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submitted electronically through the IAASB website

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

Dear Willie,

We would like to thank you for the opportunity to provide the IAASB with our comments on the "Exposure Draft: Proposed International Standard on Auditing 570 (Revised 202X) Going Concern and Proposed Conforming and Consequential Amendments to Other ISAs", hereinafter referred to as "the draft". In the Appendix to this letter, we respond to the individual questions posed in the Explanatory Memorandum of the draft. Although all of our comments are included in the Appendix, we have summarized our main issues in this letter below.

We welcome the IAASB's focus on what is likely one of the most important aspects of audits of financial statements – the auditor's responsibilities in audits of financial statements in relation to going concern. In many cases, we believe that the draft is headed in the right direction – in particular, in seeking to improve auditor work effort in relation to risks of material misstatements in relation to going concern and to improve auditor dialogue with those charged with governance. We also recognize the movement towards including more about auditor treatment of going concern for audits of financial statements of listed entities with the intention of having the going concern section mirror KAM more closely when going concern requires significant auditor attention.

GESCHÄFTSFÜHRENDER VORSTAND:
Prof. Dr. Klaus-Peter Naumann,
WP StB, Sprecher des Vorstands;
Melanie Sack, WP StB,
stv. Sprecherin des Vorstands;
Dr. Torsten Moser, WP

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That being said, we also have some concerns with the requirements and guidance in the draft. In summary, we have concerns with the following major issues:

- The treatment of auditor work effort, including risk assessment procedures, does not appear to align with the risk assessment – risk response paradigm in ISA 315 (Revised 2019) and ISA 330. As a result, there appears to be some blurring of management and auditor responsibilities.
- This lack of a clear distinction between management and auditor responsibilities appears to result from a very narrow interpretation of what a management assessment of going concern entails and from not attaching it to management's risk assessment process. As a result, some important considerations are not dealt with and the conditional nature of some of the requirements, with the attendant effects on scalability, has not been emphasized enough. This also has an impact on when the proposed reporting in auditors' reports for audits of financial statements of listed entities ought to take place.
- It is sometimes unclear when the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern are being considered before or after consideration of management's plans for future actions.
- The proposed change in the commencement date of management's assessment to the date of approval of the financial statements, which results in an extension of the assessment period to twelve months after the date of the approval of the financial statements, is not aligned with some financial reporting frameworks and may cause legal difficulties for auditors in some jurisdictions.
- The proposed statements by auditors in the auditor's report when the use of the going concern basis of accounting in preparing the financial statements is appropriate or when there is no material uncertainty suffer from a number of technical and tactical/strategic weaknesses. Many, though not all, of these weaknesses can be dealt with by redesigning the proposed statements.

We would be pleased to provide you with further information if you have any additional questions about our response and would be pleased to be able to discuss our views with you.

Yours truly,

Melanie Sack
Deputy CEO
Executive Director

Wolfgang Böhm
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Director, International Affairs

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Appendix 1:

Responses to the Questions Posed in the Request for Comments of the Explanatory Memorandum

Overall Questions

1. Do you agree that the proposals in ED-570 are responsive to the public interest, considering the qualitative standard-setting characteristics and project objectives that support the public interest as set out in Appendix 1?

We recognize the IAASB's systematic approach in seeking to be responsive to the public interest and, in particular, to the qualitative standard-setting characteristics and project objectives that support the public interest as set out in Appendix 1. In our view, in many cases, the draft heads in the right direction, but in some cases (the assessment period and auditor statements in the auditor's report), we are not convinced that, on the whole, some proposals are actually in the public interest. We also note that while the work effort requirements are headed in the right direction, insufficient emphasis is given to properly distinguishing between the role of management and the auditor in the work effort requirements. For these reasons, our comment letter includes a good number of suggestions for improvement in the public interest.

2. Do you believe that the proposals in ED-570, considered collectively, will enhance and strengthen the auditor's judgments and work relating to going concern in an audit of financial statements, including enhancing transparency through communicating and reporting about the auditor's responsibilities and work?

While the proposals in the draft considered collectively are heading in the right direction to strengthen the auditor's judgments and work relating to going concern in an audit of financial statements, our responses to Questions 3 to 10 (excluding Question 7) indicate that greater clarity is needed as to what management's assessment entails, and when work effort is required of auditors on parts of that assessment, and when the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern are being considered before or after consideration of management's plans for future actions. We are not in favor of the extension of the period of assessment as set forth in our response to Question 7. As set forth in our response to Questions 13 to 15, we support some of the improvements for enhancing transparency and reporting, but not those set forth *as proposed* in paragraphs 33 (a) and 34 (a).

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 believe that the draft is not quite scalable enough for entities of different sizes because of the issues we have identified in our responses to Questions 5, 6, 8, 9 and 10. This, however, applies to all entities, not just entities of different sizes. In particular, there needs to be greater clarity as to what management's assessment entails and how that impacts the auditor's work on that assessment. The steps for both management and the auditor ought to be conditional upon one another. As noted in our response to Question 6, management's assessment (which is performed through the entity's risk assessment process to identify, assess and address business risks relating to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern) ought to encompass:

a) The identification of events or conditions that, individual or collectively, may cast significant doubt on the entity's ability to continue as a going concern,
b) If such events or conditions have been identified, the assessment of the magnitude of the potential impact and likelihood of occurrence of those events or conditions,
c) If, based upon their assessment, the potential impact and likelihood of occurrence of those events or conditions, before considering related mitigating factors included in management's plans for future actions, are such that the entity may be unable to realize its assets and discharge its liabilities in the normal course of business, the planning of remedial actions to mitigate the effects of those events or conditions, and
d) For effects of the events or conditions set forth in c), concluding, after considering related mitigating factors included in management's plans for future actions, whether the use of the going concern basis of accounting is appropriate and whether there is a material uncertainty.

The auditor's work effort needs to be contingent upon which stages of management's assessment are required. If no events or conditions have been identified by management in a) or by the auditor, then the auditor need not perform work on b) to d). Likewise, if events or conditions have been identified by management in a) or by the auditor, but the assessment in b) or the work of the auditor thereon shows that the events or conditions are not such as those described in c), then the auditor need not perform work as set forth in c) and d).

If the requirements regarding work effort were to be designed so that they are contingent upon previous steps, then the standard would be scalable for all kinds of entities depending upon their going concern risks.

4. 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 that the requirements and application material in the draft appropriately reinforce the auditor's application of professional skepticism in relation to going concern.

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 having a definition of "Material Uncertainty (Related to Going Concern)" but note a number of issues with the definition as proposed that need remediation.

First, the definition does not align with the description of a material uncertainty as set forth in the requirement in paragraph 32 (b), which clarifies that a material uncertainty relates to the fact that the entity *may* be unable to realize its assets and discharge its liabilities in the normal course of business (see also the connection to the going concern basis of accounting in the last sentence of paragraph 2 – that is, the material uncertainty relates to whether or not the going concern basis of accounting is appropriate).

Second, a material uncertainty only exists when the uncertainty related to the identified events or conditions that cast significant doubt on whether the entity will meet its obligations and continue its operations for the foreseeable future (see paragraph A5) has not been effectively mitigated through remedial actions by management – that is, a material uncertainty exists after consideration of related mitigating factors included in management's plans for future actions (in contrast to the identification of events or conditions before such consideration as set forth in paragraph A6). This also suggests that the application material in paragraph A5 clarifying the phrase "may cast significant doubt" also needs further clarification.

Third, we note that the use of the word "its" after "magnitude of" is unclear: to what does "its" refer? Based upon paragraph A5 (see the reference therein to "magnitude of identified events or conditions"), it seems to us that "its" ought to refer to the events or conditions (which would involve changing "its" to "their"), rather than to any of the previous nouns in the definition. In any case, it would be inappropriate to speak of the magnitude of the potential impact and likelihood of occurrence of an "uncertainty". For these reasons, it seems to us that it is the "events or conditions" that have a magnitude of the potential impact and that have a likelihood of occurring, so we suggest replacing "its" with "the" and inserting the words "of the events or conditions" after the word "occurrence". The word "is" thereafter also needs to be changed to "are".

For these reasons, we believe that the definition of a "material uncertainty (related to going concern)" ought to be defined along the following lines:

"An uncertainty related to events or conditions that individually or collectively may cast significant doubt on the entity's ability to continue as a going concern, where the magnitude of the potential impact and likelihood of occurrence of the events or conditions are such that, after consideration of any related mitigating factors included in management's plans for future actions, the entity may be unable to realize its assets and discharge its liabilities in the normal course of business, and therefore, in the auditor's professional judgement, appropriate disclosure of the nature and implications of the uncertainty is necessary for:
(a) in the case of a fair presentation framework, the fair presentation of the financial statements, or
(b) in the case of a compliance framework, the financial statements not to be misleading."

As noted above, the application material in paragraph A5 describing the meaning of "may cast significant doubt" needs to be clarified further that events or conditions that may cast significant doubt on the entity's ability to continue as a going concern relate to such events and conditions before consideration of any related mitigating factors included in management's plans for future actions and prior to the assessment of the magnitude of the potential impact and likelihood of occurrence of the events or conditions. The former is implicit in the second sentence in the words "unless management takes remedial actions to mitigate the effects of these events or conditions", but the clarification should be explicit to avoid doubts by adding a sentence immediately thereafter as follows:

"Consequently, the identification of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern is before the assessment of the magnitude of the potential impact and likelihood of occurrence of the events or conditions and before consideration of any remedial actions management takes to mitigate the effects of these events or conditions".

Overall, we believe that throughout the standard greater clarity is required as to when the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern are being considered before or after consideration of management's plans for future actions.

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?

While we believe that much of the material in the requirement in paragraph 12 and in the related application material will improve auditors' work in relation to the identification and assessment of risks of material misstatement relating to going concern matters, we do not believe that paragraph 11 and a part of paragraph 12, and the related application material to both requirements, appropriately build on the foundational requirements in ISA 315 (Revised 2019) and ISA 330, because these paragraphs and the subsequent paragraphs relating to evaluating management's assessment do not appropriately reflect the risk assessment – risk response paradigm as set forth in those standards. We also note that the non-reporting parts of the extant ISA 570 have not been fundamentally revised since 1999, since the revision of ISA 570 as part of the auditor reporting project focused on clarifying reporting matters. We have the impression that, in part, the draft retains the structure and direction of extant ISA 570 with respect to non-reporting matters even though they are not completely aligned with current ISAs 315 and 330.

Our primary concern in this regard is the potential confusion between the responsibilities of management and of the auditor, and in particular in this light, what management's assessment needs to entail. The entire section on the auditor' evaluation of management's assessment (paragraphs 16 to 19 and A9 to A38) appears to be focused on the methods, assumptions and data used in management's assessment, rather than recognizing that the identification of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern is a key aspect of management's assessment prior management's use of a method and of assumptions and data. In this vein, the requirement in paragraph 12 (g) correctly notes that the identification, assessment of, and response (“addressing”) by management to, business risks relating to events and conditions that may cast significant doubt on the entity’s ability to continue as a going concern is a part of the entity’s risk assessment process, which in fact represents “management’s assessment of the entity’s ability to continue as a going concern”. The reference to 1. identification and 2. Assessment of, and 3. response (“addressing”) to, such business risks indicates that management’s assessment (that is, its risk assessment process regarding business risks in relation to going concern) covers: the identification of such events or conditions, 2. the use of a method, and of the assumptions and data to assess the business risks associated with those events or conditions, and 3. management’s plan for future action in relation for those assessed risks.

For this reason, the focus in paragraph 11 on providing a foundation for the auditor’s identification of such events or conditions appears to suggest that this is the auditor’s sole responsibility rather than initially being the responsibility of management as part of its assessment. **Furthermore, this implies that paragraph 11 is not aligned with the risk assessment – risk response paradigm in current ISAs 315 and 330.** In line with ISAs 315 and 330, paragraph 11 should be focused on providing an appropriate basis for the identification and assessment of material misstatements due to going concern issues and the design of further procedures to respond to such risks. Furthermore, if no such events or conditions are identified, it does not make sense to perform risk assessment procedures regarding the other aspects of management’s assessment. To this effect, we believe that the requirement in paragraph 11 (and perhaps an additional paragraph as shown) ought to be written along the following lines:

“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:

(a) The identification and assessment of risks of material misstatement in relation the assertions in the financial statements regarding going concern, including the identification and assessment of those risks of material misstatement

- (i) Resulting from an inappropriate management’s assessment of the entity’s ability to continue as a going concern, and
- (ii) Resulting from inappropriate use of the going concern basis of accounting or from inadequate disclosures in relation to going concern, and

(b) The design of further audit procedures in accordance with ISA 330 to respond to these risks related to going concern.”

“When designing and performing risk assessment procedures in accordance with paragraph 11 (a) to obtain audit evidence that provides an appropriate basis for identifying and assessing the risks of material misstatement resulting from an inappropriate management’s assessment of the entity’s ability to continue as a going concern, the auditor shall:

(a) Identify and assess the risks of material misstatement resulting from management's inappropriate identification of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern,
(b) If such events and conditions have been identified, identify and assess the risks of material misstatement resulting from management's inappropriate assessment of the potential impact and likelihood of occurrence of those events or conditions,
(c) If, in the auditor's judgment, the magnitude of the potential impact and likelihood of occurrence of the events or conditions are such that, before consideration of any related mitigating factors included in management's plans for future actions, the entity may be unable to realize its assets and discharge its liabilities in the normal course of business, identify and assess the risks of material misstatement resulting from management's inappropriate consideration of management's plans for future actions in relation to such events or conditions, and
(d) Identify and assess the risks of material misstatement resulting from deficiencies identified in relation to the entity's risk assessment process to identify, assess and address business risks relating to events of conditions that may cast significant doubt on the entity's ability to continue as a going concern."

Without suggesting that the requirements ought to be written in exactly this way, we believe that **this approach appropriately recognizes that the auditor's responsibility relates to determining the appropriateness of what management has done in its assessment (including identifying the noted events and conditions) in line with the respective responsibilities of management and the auditor.** This does not in any way diminish the auditor's responsibility to perform the needed audit work to determine that management's assessment is appropriate, including management's identification of such events or conditions is appropriate (including being complete). Along the same lines, the requirement in paragraph 12 (a) should reflect the auditor's responsibility by stating "… relevant to *management's* identification of events or conditions….".

The application material in paragraphs A6 to A22 – in particular paragraphs A6, A8, A10, and A12 – would need to be adjusted accordingly.

Furthermore, in line with the view described above that the entity's risk assessment process regarding business risks in relation to going concern is essentially equivalent to management's assessment of the entity's ability to continue as a going concern, we suggest that the requirement in paragraph 12 (g) be augmented at the end with "(i.e., management's risk assessment of the entity's ability to continue as a going concern)". This also implies that the application material in paragraphs A19 to A22 need to be adjusted accordingly.

7. Do you support the change in the commencement date of the twelve-month period of management's assessment of going concern, from

> **the date of the financial statements (in extant ISA 570 (Revised)) to the date of approval of the financial statements (as proposed in paragraph 21 of ED-570)? When responding consider the flexibility provided in paragraphs 22 and A43–A44 of ED-570 in circumstances where management is unwilling to make or extend its assessment. If you are not supportive of the proposal(s), what alternative(s) would you suggest (please describe why you believe such alternative(s) would be more appropriate and practicable)?**

We do not support the draft's proposed 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. Our reasons do not relate to such a change being in the public interest per se but relate to the role of auditing standards vs. financial reporting standards and their augmentation through law or regulation.

We do believe that it would be in the public interest for management to extend its assessment period to twelve months from the date of the approval of the financial statements because this approach would alleviate the need to further extend the assessment period when the approval of the financial statements is very late. Furthermore, such a change also aligns the assessment period closer to that used in insolvency law in some jurisdictions, including our own, and helps ensure that management's assessment includes more current information.

However, we note that in the IFRS, IAS 1 requires management to take into account in its assessment all available information about the future for at least, but not limited to, twelve months from the end of the reporting period. IAS 1 has been adopted by the EU by means of a legal instrument and therefore has the force of law throughout the EU, which implies that the assessment period of at least, but not limited to, twelve months from the end of the reporting period is a legal requirement. The words "but not limited to" provide for circumstances in which a longer period may be applied due to late approval of the financial statements, a longer business cycle in some types of businesses, or other reasons that cause management (or the auditor) to believe that a longer period is appropriate or necessary. However, unless these special circumstances are relevant, there is no basis for a blanket requirement for management to extend its period of assessment beyond twelve months from the end of the reporting period and management will quite rightfully indicate that it has no legal responsibility beyond that period and that auditors are not legally empowered to seek to have that period extended in all cases. Auditing standards are directed at auditor – not management – and therefore management would also be able to rightfully claim that those standards do not apply to them.

This matter leads to the role of auditing standards vs. financial reporting standards and their augmentation through law or regulation. We note that, as set forth in the Explanatory Memorandum, in the past the IAASB and other stakeholders have sought to have the IASB improve IAS 1 with respect to going concern in vain. The fact that IFRS have only two paragraphs (in IAS 1) dealing with going concern, which is the single most important issue for investors and creditors – that is, whether or not they will get their money back – indicates the signal failure of the IASB to act in the public interest in this case and the inability of stakeholders of the IASB to move the IASB to do so. Stakeholders (in particular, regulators) have taken the path of least resistance by seeking to remedy supposed deficiencies in financial reporting standards through auditing standards. We believe it to be entirely inappropriate for auditing standards to seek to become the "repair shop" for supposed deficiencies in financial reporting standards. The fact that something is in the public interest does not imply that it is within the remit of the IAASB. As a privately organized standard setter, the IAASB cannot issue requirements with the force of law or that contravene local law or financial reporting standards.

We recognize that particularly in common law jurisdictions, the distinction between financial reporting standard setting and auditing standard setting is sometimes blurred (i.e., in the past more so – witness the accounting requirements for going concern in the US within the old AICPA Auditing Standards prior to the FASB's treatment of going concern), but even today to some extent, financial reporting requirements are also indirectly set forth through auditing standards, but in civil law jurisdictions, there is often a clearer separation between the authority to set financial reporting and auditing standards. Paragraph 38 of the Explanatory Memorandum indicates that a number of common law jurisdictions have amended their national equivalent going concern standards to require the commencement date of the twelve-month period to be the date the financial statements are issued or approved or when the auditor's report is signed. We believe this information with respect to the US to be misleading because in the US the financial reporting standards issued by the FASB require management to perform its assessment for at least twelve months after the issuance of the financial statements (or the financial statements are available for issue) – that is, the requirements for auditors regarding management's assessment in PCAOB Auditing Standards and in US GAAS as promulgated by the AICPA reflect the requirements in US GAAP. In the cases of Australia, New Zealand, and the UK, it is a national auditing regulator with the legal power to set auditing standards that therefore legally empowers auditors to seek to extend management's assessment beyond that set forth in the financial reporting standards. Consequently, these examples are irrelevant for cases in civil law jurisdictions in which neither financial reporting standards, nor national auditing standards issued by a national auditing regulator with legal powers, require the extended assessment period.

Footnote 22 of the Explanatory Memorandum indicates that in educational material, the IFRS Foundation clarified that considering time periods longer than twelve months after the end of the reporting period is not inconsistent with the requirements in IAS 1 and that requiring consideration of going concern for twelve months from the date that the financial statements are authorized for issue as required by some national regulations is not inconsistent with IAS 1. We agree that considering longer periods is not inconsistent with IAS 1, but we note that *requiring* longer periods for management's assessment beyond the minimum through auditing standards without legal sanction through a regulator unless special circumstances apply is not legally possible in some jurisdictions. This is consistent with the educational material from the IFRS Foundation that requiring consideration of going concern for twelve months from the date that the financial statements are authorized for issue *as required by some national regulations* is not inconsistent with IAS 1.

As a result, the proposed change will likely lead to less comparability and consistency among jurisdictions globally, as some national standard setters may need to carve out the proposed extension.

We are not convinced that the flexibility provided in paragraphs 22 and A43–A44 of ED-570 in circumstances where management is unwilling to make or extend its assessment will alleviate the issues arising from the new requirement in paragraph 21. First, we note the requirement in paragraph 17 that requires the auditor to design and perform audit procedures to evaluate management's assessment always applies and is therefore inconsistent with the requirements in paragraphs 22 and 23 if no assessment has been made. The application material in paragraphs A43 and A44 cannot override the requirement in paragraph 17 (we refer to our response to question 8 that relates to paragraph 17).

Second, the example in the last sentence of paragraph A44 acts as a clear limitation on circumstances when auditors may expect to obtain sufficient appropriate evidence regarding going concern even though management has not extended its assessment by referring to profitable operations, no liquidity concerns, *and* no identified events or conditions. The use of "and" in these circumstances strongly suggests that all of these conditions must generally be fulfilled. This means that even if management has fulfilled its responsibilities under IAS 1 for an assessment for twelve months after the end of the reporting period, when such conditions are not present, the auditor will still need to seek to persuade management to extend its assessment beyond that legally required or need to conclude that sufficient appropriate audit evidence has not been obtained.

For these reasons, we do not believe there is a reasonable alternative to extant ISA 570 in which the period of management's assessment is attached to what is required by the financial reporting framework or local law or regulation (whichever is greater), but not less than 12 months after the date of the financial statements.

8. Do you support the enhanced approach in ED-570 that requires the auditor to design and perform audit procedures to evaluate management's assessment of going concern in all circumstances and irrespective of whether events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern?

We do not 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*.

As we set forth in our response to Question 6, management's assessment encompasses not only the use of the method, assumptions and data to assess the entity's ability to continue as a going concern (see the requirement in paragraph 19), but also management's identification of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. This identification by management therefore becomes subject to the performance of audit procedures by the auditor to evaluate management's assessment. For this reason, auditors must always evaluate management's assessment. However, if neither management nor the auditor has identified events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, clarification is needed within paragraph 17 that auditors then need not design and perform audit procedures to evaluate the rest of management's assessment (i.e., auditors need not evaluate the method, assumptions and data used to assess events or conditions that individually or collectively may cast significant doubt on the entity's ability to continue as a going concern– since there aren't any such event or conditions; and need not evaluate management plans for future actions – since these aren't relevant if there are no such events or conditions). We suggest a second sentence to paragraph 17 along the following lines:

"When the audit procedures performed on management's identification of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern indicate that no such events or conditions have been identified, the auditor need not perform the evaluations set forth in paragraphs 19, 26 and 27."

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 believe that the requirement in paragraph 19 and the related application material 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. However, in line with our response to Question 6, we believe that the requirement should be augmented to align it with what an assessment of the identified events and conditions that may cast significant doubt on the entity's ability to continue as a going concern entails, which is evaluating the potential impact and the likelihood of occurrence of those events or conditions. The current requirement does not clarify what the evaluation of the method, data and assumptions is supposed to achieve. Consequently, we suggest augmenting the introductory sentence of the requirement in paragraph 19 along the following lines:

"The audit procedures required by paragraph 17 shall include evaluating the potential impact and the likelihood of occurrence of identified events and conditions that may cast significant doubt on the entity's ability to continue as a going concern through an evaluation of:…"

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 direction of the enhanced requirements in paragraphs 26 and 27 and related application material for the auditor to evaluate (as part of evaluating management's plans for future actions) whether management has the intent and ability to carry out specific courses of action as well as the intent and ability of third parties or related parties, including the entity's owner-manager, to maintain or provide the necessary financial support. However, in line with our response to Question 6, we believe that clarification should be provided that management's planning for future actions is part of management's assessment because such an assessment includes management's addressing business risks relating to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (see our response, to Question 6, regarding the requirement in paragraph 12 (g)). In addition, clarification needs to be given that the auditor only needs to evaluate management's plans for future actions when, in the auditor's judgment, the magnitude of the potential impact and likelihood of occurrence of the events or conditions are such that, before consideration of any related mitigating factors included in management's plans for future actions, the entity may be unable to realize its assets and discharge its liabilities in the normal course of business,. This can be done by changing the words in the introductory sentence of paragraph 28 as follows:

"When, in the auditor's judgment, the magnitude of the potential impact and likelihood of occurrence of identified events or conditions are such that, before consideration of any related mitigating factors included in management's plans for future actions, the entity may be unable to realize its assets and discharge its liabilities in the normal course of business, the auditor shall evaluate management's plans for future actions to respond to those events or conditions, including whether: …"

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 believe that the enhanced requirement in paragraph 39 and the related application material to communicate with TCWG will 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. However, some of the wording in the requirement and related application material may need to be adjusted to reflect our responses to Questions 6, 8, 9 and 10.

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?

In our view, this requirement is superfluous because auditors are always expected to fulfill relevant laws, regulations and ethical requirements and to consider these when reporting to third parties. If this is important in a particular jurisdiction, national auditing standard setters would add requirements and guidance as needed and customized to their jurisdiction. It also seems to us that, given desire not to have standards be too long, this requirement and related application material can be deleted.

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 support some, but do not support all, of the requirements and application material that facilitate enhanced transparency about the auditor's responsibilities and work relating to going concern. In particular, we do not agree with the requirements *as proposed* in paragraphs 33 (a), 34 (a), and 35 (c) (i). All of these requirements relate to the statements of the auditor in the auditor's report that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate or that the auditor 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.

There are five main reasons as to why we disagree with the inclusion of these statements *as proposed* in the auditor's report.

First, audits of financial statements are attestation engagements – that is, in accordance with ISAE 3000 (Revised) and the International Framework for Assurance Engagements, assurance engagements in which a party (in this case management) other than the practitioner (in the case the auditor) measures or evaluates the underlying subject matter (the financial transactions, other events, and conditions) against the criteria (the financial reporting framework). The party other than the practitioner (management) then presents the resulting subject matter information (the financial statements). While attestation engagements permit practitioners to present the subject matter information in their reports, the subject matter information (the financial statements) remain the responsibility of management. It is the responsibility of management to make assertions in the financial statements and about the financial statements – that is, to provide original information about the entity, unless such information relates to modifications of opinion, in which case auditors provide original information about the financial statements. It is true that when management prepares the financial statements using the going concern basis of accounting and does not disclose a material uncertainty, management is implicitly asserting that it has concluded that the use of the going concern basis of accounting is appropriate and that no material uncertainty exists. It is also true that auditors do conclude on the appropriateness of management's implicit assertions. Nevertheless, making implicit management assertions in the financial statements explicit through the auditor's report *as proposed* crosses the line in providing explicit original entity information and on the provision of individual conclusions on particular implicit management assertions on the financial statements. It appears to us that the failure of financial reporting frameworks to require such statements of management in the financial statements has led to the draft again becoming the intended "repair shop" for supposedly deficient financial reporting standards.

Second, we believe that having auditors make these statements *as proposed* will lead to the perception among users that auditors have a greater responsibility for considering going concern than management, even though management has the responsibility to make an assessment regarding going concern in the first instance. We note that when the going concern basis of accounting is appropriate and there is no material uncertainty or, for listed entities, no "close call", the financial statements will contain no information at all about going concern matters. This was one reason why the auditor's report contains a description of management and auditor responsibilities regarding going concern. By having auditors include the noted statements *as proposed* in the auditor's report without having commensurate statements in the financial statements, it leaves the impression with users that auditors have a greater responsibility for going concern matters than management does. If such statements were to be made in the auditor's report, they would need to be made in such a way as to not disturb the balance between management and auditor responsibilities.

Third, by making these statements *as proposed*, auditors are, for the first time, including in the auditor's report specific conclusions to particular assertions in the financial statements, which will be interpreted by users as "piecemeal opinions" on the financial statements. It has always been a central tenet of the ISAs that auditors provide an opinion on the financial statements as a whole – not on particular assertions in the financial statements. If such statements ought to be made in the auditor's report, then they need to be made in such a way so as to not leave the impression that they are piecemeal opinions on assertions in the financial statements.

Fourth, we believe that by requiring the statements *as proposed*, the IAASB is engaging in a major tactical mistake by not providing any incentive in its proposed statements to encourage management to make its own commensurate statements in the financial statements. With the auditor statements *as proposed,* management in the vast majority of entities will be only too happy to have auditors make such statements without management needing to, since it directs users focus on going concern issues to auditors rather than to management. If such statements were to be made in the auditor's report, they ought to be designed in such a way so as to encourage management to make their own statements in the financial statements.

Fifth, we believe that including such statements *as proposed* would be a major strategic mistake in the relationship between the IAASB and financial reporting standard setters. By including the statements *as proposed*, the IAASB would be eliminating any incentive to financial reporting standard setters to address the issue of going concern in the work plans for the foreseeable future, even though, as mentioned in our response to Question 7, it would very much be in the public interest for financial reporting standard setters to do so. Since the provision of original information in the auditor's report outside of modifications of opinion conflicts with legal confidentiality requirements in some jurisdictions, this could lead to longterm carve outs from the ISAs and therefore to increased fragmentation of auditor reporting internationally.

The design of the statements to be made in the auditor's report when management does not make commensurate statements in the financial statements cannot directly address any prohibitions on auditors providing original information about the entity or the issue of attestation vs. direct engagements. However, the design of the statements can address ensuring that the statements: 1. do not cause users to believe that auditors have a greater responsibility for going concern than management, 2. are not construed by users as "piecemeal opinions", 3. provide an incentive for management to provide commensurate statements in the financial statements, and 4. provide an incentive for financial reporting standard setters to address going concern in the future work plans. In our view, the statements required of the auditor in the auditor's report can be designed to address these issues as follows, recognizing that the related requirements would need to be reverse engineered to lead to such statements:

<u>When management makes no assertions regarding going concern in the financial statements (for the case in which the going concern basis of accounting is appropriate and there is no material uncertainty):</u>

"When management prepares the financial statements using the going concern basis of accounting, as is the case in these financial statements, management is implicitly asserting that it has concluded that its use of the going concern basis of accounting is appropriate. Since [the financial reporting framework] does not require an explicit statement by management in the financial statements that management has concluded that its use of the going concern basis of accounting is appropriate, management has declined to include such an explicit statement in the financial statements. We concur with management's implicit conclusion that its use of the going concern basis of accounting in preparing the financial statements is appropriate."

"When the financial statements do not refer to a material uncertainty related to events or conditions, that individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern, as is the case in these financial statements, management is implicitly asserting that no such material uncertainty exists. Since [the financial reporting framework] does not require an explicit statement by management in the financial statements that management has not identified such a material uncertainty, management has declined to include such an explicit statement in the financial statements. Based upon the audit evidence obtained, we concur with management's implicit assertion that no such material uncertainty has been identified."

When management makes assertions regarding going concern in the financial statements (for the case in which the going concern basis of accounting is appropriate and there is no material uncertainty):

"We refer to Note X in the financial statements, in which management states that it has concluded that its use of the going concern basis of accounting in preparing the financial statements is appropriate and that management has not identified a material uncertainty related to events or conditions, that individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern. We concur with management's statement that it has concluded that its use of the going concern basis of accounting in preparing the financial statements is appropriate and, based upon the audit evidence obtained, with management's statement that no such material uncertainty has been identified."

We believe that writing the statement in the auditor's report in this way – and in particular, to distinguish between cases in which management makes commensurate statements in the financial statements and when it does not – will address some of our concerns with respect to the proposed statements in the draft.

14. This question relates to the additional implications for the auditor's report for audits of financial statements of listed entities, i.e., to also describe how the auditor evaluated management's assessment of going concern when events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern (both when no material uncertainty exists or when a material uncertainty exists).

Do you support the requirements and application material that facilitate further enhanced transparency about the auditor's responsibilities and work relating to going concern? Should this be extended to also apply to audits of financial statements of entities other than listed entities?

We support the direction of the requirement and application material that 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), because this description essentially involves transposing the requirement for KAM for going concern matters. However, greater clarity is required about when such reporting in the auditor's report is required, which, in our view should only be when the magnitude of the potential impact and likelihood of occurrence of the events or conditions are such that, before consideration of any related mitigating factors included in management's plans for future actions, the entity may be unable to realize its assets and discharge its liabilities in the normal course of business. In this case (and only in this case), the auditor ought to be required to evaluate management's plans for future actions (see our response to Question 10). With the exception of paragraph 34 (d), in other cases, no such description needs to be included in the auditor's report because the matter would not be akin to a KAM, since the matter would not have required significant auditor attention. For this reason, the requirement in paragraph 33 (b) ought read as follows:

"For an audit of financial statements of a listed entity, if events or conditions have been identified that may cast doubt on the entity's ability to continue as a going concern and the magnitude of their potential impact and likelihood of occurrence are such that, before consideration of any related mitigating factors included in management's plans for future actions, the entity may be unable to realize its assets and discharge its liabilities in the normal course of business, but based on the audit evidence obtained, the auditor concludes that no material uncertainty exists: …".

15. Is it clear that ED-570 addresses all implications for the auditor's report relating to the auditor's required conclusions and related communications about going concern (i.e., auditor reporting is in accordance with ED-570 and not in accordance with ISA 701 or any other ISA)? This includes when a material uncertainty related to going concern exists or when, for audits of financial statements of listed entities, events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained, the auditor concludes that no material uncertainty exists.

We believe that the draft addresses all implications for the auditor's report, but as noted in our responses to the questions above, we do not agree with some of the implications.

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.

As a matter of clarity, we note the reference to “continuous monitoring” in paragraph A18, which suggests that the monitoring is in real time without breaks. We therefore suggest that the word “continuous” be replaced with “ongoing” or “continual”.

Based upon our response to Question 13, we do not believe it to be appropriate for auditors to “disclaim” conclusions on the appropriateness of management’s use of the going concern basis of accounting and on whether a material uncertainty exists because doing so furthers the impression of users that these conclusions are “piecemeal opinions”. A disclaimer of opinion as currently set forth in ISA 705 ought to suffice. For this reason, we believe that the requirement proposed for paragraph 19(b) in ISA 705 and the corresponding statement in the report in Illustration 5 of that standard ought to be deleted.

The proposed changes to the example auditors’ reports in the Appendix and in the conforming amendments would need to be adjusted based upon our comments to the draft.

We are concerned with the conforming amendments proposed to Illustration 2 of ISA 805 with respect to the statement of cash receipts and disbursements, in particular changing the status of the cash basis of accounting to a special purpose framework. When drafting ISA 805 as part of the clarity project, the IAASB had deliberated at length as to the nature of the cash basis of accounting and concluded that the cash basis of accounting is a general purpose framework. One reason was the fact that some governments and governmental organizations still use the cash basis of accounting for general purpose financial statements. However, the main reason is that a vast number of micro entities or entities that are not required by law to apply double-entry accounting or accrual accounting (e.g., micro unincorporated associations, such as small clubs; property held jointly or in common, such as rental properties held by natural persons; micro partnerships, etc.) around the world use the cash basis of accounting, which is probably in terms of the sheer number of entities more prevalent than accrual accounting. Such statements are often provided to members, potential members, owners and potential owners, creditors (e.g., in the case of rental properties with a mortgage) and others, even if those statements are not publicly available. To claim that the cash basis of accounting is special purpose in these circumstances is somewhat disingenuous. It is true that such statements are less often subject to audit, but that is not the issue. For this reason, we recommend that the description in the box at the beginning of Illustration 2 revert to describing the cash basis of accounting as a general purpose framework. However, we do agree with the elimination of the description of management's and the auditor's responsibilities with respect to going concern, since this is not a reasonable proposition in relation cash basis financial statements. It may be helpful to include a phrase in the second sentence of paragraph 2 of ISA 570 to clarify that the cash basis of accounting is the one exception to general purpose financial statements being prepared using the going concern basis of accounting.

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.

We have not identified any translation issues at the present time.

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.

Given the need for translation, the potential need for additional requirements and guidance in our jurisdiction, our own due process with its comment period, and the need to develop guidance materials and provide CPD to practitioners and others, we do not believe that 18 months is an appropriate time frame for required application. We believe that two years would be more appropriate. In addition, we note that if the standard were to be approved in December 2024, then it would become applicable for financial statements with periods beginning on or after June 15, 2026, which would be in the middle of the calendar year, even though the calendar year is applicable to a majority of financial statements.

Consequently, we believe that a two-year period after approval would be more appropriate for this reason as well.