



24 August 2023

***BOTSWANA INSTITUTE OF CHARTERED ACCOUNTANTS COMMENT LETTER TO IAASB'S EXPOSURE DRAFT – PROPOSED INTERNATIONAL STANDARD ON AUDITING 570 (REVISED 202X) GOING CONCERN AND PROPOSED CONFORMING AND CONSEQUENTIAL AMENDMENTS TO OTHER ISAs***

**Introduction**

The Botswana Institute of Chartered Accountants (“BICA”) is a statutory body established by Accountants Act, 2010 as amended for the regulation of the accountancy profession in Botswana. The Institute’s mission is to protect public interest through promoting the accountancy profession, supporting accountants, facilitating quality professional accountancy services through the monitoring and regulation of professional accountants.

The Institute appreciates the opportunity to contribute towards IAASB’s Exposure Draft – *Proposed International Standard on Auditing 570 (Revised 202X) Going concern and Proposed Conforming and Consequential Amendments to Other ISAs*. We have provided our comments to each specific question as per the Exposure Draft. Should you wish to have further engagements please do not hesitate to contact the undersigned.

Yours Faithfully

**Mosireletsi M. Mogotlhwane**

**Director – Technical and Public Sector Accounting Services**

## RESPONSE TO OVERALL & 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?

#### Response:

*We 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. Based on the analysis of the proposed actions, qualitative standard-setting characteristics, and project objectives, it can be argued that the proposals in ED-570 are responsive to the public interest. The changes seek to enhance the auditor's ability to identify and assess risks related to going concern, promote consistent practice, and provide practical guidance that can be applied globally. By addressing the key challenges and considerations in the public interest, the proposals aim to improve the effectiveness and reliability of audits in relation to going concern assessments and fostering trust in financial reporting.*

### 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?

#### Response:

*We 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.*

### **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?

#### **Response:**

*We believe the proposed standard recognizes the need for scalability in addressing going concern matters in audits through the provided examples and considerations made towards the nature and circumstances of entities. The standard further ensures that the auditor's procedures are tailored to the specific characteristics and complexity of each entity, while still maintaining the overall principles and requirements applicable to all entities.*

### **Question 4**

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

#### **Response:**

*The requirements and application material of ED-570 appropriately reinforce the auditor's application of professional scepticism in relation to going concern. In ED-570, the IAASB has incorporated the concept of professional scepticism in several parts of the standard. For example, paragraph A10 of ED-570 refers to the requirement in ISA 315 (Revised 2019) that the auditor should design and perform risk assessment procedures in an unbiased manner. This means that the auditor should not be biased towards obtaining audit evidence that supports management's assessment of going concern or excluding evidence that may be contradictory. By designing and performing risk assessment procedures in an unbiased manner, the auditor can identify potentially contradictory information and maintain professional scepticism.*

*Similarly, paragraph 18 of ED-570 leverages paragraph 18 of ISA 540 (Revised) and requires the auditor to design and perform audit procedures to evaluate management's assessment of going concern in an unbiased manner. This requirement ensures that the auditor critically assesses the evidence obtained and does not overlook information that may indicate possible*

*management bias. The IAASB emphasizes the importance of obtaining audit evidence in an unbiased manner, which may involve obtaining evidence from multiple sources within and outside the entity. The auditor is not required to perform an exhaustive search for all possible sources of information, but they should consider contradictory and corroborative information. Contradictory information may include inconsistencies in assumptions used by management or indicators of deteriorating financial performance that are not adequately considered. Corroborative information may include publicly available information that is consistent with management's assessment of going concern.*

*In addition Paragraph 29 of ED-570 requires the auditor to evaluate whether management's judgments and decisions in making the assessment of going concern are indicators of possible management bias. The auditor is also required to "stand back" and consider all audit evidence obtained, regardless of whether it corroborates or contradicts the assertions in the financial statements. These requirements support the auditor's application of professional scepticism and help ensure that the auditor critically evaluates management's assessment of going concern. By reinforcing the application of professional scepticism, auditors can fulfil their responsibility to provide reliable and independent assurance on the entity's ability to continue as a 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"?

#### **Response:**

*We are supportive of the proposed definition of Material Uncertainty (Related to Going Concern) as it enables clarity and conciseness, by enhancing the standard's understandability and facilitates consistency in practice by minimizing the likelihood of varying interpretations that could occur.*

- *The approach avoids unnecessary substantial changes in aligning terminology used throughout the proposed standard, including for the objective stated in paragraph 9(b) of ED570, as well as other conforming and consequential amendments to other ISAs.*

- *The inclusion of the clarifying phrase in brackets is consistent with the approach undertaken for other definitions in the ISAs, in particular in ISA 500 for defining the terms “Appropriateness (of audit evidence)” and “Sufficiency (of audit evidence).”*

*To clarify the phrase "may cast significant doubt," the IAASB has included application material in ED-570. This clarification is important because it reflects the threshold for the magnitude of identified events or conditions makes it impossible for the entity to meet its obligations and continue operations in the foreseeable future unless remedial actions are taken. This aligns with the use of the phrase in IAS 1 and the Financial Accounting Standards Board (FASB) definition for "Substantial Doubt about an Entity's Ability to Continue as a Going Concern."*

## **Questions 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?

### **Response:**

*We believe the proposed revisions will enhance the risk identification and assessment procedures to support auditors in identifying events or conditions that may cast significant doubt on an entity's ability to continue as a going concern. The Board has outlined specific objectives and approaches to achieve this.*

*One of the objectives is to strengthen the standard while avoiding repetition of material already covered in ISA 315 (Revised 2019), which focuses on risk assessment. The IAASB aims to add incremental requirements and application material specific to going concern matters, supplementing the broader requirements of ISA 315 (Revised 2019). This approach ensures that there is no loss of understandability while enhancing the standard.*

*Additionally, the IAASB intends to improve the relationship and integration between ISA 315 (Revised 2019) and extant ISA 570 (Revised) by incorporating key concepts and structural elements from ISA 315 (Revised 2019) related to performing risk assessment procedures. This integration will enhance the overall coherence of the auditing standards. The current risk*

*assessment procedures in extant ISA 570 (Revised) primarily rely on inquiry and discussion with management to determine if events or conditions exist that may cast significant doubt on the entity's ability to continue as a going concern. To elevate the requirements from "inquiry and discussion" to a more robust approach, the IAASB proposes the design and performance of risk assessment procedures that provide audit evidence for the identification of relevant events or conditions. This is reflected in paragraph 11 of ED-570. The IAASB emphasizes the use of professional judgment by auditors to determine the nature and extent of the risk assessment procedures to meet the requirements of the standard (paragraphs A8-A9 of ED-570).*

*Certain examples of audit procedures previously included in extant ISA 570 (Revised) were reallocated to the application material in paragraph A11 of ED-570. This change aims to enhance the robustness and timeliness of the risk assessment procedures performed, aligning them with the procedures outlined in paragraph 14 of ISA 315 (Revised 2019). It also ensures that there is a link to the entity's environment, financial reporting framework, and internal control system, as required in ISA 315 (Revised 2019).*

*The IAASB enhanced and modernized the examples of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. This is outlined in paragraph A6 of ED-570. It clarified that the identification of such events or conditions should be done by the auditor before considering any mitigating factors included in management's plans for future actions and these may be considered individually or collectively.*

*To improve understanding and alignment, the IAASB ensured that the description of events or conditions in ED-570 is consistent with those in the appendices of ISA 315 (Revised 2019) and ISA 240. This alignment ensures that auditors have a cohesive understanding of the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.*

## **Questions 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)?

**Response:**

The proposed change in the commencement date of the twelve-month period of management's assessment of going concern, from the date of the financial statements to the date of approval of the financial statements, raises an important question about the timing and reliability of such assessments.

Supporting the change in the commencement date to the date of approval of the financial statements has its merits. It aligns the assessment period with the finalization of the financial statements, providing a more accurate and up-to-date evaluation of the entity's ability to continue as a going concern. This change ensures that management considers all available information before approving the financial statements, reducing the risk of making decisions based on outdated or incomplete data.

In addition the proposed change introduces flexibility in situations where management is unwilling to make or extend its assessment. Paragraphs 22 and A43-A44 of ED-570 outline the steps auditors should take in such cases. The auditor is required to discuss the matter with management and, if necessary, with those charged with governance to understand the reasons behind management's decision. This dialogue then allows the auditor to gather additional information and assess the appropriateness of management's use of the going concern basis of accounting. On the contrary shifting the commencement date to the date of approval may shorten the assessment period in some cases, potentially limiting the time available for management to identify and address any going concern issues. This could increase the risk of financial statements being prepared on a going concern basis when there are significant doubts about the entity's ability to continue operating.

**Questions 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?

**Response:**

*We support the enhanced approach that require the auditor to design and perform audit procedures to evaluate the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements and any related disclosures 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.*

**Questions 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?

**Response:**

*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.*

*The proposed ED-570 includes a new requirement in paragraph 19, which calls for the evaluation of the method, assumptions, and data used by management to make its assessment of going concern. It outlines the specific audit procedures required to evaluate the method, assumptions, and data used in management's assessment of going concern. These procedures include evaluating the appropriateness of the method selected, the accuracy of calculations applied, the appropriateness and consistency of assumptions, and the appropriateness of the data used. This requirement aligns with the principles outlined in paragraphs 23-25 of ISA 540 (Revised).*

*The IAASB has also included application material in paragraphs A34-A37 of ED-570 to facilitate the auditor in appropriately challenging the method, assumptions, and data used by management. This application material aims to support the auditor in maintaining professional scepticism when applying ED-570. For instance, it suggests that the auditor*



*should consider whether management's rationale for the method selected is appropriate and whether any changes in the method from prior periods are reasonable. The auditor should also assess whether calculations are applied accurately and whether management has provided adequate explanations for advanced or complex calculations. When evaluating the assumptions on which management's assessment is based, the auditor should consider management's rationale for the selection of assumptions, their consistency with other areas of the entity's business activities, and whether alternative assumptions were considered. The auditor should also assess whether any changes in assumptions from prior periods are reasonable and based on new circumstances or new information. Regarding the data used in management's assessment, the auditor should evaluate its consistency with data used elsewhere by management in the preparation of financial statements. The auditor should also assess whether any modifications made to the data are appropriate and supported by management's rationale.*

#### **Questions 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?

#### **Response:**

*We are supportive of the enhanced requirements and application material.*

#### **Questions 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?

#### **Response:**

*We believe the enhanced requirements and application material to communicate with*

*TCWG encourage transparent dialogue among the auditor, management and TCWG and will indeed result in enhanced two-way communication with TCWG about matters related to going concern.*

*The proposed enhancements and application materials aim to encourage early transparent dialogue and two-way communication among the auditor, management, and TCWG. By strengthening the requirements and providing guidance on communication and understanding of relevant factors, these changes seek to improve the effectiveness of communication about matters related to going concern. This increased communication and transparency can contribute to a more robust and reliable audit process, ultimately enhancing the confidence of stakeholders in the financial statements and the auditor's report.*

### **Questions 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?

### **Response:**

*We 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.*

### **Questions 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?

**Response:**

*We support the Board's objective to enhance transparency and consistency in reporting with respect to the auditor's responsibilities and work related to going concern. However, it will be more useful if the auditor's report includes how they evaluated management's assessment of going concern regardless of whether there is a material uncertainty or not or if the company is listed or not.*

**Questions 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?

**Response:**

*We are supportive of the requirements and application material that facilitate further enhanced transparency about the auditor's responsibilities and work relating to going concern for publicly traded entities/public interest entities.*

**Questions 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.

**Response:**

*It is clear that ED 570 addresses implications for the auditor's report relating to the auditor's required conclusions and related communications about going concern, other than the instances where the auditor is unable to conclude on the appropriateness of management's use of the going concern basis of accounting and whether a material uncertainty exists which results in a disclaimer of opinion in accordance with ISA 705.*

**Questions 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.

**Response:**

*We do not have any other matters to raise in relation to ED-570.*

**Questions 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.
- (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.

**Response:**

*We agree with the Board's suggestion that an appropriate effective date for the standard would be for financial reporting periods beginning approximately 18 months after approval of the final standard.*