



# PROPOSED INTERNATIONAL STANDARD ON AUDITING 570 (REVISED) GOING CONCERN (REVISED) GOING CONCERN

Issued 24 August 2023

ICAEW welcomes 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* published by the IAASB on 26 April 2023, a copy of which is available from this [link](#).

For questions on this response, please contact the ICAEW Audit and Assurance Faculty at [tdaf@icaew.com](mailto:tdaf@icaew.com) quoting REP 80/23.

This response of 24 August 2023 has been prepared by the ICAEW Audit and Assurance Faculty. Recognised internationally as a leading authority and source of expertise on audit and assurance issues, the faculty is responsible for audit and assurance submissions on behalf of ICAEW. The faculty has around 20,000 members drawn from practising firms and organisations of all sizes in the private and public sectors.

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## ICAEW

Chartered Accountants' Hall Moorgate Place London EC2R 6EA UK  
[icaew.com](http://icaew.com)

The Institute of Chartered Accountants in England and Wales (ICAEW) incorporated by Royal Charter (RC000246)  
Registered office: Chartered Accountants' Hall Moorgate Place London EC2R 6EA UK

## GENERAL POINTS

1. We welcome the opportunity to comment on the IAASB's Exposure Draft, proposed ISA 570 (Revised 202X), Going Concern. The extent of the auditor's responsibilities in relation to management's assessment of going concern is a matter of significant stakeholder and general public interest. Going concern is a high-profile area in which user expectations often exceed the work an auditor is able or required to perform. The introduction of greater transparency and a more robust standard is therefore highly desirable.
2. In the United Kingdom (UK), enhanced requirements related to going concern were introduced by the Financial Reporting Council (FRC) in 2019, in response to high profile corporate failures and findings arising from a number of enforcement cases. We strongly support the IAASB's proposal to introduce similar requirements to the ISA. This will create greater alignment between the UK and other jurisdictions, bringing about more consistency in practice and improving the usefulness of financial statements to readers.
3. However, we note that the proposal in paragraph 33(b) relating to situations where events and conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, but where the auditor concludes that no material uncertainty exists, goes beyond current UK requirements. We have a number of concerns with this proposal as it is currently drafted (see our response to question 13 for further details). There is a lack of clarity in the proposals as to what may constitute an event or condition that is sufficient to refer to in the audit report but not reaching the level of a material uncertainty. In our view, the inclusion of additional material in the audit report in relation to events and conditions that do not reach the level of a material uncertainty will create additional complexity, carries an increased risk of unintended consequences, and could lead to potential confusion for readers. We suggest that such events and conditions are better dealt with under the existing requirements for Key Audit Matters.
4. Many of the proposed changes to ISA 570 are aligned to existing UK requirements and our response to this consultation is mainly focused on points of difference. We therefore comment only on the questions that follow.

## ANSWERS TO OVERALL QUESTIONS

**Question 1. Do you agree that the proposals in ED-570 are responsive to the public interest, considering the qualitative standard-setting characteristics and project objectives that support the public interest as set out in Appendix 1?**

5. We see a clear public interest in the introduction of these proposals and strongly support the inclusion of the additional requirements from the UK standard into the global ISA.

**Question 2. Do you believe that the proposals in ED-570, considered collectively, will enhance and strengthen the auditor's judgments and work relating to going concern in an audit of financial statements, including enhancing transparency through communicating and reporting about the auditor's responsibilities and work?**

6. We consider that overall, the proposals will collectively enhance and strengthen the auditor's judgments and work relating to going concern in an audit of financial statements.

**Question 3. Do you believe the proposed standard is scalable to entities of different sizes and complexities, recognizing that general purpose financial statements are prepared using the going concern basis of accounting and that going concern matters are relevant to all entities?**

7. It would be helpful for the IAASB to provide further application material to explicitly highlight that when no (or limited) events or conditions that may cause significant doubt over the entity's ability to continue as a going concern have been identified (for example, for large multinational corporations with significant liquidity reserves), the extent of the auditor's

procedures to evaluate the method, assumptions and data used in management's going concern assessment may be more limited.

8. Further application material would also be useful to clarify the proposed requirements in paragraph 19(b). Consistent with ISA 540 (Revised), the scope of the proposed requirements should, in our view, be restricted to significant assumptions. It appears unduly onerous for the auditor to have to consider and document every assumption used, including those that are not significant.
9. Additionally, further consideration is required in relation to public sector entities. Going concern is relevant to the public sector but the concept is different to the concept applied in the private sector. Going concern is not relevant at a whole of government level as a country's government will generally continue to operate in some form regardless of the country's public finances. At the entity level, many public bodies have statutory underpinning that makes technical insolvency almost impossible. Going concern issues in the public sector are more likely to relate to policy decisions affecting public services or their funding, although the nature of the services provided may effectively create political underpinning of public sector entities that provide essential services.
10. Further application guidance is needed in the proposed revised ISA to ensure that risk assessment procedures and the evaluation of management's assessment are proportionate and tailored to the public sector. Application guidance would be particularly helpful on the evaluation of financial support from third parties. Most public bodies rely on central government support. Guidance should acknowledge that while a government may be unable to provide assurance that funding will continue - as this could pre-empt annual budget setting or the outcome of elections - this is not in itself evidence of material uncertainties over going concern. Most financial reporting frameworks in the public sector do not require management to assess future political decisions and it is clearly not useful for auditors to attempt to do so.
11. The IAASB may look to the Public Audit Forum's Practice Note 10 (PN10), [Statement of recommended practice](#), as a source of guidance for the application of ISA 570 in the public sector. PN10 facilitates a "continued provision of service approach", proportionate to low risk situations in which a material uncertainty exists, but where the services provided by the entity are likely to continue to be delivered, and the financial reporting framework permits the entity to prepare its accounts on the basis of the presumption that this is sufficient evidence that the entity is a going concern.

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

12. We consider that the proposed standard appropriately reinforces the auditor's application of professional scepticism in relation to going concern.

## ANSWERS TO SPECIFIC QUESTIONS

**Question 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?**

13. Paragraph 11 of ED-570 includes a requirement that "the auditor shall 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". What constitutes "an appropriate basis" is highly subjective and likely to be subject to differing interpretations by auditors in the absence of any clear context or boundaries for the auditor's understanding and documentation. As currently written, this paragraph creates an open-ended requirement that blurs the respective roles of management and the auditor for the identification of events or conditions.
14. If an event or condition should arise that was not previously identified by management, we believe that, with hindsight bias, the auditor may be challenged that their work did not

constitute “an appropriate basis”, when it may not have been reasonably foreseeable for the auditor to have identified such an event or condition in the absence of relevant information from management or those charged with governance. We believe that paragraph 10-1 of ISA (UK) 570 which is more specific regarding the risk assessment procedures that the auditor is expected to perform is more reasonable, and we recommend that the IAASB aligns the language it uses with this.

**Question 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)?**

15. The proposed requirement to change 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 is consistent with current UK requirements. ISA (UK) 570 requires auditors to request management to extend its assessment period to at least twelve months from the date of approval of the financial statements.
16. We agree that it is in the public interest for management’s going concern assessment to cover twelve months after the approval of the financial statements, but we note that there is no equivalent requirement within IFRS for management to extend their assessment. The proposals require auditors to ask management to perform work which is not directly required of them. We recommend that the IAASB engages with the IASB to encourage greater alignment between accounting and auditing standards.

**Question 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?**

17. Revisions to ISA (UK) 570 made by the FRC in 2019 require UK auditors to include positive statements on going concern within the audit report. The most significant change to the UK standard that would be required by the IAASB’s proposals relates to the proposed paragraph 33(b) requirement for listed entities regarding “close call” situations - situations where events or conditions have been identified which may cast significant doubt on an entity’s going concern status, but the auditor concludes that no material uncertainty exists. In these situations, the auditor would refer to the related disclosures, if any, in the financial statements, and describe how the auditor evaluated management’s assessment of the entity’s ability to continue as a going concern.
18. “Close calls” such as these may currently be referred to as Key Audit Matters if the auditor considers them to be sufficiently significant to the audit of the financial statements. The proposal would introduce a further level of information about going concern within the audit report, which has the potential to confuse readers of the financial statements. In our view, the transparency objective in relation to going concern would be more effectively served through the introduction of better-quality reporting via KAMs.

19. However, to be effective, improved transparency about considerations the auditor has made and the work performed must be supported by greater transparency in management disclosures in the financial statements. Currently, management is not required to make any explicit disclosures regarding the use of the going concern basis of accounting, or their going concern assessment. The proposal for auditors to disclose events and conditions relating to going concern, even where these do not reach the threshold of a material uncertainty, does not therefore seem proportionate.
20. Given existing KAM requirements, and that the proposal would not involve auditors providing original information, but rather highlighting the disclosures (if any) already made by management, this requirement could have the opposite effect to what is intended. Rather than improving transparency, the proposal could create confusion for readers of the financial statements who may not understand the different types of going concern matters that might be described in an audit report. If the relevant information is already disclosed in the financial statements, including additional disclosure in the audit report may be of limited value, especially where events or conditions have not reached the level of a material uncertainty and are considered of less significance to readers. If a “close call” material uncertainty is not considered significant enough to have already been disclosed as a KAM under existing requirements, we question the value of requiring it to be disclosed in the going concern section of the audit report. Readers may interpret the disclosures as meaning that the entity is in financial distress when, in fact, no material uncertainty exists.
21. These concerns are particularly significant within the banking and financial services sector. Recent high-profile banking failures, facilitated by customers being able to withdraw funds instantly via internet banking, have occurred at great speed. Directly drawing readers' attention to events or conditions that may cast a significant doubt on going concern could precipitate a sudden loss of confidence in a financial institution, even where this is unwarranted as the events or conditions disclosed are not considered to reach the level of a material uncertainty. While there is clear value in disclosing significant events or conditions that a reader of the financial statements should know about, this should be proportionate so as not to cause unnecessary concern.
22. There is a lack of clarity within the proposal regarding what would constitute events and conditions that may cast a significant doubt on the entity's ability to continue as a going concern, but do not reach the level of a material uncertainty. A material uncertainty paragraph within an audit report already uses heavily qualified language, given that there is a fundamental uncertainty regarding whether the events or conditions identified will prevent the entity from continuing as a going concern. It is not clear what kinds of events or conditions would qualify as “close calls” requiring disclosure in the audit report, while not reaching the level of a material uncertainty. For example, it is not clear whether these are intended to include events or conditions whose impact is not expected to be significant enough to cause the entity to fail, or events or conditions with a lower likelihood of occurring. It is also unclear whether these should include events or conditions that could have indicated a material uncertainty, but have since been resolved – for example, where the auditor has identified potential issues with meeting a covenant, but the covenant is renegotiated before the financial statements are approved. Uncertainty regarding the minimum level of events or conditions intended to be caught by this requirement will lead to inconsistency in interpretation and application by auditors in the absence of detailed guidance, as there is a range of situations where events or conditions exist. As a bare minimum, we recommend that the IAASB provide a list of factors to be taken into account when determining whether there are events and conditions that may cast a significant doubt on the entity's ability to continue as a going concern, but do not reach the level of a material uncertainty.
23. The lack of clarity around the thresholds to be used in making this determination and the resulting increase in auditor judgment to be used in applying the requirement may have unintended consequences. These could include increased challenge to auditors from management, who could put pressure on auditors to downgrade a material uncertainty to a “close call”. While auditors must remain independent and be prepared to robustly challenge management's assessment, the lack of guidance regarding the factors to be considered could make it challenging for auditors to reach an appropriate conclusion, resulting in a risk

that they may inappropriately assess events and conditions as not reaching the level of a material uncertainty. There is also a risk that management will be less willing to disclose the risk factors relating to going concern that they have identified themselves internally to their auditors.

24. Overall, while we can see that there is a clear public interest in increasing transparency regarding the considerations made over going concern in the audit report, and note that all required disclosures regarding events and conditions that may cast doubt on an entity's ability to continue as a going concern should already have been made by management, there are also a number of valid concerns relating to the possibility of significant adverse consequences which may outweigh the potential benefits. On balance, we do not believe that it is necessary or desirable to add an additional layer of complexity, potential confusion for readers and an increased risk of unintended consequences via the introduction of the proposed requirements in paragraph 33(b). We suggest that where such events and conditions are identified, they should more appropriately be included as KAMs within the audit report.