

International Auditing and Assurance Standards Board (IAASB)
529 Fifth Avenue
New York, 10017
USA

24 August 2023

Re : Comment letter relating to the IAASB's Exposure Draft on Proposed ISA570 (Revised 202X) Going Concern

Dear Mr. Seidenstein,

1. The CEAOB (Committee of European Auditing Oversight Bodies) appreciates the opportunity to comment on the IAASB's consultation paper on the *Proposed International Standard on Auditing 570 (Revised 202X) Going Concern*, issued in April 2023. As the organisation representing the audit regulators of the European Union and the European Economic Area, the CEAOB encourages and supports continuing improvement of professional standards for the audit profession.
2. The content of this letter has been prepared by the CEAOB International Auditing Standards Subgroup and has been adopted by the CEAOB. The comments raised in this letter reflect matters agreed within the CEAOB. It is not intended, however, to include all comments that might be provided by the individual regulators that are members of the CEAOB and their respective jurisdictions.
3. This response builds on previous comments raised by the CEAOB in January 2021¹ in addition to analysis of the exposure draft ("ED").
4. In its January 2021 letter, the CEAOB encouraged the IAASB to further explore the role of the auditor in relation to going concern and thus welcomes the issuance of the current ED.
5. In addition to broad support for the provisions in the ED (see "general comments"), the CEAOB recommends that the IAASB further enhances the provisions of the ED as set out in this letter (see "further enhancements needed").

¹ https://finance.ec.europa.eu/system/files/2021-01/210129-ceaob-comment-letter-iaasb-fraud_en.pdf

GENERAL COMMENTS

Integrated approach and consideration of all the ISAs

6. The CEAOB raised the need to strengthen the linkage between the various ISAs to facilitate proper implementation. In this regard, the CEAOB welcomes the links with ISA 315 provisions added in paragraphs 11, 12, 14, 15 of this ED.
7. However, the CEAOB is of the view that links with the provisions of ISA 540 should also be included in the revised ISA 570 to reflect the enhancements to the audit of estimates than can be applicable to assessment of going concern assumptions.

Coordination between IESBA and IAASB

8. The CEAOB encouraged the IAASB to coordinate with the IESBA, and stresses that coordination with the IESBA on ethical requirements remains important in the area of going concern related provisions, especially regarding the provisions dealing with reporting going concern issues to the relevant authorities at an early stage (paragraph 40).

Further investigations by the auditor regarding material uncertainties

9. The CEAOB agreed with expanding the auditor's role in relation to going concern.
10. Regarding the timeline to be considered when assessing the validity of the going concern assumption, the CEAOB is of the view that the IAASB's proposal in paragraphs 21 to 23 is a workable solution, based on the aims of protecting the public interest and informing the public about a future material uncertainty arising after the twelve months period required as a minimum by International Accounting Standard (IAS1 – *Presentation of Financial Statements*) for preparation of the financial statements.
11. Asking management to extend the going concern assumption assessment from the date of approval of the financial statements (paragraph 21) should enhance the basis on which the auditor concludes whether management's use of the going concern basis of accounting is appropriate and whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
12. On this premise it is also important to continue to engage with the International Accounting Standards Board (IASB) in order to end up with a greater alignment between the IFRS framework and the ISAs in the period of management's assessment of going concern. This would be a step towards enhancing the public interest on going concern matters.
13. The CEAOB encourages the IAASB to provide more extensive application material in paragraph A45 when management is unwilling to make or extend its assessment, to guide auditors in evaluating the wide range of situations that could arise in practice, including factors and circumstances where the unwillingness could potentially be indicative of going concern issues. In this context, differences could also be considered between an unwillingness to make and an unwillingness to extend management's assessment.

Professional scepticism

14. The CEAOB expressed support for a strengthening of requirements regarding the exercise of professional scepticism and now welcomes the new language (included in paragraphs 18 and 29) regarding the evaluation and consideration of audit evidence that may indicate

possible management bias or may be contradictory to the financial statements assertions. The CEAOB supports the emphasis proposed in the ED, requiring the auditor to take into account not only corroborative information but also contradictory information.

Risk assessment procedures

15. The CEAOB supports the additional detail added for risk assessment procedures targeted at the going concern assumption, described in paragraph 12 of the ED, which is further aligned with ISA 315.

Audit procedures

16. The CEAOB also supports the enhancement of the audit procedures to be performed by the auditor to evaluate management's assessment of the entity's ability to continue as a going concern (paragraphs 17 and 19).
17. The CEAOB supports the additional provisions included in the ED (paragraphs 25 and 26) to ensure additional procedures are performed when events or conditions that may cast significant doubts are identified. Strengthening the requirements for the auditor to evaluate management's plans for future actions, including whether management has taken appropriate decisions and has the ability to carry out the specific courses of action, is a step forward to enhance auditors' scrutiny. (see also comment hereafter)

Written representation

18. The CEAOB also recommended the introduction of provisions to incentivize management to confirm the appropriateness of their assessment to the auditor. Therefore, the CEAOB supports the provisions for a written confirmation request (in case of events or conditions that may cast significant doubt on going concern) introduced in paragraph 38. However the written representations could be further enhanced by including confirmation from management that all identified events or conditions that may cast significant doubt on the entity's ability to continue as a going concern have been considered in its assessment and disclosed to the auditor.

Communication with Those Charged With Governance (TCWG)

19. The CEAOB welcomes and supports the provisions that aim at enhancing communication between auditors and TCWG on any uncertainty and action plans to be put in place (paragraph 39). This includes the requirement for the auditor to present to TCWG "*an overview of the audit procedures performed and the basis for the auditor's conclusions, including the auditor's evaluation of management's plans for future actions*".

Communications with relevant authorities to be expanded

20. The CEAOB supports provisions aiming at requesting the auditor to inform relevant authorities in case of issues related to going concern.
21. However, the CEAOB asks the IAASB to introduce more demanding provisions to require communication to relevant authorities regardless of whether it is stipulated by national laws, regulation and ethical requirements applicable in the specific jurisdiction. In the CEAOB view, the communication to authorities should be done, unless laws or regulations prohibit this communication. The determination of the relevant authorities will depend on

the organization put in place at jurisdictional level and may require assessment by the auditor in the absence of jurisdictional definition.

Definition of material uncertainty (related to going concern)

22. The IAASB proposes to define a “*Material Uncertainty (Related to Going Concern)*” as “*An uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the entity’s ability to continue as a going concern where the magnitude of its potential impact and likelihood of occurrence is such that, in the auditor’s professional judgment, appropriate disclosure of the nature and implications of the uncertainty is necessary for: (a) In the case of a fair presentation financial reporting framework, the fair presentation of the financial statements, or (b) In the case of a compliance framework, the financial statements not to be misleading.*”
23. The CEAOB supports the proposal to clarify what a material uncertainty is in the ED to allow for further consistency in audit approaches. Since the ED phrasing implies that the auditor is the one who determines, through their professional judgement, what is, or is not, a material uncertainty, the CEAOB asks that the ED further specifies on which basis this judgement shall be made.
24. The application material in paragraph A5 should be added to the definition to clarify the meaning of “may cast significant doubt”. This concept is too important to be relegated to the application material only.

Listed vs. public interest entities

25. The CEAOB notes that some requirements regarding the audit report are exclusively targeted at listed entities (paragraphs 33 (b) and 34 (d)). The CEAOB notes that the scope of applicability of those specific provisions could be further extended to public interest entities.

FURTHER ENHANCEMENTS NEEDED

Further enhancements to be integrated in the requirements for risk assessment procedures

26. The CEAOB is of the view that the information provided in paragraph A6, regarding the fact that the auditor's identification of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern is before consideration of any related mitigating factors included in management's plans for future actions, is of such importance that it should be included in the requirements section of the standard.

Further enhancements to be integrated in the requirements for audit procedures

27. Paragraph 19 – When evaluating the methods and assumptions used in management's assessment of going concern, the auditor should be required to consider whether they are appropriate and reasonable in the context of the auditor's understanding of the entity.
28. Paragraph 20 – If management disclose events or conditions beyond the period of their assessment that may cast significant doubt on the entity's ability to continue as a going concern, the auditor should be required to make further enquiries of management and evaluate if this information is significant for the auditor's going concern evaluation.



29. Paragraph 25 – The CEAOB believes that the auditor should be required not only to “*determine whether it is necessary*” to request management to revise its going concern assessment in any case where the auditor identifies events or conditions that cast significant doubt on the entity’s ability to continue as a going concern but also to request the revision from management once the determination has been made.
30. Paragraph 26 – In the audit procedures required when an event or condition that may cast significant doubt on the entity’s ability to continue as a going concern, the IAASB should add that the evaluation of management’s plans for future actions should include assessing the skills and resources available at entity level to appropriately implement the plans in the future.
31. When reviewing management’s action plan, the auditor should also be required to apply the section “*Evaluating Management’s Assessment*” set out in paragraphs 19 to 25. A clear reference to ISA 540 should also be included. This is because when an event or a condition has been identified and the auditor has to evaluate management’s plan for future actions the assessment of estimates is likely to be challenging.
32. Paragraph 27 – The paragraph refers to evaluating the ‘intent and ability’ with regard to financial support by third parties. The CEAOB suggests including stronger wording than “intent”, for example ‘commitment’. The CEAOB believes that only an ‘intention’ would not provide sufficient audit evidence of the financial support. Intentions may change, especially from third parties. In addition, the IAASB should make a clear distinction between (1) the intention of management regarding certain future actions, and (2) the intention of third parties/manager-owners. A clear distinction between these is relevant with regard to the audit evidence required. For third parties or related parties, stronger requirements should be used.
33. Paragraph 30 – The CEAOB reiterates the concern expressed in its comment letter on ISA 500 ED issued in April 2023. It is unclear in the same vein, and also in this ED on ISA 570s whether the auditor is required to consider all information, including information that does not meet the definition of ‘audit evidence’.

Further enhancements to be integrated in the application material

34. Paragraph A41 – The CEAOB believes that these provisions are too weak. When events or conditions have been identified in the period beyond management’s assessment, the auditor should at least communicate and encourage management to revise the period of assessment beyond twelve months after the approval date.
35. Paragraph A48 – The CEAOB believes that an auditor could understand from paragraph A48 that inquiry of management alone is sufficient to evaluate management’s plans for future actions. The standard should clearly state that inquiries alone are not sufficient to evaluate management’s plans for future actions.
36. Paragraph A50 explains that when finance providers are reluctant to confirm in writing that borrowing facilities will be renewed, the auditor may consider inquiring of external providers. However, inquiries, even if they are external, should be considered as less reliable than written confirmations. The CEAOB is concerned by the fact that the application material seems to place written confirmation at the same level than inquiries in term of reliability.



37. Paragraph A63 should be elevated in the requirements. Indeed, the requirements of paragraph 31 shall also include situation where additional disclosures are necessary to achieve the fair presentation. Concrete example of such situation should also be presented in the application material.

38. Paragraph A77 deserves to be elevated in the requirements. Indeed, when information is determined to be necessary by the auditor, the auditor should be required to encourage management or those charged with governance to disclose such additional information. The term “may encourage” is a too low level.

Please do not hesitate to contact me or the Chair of the CEAOB International Auditing Standards Sub-group should you have any questions on the content of this letter.

Yours faithfully,

Patrick Parent

Chairman