No: 25/President/AFA/VIII/2023

Jakarta, 21 August 2023

Mr. Tom Seidenstein
Chair, International Auditing and Assurance Standards Board (IAASB)
529 5th Avenue
New York, New York 10017

Dear Mr. Seidenstein,

Comments on the IAASB's Exposure Draft ISA 570 (Revised 202X) Going Concern

The ASEAN Federation of Accountants (AFA) was organised on 12 March 1977 to serve as the umbrella organisation for the recognised national Professional Accountancy Organisations of the Association of Southeast Asian Nations (ASEAN) Member States. Our ten Primary Members collectively represent a regional network of more than 200,000 accountants in ASEAN jurisdictions, supported by a global network of Associate Members with more than 2 million members worldwide.

AFA appreciates the opportunity to comment on the IAASB's Exposure Draft: *Proposed International Standard on Auditing (ISA) 570 (Revised), Going Concern and Proposed Conforming and Consequential Amendments to Other ISAs* ("ED ISA 570"). We value our relationship with the IAASB in working with our stakeholders to promote adoption and implementation of the International Standards on Auditing in ASEAN jurisdictions.

Our comments reflect the common views of our member organisations as well as our views on key and most relevant matters in the consultation. We continue to encourage our member organisations and stakeholders to submit their individual comment letters to the IAASB, to further contribute to your deliberations on ED ISA 570.

Overall, AFA supports the IAASB's proposed revision of ISA 570, to deliver a more robust approach towards auditing going concern matters. Further enhancements that promote consistent implementation of the standard can contribute to audit quality. Kindly refer to the appendix included in this letter for details about our comments.

Please contact our Executive Director, Aucky Pratama (aucky.pratama@iaiglobal.or.id) should you need clarification about our comment letter.

Thank you.

Yours sincerely,

Voravit Janthanakul
President

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Appendix: Comments on the Exposure Draft

General comments

1) We agree that the proposals in ED ISA 570 are responsive to the public interest and will enhance and strengthen the auditor's judgments and work relating to going concern in an audit of financial statements [Q1 & Q2].

2) We believe that most of the proposals in ED ISA 570 are scalable to entities of different sizes and complexities. As recognised by the standard, the going concern basis is a fundamental principle in the preparation of financial statements and therefore going concern matters should be addressed in all audits. However, we would like to encourage the Board to consider the cost benefit of requiring smaller practices 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 [Q3].

3) We would like to highlight concerns raised by some of our stakeholders on the proposed change in the commencement date of the 12-month period of management's assessment of going concern. This will result in a misalignment with the requirements of IAS 1 *Presentation of Financial Statements*, as highlighted in our comments to Q7 below [Q7].

Risk assessment procedures and related activities [Q6]

4) We believe the proposals to enhance the requirements of risk assessment procedures and related activities within paragraphs 11 through 15 of ED ISA 570 are useful for auditors to determine the nature and extent of risk assessment procedures to be performed.

5) With reference to paragraph 11 of ED ISA 570. We would appreciate more clarity on the expected appropriate level of audit evidence that auditors are expected to obtain as part of risk assessment. In addition, paragraph 12 which follows generally only focuses on "obtaining an understanding" as part of the risk assessment process. If it were expected to be sufficient appropriate audit evidence, we would be concerned that there is no defined guidance or threshold on what is considered sufficient for such procedures and therefore, there is a risk of inconsistent application as part of the risk assessment process.

Change in commencement date of the twelve-month period of management's assessment of going concern [Q7]

6) We recognise the Board's objective to promote consistent practice and behaviour by the auditor across audit engagements conducted in accordance with the ISAs, including the proposed timeline over which the going concern assessment is made. We have observed mixed views from our stakeholders on whether this would create unintended impression or consequences of the auditor's responsibility over going concern to be greater as compared to management, arising from the misalignment in requirements between paragraph 26 of IAS 1 (which only requires management to take into account information at least but not limited to twelve months from the end of the reporting period) and paragraph 21 of ED ISA 570.

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7) As recognised in the proposal, we also foresee a potential difficulty for the auditor to request management to extend the assessment period since it is not currently mandated under the financial reporting standards.

8) We believe it is important for the Board to continue liaising with the International Accounting Standards Board (IASB) to achieve better consistency in international auditing and accounting standards, including public interest matters pertaining to going concern evaluation and reporting. Fundamentally, we believe that the period to be covered by management's assessment of going concern is a financial reporting framework issue and it is beyond the IAASB's remit to use the auditing standards to impose reporting requirements on management.

Enhanced approach that requires the auditor to design and perform audit procedures to evaluate management's assessment of going concern in all circumstances [Q8]

9) We recognise the proposal's objective to ensure the auditor has obtained a more robust understanding of the process which management applies when assessing going concern, especially in identifying threats to the ability to continue as a going concern. However, we believe the Board needs to consider how this requirement may lead to potential inconsistencies with the concept of risk assessment, where the extent of work performed should be commensurate to risks assessed. Entities with low risk of going concern typically do not require a very robust going concern assessment to be performed by management and subsequently reviewed by the auditor. Such a requirement can lead to substantial additional costs without effectively addressing the underlying problem.

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 [Q13]

10) We support the Board's objective to enhance transparency and consistency in auditor reporting. However, we believe that in principle, the auditor expresses a single opinion on the financial statements as a whole. Inclusion of such explicit statements may be perceived as a separate opinion issued on going concern, which is uncharacteristic of the auditor's reporting. This may imply that the auditor is expressing an opinion on a specific matter in the audit in addition to the opinion on the financial statements taken as a whole.

11) Any expansion in the auditor's disclosure on going concern should be preceded by an expansion of the reporting responsibilities for directors and management. Otherwise, it would appear that the auditor has a greater role and responsibility than directors and management in this respect. Also, there needs to be adequate acknowledgement that the going concern of an entity is dependent on the actions (or inactions) of management and directors, rather than the auditor's assessment, which is inherently limited.

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12) The inclusion of such explicit statements may be viewed as the auditor affirming that no material uncertainty relating to going concern exists. However, a going concern assessment is forward-looking and subject to inherent limitations. The conditions existing at the time of the assessment may change unpredictably in the future, potentially giving rise to going concern issues at a later point in time. Hence, there are concerns raised that it would be onerous for the auditor to include such explicit statements in the auditor's report. In the event of corporate failures arising from circumstances not within the entity's control, there are concerns over legal consequences that may result from the inclusion of such statements.

13) The Board also need to consider the possibility of financial statement users placing excessive reliance on the binary conclusions presented in the explicit statements, without thoroughly reading the accompanying information and related disclosures. This can lead to users overlooking important "warning signals" embedded in the auditor's report or financial statements. As a result, the expectation gap on the auditor's reporting responsibilities in relation to going concern may be further widened. Instead of binary statements from the auditor about the existence or non-existence of material uncertainty relating to going concern, providing more comprehensive disclosures on going concern in the financial statements from management's perspective can be more value adding and relevant to users. In this regard, the IAASB should consider working with the IASB on key relevant disclosures. We believe that this will result in better communication to financial statement users on the risks associated with an entity's ability to continue as a going concern, and the complexity of such assessments.

14) The Board should consider removing the words "if any" in paragraph 33(b)(i) of ED ISA 570 to address a possible situation where 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. If no disclosure is made on this matter in the financial statements, the auditor would be unable to make any reference to the consideration and judgement made by management in the auditor's report.

Other matters [Q16]

15) We would like to draw attention to paragraph 15 of ED ISA 570 where it states that based on the auditor's evaluation of each of the components of the entity's system of internal control, the auditor shall determine whether one or more control deficiencies in respect of management's assessment of going concern have been identified. However, ED ISA 570 does not provide guidance on the implications and the procedures to be performed by the auditors in the case of the identification of control deficiencies. Expanding the application material on ED ISA 570 to address such control deficiencies may be helpful to provide clarity and consistency in the audit procedures.

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