



August 24, 2023
By electronic submission

International Auditing and Assurance Board (IAASB)

Re: Proposed International Standard on Auditing 570 (Revised 202X) Going Concern and Proposed Conforming and Consequential Amendments to Other ISAs

Dear IAASB:

CohnReznick LLP appreciates the opportunity to comment on the IAASB's *Proposed International Standard on Auditing 570 (Revised 202X) Going Concern and Proposed Conforming and Consequential Amendments to Other ISAs* (the "Proposed Standard").

CohnReznick is the 16th largest accounting firm in the US, with origins dating back to 1919. While our domestic and international capabilities (including through our Nexia International membership) allow us to serve a broad array of clients, we are a significant provider of services to the smaller and middle market. Our desire is that our feedback will provide perspectives on the impact that the Proposed Standard might have on audits of small and medium-sized entities.

In addition to our overall observations below, we respond to some of the specific questions on which the PCAOB is seeking comment in the Appendix to this letter.

OVERALL RESPONSE

We are supportive of efforts to improve audit quality and are supportive of this Proposed Standard, overall, in terms of performance requirements. However, as further articulated in our response, we believe some of the reporting requirements of the Proposed Standard will not be in the public interest.

If you have any questions concerning our comments or would like to discuss any of our responses or recommendations in more detail, please feel free to contact Steven Morrison, Partner, National Director of Audit, at steven.morrison@cohnreznick.com or Erik De Vries, Audit Quality Group, at erik.devries@cohnreznick.com.

Yours truly,

A handwritten signature in black ink that reads "CohnReznick LLP". The signature is written in a cursive, flowing style.

APPENDIX – SPECIFIC RESPONSES TO SELECT QUESTIONS

Overall Questions

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?

PERFORMANCE REQUIREMENTS

Regarding performance requirements, we agree the proposals in ED-570, considered collectively, will enhance and strengthen the auditor’s judgments and work related to going concern. We incorporate our responses to other questions below.

REPORTING REQUIREMENTS

However, we do not agree with the inclusion of explicit statements that the auditor did not identify a material uncertainty. We believe such an inclusion is neither necessary nor appropriate and may not be in the public interest as the reporting requirements may be perceived as assurance on the solvency of an entity. The bulk of financial reporting and the audit thereon is based on historical information, i.e., events that have occurred.

We encourage the IAASB to engage in further dialogue with the International Accounting Standards Board (IASB) and other national accounting standards setters (e.g., FASB) about the need for enhanced reporting requirements on going concern. In this regard, we note that neither IASB nor FASB require management to make an affirmative statement regarding an entity not having identified a material uncertainty related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern. We believe it is inappropriate for the auditor to make such a statement, particularly when management is not yet required to do so.

Going concern is forward looking and by indicating the auditor has not identified a material uncertainty, the auditor can be viewed as giving assurance as to solvency. Such is not in the public interest and will create a moral hazard for investors who may no longer consider it incumbent upon them to evaluate the entity’s solvency. Further, the expansion of the audit report with further auditor discussion, beyond basic responsibilities and the overall opinion, may erode the importance of management’s financial statements themselves and create a hazard for investors by implicitly implying the auditor’s report has all relevant information.

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 the proposed standard is appropriately scalable.

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

We believe the requirements and application material of ED-570 appropriately reinforce the auditor’s application of professional skepticism in relation to going concern.

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 believe ED-570 appropriately builds on the foundational requirements in ISA 315 (Revised 2019) in addressing risk assessment procedures and related activities

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)?

We 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 to the date of approval of the financial statements.

Regarding management's assessment and the need for management to extend, we believe the proposed requirements create a situation where the auditor may be the only party making the assessment. We question the implication of this on the auditor's objectivity and independence as the auditor would in effect be stepping into the role of management to make such an assessment. We suggest the Board adopt the AU-C 570.27 approach and the related application guidance at .A59. That approach provides more clarity as to the expectations of the auditor in practice and results in the auditor still being able to engage in constructive dialogue with management, but without any ambiguity as to management's responsibility for the going concern evaluation.

Management Unwilling to Perform or Extend Its Evaluation

.27 If management is unwilling to perform or extend its evaluation to meet the period of time required by the applicable financial reporting framework when requested to do so by the auditor, the auditor should consider the implications for the auditor's report. (Ref: par. .A59)

.A59 In certain circumstances, the auditor may believe it necessary to request that management perform or extend its evaluation to meet the period of time required by the applicable financial reporting framework. If management is unwilling to do so, a qualified or adverse opinion in the auditor's report may be appropriate. For example, management may be unwilling to extend its evaluation because it believes it has satisfied the requirements to conclude whether substantial doubt exists about the entity's ability to continue as a going concern for a reasonable period of time when the applicable financial reporting framework requires management to make this evaluation. If, in the auditor's judgment, management's conclusion is not adequately supported, the auditor may conclude that a qualified or adverse opinion for a departure from the

applicable financial reporting framework is appropriate in these circumstances. Section 705 provides guidance related to the modification of the auditor's opinion. In addition, management's unwillingness to make or extend its evaluation to meet the period of time required by the applicable financial reporting framework may be an indicator of a deficiency in internal control that is required to be evaluated to determine whether it constitutes a significant deficiency or material weakness in accordance with section 265

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 of the requirement for 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.

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?

Overall, we are supportive of the explicit discussion of "intent" and "ability" and have noticed in practice in the United States that with the equivalent guidance introduced via SAS 132 to amend AU-C 570, auditors were better able to design appropriate audit procedures. We have concerns that ED-570 is not including certain requirements and application guidance that can be important for firms to properly apply ISA 570. Due to going concern being a "forward looking" consideration as opposed to historical, some practitioners may inappropriately rely, or over rely on less-than-persuasive audit evidence that is not verifiable such as loose oral assertions. To mitigate this, we recommend the IAASB replace ED-570.27 with AU-C 570.17 and the related application guidance. In particular, we believe:

- **Evidence of "intent" should be in writing.** Auditors in the US environment using AU-C 570 have noted that requiring written evidence of intent by a third party/owner-manager, such as a support letter or an executed contract, can result in contradictory audit evidence when the third party/owner-manager refuses to provide evidence in writing. This contradictory evidence can lead to a determination that there is a material uncertainty. If auditors are not required to obtain such evidence in writing, it is possible that an auditor incorrectly concludes a material uncertainty does not exist.

Illustrative Support Letters. Having illustrative support letters, such as those in AU-C 570.A36, contributes to audit quality. There is likely significant diversity in practice across jurisdictions and amongst practitioners as to what constitutes evidence of intent by the third party/owner manager. Providing illustrative support letters in application guidance helps provoke consideration amongst auditors and entities about how to appropriately word such letters.

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 believe the enhanced requirements and application material to communicate with those charged with governance may encourage timely communication. We encourage the Board to retain wording similar to what is in ED-540 and allow for the appropriateness of the timing of communication to be at the discretion of the auditor based on facts and circumstances.

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 believe the wording in ED-540.40 will have unintended effects in jurisdictions where often there is not a law, regulation, or relevant ethical requirement to report to an appropriate authority (“notification requirement”). When there is not already an established notification requirement, the way ED-540.40 is worded will drive increased time on the auditor and cost to the audit client all to consider requirements that may not exist. We recommend the Board consider removing the draft ED-570.40 altogether.

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 do not support the requirements. See our response to question number 2 above.

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 not support the requirements and application material that require the auditor of a listed entity to describe how the auditor evaluated management’s assessment of the entity’s ability to continue as a going concern (ED-540.34 and A73-A77). We believe the requirement and application to have KAM-like wording in the audit report will have a negative effect on the public interest for multiple reasons including:

- We believe the focus of many users may be on the entity’s disclosure of going concern and management’s plans to mitigate the material uncertainty, not what the auditor did to conclude about whether a material uncertainty exists.
- We believe extensive disclosure of the auditor’s efforts would be distracting, adding potentially excessive length to the auditor’s report, potentially confusing users.
- We believe the preparation of KAM-like wording would add time to engagements without a commensurate benefit.

As such, we do not support the above-mentioned requirements and application material for audits of listed entities or of entities other than listed entities.

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 ED-570, addresses all implications for the auditor’s report relating to the auditor’s required conclusions and related communications about going concern. However, we have concerns, including those in our response to question 14 above.

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.

We believe the IAASB should consider providing an option for reporting under ISA 805 (Revised) for the auditor to indicate that the audit did not include an evaluation of the Company’s ability to continue as a going concern. Extant ISA 805.1 indicates that the 100-700 series applies to an audit of the financial statements and are to be adapted as necessary

in the circumstances when applied to audits of other historical financial information. Although there is certain guidance related to the consideration of going concern, such as ISA 805.A19, we believe it would be in the public interest to provide explicit guidance for situations when auditors audit a specific element, account or item of a financial statement. We believe confusion may exist among auditors and the public about the extent to which a material uncertainty regarding going concern has been considered, particularly when the auditor audits only a specific element, account or item of a financial statement.

We recommend that the IAASB consider requiring ISA 805 reports to include an explicit statement as to whether the auditor's work involved an evaluation of management's assessment of the entity's ability to continue as a going concern. In this regard, ¹. A potential Other Matter paragraph may read as follows:

Other Matter

Because this schedule is not a complete set of financial statements, our audit did not include an evaluation of the Company's ability to continue as a going concern.

17.(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 believe financial reporting periods beginning 18 months after approval is an appropriate effective date.

ADDENDUM 1

Financial Support by Third Parties or the Entity's Owner-Manager

.17 When management's plans include financial support by third parties or the entity's owner-manager (hereinafter referred to as "supporting parties") and such support is necessary in supporting management's assertions about the entity's ability to continue as a going concern for a reasonable period of time, the auditor should obtain sufficient appropriate audit evidence about the following:

a. The intent of such supporting parties to provide the necessary financial support, including written evidence of such intent, and (Ref: par. .A32–.A37)

b. The ability of such supporting parties to provide the necessary financial support (Ref: par. .A24, .A38)

¹ We believe that if the auditor audited the entity's full financial statements and noted there was a material uncertainty, then such an Other Matter section would not be appropriate.

The failure to obtain the written evidence required by item (a) constitutes a lack of sufficient appropriate audit evidence regarding the intent of the supporting parties to provide financial support. Therefore, the auditor should conclude that management's plans are insufficient to alleviate the determination that substantial doubt exists about the entity's ability to continue as a going concern for a reasonable period of time. (Ref: par. .A32–.A34)

Financial Support by Third Parties or the Entity's Owner-Manager

Intent

Support Letters or Written Confirmations

.A32 The auditor's evaluation of the support letter (as further described in paragraph .A33) or written confirmation includes consideration of the terms and conditions of the commitment and may include, as applicable, considerations of the legality and enforceability of the commitments.

.A33 The intent of supporting parties to provide the necessary financial support may be evidenced by either of the following:

- a. Obtaining from management written evidence of a commitment from the supporting party to provide or maintain the necessary financial support (sometimes referred to as a "support letter").
- b. Confirming directly with the supporting parties (as described in paragraph .A35) the existence of commitments to provide or maintain the necessary financial support. Confirmation may be necessary if management only has oral evidence of such financial support.

.A34 When the financial support is provided by an owner-manager, the evidence regarding intent may be in the form of a support letter or a written representation.²⁹

²⁹ See section 580, *Written Representations* .

Obtaining Written Confirmations

.A35 If the auditor obtains a support letter as described in paragraph .A33a, the auditor may still request a written confirmation in accordance with section 505, *External Confirmations* , from the supporting parties regarding the contents of the support letter. For example, such written confirmation may be requested when, in the auditor's professional judgment, a written confirmation is necessary to determine the validity of the support letter as well as the accuracy and completeness of the related terms and conditions.

Illustration of the Third-Party Support Letter

.A36 The purpose of the support letter from supporting parties is to provide sufficient appropriate audit evidence about the supporting parties' intent to provide financial support to the entity. The support letter may also include additional material facts and circumstances that may be pertinent to the determination of whether substantial doubt exists about the entity's ability to continue as a going concern for a reasonable period of time. The following

is an illustration of a support letter that may be requested from the supporting parties when the applicable financial reporting framework is FASB ASC. The illustrative wording also includes an assertion about the supporting party's ability to provide financial support, but such wording does not, by itself, provide sufficient appropriate audit evidence regarding ability.

(Supporting party name) will, and has the ability to, fully support the operating, investing, and financing activities of *(entity name)* through at least one year and a day beyond [insert date]³⁰ *(the date the financial statements are issued or available for issuance, when applicable)*.

³⁰ See paragraph .A37.

Depending on the facts and circumstances, this written support letter may be adapted, for example, by adding the following wording:

This also applies to any amounts that may ultimately be due to the Internal Revenue Service as a result of the recent judgment against *(entity name)* and also applies should *(entity name's)* debt not be refinanced when the debt becomes due in the next year.

.A37 In accordance with section 700, *Forming an Opinion and Reporting on Financial Statements*, or section 703, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*, the auditor is required to date the auditor's report no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements.³¹ Accordingly, in order to cover the assessment period required by the applicable financial reporting framework, the support letter or the written confirmation defines a specific date through which the supporting party intends to provide support. For example, for financial statements prepared in accordance with FASB ASC, the date would be a year and a day beyond the date that the financial statements are issued (or available to be issued, when applicable). Specifying a date in the support letter or written confirmation that is later than the expected date that the financial statements will be issued (or will be available to be issued, when applicable) may obviate the need to obtain updated information from the supporting parties. The period covered by the support letter or written confirmation may be shorter if there is another source of support that management intends to utilize in order to continue as a going concern through the assessment period. Such other support would be subjected to the same auditing procedures discussed in this section. [As amended, effective for audits of financial statements for periods ending on or after December 15, 2021, by SAS No. 136.]

³¹ Paragraph .43 of section 700, *Forming an Opinion and Reporting on Financial Statements*, or paragraphs .82 and .126 of section 703, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*. [As amended, effective for audits of financial statements for periods ending on or after December 15, 2021, by SAS No. 136.]

Ability

.A38 With respect to the supporting party's ability to provide support, matters to which the auditor may give consideration include the following:

- a. Audit evidence of past support obtained from the supporting party when such support was needed.

b. The solvency of the supporting party and the sufficiency of the evidence supporting the solvency assertion. The auditor may obtain financial statements of the supporting party audited by a reputable auditor as evidence of the ability of the supporting party to provide the needed support. If the financial statements have not been audited, the auditor may perform other procedures, such as obtaining bank statements and evidence regarding the valuation of assets held by the supporting party that may be used to provide the needed support. However, these procedures might not provide evidence regarding other claims on the pledged assets that would limit the ability of the supporting party to use the assets to provide the support to the reporting entity.

c. The ability to provide the needed support in a timely manner for the reporting entity to meet its obligations.

d. When the entity and supporting party are in different countries, the ability of the supporting party to transfer the necessary funds (or other financial support) to the entity. Factors such as trade embargos, financial transfer restrictions, and war may limit the ability to transfer the necessary financial support.

Given the nature of these matters, the auditor may consult with legal counsel, as appropriate.