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Office of the Auditor General of Alberta[1]
Edmonton, Alberta, Canada

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International Auditing and Assurance Standards Board
New York, NY

Dear IAASB,

Our response to *Exposure Draft: Proposed International Standard on Auditing 570 (Revised 202X) Going Concern and Proposed Conforming and Consequential Amendments to Other ISAs* is below. We have only included responses to questions that we determined a response is necessary:

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?

   No, ED-570 can be interpreted as a standard to issue an auditor's report on going concern, which is forward looking, and not part of a standard to audit financial statements, which are historical financial information. This is demonstrated by multiple facts, including that ED-570 would make the going concern standard go from approximately 20 pages to 60 pages, ED-570 has a section on risk assessment which is already covered by ISA 315 (Revised), the expansion of the going concern assessment from the financial statement date to the date the financial statements are issued which is already covered by subsequent events, and the proposal to highlight the auditor's conclusion on going concern as a separate section of the auditor's report. The purpose of a financial statement audit is to provide reasonable assurance on historical financial statements. ED-570 deviates from the purpose of a financial statement audit by creating an expectation of specifically auditing going concern and providing an assurance level above reasonable assurance. The consensus of reasonable assurance is 95% assurance in quantitative terms. This means that there is a 5% probability that the audit conclusion is incorrect. The key issues with going concern is users not understanding the responsibility of the auditor and management and/or auditors not completing their procedures in compliance with ISA-570. ED-570 should address these issues and not expand the requirements of the auditor. This widens the expectation gap between users and auditors and would not serve the public interest.

   What the IAASB is proposing would be more valid if the acceptable financial reporting framework specifically required a disclosure by management in the financial statements that the entity is a going concern i.e. assurance on a financial statement disclosure that is forward looking information. The IAASB should not be setting disclosure requirements for financial statements in the independent auditor's report. We suggest that IAASB not update ISA 570 until accounting standard setters (e.g. IASB, IPSASB) update their requirements to require management to disclose the basis for use of the going concern in all cases, not only when there are material

[1] The views expressed herein do not necessarily reflect the views of the Office of the Auditor General of Alberta.

uncertainties. The auditor would then treat these disclosures similar to other disclosures in the financial statements.

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?

   No, as noted above, ED-570 increases the going concern standard from approximately 20 pages to 60 pages and increases the work on forward looking information. It is a case of standards overload. ISAs should stay focused on auditing the financial statements, which are historical financial information, and not introduce requirements that increase possible confusion by increasing the communication in the auditor's report to include audit procedures on going concern. Recent publicized going concern failures are not due to issues within the ISAs, specifically ISA 570, so changes to ISA 570 would not have prevented them from happening, and it is unclear whether ED-570 would have resulted in a different reporting outcome.

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?

   The proposed standard does not appear to be scalable, specifically for public sector entities. For example, the proposed standard does not include examples of dissolved public sector entities. These entities can have one or more of the following characteristics: legislation has been fully passed and therefore no material uncertainty regarding going concern exists as the entity will be dissolved or consolidated (restructuring), entity has included adequate disclosure of the dissolution or restructuring, entity has not included adequate disclosure, entity is a going concern for one or two years but a dissolution date is known, legislation is in reading but has not passed and therefore material uncertainty regarding the public sector entity exists, etc. These are some of the complexities that public sector auditor's deal with that are not included within ED-570.

   We note that some public sector frameworks are both going concern and non-going concern frameworks, a situation not clearly dealt with by ED-570. For example, Canadian Public Sector Accounting Standards PS 3430 Restructuring Standards states the transferor "*may continue or cease to exist after the restructuring*" (PS 3430.07h) and further explains in its Basis for Conclusions (paragraph 42-43) that "*a recipient will take control of the assets, assume the liabilities, and responsibilities for programs and operations of a transferor. Therefore, the transferor's assets will continue to be realized by the recipient, though not necessarily in the same nature and extent of usage. The transferor's financial and program obligations will continue to be satisfied by the recipient, though this may be through a different delivery mechanism. It would not be appropriate for the transferor to remeasure the individual assets and liabilities to be transferred because of an upcoming restructuring or any expected change in the usage of the assets after a restructuring.*" In other words, an entity that is no longer a going concern due to restructuring (the common reason for a public sector entity to not be a going concern) still applies the public sector accounting standards. IAASB should include application material or modify the requirements to recognize this circumstance and that some requirements may therefore not be applicable.

In addition, ED-570 has an unintended consequence that an auditor may need to comment on whether an entity is a going concern. But in the public sector going concern matters are public policy decisions as well, enabled by legislation. ED-570 may require a legislative auditor to in effect comment on whether legislation may pass, which may not be within the role of a legislative auditor. Due to these complexities and the fact that legislative auditors are not permitted to comment on matters of policy or legislation, we propose the following amendment, "*In the public sector, matters of going concern may involve matters of public policy. A legislative auditor may choose not to report on matters of going concern in the independent auditor's report because of their inability to comment on matters of policy or legislation.*"

We note some financial reporting frameworks do not require management to make an assessment of going concern and the auditing standards should not be imposing a financial reporting requirement which more appropriately would belong in the financial reporting standard(s).

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

   Question 4 intentionally left blank.

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"?

   Overall we support the definition of Material Uncertainty (Related to Going Concern), however we would propose the following edits:
   - ED-570.10 states, "*An uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern . . .*" The term "may" is too broad. We suggest the word be replaced with "is likely to" to be more specific or remove "may" from the sentence.
   - ED-570.A4 states, "*The auditor is required by paragraph 30 to concluded whether such a material uncertainty exists regardless of whether or how the applicable financial reporting framework defines a "material uncertainty*." We disagree that an auditor should use a definition different than that of the applicable financial reporting framework. If the framework does not include a definition, than paragraph 10 should be used, however if the auditor is using a different definition than the framework, this indicates a significant flaw in ED-570 and could be interpreted as questioning the appropriateness of the financial reporting framework. As noted above, the primary purpose of a financial statement audit is to issue an independent auditor's opinion on the financial statements, not an opinion on the going concern of the entity.

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?

   ED-570 complicates the going concern risk assessment expectations. ISA 315 (Revised 2019) covers risk assessment for the financial statements, including going concern. If the Board deemed that going concern was not sufficiently included in ISA 315 (Revised), adding concise wording, specifically "including going concern," should be used versus creating a revised 570 standard. Furthermore, as stated above, having a separate risk assessment as part of the going concern standard, adding reporting on going concern as a separate section of the auditor's report, moving the going concern date, etc. combine to create an expectation that the auditor has completed an individual audit on going concern versus the auditor considers if management's use of the going concern assumption is appropriate as part of a financial statement audit.

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)?

   No, we do not support the change in the commencement date of the twelve-month period of management's risk assessment of going concern. Using the date of the approval of the financial statements is problematic for many public sector entities, such as public agencies and funds. Many public sector agencies and funds rely on government funds in order to operate. In many situations smaller entities continuance and funding is unknown until a government budget is passed. By extending the date when management makes their assessment of going concern, this creates an issue due to the reliance of these entities on the timing of government budgets and the assessment is past the period for which funding has been approved.

   We also note that the period end date for an entity is relatively fixed and does not often change, but the date of approval may change from year to year, and this variability may introduce more complexity into management's assessments and auditor's work on those assessments.

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 agree that it should be required for the auditor to design and perform audit procedures to evaluate management's assessment of going concern, however we think that IAASB should clearly determine whether the going concern assumption and disclosures in the financial statements are a significant class of transaction, account balance or disclosure in all circumstances. We also believe the IAASB should request the IASB and IPSASB to make it clear that the financial statements include going concern disclosures whether or not events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern. The IAASB should not issue a revised ISA-570 until IASB and IPSASB have updated their standards.

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?

   Question 9 intentionally left blank.

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?

    Question 10 intentionally left blank.

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?

    No, entities with appropriate governance already have early transparent dialogue between the auditor, management and TCWG. No enhancement is necessary to the ISAs. If management or TCWG is withholding information regarding going concern from the auditor, they will most likely continue to withhold this information regardless of proposed amendments in ED-570.

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 disagree. This again expands the financial statement audit into a going concern engagement, and makes the auditor take on perhaps a quasi-regulatory role. It is unclear what this communication would entail. If the requirement is in legislation, then this should be as part of "Report on other Legal and Regulatory Requirements" section of the auditor's report.

    In the public sector, regulators may be related entities i.e. part of the consolidated government entity. It is not clear if the requirement to communicate with "appropriate external parties" should apply to public sector entities in this circumstance because those entities may also be group management.

    We note that legislative auditors may have separate established reporting requirements and therefore should be exempt from this requirement or it should be "adapted as necessary in the public sector."

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?

    The proposed amendments do not create greater consistency across auditor's reports. Similar to the introduction of an Other Information section to the auditor's report, the proposed amendments will create less consistency across auditor's reports. To illustrate, ISA 720 now includes seven different illustrations solely for other information. If we combine the number of illustrations of ED-570, six, to the number of illustrations in ISA-720, ED-570 would create 42 possible combinations within the standards, or create more inconsistency across auditor's reports and likely increase confusion for the user(s).

Furthermore, to expand on the issue noted in question 1, by moving going concern to its own heading "Going Concern" or "Material Uncertainty Related to Going Concern", placing this section below "Basis for Opinion" and above "Other Information", removing the communication from "Auditor's Responsibilities for the Audit of the Financial Statements" and removing the communication "However, future events or conditions may cause the Entity to cease to continue as a going concern" gives the user the impression (incorrectly) that the auditor has audited whether the entity is a going concern in combination with their audit of the financial statements, widens the expectation gap, and creates litigation risk to the auditor. Therefore we recommend that going concern not be given a separate section within the auditor's report and the wording "However, future events or conditions may cause the Entity to cease to continue as a going concern" be maintained in each illustration of ED-570.

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?

    As a matter of principle we disagree with having differential requirements for listed entities. All stakeholders in organizations matter, especially when the entity may fail. For example, the stakeholders in a not-for-profit that is providing food and shelter should have the same, or perhaps substantially more, concern regarding whether an entity will continue, than investors in penny-stock 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.

    ED-570 does not address many implications for the auditor's report relating to the auditor's required conclusions and related communications about going concern for public sector auditors. Examples of going concern implications for public sector entities not addressed in ED-570 include:

    - legislation has been fully passed and therefore no material uncertainty regarding going concern exists as the public sector entity will be dissolved or consolidated (restructuring);
    - public sector entity has/has not included adequate disclosure of the dissolution or restructuring;

- public sector entity is a going concern for over one year, however a dissolution date is known;
- legislation is in reading but has not passed and therefore material uncertainty regarding the public sector entity exists; and,
- the applicable financial reporting framework is acceptable even if the entity is not a going concern.

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.

    Question 16 intentionally left blank.

Request for 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.

    Question 17(a) intentionally left blank.

    (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.

    Due to the fact that ED-570 includes modifications to the auditor's report, we request an effective date a minimum of 24 months after approval of the final standard. Changes to the auditor's report take additional time and a 24 month period would allow auditors to present the impacts to management and those charged with governance to ensure they understand the impacts of ED-570 to the auditor's report. An effective date of only 18 months would likely mean that the auditor would be presenting the changes when the standard is already in effect.

Thank you for the opportunity to comment.

Sincerely,

Colin Semotiuk
Wayne Morgan