


24 August 2023



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

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# 1. Introduction

ICAS is a professional body for more than 23,600 world class businesspeople who work in the UK and in more than 80 countries around the world. Our members have all achieved the internationally recognised and respected CA qualification (Chartered Accountant). We are an educator, examiner, regulator, and thought leader.

Over half of our working membership work in business; the others work in accountancy practices ranging from the Big Four in the City to the small practitioner in rural areas of the country.

We currently have over 4,400 students striving to become the next generation of CAs under the tutelage of our expert staff and members. We regulate our members and their firms. We represent our members on a wide range of issues in accountancy, finance and business and seek to influence policy in the UK and globally, always acting in the public interest.

ICAS was created by Royal Charter in 1854. The ICAS Charter requires its Boards to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members' views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

We have considered the IAASB Exposure Draft: 'Proposed International Standard on Auditing 570 (Revised 202X) Going Concern and Proposed Conforming and Consequential Amendments to Other ISAs' and I am pleased to forward our comments.

Any enquiries should be addressed to James Barbour CA, Director, Policy Leadership.

## 2. Key Points

We welcome the opportunity to provide comments on the IAASB's exposure draft 'Proposed International Standard on Auditing 570 (Revised 202X) Going Concern and Proposed Conforming and Consequential Amendments to Other ISAs'.

We welcome that most of the proposed revisions align to those already made by the Financial Reporting Council (FRC) in its extant UK version of ISA 570 (Revised September 2019, updated May 2022). However, we do have concerns over the IAASB's proposal on "close call" situations which is set out in paragraph 33(b) of the ED. We are not convinced that the proposed approach is an improvement on the current UK approach. Please refer to our response to question 14 for more detail in this regard.

## 3. Responses to the specific questions

### Question 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?**

Yes, we believe that the proposals set out in ED-570 are substantively responsive to the public interest. A number of the proposed revisions are already reflected in the extant UK version of ISA 570, and we therefore welcome the IAASB's decision to update its standard. However, as noted in our response to question 14, we have concerns over the proposed approach for dealing with "close call" situations.

### **Question 2**

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

Yes, we believe that the proposals in ED-570, when considered collectively, will do so. Our only concern relates to the proposal in situations where there is a "close call". Please refer to our response to question 14 in this regard.

### **Question 3**

**Do you believe the proposed standard is scalable to entities of different sizes and complexities, recognizing that general purpose financial statements are prepared using the going concern basis of accounting and that going concern matters are relevant to all entities?**

We believe that the proposed standard is scalable to entities of different sizes and complexities.

### **Question 4**

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

Yes, we believe that the requirements and application material of ED-570 do appropriately reinforce the auditor's application of professional scepticism in relation to going concern.

### **Question 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 broadly supportive of the proposed definition and the related application material. We do, however, question whether the words ".....in the auditor's professional judgment.." should be included in the definition. Removing these words from the definition would recognise that management might have identified the material uncertainty whilst undertaking their going concern assessment.

### **Question 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 supportive of the substance of introducing a more robust identification by the auditor of events or conditions that may cast significant doubt on an entity's ability to continue as a going concern. We do, however, believe that the proposed revision could be improved with respect to specificity and clarity by utilising the extant wording in ISA (UK) 570 rather than what is proposed in ED-570. The extant UK text states:

"10-1. When obtaining an understanding of the entity and its environment, the applicable financial reporting framework and the entity's system of internal control as required by ISA (UK) 315 (Revised July 2020),<sup>3</sup> the auditor shall design and perform risk assessment procedures to obtain an understanding of the matters in paragraph 10-2 that provides an appropriate basis for the identification of: (Ref: Para. A3-16–A4.2, A5)

- (a) Events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern; and (Ref: Para. A3–A3-1)
- (b) Whether or not a material uncertainty related to going concern exists.

**Question 7**

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

Yes, we support this proposed change which aligns with the current requirement in ISA (UK) 570 (Revised). This has long been the applicable period in the UK and we welcome the IAASB's proposed change in that regard.

**Question 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?**

Yes, we are supportive of the proposed enhanced approach.

**Question 9**

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

Yes, we believe that it does appropriately incorporate the concepts introduced from ISA 540 (Revised) for the auditor's evaluation of the method, assumptions, and data used in management's assessment of going concern. Similar concepts were introduced by the FRC into the UK standard in 2019.

**Question 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?**

Yes, we are supportive of these.

**Question 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?**

Yes, we believe that these will encourage early transparent dialogue among the auditor, management and TCWG, and result in enhanced two-way communication with TCWG about matters related to going concern.

**Question 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?**

Yes, we are supportive of the inclusion of this content.

### **Question 13**

**This question relates to the implications for the auditor's report for audits of financial statements of all entities, i.e., to communicate in a separate section in the auditor's report, under the heading "Going Concern" or "Material Uncertainty Related to Going Concern", explicit statements about the auditor's conclusions on the appropriateness of management's use of the going concern basis of accounting and on whether a material uncertainty has been identified.**

**Do you support the requirements and application material that facilitate enhanced transparency about the auditor's responsibilities and work relating to going concern, and do they provide useful information for intended users of the audited financial statements? Do the proposals enable greater consistency and comparability across auditor's reports globally?**

We are broadly supportive of these proposed requirements and application material. They are largely aligned with extant requirements in the UK, and therefore in general, we believe that they do provide useful information for intended users of the audited financial statements and do enable greater consistency and comparability across auditors' reports globally.

However, please note our response to question 14 where we do highlight a particular concern which we believe should be addressed by the IAASB prior to finalising the revised standard. This relates to situations where events or conditions have been identified which may cast significant doubt on an entity's going concern status, but the auditor concludes that no material uncertainty exists. It is proposed that the auditor would refer to the related disclosure(s), if any, in the financial statements; and describe how they evaluated management's assessment of the entity's ability to continue as a going concern.

### **Question 14**

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

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

We do have concerns over the proposed requirements in paragraph 33(b) of the proposed revised standard in respect of "close call" situations. There is a risk the proposed revisions would introduce a further potential layer of disclosure on going concern within the auditor's report that may not be matched by equivalent disclosures in the financial statements. For such disclosures to properly improve transparency they would need to be accompanied by appropriate related disclosures made by management. This again emphasises the need for dialogue between the IAASB and accounting standard setters such as the IASB with a view to enhancing the current level of going concern disclosures which are required of preparers.

We therefore believe that the IAASB should reconsider its proposed approach in this regard and consider adopting the current UK approach i.e. for audits of all listed entities where use of the going concern concept is deemed appropriate by the auditor, regardless of whether there is a close call situation, the auditor should be required to provide an explanation of how they evaluated management's assessment of the entity's ability to continue as a going concern and, where relevant, key observations arising with respect to that evaluation.

With respect to extending this proposed requirement, we believe that it could be extended to include all public interest entities.

**Question 15**

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

We believe that this is substantively clear but please refer to our comments above in our response to question 14.

**Question 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.**

There are no further matters that we would like to raise.

**Question 17**

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

- (a) Translations—Recognizing that many respondents may intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED-570.**

As we do not need to translate the IAASB’s standards we have no comments in this regard.

- (b) Effective Date—Given the need for national due process and translation, as applicable, and the need to coordinate effective dates with the fraud project, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods beginning approximately 18 months after approval of the final standard. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISA.**

We are supportive of the proposed effective date.



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