



**August 24, 2023**

Mr. Willie Botha – IAASB Program & Technical Director

cc: Mr. Tom Seidenstein – IAASB Chair

Mr. Edo Kienhuis – IAASB Member and Going Concern Task Force Chair

International Auditing and Assurance Standards Board

529 Fifth Avenue

New York, New York 10017

**Re: Proposed International Standard on Auditing 570 (Revised 202X) Going Concern**

Dear Mr. Botha

Mazars welcomes the opportunity to comment on the International Auditing and Assurance Standards Board's (IAASB or the Board) Exposure Draft ISA 570 (Revised) (ED-570).

Mazars is a leading international audit, tax and advisory organisation, operating as a united partnership. Founded in Europe, we have grown into a global, connected partnership of over 47,000 professionals - 30,000 in our integrated partnership, 17,000 via the Mazars North America Alliance - with a presence in over 95 countries and territories, working seamlessly as one integrated team across borders, services and sectors.

MAZARS is a member of the IFAC Forum of Firms, and thus fully supports, for more than 16 years, the initiatives of IFAC IAASB, IESBA, Forum of Firms and Transnational Auditors Committee, as well as those of the regulators in these areas of common concern for public interest, in promoting high quality standards as part of the international roll-out of audit engagements. All MAZARS firms and correspondents are committed to support and apply those initiatives.

We are dedicated to contributing to society in the best possible way, whether through providing quality services to our clients to help them achieve sustainable growth, enabling our talented people to reach their highest potential, or contributing to the public debate with positive insights for the future.

Should you want to get further information, you can refer to our Group Transparency 2021-2022 report [Group transparency report 2021/2022 - Mazars Group](#)

We would be pleased to discuss our detailed comments submitted hereafter with you and remain at your disposal, should you require further clarification or additional information.

Yours sincerely,

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Mazars LLP

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## Responses to Consultation questions

### General Comments and Question 1:

***Q1: 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?***

1. From the outset, Mazars wishes to note its appreciation and acceptance of the drivers of the project<sup>1</sup> to revise ISA 570 (Revised), including an acknowledgment that the project objectives, as set out in the Project Proposal, clearly meet and support the IAASB's public interest mandate.
2. We interpret the strengthening of the auditor's evaluation of management's assessment of the entity's ability to continue as a going concern as a key project objective, as well as the primary driver of the proposed revisions to ISA 570 (Revised). Taking into account that management's assessment also informs the entity's use of the going concern basis of accounting, there can be no doubt about the public interest value of this project objective. We therefore fully appreciate the basis and rationale of the proposed enhancements that are intended to strengthen the rigor and robustness of the auditor's evaluation of management's assessment.
3. Although supportive of the concept to strengthen the auditor's evaluation, we are concerned about the clarity or basis of the auditor's work effort, including scalability, when considering the proposed requirement to evaluate management's assessment. As currently drafted, the design of the nature and extent of the auditor's required evaluation (paragraphs 17 and 19 of ED-570), is not based on, or responsive to, the auditor's risk assessment procedures. In our view, the required evaluation appears to be based on the premise that management ordinarily and diligently prepares an assessment of going concern that complies with some degree of formality regarding the method, assumptions and data used. Under the circumstances, we recommend that the scalability of the requirement is clarified, in particular in circumstances where the use of the going concern principle is considered appropriate given, for example, the auditor's risk assessment, and regardless of whether management made an assessment, or whether any particular method, assumptions or data were considered, as contemplated by the revised requirements.
4. We acknowledge and appreciate guidance on the scalability of the auditor's required evaluation of management's assessment included in the application material, e.g., explaining that the nature and extent of the auditor's procedures is a matter of professional judgment and may vary based on the nature and circumstances of the entity. However, to avoid confusion about how the proposed requirement aligns with the principles of, and linkages between, ISA 315 (Revised 2019) and ISA 330, we encourage the IAASB to incorporate, in the requirements, the role of the auditor's risk assessment when exercising judgment about the nature and extent of the auditor's procedures in evaluating management's assessment.
5. Further, we appreciate the basis of the clarification of the commencement date of the twelve-month period of management's assessment, noting it supports the public interest and is aligned with amendments previously made by some jurisdictions. However, to be responsive to stakeholder demands and heightened risks pertaining to going concern, we are concerned that, on balance, the proposed revisions to ED-570 place much more emphasis on the role of the auditor in making

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<sup>1</sup> As described and explained in paragraphs 3 and 4 of the ED-570 Explanatory Memorandum.

an assessment about the entity's going concern, as opposed to recognizing the responsibilities of the management, which are governed by the requirements of the applicable accounting framework.

6. This approach may have unintended consequences. For example, as acknowledged in the Explanatory memorandum, the commencement date of the 12-month period in accordance with ED-570 is not the same as the commencement in accordance with IAS 1. It follows that we are concerned about the auditor's ability to mandate or request management to prepare an assessment that complies with ED-570 but is inconsistent with the accounting framework.
7. We acknowledge the explanation in the Explanatory Memorandum, noting that the commencement of the 12-month period in ED-570 is not necessarily "inconsistent" with the requirement of IAS 1. However, we wish to caution against a presumption that the auditor would ordinarily expect entity management in agreeing to prepare a separate or modified assessment of going concern that is subject to increased levels of subjectivity (events and conditions beyond the scope of the assessment of the accounting framework) and scrutiny for external audit reporting purposes. Therefore, to align with the relevant proposals in ED-570, we believe it's critical for the IASB to consider revisions and enhancements to IAS 1 Presentation of Financial Statements.
8. In summary, we wish to emphasize our acknowledgement of the merit of the proposals to strengthen the auditor's evaluation of management's assessment of going concern, which is also aligned with and responsive to the project objectives that support the public interest. However, as explained, we are concerned about possible unintended consequences when considering the clarity of the auditor's required work effort and the specificity of the scope of the 12-month period as contemplated by ED-570 (i.e., we question whether it's appropriate for auditing standards to drive financial reporting standards). Nonetheless, to the extent that the relevant proposals are retained, we strongly recommend that the IAASB supports the auditor's ability to successfully implement the new requirements by developing "change management" educational materials aimed at preparers, TCWG and other stakeholders.

***Q2: 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?***

9. Subject to our concerns expressed in question 1: Yes, we believe 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.

***Q3: 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?***

10. Although we appreciate the scalability proposals included in the application material of ED-570, we believe that they may be strengthened further. As explained in paragraph 4 of this letter, in evaluating management's assessment of going concern, we encourage the IAASB to incorporate, in the requirements, the role of the auditor's risk assessment procedures when exercising judgment about the nature and extent of the auditor's procedures in evaluating such assessment.

11. For example, given the particular circumstances, there may be no risks, events or conditions that adversely affect the entity's ability to continue as a going concern. Accordingly, there may be many instances, where the auditor may conclude on an entity's ability to continue as a going concern without detailed analysis (as also inferred by the proposed application material). Providing greater clarity on the nature and extent of the auditor's work in these circumstances, where management's assessment is, consequently, relatively light touch, would be helpful. Furthermore, guidance on the factors auditors may consider in concluding that an entity's going concern status is clearly obvious would be helpful.
12. To illustrate, in our view, the auditor's assessment of the risk associated with management making an informal assessment of going concern without detailed analysis, may vary based on a scale that ranges between:
  - a. Acceptably low (i.e., in the auditor's judgment, events or conditions that may cast significant doubt about the entity's ability to continue as a going concern do not exist); and
  - b. Significant, to the extent that, in the auditor's judgment, events or conditions exist that do not support the use of the going concern basis of accounting, and therefore management's lack of a formal or detailed analysis may constitute a scope limitation.

***Q4: Do the requirements and application material of ED-570 appropriately reinforce the auditor's application of professional skepticism in relation to going concern?***

13. Yes, we are of the view that the requirements and application material of ED-570 reinforce the auditor's application of professional skepticism in relation to going concern.

***Specific Questions***

***Q5: 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"?***

14. We support the definition of Material Uncertainty (Related to Going Concern).

***Q6: 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.***

15. Subject to our recommendations noted below, we are of the view that ED-570 supports 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. Recommendations to address the clarity of such proposals:
  - a. The specificity of the risk assessment requirements in paragraph 12 of ED-570 may be better linked to the understanding that is required by ISA 315 (Revised 2019), including how that understanding may lead the auditor to identify events or conditions that may cast a significant doubt on the entity's ability to continue as a going concern. This would help reduce the length of the requirements in paragraph 12 of ED-570 while maintaining a robust link with ISA 315 (Revised 2019).

- b. When read in conjunction, paragraphs 11 and 24 of ED-570 may inadvertently suggest that the auditor is required to identify all events and conditions that may cast significant doubt on the entity's ability to continue as a going concern. We acknowledge that paragraph 24 is consistent with the same requirement in extant ISA 570 (Revised), however, paragraph 11 has been revised and requires the performance of risk assessment procedures 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.*"
- We would like to emphasize that the responsibility to identify events and conditions that may cast doubt on the entity's ability to continue as a going concern rests with management. Further, as explained in paragraphs 4 and 7 of this letter, the auditor's evaluation of management's assessment may be based on requirements that are more future orientated and therefore more subjective, when compared to the assessment in accordance with the applicable financial reporting framework.
  - As mitigating circumstances, we acknowledge that paragraph A32 of ED-570 notes that "*the auditor is not required to perform an exhaustive search to identify all possible sources of information to be used as audit evidence.*" Nonetheless, even though ED-570 includes this guidance about the sources of audit evidence, we are not convinced that the guidance addresses concerns about whether the auditor is required to identify all possible events or conditions that may exist. The IAASB may therefore consider building on this concept and examples (paragraph A32 of ED-570) to clarify the expectation of auditors when considering the population of "events or conditions" as contemplated by paragraphs 11 and 24 of ED-570.

***Q7: 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)?***

16. As explained in our response to question 1, although we support the rationale of the change in the commencement date of management's assessment of going concern, we are concerned about the auditor's ability to mandate or request management to prepare an assessment that complies with the scope of the 12-month period as contemplated by ED-570. We are sceptical about the presumption that our stakeholders or clients will seamlessly adopt an approach to prepare a separate assessment of going concern that is subject to increased levels of subjectivity and scrutiny for external audit reporting purposes (see discussion in paragraph 7 of this letter). This requirement may be particularly challenging in certain regions and jurisdictions. For example, in jurisdictions where the vast majority of companies are owner managed businesses this requirement is seen as particularly problematic by local practitioners.

***Q8: 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?***

17. We believe the scalability of such requirements in all circumstances could be significantly improved, as discussed in our response to question 3. In particular, we believe it would be helpful to incorporate, in the requirements, the role of the auditor's risk assessment procedures when exercising judgment about the nature and extent of the auditor's procedures in evaluating management's assessment of going concern. Such clarification may be particularly helpful in circumstances where no risks, events or conditions have been identified by management or the auditor.

***Q9: 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?***

18. Subject to our comments on scalability, we support the incorporation of concepts from ISA 540 (Revised).

***Q10: 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?***

19. We support the rationale of the proposals; however, we do have reservations about the auditor's ability to evaluate the "intent" of management, and even more difficult to assess for third parties or others. Clarification about the types of audit evidence that is deemed to be sufficient and appropriate for purposes of the auditor's evaluation of "intent" would be helpful.

20. We acknowledge application material suggesting written confirmation from relevant parties to obtain sufficient appropriate audit evidence about their intent to provide the necessary financial support. However, we are concerned about the subjectivity of such representations. For example, the degree of the credibility of the "intent" may be evaluated as reliable at the time of providing the confirmation, however, the reliability may vary based on the facts and circumstances (events and conditions) as time progresses.

21. We believe it may be helpful to enhance the application material by including practical guidance in relation to how the auditor "shall remain alert" for information about events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. For example:

- a. How to obtain information about the financial or solvency position of an entity, including, for example, ratings of an entity by central banks and financial analysts (etc.). This may be achieved by including specific requests in a bank confirmation letter, or developing guidance to promote more focused discussions with TCWG about the entity's financial forecasts or projections.
- b. Factors that may affect or support the auditor's exercise of professional skepticism in mitigating risks of over-reliance on written confirmations or representations.

***Q11: 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?***

22. Yes, we are of the view that the enhanced requirements and application material would result in enhanced two-way communication with TCWG about matters related to going concern.

***Q12: 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?***

23. Yes, we support the new requirement to report to an appropriate authority outside of the entity where law, regulation or relevant ethical requirements require or establish responsibilities for such reporting.

***Q13: 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?***

24. Our response to question 13 should be read in conjunction with our response to questions 14 and 15.
25. Overall, we appreciate the intent of the proposals that facilitate enhanced transparency in reporting about the auditor's responsibilities and work relating to going concern. However, we do not support the implications of paragraph 33(a) of ED-570 in the following circumstances:
- a. Paragraph 33(a) requires disclosures about the auditor's responsibilities in circumstances where the auditor has concluded that the going concern basis of accounting is appropriate and no material uncertainty exists. We are of the view that such disclosures may be confusing in circumstances where events and conditions related to going concern were identified but assessed to not represent a material uncertainty, in view of, for example, adequate disclosures about these events or conditions in the financial statements (e.g., "close call" situation).
  - b. The proposed requirements in paragraph 33(a) may have unintended consequence of diluting the importance of disclosures in the auditor's report regarding management's responsibility to make an assessment of the entity's ability to continue as a going concern. Moreover, as currently drafted, the disclosure in the auditor's report may cause undue reliance by the user of the financial statement about the entity's ability to continue as a going concern.

***Q14: 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?*

26. Paragraph 33(b) of ED-570 applies to listed entities and requires additional disclosures in the auditor's report in all circumstances, including a reference to the related disclosure(s), if any, about going concern in the financial statements and a description of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern.
27. Where events and conditions related to going concern were identified but assessed to not represent a material uncertainty (e.g., "close call" situation), we are concerned about how the users of financial statements may interpret the proposed disclosures. In particular, the interpretation of such disclosures may lead to unintended or undue concerns about the relevant events or conditions that have been assessed as not giving risk to a material uncertainty. For example, we are concerned about circumstances where such disclosures may attract unwarranted attention and/or responses by the users of the financial statements, which may:
  - a. Have an impact on the entity's share price; or
  - b. In the case of financial institutions, customers of a bank may withdraw their deposits over fears about the bank's solvency, based on events disclosed but which didn't give rise to a material uncertainty.
28. Further, as also acknowledged by the proposed application material of ED-570, the requirement could lead auditors in certain situations to provide original information in the auditor's report if management has not disclosed such information in the financial statements. The proposed application material further explains that "*in circumstances when such information is determined to be necessary by the auditor, the auditor may encourage management or those charged with governance to disclose additional information, rather than providing original information in the auditor's report.*" The proposed guidance further emphasizes the distorted consequences of proposals in ED-570 that are deemed to inform or drive disclosures in the financial statements, as opposed to the applicable financial reporting framework that rightfully governs the financial statements.
29. Given our concerns expressed, we do not support paragraph 33(b) in circumstances where the auditor concluded that no material uncertainty exists. Note, however, we acknowledge there may be circumstances where the auditor, in exercising professional judgment, concludes that such disclosures in the auditor's report are appropriate, e.g., as a key audit matter in accordance with the requirements of ISA 701 (Revised) or an emphasis of matter in accordance with ISA 706 (Revised).

***Q15: 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.*

30. Yes – we believe it is clear. However, please note our concerns noted in paragraphs 25 and 26 – 29.

*Q16: 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.*

31. There are no other matters we would like to raise.

**Request for General Comments**

*Q17: 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.*
32. Given our concerns about the possible or unintended consequences relating to the proposals to strengthen the auditor's assessment of the entity's going concern (as discussed in our response to question 1, including as it relates to change management), and also assuming that the IAASB intends to retain such proposals, we are concerned about whether a period of 18-months, after approval of the standard, is sufficient for auditors to prepare for its implementation. An interim period of at least 24 months appears more reasonable under the circumstances.