of this letter.
>
> If the IAASB retains this requirement (even modified as we have suggested), we do not support extending it to also apply to audits of financial statements of entities other than listed entities.

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 do not support having the proposed standard address all implications for the auditor's report related to going concern. For example, we do not agree with the content of paragraph A1 of the proposed standard, which expands the items addressed by this standard instead of ISA 701. We also believe it is inappropriate not to consider the existing reporting requirements in ISA 700 related to going concern when suggesting changes to this proposed standard. We believe that it is critical to the understanding of the suite of ISAs that ISA 700 (and other reporting ISAs as necessary) be considered for revision so that changes to the auditor's report are considered holistically – both for successful auditor implementation and for understandability of the report by users of the financial statements. See more details about our concerns as well as our recommendations in the Significant Concerns section of the cover note of this letter.
>
> In addition, we do not believe the requirement in paragraph 35(c) (to have a "Material Uncertainty Related to Going Concern (MURGC))" section when expressing a qualified or adverse opinion (due to inadequate disclosure in

the financial statements because of a material uncertainty) is necessary. We believe that all disclosures for this circumstance belong in the "Basis for Qualified/Adverse Opinion" section of the audit report; including a separate MURGC section would be duplicative of the Basis for Qualified/Adverse Opinion section and is therefore not necessary. Accordingly, we recommend the change noted below to the proposed standard. See Appendix 3 for a consequential change to the report illustration as well.

Adequate Disclosure of a Material Uncertainty Is Not Made in the Financial Statements

35. If adequate disclosure about the material uncertainty is not made in the financial statements, the auditor shall:

(a) Express a qualified opinion or adverse opinion, as appropriate, in accordance with ISA 705 (Revised);

(b) In the Basis for Qualified (Adverse) Opinion section of the auditor's report~~,~~:

(i) ~~s~~State that a material uncertainty exists and that the financial statements do not adequately disclose this matter;

~~*(c) Include in the auditor's report a separate section under the heading "Material Uncertainty Related to Going Concern" and:*~~

~~(i)~~ (ii) State that, notwithstanding the auditor's qualified (adverse) opinion, the auditor concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and

~~*(ii) Draw attention to the Basis for Qualified (Adverse) Opinion section of the auditor's report that states that a material uncertainty exists that has not been adequately disclosed in the financial statements*~~*.*

(iii) State that the auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report, but future events or conditions may cause the entity to cease to continue as a going concern.

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.

Please see Appendices 2 and 3 to this comment letter for further comments.

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.

We believe that 18 months after approval of the final standard would provide a sufficient period to support effective implementation. However, we recommend making the final standard applicable for periods beginning on or after December 15, 202X instead of a month other than December (for example, if the standard is finalized in December 2024, we recommend an effective date of periods beginning on or after December 15, 2026, instead of June 15, 2026, even though the latter would be "18 months after approval"). Having standards become effective mid-year instead of the more traditional calendar-year end can be problematic and more costly for audit firms because it requires off-cycle policy and guidance updates. Given the significant volume of changes to the ISAs anticipated in the near term, making changes to policy and guidance once a year would result in a more predictable basis of change and a smoother implementation for auditors.

In addition, it is important to consider the changes resulting from the IAASB's Fraud project. We understand that it is the IAASB's intention to have the effective date for both of these projects to be the same, which we fully support, so as not to have multiple changes to the audit report in successive years.

Appendix 2 – Detailed Comments, including Editorial Comments

Paragraph A6

We recommend reinstating phrasing that indicated the list of examples of events or conditions in the application material did not automatically mean a material uncertainty existed, along with making other editorial changes, as follows:

> *A6. The auditor's identification of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern is before consideration of any related mitigating factors included in management's plans for future actions. The auditor considers such mitigating factors in accordance with paragraphs 26–27. Some events or conditions may not ~~be~~ **cast** significant **doubt** 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.*
>
> *Examples:*
> *The following ~~events or conditions~~ are examples of identified events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern. These examples are not all-inclusive**, nor does the existence of one or more of the items always signify that a material uncertainty exists**.*

Paragraph 14

Paragraph 14 requires the auditor to determine whether "events or conditions" exist which "may cast significant doubt"; however, it does not describe what the auditor is required to do as a result – the latter is included in paragraph 25. We recommend combining paragraph 14 and 25 to link these related items together.

Paragraph A30

This paragraph states that "management not performing an appropriate assessment may be an indicator of a deficiency in internal controls." We believe it would be helpful to provide guidance as to when a detailed analysis would be helpful. See proposed edits as follows:

> *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 and there are no liquidity concerns, management may make its assessment without detailed analysis. However, in situations when, in the auditor's professional judgment, management has not performed an appropriate assessment **(for example, when management has not performed a detailed analysis when a significant amount of judgment was necessary to support the assessment)**, this may be an indicator of a deficiency in internal control in accordance with ISA 265*

Paragraph A68

We recommend the following edit to A68 as some of the illustrations in ISA 700 (Revised) are only for auditor's reports on listed entities:

> *A68. The statements required by paragraphs 33–35 represent the minimum information that is to be presented in the auditor's report in each of the circumstances described. The auditor may provide additional information to supplement the required statements. The Appendix of ISA 700 (Revised) includes illustrative wording to be included in the auditor's report ~~for all entities~~ in relation to going concern to*

describe the respective responsibilities of those responsible for the financial statements and the auditor in relation to going concern.

Heading above Paragraph A73

To correct references in the headings, we recommend the following edits:

Description of How the Auditor Evaluated Management's Assessment of Going Concern (Ref: Para. ~~35~~33(b)(ii), ~~36~~34(d))

Conforming Amendments – ISA 210

We recommend that the IAASB reconsider the placement of the two new bullets within paragraph A24 on the form and content of the audit engagement letter. Instead of placing them at the end of the bulleted list, we suggest after the bullet "The form of any other communication of results of the audit engagement" so that they are in a more logical sequence as compared to the other bullets in this paragraph.

Conforming Amendments – ISA 230

We recommend either reverting to extant wording of the second bullet of paragraph A10, which is describing examples of circumstances in which it is appropriate to prepare audit documentation relating to the use of professional judgment, or providing another example as well, so that going concern is not the only subjective judgement presented.

Appendix 3 – Recommended Consequential Revisions Related to Auditor Reporting

We recommend the following revisions to the proposed standard to support the changes to the auditor's report that we describe in the Significant Concerns section of the cover note of this letter:

Use of Going Concern Basis of Accounting Is Appropriate – No Material Uncertainty Exists

33. If the auditor concludes that the going concern basis of accounting is appropriate and no material uncertainty exists, the auditor shall include a separate section in the auditor's report with the heading "Going Concern", and:

*(a) State that the auditor**, based on the audit evidence obtained**:*

(i) Concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and

(ii) ~~Based on the audit evidence obtained, has~~ Has not identified a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

(b) State that the auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report, but future events or conditions may cause the entity to cease to continue as a going concern.

(~~b~~) ~~For an audit of financial statements of a listed entity, if 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:~~

~~(i) *Include a reference to the related disclosure(s), if any, in the financial statements; and*~~

~~(ii) *Describe how the auditor evaluated management's assessment of the entity's ability to continue as a going concern.*~~

33A. When ISA 701 applies, the auditor shall determine whether any going concern related matters communicated with those charged with governance required significant auditor attention in performing the audit. This includes the identification of, and audit response to, events or conditions that may cast significant doubt on the entity's ability to continue as a going concern but that did not result in a material uncertainty. The auditor shall determine whether any such matters were of most significance in the audit of the financial statements of the current period and therefore are key audit matters.

Use of Going Concern Basis of Accounting Is Appropriate – A Material Uncertainty Exists

Adequate Disclosure of a Material Uncertainty Is Made in the Financial Statements

34. If adequate disclosure about the material uncertainty is made in the financial statements, the auditor shall express an unmodified opinion and the auditor's report shall include a separate section under the heading "Material Uncertainty Related to Going Concern" and:

*(a) State that the auditor**, based on the evidence obtained,** concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate;*

(b) State that the auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report, but future events or conditions may cause the entity to cease to continue as a going concern.

*~~(b)~~ **(c)** Include a reference to the related disclosure(s) in the financial statements;*

*~~(c)~~ **(d)** State that these 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;*

*~~(d)~~ **(e)** For an audit of financial statements of a listed entity, describe how the auditor evaluated management's assessment of the entity's ability to continue as a going concern; and*

*~~(e)~~ **(f)** State that the auditor's opinion is not modified in respect of the matter.*

Adequate Disclosure of a Material Uncertainty Is Not Made in the Financial Statements

35. If adequate disclosure about the material uncertainty is not made in the financial statements, the auditor shall:

(a) Express a qualified opinion or adverse opinion, as appropriate, in accordance with ISA 705 (Revised);

(b) In the Basis for Qualified (Adverse) Opinion section of the auditor's report~~,~~:

(i) ~~s~~State that a material uncertainty exists and that the financial statements do not adequately disclose this matter;

~~*(c) Include in the auditor's report a separate section under the heading "Material Uncertainty Related to Going Concern" and:*~~

~~(i)~~ (ii) State that, notwithstanding the auditor's qualified (adverse) opinion, the auditor concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and

~~*(ii) Draw attention to the Basis for Qualified (Adverse) Opinion section of the auditor's report that states that a material uncertainty exists that has not been adequately disclosed in the financial statements*~~*.*

(iii) State that the auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report, but future events or conditions may cause the entity to cease to continue as a going concern.

A68. The statements required by paragraphs 33–35 represent the minimum information that is to be presented in the auditor's report in each of the circumstances described. The auditor may provide additional information to supplement the required statements. ~~***The Appendix of ISA 700 (Revised) includes illustrative wording to be included in the auditor's report for all entities in relation to going concern to describe the respective responsibilities of those responsible for the financial statements and the auditor in relation to going concern.***~~

In addition, we recommend the following edits to Illustrations 3-5 in the "Material Uncertainty Related to Going Concern" section):

Material Uncertainty Related to Going Concern

Based on the audit evidence obtained, we ~~We~~ have concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate…

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

We also recommend the following edits to Illustration 6, based on our comments above that the "Material Uncertainty Related to Going Concern" section be removed from the auditor's report when an adverse opinion is given that is related to a material uncertainty:

Basis for Adverse Opinion

The Company's financing arrangements expired and the amount outstanding was payable on December 31, 20X1. The Company has been unable to conclude re-negotiations or obtain replacement financing. This situation indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. The financial statements do not adequately disclose this fact.

Notwithstanding our adverse opinion, we have concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our conclusion is based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under *those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in [jurisdiction], and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.*

~~Material Uncertainty Related to Going Concern~~

~~We have concluded that managements' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. However, as described in the Basis for Adverse Opinion section of our report, a material uncertainty exists that has not been disclosed in the financial statements.~~