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Thomas Seidenstein
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Our ref SRA/288

23 August 2023

Dear Mr Seidenstein

IAASB Exposure Draft, *Proposed International Standard on Auditing 570 (Revised), Going Concern*

We appreciate the opportunity to comment on the above Exposure Draft (ED) issued by the IAASB ("ED-570"). We have consulted with, and this letter represents the views of, the KPMG network.

We set out our overarching comments below. Our more detailed responses to the specific questions posed by the IAASB are set out in Appendix 1 to this letter.

Overarching Comments

We are supportive of the overall aims and objectives of ED-570 and we believe that some of the proposals are responsive to the public interest. However, we do have significant concerns with respect to certain proposals, which we set out in more detail below.

We support the proposed changes that help to provide greater clarity, as well as enhance the overall approach to auditing the going concern assessment by more closely aligning it with the foundational standards, including ISA 315 (Revised). These proposed changes include applying a 'going concern lens' to risk identification/assessment procedures; clarification that the auditor identifies events or conditions on a gross basis, before consideration of mitigating factors; enhanced content requiring more robust and timely risk identification/assessment procedures, and a more robust approach to evaluating management's assessment. We also welcome proposed changes to enhance and embed professional skepticism throughout the audit in respect of going concern-related matters.

We are also supportive of the proposed changes to the commencement date for the period of management's assessment, from at least twelve months from the date of the financial statements to at least twelve months from the date of approval of the financial statements, as well as the greater emphasis on two-way communication about going concern matters with management/Those Charged With Governance (TCWG).

However, we have concerns with certain proposed changes, which we describe below, along with our recommendations:

- We have significant concerns with respect to the proposal to require the auditor to report their conclusion as to the appropriateness of management’s use of the going concern basis of accounting and related statement regarding not having identified material uncertainties in the auditor’s report, when the use of the going concern basis of accounting is appropriate and no material uncertainty exists. Our first concern is that the separate conclusion and related statement on matters related to going concern is piecemeal in nature and potentially undermines the importance of the auditor’s opinion, which is intended to provide a clear, and binary, conclusion to users on the financial statements as a whole. We believe that the proposed conclusion and related statement on one specific aspect of the financial statements is not helpful and may undermine the intended primacy of the auditor’s opinion, which may cause confusion to users. Additionally, we consider that the conclusion and related statement are not aligned with the fundamental principle of auditor’s reports to report matters “by exception.” Therefore, we are concerned that the inclusion of such conclusions and related statements could unnecessarily clutter the report and potentially desensitise users to information related to going concern matters in the auditor’s report more generally, which would not be in the public interest. Furthermore, we believe that the inclusion of the conclusion and related statement may suggest a disproportionate emphasis on going concern over other aspects of the financial statement audit.

Related to this, we also have a concern that increased disclosure of this nature in the auditor’s report may potentially widen the “expectation gap” and create a perception that disproportionate responsibility rests with the auditor with respect to the going concern assessment, given that the auditor would be required to express an explicit conclusion in the auditor’s report when management may not have made an explicit assertion in the financial statements in this respect, and there may be little or no disclosure in the financial statements when the use of the going concern basis is appropriate; that conclusion did not require significant judgment, and no material uncertainty exists. Consequently, we are not supportive of the proposed requirements in paragraph 33(a). (Please see our response to Question 13 for further details).

- We have a concern that the definition of a Material Uncertainty Related to Going Concern (MURGC) does not take account of the proposed changes to the standard, in particular, the clarification of the fact that events and conditions are identified on a gross basis, with mitigating factors then considered in determining whether there is a MURGC, and may not be consistent with the requirements/guidance set out in the standard. The reference to disclosures within the definition also introduces confusion into the concept of a MURGC. We recommend, in particular, that the definition be updated to make specific reference to the consideration of management’s plans and their ability to mitigate the effects of events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern,

and to remove the reference to disclosures. (Please see our response to Question 5 for further details).

- Whilst we welcome the proposed changes to the commencement date of the period of management’s assessment of going concern, we recommend that the “flexibility” introduced focus more on what form management’s assessment may take and factors that may affect the nature and extent of their assessment. We believe this would more closely adhere to the principle of ‘management goes first’ as they are best placed to make an assessment, and it is not the responsibility of the auditor to rectify a lack of analysis by management. We suggest that the standard provide clearer guidance regarding relevant factors for the auditor to consider when evaluating whether the analysis supporting management’s assessment is appropriate and sufficiently detailed. The related application material should also guide the auditor to consider whether and when a refusal to extend the assessment would constitute a scope limitation. We also recommend that the application material discuss steps the auditor may take to help avoid these challenges arising in the first place, e.g., the auditor may consider including the length of the period of management’s assessment as a precondition in the terms of engagement, to ensure management and those charged with governance agree to this upfront. (Please see our response to Question 7 for further details).
- We highlight that the auditor’s procedures in respect of going concern are premised on the presumption that ‘management goes first’ and that it is critical that management perform a suitably robust risk identification and assessment. We therefore recommend that the standard more clearly emphasise that the auditor’s evaluation focus on whether management’s assessment is appropriate/proportional to the size and complexity of the entity and its circumstances, to better align with ISA 315 (Revised) and with the risk-based nature of an audit. (Please see our response to Question 6 for further details).
- We also highlight that required procedures in respect of prospective financial information (PFI) are placed earlier in ED-570 (as part of the evaluation of management’s assessment) versus their placement in the extant standard (as part of the evaluation of management’s plans when events or conditions are identified that may cast significant doubt on going concern, and PFI is significant to management’s plans and the auditor evaluates these in determining whether there is a MURGC). Without additional clarification, we have concerns that this revision is likely to require the auditor to direct significant work effort to these areas in circumstances when it is not necessary to respond to the assessed risks of material misstatement as no events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern have been identified, e.g. when the entity is clearly profitable, and there are no liquidity concerns, and this is not expected to change in the foreseeable future. We believe this would drive the auditor to perform and document procedures that may not be necessary in respect of obtaining sufficient appropriate audit evidence, to respond to the assessed risks of material misstatement. We recommend that the standard clarify that the nature,

timing and extent of audit procedures that would be appropriate to evaluate the relevance and reliability of PFI for the purpose of evaluating management's assessment when no events or conditions have been identified would be significantly less than the required work effort when events and conditions have been identified and PFI is significant to management's plans to respond to these events or conditions.

- We have concerns with respect to the nature of the procedures in paragraph 19, which require the auditor to evaluate the method, assumptions and data used in management's assessment. We recommend that the focus of the standard should be on robust challenge of management's significant assumptions and judgements, regarding whether these are reasonable/supportable, and consideration of the relevance and reliability of the underlying information, as opposed to evaluating whether the methods, assumptions and data are appropriate in the context of the applicable financial reporting framework, in particular because financial reporting frameworks generally do not establish prescriptive requirements with respect to management's assessment. We note that the more granular requirements, e.g., consideration of changes in methods, assumptions and data from prior periods, are not necessarily relevant to an assessment of going concern, given that the assessment should be responsive to the current environment and events and conditions that may arise, and can change over time. We recommend that the standard focus on an overall evaluation, and the application material provide factors that the auditor may consider in evaluating relevance and reliability of the information. (Please refer to our response to Question 9 for more details).

From a broader perspective, we highlight that the requirements and guidance set out in ED-570 are generally more prescriptive and comprehensive than the requirements and guidance relating to management's going concern assessment and related financial statement disclosures set out in certain financial reporting frameworks (e.g. IFRS Accounting Standards) are for preparers. We consider that certain proposed enhancements to ED-570, such as new requirements to provide greater transparency to users regarding considerations in respect of going concern in the auditor's report, appear to be, in part, in response to the lack of requirements/guidance in certain financial reporting frameworks. We have commented previously, e.g. in our response to the IAASB Discussion Paper (DP), *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 Statements Audit* regarding the need for complementary changes to requirements to balance the roles and responsibilities of others, as well as auditors, in the financial reporting ecosystem, to ensure that these are substantially aligned and able fully to function in concert in the public interest. We recognise that the introduction of legal/ regulatory/ corporate governance code requirements will take place on a jurisdiction by jurisdiction basis, with this evolution occurring at a different pace across different jurisdictions, and we believe it is important for the IAASB to continue its efforts to reach out to and work closely with other bodies, including financial reporting standard-setters, such as the IASB, as well as national standard-setters, bodies responsible for establishing legal and

regulatory, and corporate governance, frameworks/requirements, on a global basis, in exploring this area to develop appropriate solutions. We acknowledge that such outreach and collaboration on a global basis will likely be challenging, but we consider it important in order to drive the necessary improvements and improve public confidence in the global capital markets.

Furthermore, whilst we consider that the proposed enhancements to ISA 570 will be helpful in responding to certain stakeholder concerns, in terms of the broader public interest considerations, the wider issue remains that an entity's ability to continue as a 'going concern' (as a broader concept than envisaged by auditing and financial reporting standards, being a basis of preparation of the financial statements) is an area that stakeholders most want information and clarity about, i.e. whether an entity is likely to continue operating, and the resilience of the entity's business model in this regard, over the longer term.

Accordingly, we suggest the IAASB encourage other relevant bodies to explore the possibility of an approach under which further information could be provided by management, e.g. in the front section of the annual report, about potential events/ conditions and related risks beyond the period of management's assessment of going concern, looking at the longer-term, including business plans and risks more widely. Such information would not form part of the binary conclusion as to whether the going concern basis of preparation is or is not appropriate but could provide important information to investors about the business model, key risks/ uncertainties and their implications for the resilience of that model in the longer-term. We suggest that the IAASB, together with other relevant bodies, explore the possibility of developing a framework for such resilience/ viability measures, for reporting on by the entity. We consider that such discussions would be very much aligned with other recent initiatives and dialogue in respect of interconnected standard-setting for corporate reporting, with increasing recognition by many independent standard-setting bodies, regulators, preparers, practitioners and other stakeholders that reporting on historical financial information alone may not be sufficient to provide a holistic view of a company's performance. There is increasing demand for a longer-term, future-oriented view across a wider range of aspects of a company's performance, including non-financial information elements, the impacts of these different aspects and their interdependency with financial reporting.

In connection with the above, there is increased stakeholder focus on the risks of climate change, environmental damage and societal issues, which have a close relationship with longer terms aspects of 'going concern' considerations, and such matters are in the spotlight more than ever. As a result, we expect greater demand for reporting by companies that addresses their impacts and initiatives in relation to these overarching global concerns as a core feature impacting their market value.



Please contact Sheri Anderson at sranderson@kpmg.com if you wish to discuss any of the issues raised in this letter.

Yours sincerely

A handwritten signature in black ink that reads 'Larry Bradley'. The signature is written in a cursive, flowing style.

Larry Bradley
Global Head of Audit
KPMG International Ltd

Appendix 1 – Specific Questions Posed by IAASB

Respondents are asked to comment on the clarity, understandability and practicality of application of the requirements and related application material of ED-570. In this regard, comments will be most helpful if they are identified with specific aspects of ED-570 and include the reasons for any concern about clarity, understandability and practicality of application, along with suggestions for improvement. When a respondent agrees with the proposals in ED-570, it will be helpful for the IAASB to be made aware of this view.

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 to the ED)?**

We are supportive of the overall aims and objectives of ED-570 and we believe that some of the proposals are responsive to the public interest. However, we do have significant concerns with respect to certain proposals, which we set out in more detail below.

For example, we welcome the fact that the proposals take into account the heightened expectations of users of financial statements of listed entities, and there are clearly differentiated requirements for listed entities, proportional to listed entities and users' information needs. Additionally, throughout the application material there is guidance in respect of scalability, and examples in respect of the application of requirements to more complex entities, as well as smaller and less complex entities, although we have certain concerns in respect of scalability that we highlight in our response to Question 3.

Overall, we consider that certain of the proposed changes will help to provide greater clarity, as well as enhance the overall approach to auditing the going concern assessment by more closely aligning it with the foundational standards, including ISA 315 (Revised). These proposed changes include applying a 'going concern lens' to risk identification/assessment procedures; clarification that the auditor identifies events or conditions on a gross basis, before consideration of mitigating factors; enhanced content requiring more robust and timely risk identification/assessment procedures, and a more robust approach to evaluating management's assessment. We also welcome proposed changes to enhance and embed professional skepticism throughout the audit in respect of going concern-related matters.

We are supportive of the proposed changes to the commencement date for the period of management's assessment, from at least twelve months from the date of the financial statements to at least twelve months from the date of approval of the financial statements, as well as the greater emphasis on two-way communication

about going concern matters with management/Those Charged With Governance (TCWG).

We also support the IAASB's intentions to provide greater clarity in respect of terminology, although we have concerns that the definition of a Material Uncertainty Related to Going Concern (MURGC) does not take account of the proposed changes to the standard, in particular, the clarification of the fact that events and conditions are identified on a gross basis, with mitigating factors then considered in determining whether there is a MURGC, and may not be consistent with the requirements/guidance set out in the standard. The reference to disclosures within the definition also introduces confusion into the concept of a MURGC. We recommend, in particular, that the definition be updated to make specific reference to the consideration of management's plans and their ability to mitigate the effects of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, and to remove the reference to disclosures. (Please see our response to Question 5 for further details).

Notwithstanding the above, however, we have concerns with certain proposed changes to the standard, which we describe in our responses to the questions below, along with our related recommendations.

With respect to the public interest, we have significant concerns regarding the proposal for the auditor to report their conclusion as to the appropriateness of management's use of the going concern basis of accounting and related statement regarding not having identified material uncertainties in the auditor's report, when the use of the going concern basis of accounting is appropriate and no material uncertainty exists. Our first concern is that the separate conclusion and related statement on matters related to going concern is piecemeal in nature and potentially undermines the importance of the auditor's opinion, which is intended to provide a clear, and binary, conclusion to users on the financial statements as a whole. We believe that the proposed conclusion and related statement on one specific aspect of the financial statements is not helpful and may undermine the intended primacy of the auditor's opinion, which may cause confusion to users. Additionally, we consider that the conclusion and related statement are not aligned with the fundamental principle of auditor's reports to report matters "by exception." Therefore, we are concerned that the inclusion of such conclusions and related statements could unnecessarily clutter the report and potentially desensitise users to information related to going concern matters in the auditor's report more generally, which would not be in the public interest. Furthermore, we believe that the inclusion of the conclusion and related statement may suggest a disproportionate emphasis on going concern over other aspects of the financial statement audit.

Related to this, we also have a concern that increased disclosure of this nature in the auditor's report may potentially widen the "expectation gap" and create a perception that disproportionate responsibility rests with the auditor with respect to the going concern assessment, given that the auditor would be required to express

an explicit conclusion in the auditor's report when management may not have made an explicit assertion in the financial statements in this respect, and there may be little or no disclosure in the financial statements when the use of the going concern basis is appropriate; that conclusion did not require significant judgment, and no material uncertainty exists. Consequently, we are not supportive of the proposed requirements in paragraph 33(a). (Please see our response to Question 13 for further details.)

From a broader perspective, we highlight that the requirements and guidance set out in ED-570 are generally more prescriptive and comprehensive than the requirements and guidance relating to management's going concern assessment and related financial statement disclosures set out in certain financial reporting frameworks (e.g. IFRS Accounting Standards) are for preparers. We consider that certain proposed enhancements to ED-570, such as new requirements to provide greater transparency to users regarding considerations in respect of going concern in the auditor's report, appear to be, in part, in response to the lack of requirements/guidance in certain financial reporting frameworks. We have commented previously, e.g. in our response to the IAASB Discussion Paper (DP), *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 Statements Audit* regarding the need for complementary changes to requirements to balance the roles and responsibilities of others, as well as auditors, in the financial reporting ecosystem, to ensure that these are substantially aligned and able fully to function in concert in the public interest. We recognise that the introduction of legal/ regulatory/ corporate governance code requirements will take place on a jurisdiction by jurisdiction basis, with this evolution occurring at a different pace across different jurisdictions, and we believe it is important for the IAASB to continue its efforts to reach out to and work closely with other bodies, including financial reporting standard-setters, such as the IASB, as well as national standard-setters, bodies responsible for establishing legal and regulatory, and corporate governance, frameworks/requirements, on a global basis, in exploring this area to develop appropriate solutions. We acknowledge that such outreach and collaboration on a global basis will likely be challenging, but we consider it important in order to drive the necessary improvements and improve public confidence in the global capital markets.

Furthermore, whilst we consider that the proposed enhancements to ISA 570 will be helpful in responding to certain stakeholder concerns, in terms of the broader public interest considerations, the wider issue remains that an entity's ability to continue as a 'going concern' (as a broader concept than envisaged by auditing and financial reporting standards, being a basis of preparation of the financial statements) is an area that stakeholders most want information and clarity about, i.e. whether an entity is likely to continue operating, and the resilience of the entity's business model in this regard, over the longer term.

Accordingly, we suggest the IAASB encourage other relevant bodies to explore the possibility of an approach under which further information could be provided by management, e.g. in the front section of the annual report, about potential events/ conditions and related risks beyond the period of management's assessment of going concern, looking at the longer-term, including business plans and risks more widely. Such information would not form part of the binary conclusion as to whether the going concern basis of preparation is or is not appropriate but could provide important information to investors about the business model, key risks/ uncertainties and their implications for the resilience of that model in the longer-term. We suggest that the IAASB, together with other relevant bodies, explore the possibility of developing a framework for such resilience/ viability measures, for reporting on by the entity. We consider that such discussions would be very much aligned with other recent initiatives and dialogue in respect of interconnected standard-setting for corporate reporting, with increasing recognition by many independent standard-setting bodies, regulators, preparers, practitioners and other stakeholders that reporting on historical financial information alone may not be sufficient to provide a holistic view of a company's performance. There is increasing demand for a longer-term, future-oriented view across a wider range of aspects of a company's performance, including non-financial information elements, the impacts of these different aspects and their interdependency with financial reporting.

In connection with the above, there is increased stakeholder focus on the risks of climate change, environmental damage and societal issues, which have a close relationship with longer terms aspects of 'going concern' considerations, and such matters are in the spotlight more than ever. As a result, we expect greater demand for reporting by companies that addresses their impacts and initiatives in relation to these overarching global concerns as a core feature impacting their market value.

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

We believe that collectively, the proposals will enhance and strengthen the auditor's judgements 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.

However, we have significant concerns with certain aspects of the proposed revisions and we set out further details of these, and our related recommendations, in the questions below.

- 3. Do you believe the proposed standard is scalable to entities of different sizes and complexities, recognising 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 are supportive of the IAASB's approach to consider scalability throughout the ED, in terms of the clear identification and delineation of certain requirements, e.g. at paragraph 33(b), that are applicable only for listed entities and are commensurate with user expectations in respect of such entities, as well as the scalability guidance and more detailed examples included throughout the application material, to provide greater clarity and compare/contrast in respect of application of certain requirements to the circumstances of more complex versus less complex entities. We believe this will be helpful to users of the standard.

However, we have significant concerns about the scalability of certain aspects of the standard, both for more complex and less complex entities, as follows:

- Paragraph 12, which focuses on risk assessment procedures to obtain an understanding of the entity and its environment, and its system of internal control, may be difficult to apply to less complex entities. Although the related application material acknowledges differences in aspects of an entity and its environment, and internal control system for smaller entities, e.g. that borrowing arrangements may be less complex, or that governance structures may not include independent or outside members, it does not clearly address the fact that policies and procedures may be less formal and the auditor's procedures may therefore be more inquiry-based, directed at key individual(s) with in-depth knowledge of the entity. We recommend that the standard acknowledge this more explicitly, as in paragraph A12 of the extant standard, and focus on highlighting relevant considerations such as robust inquiries and discussions, appropriately challenging management, and exercising professional skepticism in doing so.

Similarly, paragraph 19, which focuses on evaluating the method, assumptions and data used in management's assessment may also be difficult to apply in respect of less complex entities with less robust/detailed analyses. The related application material touches on this but conflates simpler business activities with the fact that a simple analysis may be sufficient when the business is profitable and there are no liquidity concerns. We recommend that the standard provide clearer guidance as to when and how it may be possible to obtain sufficient appropriate audit evidence in the absence of a detailed analysis by management (including in scenarios where a budget/forecast may not have been prepared for the entire period of management's assessment); the factors that the auditor would need to consider, and how the auditor would apply the more detailed and granular requirements set out at paragraph 19, which seem to require an increase in the nature and extent of work to be performed in this area, at least when no events or conditions that may cast doubt on an entity's ability to continue as a going concern have been identified. In connection with this, we also have concerns regarding the scalability of the requirements at paragraph 19 in the circumstances when the business is profitable and there are no liquidity concerns, in terms of the fact that the standard appears to require auditors to design and perform, and document, audit procedures that in

certain circumstances may not be necessary to respond to the assessed risk of material misstatement. (Please refer to our responses to Questions 8 and 9 for more detail).

- The standback at paragraph 29 is helpful, however, we recommend that this be enhanced, in particular in respect of more complex/listed entities, to drive the auditor to consider the business more holistically, including standing back to consider whether transactions and business practices are aligned with the auditor's understanding of the entity and whether the auditor has sufficient understanding regarding the substance of transactions, the counterparties, and key metrics, e.g. profit margins; a clearer link to considerations in respect of parties to transactions, whether they are related parties or may otherwise influence the transaction; consideration of unusual arrangements and offshoring arrangements, and an explicit reference to professional skepticism and how this may be exercised in respect of these matters. This should draw together other aspects of the audit including in respect of considerations of fraud and management bias, as well as considerations made holistically across all components of a group.

We also question whether going concern matters are relevant to all financial reporting frameworks. Please see our response to Question 16 in respect of going concern and special purpose frameworks for further details.

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

In general, we consider that the requirements and application material included in ED-570 will appropriately reinforce the auditor's application of professional skepticism in relation to going concern and we welcome these enhancements to the standard. For example, paragraph 18 requires the auditor, in designing and performing the audit procedures, to evaluate management's assessment of the entity's ability to continue as a going concern, and to do so in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory. Paragraph 29 requires the auditor to evaluate whether judgements and decisions made by management in making its assessment of going concern are indicators of management bias, even if individually reasonable, and introduces a 'stand back' that requires the auditor to consider all audit evidence obtained, including audit evidence regardless of whether it appears to corroborate or contradict the assertions in the financial statements. Various application material refers to the concept of management bias and when this may be of particular concern.

However, we recommend that more robust references to professional skepticism be included in the standard in respect of the following:

- Evaluating management’s assessment, in particular, in robustly challenging their significant assumptions and judgements;
- In considering the appropriateness of the period of management’s assessment (i.e. that management does not automatically default to 12 months from the date of approval of the financial statements);
- In considering the period beyond management’s assessment. The ED focuses on making inquiries of management, acknowledging the limitations of the audit and the auditor’s responsibilities regarding the period beyond management’s assessment, however, we recommend that it make more explicit reference to the exercise of professional skepticism and challenge of management more robustly, including considering our knowledge of relevant events or conditions;
- In considering the implications if management refuses to make an assessment or refuses to extend the period of assessment;
- In evaluating management’s plans for future actions, and robustly challenging management as to why these are feasible and are likely to mitigate the situation;
- At the standback stage, including consideration holistically across components of a group, and whether assumptions and judgements have been applied consistently across the group (also see our comments in Question 3 relating to the standback); and
- At paragraph A55 in respect of a delay between the date of the auditor’s report and the date the financial statements are issued, when such delay relates to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern. We believe it would be critical to exercise professional skepticism in these circumstances, in considering the reasons for the delay, whether these may relate to going concern matters, and the implications.

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 are supportive of the inclusion of a definition of material uncertainty related to going concern (MURGC) given that this term is pervasive to the standard and may be inconsistently understood/applied. We note that the definition is essentially repurposed from paragraph 18 of the extant standard and is not, in itself, new. However, we highlight that the definition has not been updated to take account of revisions to ED-570, including clarification of the fact that events and conditions are identified on a gross basis, with mitigating factors then considered in determining whether there is a MURGC. Accordingly, we recommend, that the definition explicitly make reference to management’s plans and their ability to mitigate the

effects of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. Although the definition includes reference to the likelihood and magnitude of the potential impact of events or conditions, we do not believe this is sufficiently clear in terms of whether and how the impact of management's plans is considered.

We also note, as we describe in our response to Question 10, that the ED lacks clarity in terms of providing guidance to auditors as to how to consider "feasibility" of management's plans when, having evaluated management's plans for future actions, there may be residual uncertainty, which may still rise to the level of a material uncertainty. We recommend that the IAASB develop guidance regarding the auditor's considerations in these circumstances, and we suggest that the definition of a MURGC be clearly linked to such guidance as such considerations are a critical feature in considering the magnitude and likelihood of the potential impact of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, and therefore in determining whether a MURGC exists.

Additionally, we highlight that the inclusion within the definition itself, of the need for the auditor to judge whether disclosure of the nature and implications of the uncertainty are necessary, in the context of the applicable financial reporting framework, is unclear. This may be interpreted to mean that judgements as to whether disclosures are necessary are a relevant consideration when the auditor is concluding whether a MURGC exists, which would be inconsistent with the body of the standard, which does not describe this as a "step" in determining whether there is a MURGC, or set out requirements or guidance in this area. We also believe the inclusion of reference to disclosures may result in confusion regarding the concept of an MURGC itself, i.e. the definition states that the matter is a MURGC if, in the auditor's professional judgment, appropriate disclosure is necessary for the financial statements to fairly present or not to be misleading. Rather, we believe that it is the existence of a MURGC that drives the need for disclosure, not the need for disclosure that gives rise to the existence of a MURGC. Accordingly, we recommend that reference to the need for disclosures be removed from the definition itself.

We note in our response to Question 6 that making judgments as to whether events or conditions, individually or collectively, may cast significant doubt on an entity's ability to continue as a going concern may require the exercise of significant judgement by both management, in making their assessment, and by the auditor, in evaluating management's assessment. We recommend, therefore, that the ED provide more guidance as to the factors to consider in making this evaluation, in particular, to recognise that this evaluation is made on a gross basis without considering mitigating factors. We suggest that such guidance focus on considerations relevant to assessing the potential likelihood and magnitude of the events and conditions when considering whether they may, individually or collectively, cast 'significant' doubt, in a similar way to the spectrum of inherent risk

in ISA 315 (Revised). We recommend that the definition of a MURGC also be clearly linked to such guidance.

We also believe that there is scope for confusion around the concept of a MURGC, which may lead to inconsistency in practice, especially where financial reporting frameworks do not have a clear definition of the term and/or do not specify what information should be disclosed. Although the material added at A4-A5 helps to explain how the MURGC concept aligns with different financial reporting frameworks, including how different financial reporting frameworks may use different terminology, e.g., in respect of ‘material uncertainty’ or ‘significant uncertainty’, we believe there is still scope for confusion, although we recognise that it is not within the IAASB’s remit to address this concern unilaterally. We therefore suggest that the IAASB continue to liaise closely with other standard setters, including the IASB, to encourage greater clarity within financial reporting frameworks themselves.

In connection with the above, although we welcome the application material at A5, which clarifies the phrase ‘may cast significant’ doubt and defines that as “when the individual or collective magnitude of identified events or conditions is such that the entity will be unable to meet its obligations and continue its operations for the foreseeable future unless management takes remedial actions to mitigate the effects of these events or conditions”, we recommend that further guidance be explored regarding the extent to which, and how, mitigating factors are to be considered when concluding whether or not there is a MURGC, including significant assumptions and judgements about the feasibility of management’s plans and the importance of assessing the extent to which such plans are within management’s control. We suggest that the IAASB explore guidance in respect of considerations around the application of the concepts of ‘feasible’ and ‘mitigate’, for example, when there are multiple possible scenarios/outcomes and/or when considering whether the residual uncertainty rises to the level of a material uncertainty. Please see our response to Question 10 for further details.

We also recommend including a definition of a “close call” when events or conditions are identified that may cast significant doubt on the entity’s ability to continue as a going concern but it is determined, using significant judgement in reaching this conclusion, that there is not a MURGC. (Please refer to our response to Question 14).

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 are generally supportive of the changes made in respect of risk assessment procedures and related activities, as the new and enhanced material more closely aligns with ISA 315 (Revised) as the foundational standard addressing risk

identification and assessment. We believe that these changes, both structural, and in terms of enhanced content incorporating key elements and concepts from ISA 315 (Revised), will help to reinforce and embed the concepts in ISA 315 (Revised) and 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, i.e. to apply a 'going concern lens' to risk identification and assessment procedures. This will, in turn, also support a more robust evaluation of management's assessment of going concern, as required by paragraph 17. We also believe that the inclusion of the risk identification section upfront in the ED will help to clarify that the identification of events or conditions is made on a gross basis, i.e., before the consideration of mitigating factors.

We welcome the modernisation of the examples of identification of events or conditions in the application material (e.g., with greater references to external information, as well as data and analytics tools), and the clear link to fraud risk factors that may arise from events or conditions, at A7. We are also supportive of the requirements, including those at paragraph 11 and 12, and the related application material, which require the auditor to take a more robust approach and perform specific risk assessment procedures as a basis for identifying events or conditions (with application material at A11 providing examples of these) rather than the focus in the extant standard on inquiry and discussion, to determine whether management has identified events or conditions. We consider that this leads appropriately into the new requirements, at paragraphs 14 and 15, which require the auditor to determine whether the audit evidence obtained from risk assessment procedures indicates the existence of events or conditions that management has not previously identified, and to determine whether there are control deficiencies in respect of management's assessment of going concern (which triggers clear communication requirements with TCWG).

We also support the clarification that the identification and consideration of events and conditions is on a gross basis, i.e., prior to the consideration of mitigating factors, and that this enhancement, together with enhancements that drive more robust procedures to identify events or conditions, and a more robust evaluation of management's assessment, will drive audit quality in this area.

However, whilst we are supportive of the above enhancements, we also note several concerns below.

We highlight that the identification of events and conditions involves consideration of prospective financial information e.g., in respect of cash flows, methods, assumptions and data and business models, as well as the fact that certain of the illustrative events and conditions at paragraph A6 appear to contain embedded consideration of potential mitigating factors, e.g., fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment. We believe that this is likely because of the iterative nature of an audit, however, this approach may undermine the intention to identify events and conditions on a gross basis, as forecasts and budgets, or consideration of renewal/repayment prospects would

necessarily factor in management's plans and their effects, in terms of their potential to mitigate such events/conditions, on cash flows and liquidity. We recommend that the ED clarify that the understanding of these measures is intended to be relatively 'high level', with the purpose of identifying potential events or conditions but not to consider mitigating factors in more detail at this point.

We also highlight that the proposed changes to the standard may create challenges for auditors of smaller and less complex entities, in particular. Whilst the application material, e.g. at paragraph A9, clarifies that the auditor uses professional judgement to determine the nature and extent of procedures to be performed, we note that the granularity of the required procedures, including those with a focus on prospective financial information and the evaluation of management's assessment, may be challenging in circumstances in which an entity has limited/less formal financial planning, analysis and forecast processes, and the governance structure is relatively simple. Paragraph A18 appears to acknowledge this as it states that "the nature, extent, timing and frequency of management's assessment may vary from entity to entity", however, the examples then focus on frequency, rather than nature and extent of assessment.

We recommend that the application material clarify that/focus on:

- management is required to make an assessment but the nature and extent of this assessment may vary according to the size and complexity of the entity;
- the entity's circumstances, e.g. when an appropriate process has been undertaken to identify events and conditions that may cast doubt on the entity's ability to continue as a going concern and no such events or conditions have been identified, management's assessment may be less detailed;
- for smaller and less complex entities, it may still be appropriate for the auditor's risk identification procedures to be primarily inquiry and discussion-based, drawing on in-depth knowledge and experience of key individual(s). We suggest that an example of such a scenario be included in the application material.

We also recommend that the requirements for the auditor to evaluate management's assessment (at paragraph 17-19), and the requirement at paragraph 15, for the auditor to determine whether one or more control deficiencies in respect of management's assessment have been identified, explicitly focus on auditor evaluation as to whether the assessment is appropriate/proportional to the size and nature of the entity, and its circumstances. We also note that this would be better aligned with ISA 315 (Revised), which requires the auditor to understand the components of the entity's control environment and evaluate these as to whether these are appropriate, and with the risk-based nature of an audit.

Furthermore, we highlight that the judgement as to whether matters would rise to the level of an "event or condition that may cast significant doubt on an entity's ability to continue as a going concern" requires significant exercise of professional judgement, by both management, in making their assessment, and by the auditor, in

evaluating this. We recommend that the ED provide more guidance as to the factors to consider in making this judgement, in particular, to recognise that this judgement is made on a gross basis without considering mitigating factors. We recommend that the guidance focus on considerations of the likelihood and magnitude of the event or condition as to whether this raises 'significant' doubt, in a similar way to the spectrum of inherent risk in ISA 315 (Revised).

- 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 the 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 extent 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 are supportive of a change in the commencement date of the period of management's assessment, from at least twelve months from the date of the financial statements (the 'reporting date'), to at least twelve months from the date of approval of the financial statements. We consider that this revised commencement date is more appropriate in terms of being better aligned with the concept of 'going concern' itself, as a fundamental assumption underlying the basis of preparation of the financial statements. This change becomes increasingly important as the period between the date of approval of the financial statements and the reporting date increases. This change would align with the approach already implemented successfully in a number of jurisdictions, e.g., the UK, Canada and Australia, in this area.

We agree with the IAASB that this approach would not be inconsistent with the requirements of most recognised financial reporting frameworks, e.g. IFRS Accounting Standards, which establish a minimum time period in respect of which management is required to take into account all available information in making the going concern assessment (e.g. for IAS 1, this is at least but not limited to a 12-month period from the reporting date) and would permit a longer timeframe, where appropriate. A42 specifically acknowledges this.

We agree with the minimum period of time for management's assessment not being longer than (at least) 12 months from the date of approval of the financial statements, given that the further into the future events/conditions are expected to occur, the more uncertainty there is involved, and therefore it may be challenging to obtain sufficient, appropriate audit evidence about events beyond this date. We therefore believe the IAASB has struck an appropriate balance as the period of at least 12 months from the approval date is sufficiently long so as to be informative, however, not so long that uncertainty is introduced to such a degree that neither management nor the auditor is able to reach a conclusion or provide meaningful information. We also highlight that a period of 'at least, but not limited to, 12 months'

is aligned to the fact that most financial reporting cycles, and audits thereon, are on an annual basis, supplemented by updated information provided in respect of interim periods (at least for larger/more complex entities).

We also support this continuing to be expressed as ‘at least 12 months from...’ i.e. to express this a minimum period, which aligns with most recognised financial reporting frameworks, including IFRS Accounting Standards, to acknowledge that a longer timeframe may be appropriate. We recommend, however, that the application material provide more guidance with respect to the concept of ‘at least’, but not limited to, to avoid a presumption by management and auditors, that a period 12 months from the date of approval is, by default, an end-date. Such application material should focus on the need to evaluate *relevant* information and for management to determine what information is relevant and then establish their period of assessment having considered such information, i.e. that the information about the future that may result in the identification of events or conditions that may cast significant doubt over the entity’s ability to continue as a going concern determines the appropriate period of management’s assessment and not *vice versa*. The application material should focus on the judgement to be made by auditors when evaluating management’s assessment, including the factors to consider in determining ‘significance’ of events or conditions to the going concern assessment, and that such events or conditions would need to be more significant, in order to be relevant, the further into the future in which they occur. It may also be helpful to include an explicit requirement for the auditor to evaluate the appropriateness of the period of management’s assessment, with the application material to provide guidance as to when it may be appropriate for the period of assessment to extend beyond 12 months from the date of approval.

We recognise that the ED, at paragraphs 21-23, permits some flexibility where management’s assessment covers less than 12 months from the date of approval of the financial statements, and we believe this flexibility is important to address circumstances in which the financial reporting framework expresses the commencement date differently (e.g., from the reporting date) or does not express a minimum timeframe. We believe the steps set out in the application material to address such circumstances, i.e., that the auditor would first discuss with management and TCWG as to the reasons for the decision not to extend, and, in particular, that the auditor would consider whether it is possible to obtain sufficient appropriate audit evidence using additional information provided by management, are appropriate and do not generally undermine the related requirements. We agree that this may not constitute a scope limitation when operations are profitable and there are no liquidity concerns, and no events or conditions that may cast significant doubt beyond the period of assessment have been identified by management/TCWG. This is consistent with other application material, e.g., at A30 (which is also consistent with A9 in the extant standard) which allows similar flexibility, e.g. noting that a lack of detailed analysis “may not prevent the auditor from concluding...for example, when the entity has profitable operations and there are no liquidity concerns”.

However, we note that paragraph A43 refers to the unwillingness of management to “make or extend its assessment [emphasis added]” and we are concerned that an auditor could inappropriately conclude that, in circumstances when the entity has not made any assessment, or there is a significant period of time between the reporting date and the date of approval of the financial statements, that the auditor may be able to perform procedures in an attempt to compensate for management’s lack of assessment, which we do not believe would be appropriate in such circumstances. We suggest that the application material remove reference to no assessment having been made, as we consider that the applicable financial reporting framework will nearly always require management to make an assessment.

Instead we believe the focus should be on when management is unwilling to *extend* its assessment, which is a situation that may be expected to arise more frequently given the change in the commencement date for the period of assessment as described in the ED, e.g. management may prepare budgets or forecasts for 12 months from the reporting date and may not be willing to extend these to 12 months from the date of approval of the financial statements. This scenario may arise, in particular, in respect of small and less complex entities.

We therefore also recommend that the ‘flexibility’ be focused on what form an assessment may take; the nature and extent of the assessment, i.e. that such an assessment may be less detailed if operations are profitable and there are no liquidity concerns (although would need to be in sufficient depth to support this fact), and that an assessment may be less formal/detailed in respect of a smaller and less complex entity.

We believe these proposed changes would more closely adhere to the principle of ‘management goes first’ as they are best placed to make an assessment, and as the standard itself acknowledges at A30, it is not the responsibility of the auditor to rectify a lack of analysis by management. We suggest that the standard provide clearer guidance regarding relevant factors for the auditor to consider when evaluating whether the analysis supporting management’s assessment is appropriate and sufficiently detailed, such as the size and nature of the entity; the length of time between the reporting date and the date of approval of the financial statements, and emphasise the need to exercise professional skepticism and professional judgement in making these considerations. The related application material should also guide the auditor to consider whether and when a refusal to extend the assessment would constitute a scope limitation.

We also recommend that the application material discuss steps the auditor may take to help avoid these challenges arising in the first place, e.g., the auditor may consider including the length of the period of management’s assessment as a precondition in the terms of engagement, to ensure management and those charged with governance agree to this upfront.

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

We support the intentions underpinning the enhanced approach that requires the auditor to design and perform audit procedures to evaluate management’s assessment of going concern in all circumstances, 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 that, in general, the changes made to the requirements and related application material will drive the auditor to make a more robust evaluation of management’s assessment, including their identification of events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern, considering whether their assessment is fit for purpose, and we are supportive of the continued inclusion of the two components to the assessment, i.e. whether the going concern basis of preparation is appropriate, and whether there is a MURGC. We are also supportive of the changes to the consideration of whether there is a MURGC, to include consideration of events or conditions that the auditor has identified and which management may not, as well as a more robust approach to making the evaluation – please see our response to Question 9.

However, we note that, in certain circumstances, an entity may not have made a detailed assessment of its ability to continue as a going concern, e.g., when it is profitable and there are no liquidity concerns, or when the entity is small and less complex, with less formalised governance structures and policies and procedures, including in respect of forecasting of information. In these circumstances, the explicit requirement to “design and perform audit procedures” to evaluate management’s assessment of going concern, and the granular nature of these requirements, as set out at paragraph 19, may create challenges for the auditor when applied to entities with less robust/detailed analyses. We believe it is unclear as to the extent of work that would be considered to be appropriate in these scenarios, and whether the auditor would need to obtain audit evidence by performing alternative procedures in the event the budgets/forecasts did not cover the entire period of the assessment, or whether the lack thereof would potentially be considered a scope limitation.

We recommend, therefore, that the requirements, in particular, at paragraph 19, and related application material, be amended to clarify that the nature, timing and extent of procedures to be performed should be responsive to the assessed risks of material misstatement, and the requirement itself should be more clearly linked to the risk identification and assessment procedures set out earlier in the standard. The material at A30 appears to acknowledge this in noting that “a lack of detailed analysis by management may not prevent the auditor from concluding whether management’s use of the going concern basis of accounting is appropriate in the

circumstances” and cites the example of when “an entity has profitable operations and there are no liquidity concerns”, in which case “management may make its assessment without detailed analysis”. We recommend that the standard address this more clearly, as in paragraph A12 of the extant standard, including acknowledgement that the auditor’s procedures may be more inquiry-based, directed at key individuals with in-depth knowledge of the entity, and provide more guidance to auditors regarding how to ensure such inquiries and discussions are robust and appropriately challenge management, and exercise professional skepticism in doing so. We also suggest that the standard provide clearer guidance as to the circumstances where it may be possible to obtain sufficient appropriate audit evidence in the absence of a detailed analysis by management; the factors that the auditor would need to consider, and how this would comply with the requirements when the auditor does not consider that there is a significant risk in this area, with a focus on the use of professional skepticism and professional judgement to be used by the auditor in making this determination.

Additionally, we recommend that the auditor’s evaluation of management’s assessment focus on whether management’s assessment is appropriate/proportional to the size and complexity of the entity and fit for purpose, with application material to address the form of management’s ‘assessment’ and the fact that this may vary in terms of the level of detail included.

We also highlight that required procedures in respect of prospective financial information (PFI) are placed earlier in the ED (as part of the evaluation of management’s assessment) versus their placement in the extant standard (as part of the evaluation of management’s plans when events or conditions are identified that may cast significant doubt on going concern, and PFI is significant to management’s plans and the auditor evaluates these in determining whether there is a MURGC). Without additional clarification, we have concerns that this revision is likely to require the auditor to direct significant work effort to these areas in circumstances when it is not necessary to respond to the assessed risks of material misstatement as no events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern have been identified, e.g. when the entity is clearly profitable, and there are no liquidity concerns, and this is not expected to change in the foreseeable future, i.e. is driving the auditor to perform and document procedures that may not be necessary in respect of obtaining sufficient appropriate audit evidence, to respond to the assessed risks of material misstatement.

We recommend that the standard clarify that the nature, timing and extent of audit procedures that would be appropriate to evaluate the relevance and reliability of PFI for the purpose of evaluating management’s assessment when no events or conditions have been identified (as well as to validate the non-identification of going concern-related events and conditions) would be significantly less than the required work effort when events and conditions have been identified and PFI is significant to management’s plans to respond to these events or conditions. We also have

concerns with respect to the nature of the procedures in paragraph 19, which require the auditor to evaluate the method, assumptions and data used in management's assessment. We recommend that the focus of the standard should be on robust challenge of management's significant assumptions and judgements, regarding whether these are reasonable/supportable, and consideration of the relevance and reliability of the underlying information, as opposed to evaluating whether the methods, assumptions and data are appropriate in the context of the applicable financial reporting framework, in particular because financial reporting frameworks generally do not establish prescriptive requirements with respect to management's assessment.

We also highlight that the more granular requirements in respect of estimates, e.g., consideration of changes in methods, assumptions and data from prior periods, are not necessarily relevant to an assessment of going concern, given that the assessment should be responsive to the current environment and events and conditions that may arise, and may change over time. We recommend that the standard focus on an overall evaluation, and the application material provide factors that the auditor may consider in evaluating relevance and reliability of the information. (Please refer to our response to Question 9 for more detail).

In connection with the above, we also recommend that the IAASB consider whether the structure of the extant standard is more appropriate in this area, i.e. that the auditor first performs procedures to identify whether there are events or conditions that may cast significant doubt on an entity's ability to continue as a going concern and that more extensive work effort over prospective financial information be required only in the event that such events or conditions are identified. We believe this would be more appropriate and better aligned with the risk-based nature of an audit, as well as the drive to identify events or conditions on a gross basis initially. We recommend that the standard clarify that any risk assessment procedures in respect of budgets, consideration of headroom etc. would be different in nature, timing and extent to those required by paragraph 26, which involve evaluating management's plans for future action when events or conditions are identified, would address more detailed consideration of prospective financial information, which would require a more robust evaluation of the relevance and reliability of such information, consideration of multiple possible outcomes, sensitivity analyses etc. with the auditor needing to exercise professional skepticism and professional judgement in evaluating management's future plans, significant assumptions and judgments. This would be in line with the placement of paragraph 16(c) in the extant standard.

(Please also refer to our response to Question 6, in which we recommend that the requirements for the auditor to evaluate management's assessment (at paragraph 17-19), and the requirement at paragraph 15, for the auditor to determine whether one or more control deficiencies in respect of management's assessment have been identified, explicitly focus on whether the assessment is appropriate/proportional to the size and nature of the entity, and its circumstances,

i.e. to risks related to going concern, and is fit for purpose. As we also note in our response to Question 6, we recommend that the structure and flow of the standard are such that the focus is on higher level considerations in respect of prospective financial information as part of risk assessment procedures and the evaluation of management's assessment of going concern, and that more detailed procedures in respect of such prospective financial information are only required when events or conditions that may cast significant doubt on an entity's ability to continue as a going concern are identified. This is the approach taken in the extant standard).

9. Does ED-570 appropriately incorporate the concepts from ISA 540 (Revised) for the auditor's evaluation of the method, assumptions, and data used in management's assessment of going concern?

We support the intention underpinning this requirement, noting that the enhanced requirement at paragraph 19, to evaluate the method, assumptions and data used by management to make its assessment of going concern, and the related application material, are attempting to drive a more robust evaluation of management's assessment of going concern, and to assist auditors in appropriately challenging management regarding the method, assumptions and judgements, and data it has used in making its assessment, also including consideration of management bias, supporting the auditor in exercising appropriate professional skepticism.

However, we highlight that financial reporting frameworks generally do not establish prescriptive requirements with respect to management's assessment, and therefore by including these matters as requirements, and referencing them in a more granular way in the application material, the standard may not be aligned with financial reporting standards, and the approach taken by management. In addition, we highlight that certain granular requirements, e.g., consideration of changes in methods, assumptions and data from prior periods, are not necessarily relevant to an assessment of going concern, given that the assessment should be responsive to the current environment and events and conditions that may arise, and can change over time. Instead, we recommend that the requirements focus on an overall evaluation, and consideration of the relevance and reliability of the information and whether management's assumptions are reasonable and supportable. The application material could discuss factors that the auditor may consider in evaluating the relevance and reliability of the underlying information, which could incorporate applicable concepts from ISA 540 (Revised), with clarification as to when these may be applicable, with an emphasis on the need for the auditor to use professional skepticism and professional judgement. (For example, in respect of relevance, whether information includes investing and financing cash flows, and forecast changes in working capital, and whether the information is sufficiently disaggregated (e.g., on a monthly or quarterly basis), and in respect of reliability, how the information is developed/constructed, the consistency of assumptions etc.). However, if the IAASB decides to retain paragraph 19 as currently drafted, we recommend that the requirements include

qualifying language of ‘as applicable’. We also highlight that the requirement to evaluate assumptions should refer to “significant” assumptions, in line with a risk-based audit approach.

We also note that although paragraph A38 discusses scalability and provides examples, there may be particular challenges in this area when auditing smaller and less complex entities which are likely to have a simpler assessment of going concern. We recommend, therefore, that the requirement at paragraph 19 and related application material are proportional to the circumstances, including addressing the level of detail of management’s “assessment” in terms of ranging from full-scale budgets and forecasts versus less formal analyses, with a focus on whether this is appropriate and proportional to the entity’s circumstances and the assessed risks of material misstatement. Please see our responses to Questions 6 and 8.

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 inclusion of the enhanced requirement at paragraph 26, and related application material, for the auditor to evaluate whether management has the intent and ability to carry out specific courses of action. We consider this to be a critical part of the evaluation of management’s plans and whether these will mitigate an event or condition that may cast significant doubt on the entity’s ability to continue as a going concern, and we consider that the addition of this requirement, and the related application material will help to drive appropriate focus on this area by the auditor.

We recommend that the application material place greater emphasis on the extent to which such plans are within or outside of the control of management, as well as factors to consider where these are outside the control of management.

We are also supportive of the new requirement and related application material to evaluate the intent and ability of third parties and related parties to provide necessary financial support. However, these focus on written confirmation, and we recommend greater consideration of steps the auditor may take when such written confirmation is unlikely to be forthcoming, e.g., in respect of financing arrangements. The material at A50 suggests making inquiries of a third-party provider, and notes that a lack of written confirmation may constitute a scope limitation, but we suggest this could also explore other steps in relation to considering the intent and ability of the third party, such as considering their historical actions, their current lending abilities, and taking account of the economic situation more generally (e.g., if there is a liquidity crunch). We also highlight that receiving written confirmation from a third or related party is not usually legally

binding, and we recommend the application material clarify this, i.e. that there are jurisdictional differences in terms of such confirmations, with these being binding commitments that would be legally enforceable in certain jurisdictions, and statements of intent that are not binding and could be rescinded in others. The application material should clarify whether and when the latter would be considered to represent sufficient appropriate audit evidence, and explain that in making this assessment, the auditor would need to use professional scepticism and professional judgement, and consider the interrelationship between intent and ability. Similarly, the application material could discuss scenarios such as group audits in which the parent entity provides confirmations in the form of letters of support to several components – as to whether the parent would have the ability to provide such support concurrently to all of these components, e.g., in challenging economic circumstances.

We also recommend that the application material is more clearly linked to the requirement at paragraph 38 regarding written representations. Furthermore, we recommend that the application material at A51 more clearly guide the auditor as to how these considerations affect their evaluation of whether a material uncertainty may exist. For example, if management plans are feasible, likely to improve the situation and are within management's control, it is more likely that both management and the auditor would conclude that the residual uncertainty is sufficiently low that no material uncertainty exists. However, there may be situations where the plans are fully or partly outside management's control, and although audit evidence points towards the likely outcome improving the situation (e.g. when a letter of support is obtained from a parent company, and the parent company is assessed as having the intent and ability to support the entity), or when it appears likely that loan financing will be extended, the outcome of these events falls along a spectrum of certainty/uncertainty. Furthermore, there may be circumstances in which there are several different outcomes in respect of a single plan, or there may be various plans and alternatives, and considerations of feasibility need to focus on most likely outcomes, whilst considering reasonably plausible downside scenarios. The ED remains unclear in terms of providing guidance to auditors as to how to consider feasibility in such circumstances, and that, having evaluated management's plans for future actions, there may be circumstances when the residual uncertainty may still rise to the level of a material uncertainty. For example, if the auditor believes it is probable that management's plans will be realised, but that there is still a reasonable possibility that they may not be realised, then it is possible that the residual uncertainty may still constitute a material uncertainty. However, as drafted, some may reach the conclusion that there is no MURGC, as the most likely outcome is management's plans will be implemented and are likely to improve the situation.

We also recommend that the standard explicitly clarify that in circumstances where events and conditions that may cast significant doubt are identified and management's plans for future actions are not feasible, this may indicate that the entity may have no realistic alternative but to cease operations, in which case the

going concern basis of accounting itself may not be appropriate. Please also refer to our response to Question 5.

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 consider that the enhanced requirements and related application material, including a new requirement regarding obtaining an understanding of how TCWG exercise oversight procedures over management's assessment of going concern, will drive enhanced and clearer two-way communication, earlier in the audit, which will help auditors obtain sufficient appropriate audit evidence.

We recommend that the wording at 39(b) be clarified by adding, "The auditor's conclusion as to whether management's use of the going concern basis of accounting is appropriate...".

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 support the introduction of this requirement when laws, regulations or applicable ethical requirements may require the auditor to report to an appropriate authority outside the entity when the auditor determines that it is necessary to include a MURGC paragraph in the auditor's report or modify their opinion in respect of matters related to going concern. We consider this to be an important addition to the standard in light of the public interest role of the auditor, and the intention to provide greater transparency or an early warning mechanism in respect of entities that are systemically important to a particular financial reporting ecosystem.

We also welcome the application material which clarifies how the auditor would make such a determination; consideration of matters such as confidentiality requirements, and steps the auditor may take such as internal consultation or seeking legal advice.

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 related 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 have significant concerns with respect to the proposal to require the auditor to report their conclusion as to the appropriateness of management's use of the going concern basis of accounting and related statement regarding not having identified material uncertainties in the auditor's report, when the use of the going concern basis of accounting is appropriate and no material uncertainty exists. Our first concern is that the separate conclusion and related statement on matters related to going concern is piecemeal in nature and potentially undermines the importance of the auditor's opinion, which is intended to provide a clear, and binary, conclusion to users on the financial statements as a whole. We believe that the proposed conclusion and related statement on one specific aspect of the financial statements is not helpful and may undermine the intended primacy of the auditor's opinion, which may cause confusion to users. Additionally, we consider that the conclusion and related statement are not aligned with the fundamental principle of auditor's reports to report matters "by exception." Therefore, we are concerned that the inclusion of such conclusions and related statements could unnecessarily clutter the report and potentially desensitise users to information related to going concern matters in the auditor's report more generally, which would not be in the public interest. Furthermore, we believe that the inclusion of the conclusion and related statement may suggest a disproportionate emphasis on going concern over other aspects of the financial statement audit.

Related to this, we also have a concern that increased disclosure of this nature in the auditor's report may potentially widen the "expectation gap" and create a perception that disproportionate responsibility rests with the auditor with respect to the going concern assessment, given that the auditor would be required to express an explicit conclusion in the auditor's report when management may not have made an explicit assertion in the financial statements in this respect, and there may be little or no disclosure in the financial statements when the use of the going concern basis is appropriate; that conclusion did not require significant judgment, and no material uncertainty exists. Consequently, we are not supportive of the proposed requirements in paragraph 33(a).

We also highlight that management and TCWG have primary responsibility for the going concern assessment, in particular, because management/ TCWG are best placed to make assessments of going concern as a result of their detailed knowledge of the business, including future plans. Consequently, we recommend that the IAASB continue to work with financial reporting standard setters, e.g., the IASB, and other bodies to explore this, including considering, in particular, enhancing disclosure requirements related to going concern to provide users with relevant information, and to draw aspects of this together better in the financial statements to 'tell the story' for stakeholders in a more cohesive manner.

We consider that much of the 'expectation gap' resides in a lack of user understanding as to what 'going concern' means and the fact that it relates to a

basis of preparation, with a low threshold in terms of an entity being considered to be a 'going concern' as well as the fact that it is a point in time assessment, and subject to change based on events or conditions, which may evolve rapidly. One potential solution to address this would be for financial reporting standard setters to introduce requirements into financial reporting standards for financial statements to state explicitly in the basis of preparation note why the going concern basis of preparation is used, and require disclosures regarding the assessment of the entity's ability to continue as a going concern. This would avoid the need for the auditor's report to introduce new information about going concern, as it would instead provide commentary about how the auditor evaluated management's assessment if this is considered to be a 'key audit matter' – with such information now to be included within the Going Concern section of the auditor's report. Such disclosures by management could include their significant assumptions and judgements regarding their going concern assessment, so that the users are able to assess the reasonableness of these assumptions. We recognise that these would be primarily actions for financial reporting standard-setters, such as the IASB, and we suggest that the IAASB liaise closely with such standard-setters.

- 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?

Subject to our response to Question 13 and our concerns regarding the changes in the reporting section of the standard, we are supportive of the inclusion of the requirements, and related application material, in respect of listed entities, at paragraph 33(b) and paragraph 34, for the auditor to include a reference to the related disclosures in the financial statements, and to describe how the auditor evaluated management's assessment of the entity's ability to continue as a going concern. We believe these requirements would appropriately align this standard with financial reporting standards such as IAS 1; would be clearer for users of financial statements (because the information would be included as an explicit statement, and under the heading of Going Concern or MURGC) and would include greater transparency by requiring an explanation as to how the auditor evaluated management's assessment, which would align with the extent of information that would be communicated for a Key Audit Matter (KAM).

In connection with this, we note that the requirements at 33(b) and 34(d) for the auditor to describe how they evaluated management's assessment of the entity's ability to continue as a going concern are applicable for listed entities only. We

recommend that the IAASB consider extending these requirements to be applicable in circumstances when ISA 701 is applicable, i.e. when the auditor otherwise decides to communicate KAMs in the auditor's report or when the auditor is required by law or regulation to communicate KAMs in the auditor's report, so that the concepts are aligned.

We note that paragraph 33(b), in referring to when "events or conditions have been identified that may cast significant doubt... but based on the audit evidence obtained the auditor concludes that no material uncertainty exists" is unclear as to whether this requirement is intended to apply in all circumstances where there are such events or conditions and it is determined that no MURGC exists, or only in a "close call" scenario. We do not consider this that it would be appropriate to include this additional information when this is not a "close call" scenario, as we believe this could result in the auditor introducing new information in the auditor's report that is not included in the financial statements. Additionally, this would require the auditor to provide more detailed information about their going concern evaluation when the auditor has not needed to exercise significant judgement in determining that there is no MURGC, which would appear to be disproportionate in the circumstances and would go beyond the concept of a Key Audit Matter. Further, such information likely would clutter the auditor's report, which could obscure information that is more important, and, over time, we believe that such information would trend towards being "boilerplate" and may therefore desensitise users of auditor's reports to this section of the report more generally, which would not be in the public interest.

We do not believe that it was the IAASB's intention for this requirement to apply in all circumstances where there are events or conditions and we therefore recommend that the ED clarify that this requirement is applicable only in a close call scenario, and also include a definition of a close call within the standard. (Please also refer to our response to Question 5).

- 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 note that this is likely to be inferred, given that all potential information is now required to be included within either the 'Going Concern' section or the 'MURGC' section. However, we believe there may be scope for inconsistency/different interpretation in practice, and we recommend that this be explicitly stated, either in a requirement similar to paragraph 36, which prohibits the inclusion of a 'Going Concern' or 'MURGC' section in the auditor's report in the event that the auditor

disclaims an opinion on the financial statements, or, if such a prohibition is considered too strong, to explicitly clarify this in related application material.

We also recommend that the IAASB consider the implications for the auditor's report when there is a "close call" scenario for a non-listed entity, as the auditor of such an entity may also consider it appropriate to include a reference to the related disclosures (if any) in the financial statements and in the absence of further requirements or guidance, may include this in an Emphasis of Matter paragraph, rather than in the Going Concern section itself, as paragraph 33(b), which addresses this situation, is applicable only to listed entities. If the intention of the IAASB is that such information, whilst not required by the standard, would also be included in the Going Concern section, we suggest that the ED clarify this.

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.

Objectives of the Auditor

We consider that certain proposed enhancements in ED-570, such as new requirements to provide greater transparency to users regarding considerations in respect of going concern in the auditor's report, appear to be, in part, in response to the lack of requirements/guidance related to going concern disclosures in certain financial reporting frameworks. We believe that appropriate disclosures in the financial statements themselves, to 'tell the story' holistically regarding going concern, in a cohesive way, is critical to users of financial statements, and in the absence of changes, at a more granular level, to financial reporting standards in this area, we consider that the enhanced requirements placed on the auditor represent the mechanism to achieve this. Accordingly, and notwithstanding the concerns we raised previously in our response to the IAASB Discussion Paper (DP), *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 Statements Audit* regarding the need to balance the roles and responsibilities of others, as well as auditors, in the financial reporting ecosystem, we recommend that the auditor's objectives at paragraph 9 of the ED include an additional objective in respect of going concern disclosures, linked to considerations in respect of whether fair presentation of financial statements has been achieved. Setting out such an objective explicitly within the ED would be helpful for auditors in their discussions with management and TCWG.

Going Concern and Special Purpose Frameworks

As noted in ISA 800.A15, special purpose financial statements may or may not be prepared in accordance with a financial reporting framework for which the going concern basis of accounting is relevant (e.g., the going concern basis of accounting is not relevant for some financial statements prepared on a tax basis in particular jurisdictions). In the relatively rare scenarios where going concern is not relevant to the special purpose framework, it is unclear as to whether ISA 570 still applies and,

if so, how the objectives at ISA 570.9(b) for the auditor to conclude, based on the evidence obtained, whether a MURGC exists, and ISA 570.9(c) to report in accordance with this ISA would be complied with. This question may be relevant, in particular, when the special purpose framework is a compliance framework.

For example, paragraph 35 applies when adequate disclosure of a material uncertainty is not made in the financial statements. That paragraph requires that if adequate disclosure about the material uncertainty is not made in the financial statements, the auditor shall express a qualified or adverse audit opinion and state that the auditor concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

If the auditor concluded that the going concern basis of accounting is not relevant, the financial statements are prepared in accordance with the applicable financial reporting framework, and the non-disclosure of the material uncertainty is not misleading to the users of the financial statements, it is unclear whether this paragraph is then applicable or not. If the intent is that this paragraph is still applicable, we see this as problematic as the requirements require the auditor to express a qualified opinion or adverse opinion when the financial statements are prepared in accordance with the applicable financial reporting framework and the auditor has concluded that the non-disclosure of a material uncertainty is not misleading. In addition, paragraph 35(c)(i) requires the auditor to state in the report that the auditor concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate (even though the auditor has concluded this is not relevant).

We note that the conforming amendments to the ED propose to remove the description of both management's and the auditor's responsibilities in respect of going concern from the illustrative example reports in ISA 800 and ISA 805 where going concern is not relevant to the special purpose framework, suggesting that the IAASB does not consider that ISA 570.9(b) and (c) would be applicable in this situation. We recommend that the IAASB clarify whether the standard is expected to be applied when the going concern basis is not relevant to the basis of accounting and the existence of MURGC would not be relevant to the users of the financial statements and, if so, provide additional application material with respect to how to apply the standard in these scenarios.

Request for General Comments

17. The IAASB is also seeking comments on the matters set out below:

- (a) Translations – Recognising 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 ED-570.**

We do not have any additional specific comments in this area. Please refer to our comments in Question 10 regarding the term 'feasible' and Question 5 regarding other terminology.

(b) Effective Date

We consider that this timeframe appears reasonable and appropriate.