

IAASB

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Filled via website

Prague, August 24th 2023

Subject: **Exposure draft – ISA 570 (Revised): Going Concern**

Dears,

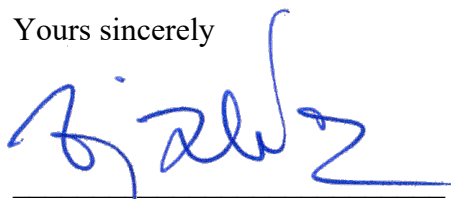
We are pleased to respond to the International Auditing and Assurance Standards Board (IAASB) proposed International Standard on Auditing 570 (revised), Going Concern (ED - ISA 570).

The Chamber of Auditors of the Czech Republic (CA CR) welcomes the ED as it aims to increase applying professional scepticism when making judgments about going concern risk. However, we believe that the current ED – ISA 570 is not scalable enough, and some of the requirements are either not practicable or are too exhaustive for engagement where going concern is not a risk.

Below, you can find our answers to the Board's questions with our arguments, where relevant. As a member of Accountancy Europe, we agree with the majority of the points/comments provided by Accountancy Europe in its response to this ED. However, because we consider this ED very important and because of some specifics of assurance practice in the Czech Republic, we have decided to stress the key points with our arguments in this separate response.

CA CR is the relevant local authority in the Czech Republic that adopts ISA for usage in the audit practice.

Yours sincerely



Ladislav Mejzlík
President of the CA CR

Overall Questions

- 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: Yes.

But, as detailed in our response to questions 3 and 8, the ED is not scalable enough. There are frequent situations when no events or conditions have been identified that may cast significant doubt about the entity's ability to continue as a going concern and this should be reflected in the amount of audit work required in such situation.

- 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: Yes.

- 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: No. We do not believe that the proposed standard is scalable enough. We believe that situations of smaller and less complex entities where the owner acts as management are not addressed sufficiently in the ED.

Further, there could be entities where there is clearly no risk of material uncertainty related to going concern or such risk is remote and in these cases the auditor should not be required to perform additional extensive audit procedures in relation to management assessment of going concern except for inquiries and other risk assessment procedures. As further detailed in our response to question 8 we believe that requirements of ED par. 17-19 are too extensive for such situations and will lead only to additional audit work and documentation without any benefit to the quality of the audit or the needs of users of financial statements.

We invite IAASB to improve the scalability and proportionality of the ED by addressing the situations where the entity has clearly no going concern issue (e.g. entity is profitable; no current or forthcoming issues in the market/industry/environment; no or little external financing, no liquidity concern, no intention of owners to close or restructure business of the entity).

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

Response: Yes.

Specific Questions

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: Yes.

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 that some of the requirements in ED par. 12 are just duplications of requirements already included in ISA 315 (Revised 2019) (e.g. points b or c). In addition, we are concerned with the level of detail in par. 12. Each of the items listed (a-i) in this paragraph might be considered as a separate requirement and thus a separate consideration and documentation could be expected from auditors irrespective of the engagement circumstances.

We propose to make only a more general reference to use ISA 315 in the context of going concern risk assessment in requirements of ED (extended a little ED par. 11) and move the current content of par. 12 to application section of the standard.

ED par. 11 requires the auditor to design and perform risk assessment procedures to obtain audit evidence that provides an appropriate basis for the identification of events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern. As the concept of ISA 315 is to identify the risks of material misstatement we believe that the wording of par. 11 should be modified to stress that the objective of the auditor is to identify risks of material misstatement on the financial statement level due to inappropriate use of going concern basis or due to inadequate disclosure of material uncertainty related to going concern in the financial statements.

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:

We agree that from the perspective of users of financial statements, the period of 12 months from the date of approval of the financial statements is appropriate. However, in

a lot of financial reporting frameworks (including Czech GAAP), the period required to be assessed by the management is defined 12 months from the date of the financial statements. This also reflects the reality of the planning/budgeting process in smaller entities where budgets are prepared for the nearest fiscal accounting period only. It is often not realistic to expect management to perform a structured evaluation for a period ending 12 months from the audit report date (i.e. usually in the middle of the second period after the balance sheet date). In smaller and less complex entities with no significant external financing, the plans for more extended periods actually do not exist. In cases where no events or conditions have been identified that may cast significant doubt about the entity's ability to continue as a going concern, the management does not feel the need to make anything else (for the period beyond 12 months from the balance sheet date) except for the statement that they do not intend to cease or significantly change the business.

We propose to clearly state (possibly in the application section of the standard) that the form of the management's assessment or plans and consequently extent of the auditor's procedures could differ according to the period covered (i.e. more detailed and formal evidence may be available for 12 months after the financial statement date and less detailed or informal one for the remaining period until the end of the 12 months period from the auditor's report date).

Further, we propose to include a specific example in the application material which will reflect the situation in a less complex entity where the owner is a manager and where no significant doubt about the entity's ability to continue as a going concern exists.

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: No.

We believe that where no events or conditions have been identified that may cast significant doubt about the entity's ability to continue as a going concern (i.e. there is no risk of inappropriate usage of going concern basis in the financial statement or inadequate disclosure on material uncertainty relating to going concern) the auditor should not be required to perform a detailed evaluation of management's assessment. Therefore, we propose to make requirements in ED par. 19 applicable only to situations when such events or conditions have been identified.

Further, requirements in ED par. 19 are too extensive and detailed. The work performed by the auditor should respond to identified risks and circumstances. For example, in the less complex entities, no detailed plans or calculations may exist, and therefore requirements in ED par. 19 a(ii) will often be irrelevant. However, since it is included in the requirements section, the regulators may expect such procedure (or documentation) in every audit. This may force auditors to produce unnecessarily extensive documentation just to document why such requirement is not applicable under the circumstances. Therefore, we propose to move the examples of audit procedures to the application section of the standard.

The standard should also provide more guidance with examples of cases where the entity's ability to continue as a going concern is mostly self-evident, and how auditors could achieve the objectives of the standard in an appropriate and proportionate manner. As stated above we believe that no such extensive work as required in ED is needed in these cases.

- 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: Yes.

- 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: Yes, but we would like to amend the guidance as follows.

We propose that ED par. 26 should clarify that the auditor needs to evaluate whether management's plans for future actions could sufficiently alleviate or remediate the events and conditions that cause doubts about the entity's ability to continue as a going concern.

The new requirements to evaluate the intent of the third party when its support is part of the management's plan could be challenging in practice. The guidance provided in ED par. A52 will be very hard to apply in practice. We do not believe that it is even possible to obtain such confirmation of intent from an unrelated third party. Therefore, auditors need more feasible guidance on how to achieve the requirement without obtaining written confirmation.

Further, we believe that it will be helpful to state explicitly that if the auditor is unable to obtain sufficient audit evidence about the intent of the third party to provide the financial support, then a material uncertainty typically exists.

- 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: Yes.

- 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: Yes.

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: Yes

But, at the same time, we strongly suggest adding the following requirement to ED par. 33a (and to relevant examples of audit reports): "State that the auditor does not guarantee that the entity is going concern." Since this important aspect of the auditor's role is clearly articulated in the revised standards, we find it equally important to communicate it to the readers of the auditor's report in order to close the potential expectation gap. A similar statement is included in the section on the auditor's responsibilities in ISA 700 but for the readers it is too far from going concern section and could be easily overlooked,

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 agree that the auditor should describe his/her response if a significant risk related to going concern is identified. We support the requirement to 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).

However, we are not convinced that the placement of such information within the going concern section is ideal (despite it may seem logical at first look). We believe that the current concept of describing auditor's procedures for key audit areas in separate KAM section is well established in practice. We propose to include use such a section also for describing how the auditor evaluated management's assessment of going concern (where required). The going concern section may include a reference to relevant KAM if considered necessary.

Additional note: We understand the intention to have all matters regarding going concern in one place in the audit report. But we would like to stress that this concept is not fully applied in the proposed ED either as the auditor's responsibilities related to going concern are still included separately in the section Auditor's responsibilities.

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: Yes.

We propose to provide better guidance for situations where material uncertainty exists but is not properly disclosed in the financial statements. It is unclear when the auditor should qualify his/her opinion and when to issue an adverse opinion. This could be done by amending scenarios for illustrations 5 and 6. In Illustration 5 should be clearly stated that disclosures in the financial statements even if not adequate from the perspective of ISA 570 are sufficient to enable users of the financial statements to understand the situation. In Illustration 6 the description of the situation which leads to material uncertainty as provided in Illustration 5 should be repeated with the statement that no disclosure of such facts is provided in the financial statements.

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 strictly disagree with the requirement in ED par. 28. The current wording of the par. 28 impose an obligation to the auditor to consider whether any additional information has become available to the auditor after the date of the auditor's report but before the date, the financial statements are issued that is related to management's assessment of the entity's ability to continue as a going concern. This is contradictory to ISA 560 par. 10 which says that the auditor has no obligation to perform any audit procedure regarding the financial statements after the date of the auditor's report. We do not see reason for such breakthrough the long-term established principles in ISA 560.

Also, the consideration of the auditor according to ED par. 28 should be documented, but it could be the case that the audit file is already archived based on the rules for archiving in ISQM 1 or the auditor even do not know when the financial statements are issued. For example, in the Czech Republic the financial statements are typically issued when approved by the general shareholders meeting which often happens with significant delay from the date of the report. Moreover, the management has no legal obligation to inform the auditor that the financial statements were issued. Implementing the new requirement as per ED par.

28 may therefore result in the need to archive the audit file prior to completing all procedures required by ISA and subsequently reopening and modifying such file. We find such outcome of the proposed ED illogical and inappropriate.

We propose to reword the ED par. 28 in line with ISA 560 (i.e. if after the date of the auditor's report but before the date the financial statements are issued a fact becomes known to the auditor....) and remove the strict requirement for the auditor's action.

In addition, within the consequential amendments of ISA 800, the illustrative examples (1 and 2) include the wording about going concern as stipulated in ED 570, paragraph 33. The inclusion of this section is applicable only if the special purpose statements are prepared under the going concern basis of accounting. We propose clarify this fact within the introduction of both examples (with reference to ISA 800 A15).

General comments

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:

- a) We do not see any issue in translating the standard.
- b) The provided period is sufficient.