

**August 23, 2023**

## **IFAC Small and Medium Practices Advisory Group Response to the IAASB's Exposure Draft for the Proposed International Standard on Auditing 570 (Revised 202X) Going Concern and Proposed Conforming and Consequential Amendments to Other ISAs**

### **INTRODUCTION**

The IFAC SMP Advisory Group (SMPAG) is pleased to respond to the IAASB's Exposure Draft for the Proposed International Standard on Auditing 570 (Revised 202X) *Going Concern and Proposed Conforming and Consequential Amendments to Other ISAs*.

The SMPAG is charged with identifying and representing the needs of its constituents and, where applicable, to consider relevant issues pertaining to small- and medium-sized entities (SMEs). The constituents of the SMPAG are small- and medium-sized practices (SMPs) who provide accounting, auditing, assurance, and business advisory services principally, but not exclusively, to clients who are SMEs. Members and Technical Advisers serving the SMPAG are drawn from IFAC member organizations currently representing 25 countries from all regions of the world.

### **GENERAL COMMENTS**

The SMPAG appreciates the efforts the IAASB has taken in drafting the proposed changes to the standard and is pleased to see the consideration given for scalability within the proposals. However, there are several areas of concern we wish to raise. Closing the expectation gap between public perception and respective responsibilities of management and the auditor is important. As outlined in IFAC's [response](#) to the IAASB's discussion paper on fraud and going concern, we strongly believe that each participant in the financial reporting ecosystem has an essential role that contributes to high-quality financial reporting. We are concerned that some of the proposed revisions may result in increasing rather than reducing the expectation gap in relation to going concern. Particularly worrying is wording in the proposed requirements including the auditor's report that implies it is the auditor's responsibility to identify events or conditions that cast significant doubt on the ability of an entity to continue as a going concern, which we will discuss in more detail later.

The standard will also create additional work and auditor's report disclosure for all audits, irrespective of the risks around going concern or material uncertainties. The SMPAG would have liked to see a more risk-based approach applied where such additional work and disclosures were only undertaken if the facts and circumstances lead the auditor – using professional judgment – to deem them necessary. Many of the smallest entities who are subject to audits may also struggle to produce and provide some of the information the revisions envision the auditor to have access to as part of their consideration of the appropriateness of management's assessment of going concern, especially if management does not believe there are going concern related issues. Finally, the proposed change in commencement date for the period of consideration will, unless in line with the applicable financial reporting framework, create a potential misalignment which could be an unnecessary cause of contention on many audits where there is little risk of going concern issues. We have outlined our responses to the questions raised in the Exposure Draft (in bold) below.

### **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?**

The SMPAG acknowledges the challenges in defining the public interest, and we note that the proposed revisions attempt to manage the expectations of the users of financial statements with more extensive and clearer disclosure of risks in relation to going concern. However, we believe some of the fundamental issues concerning public interest surrounding going concern relate to the expectation gap between user understanding and the actual responsibilities of the auditor. The perception exists that auditors are signing off to confirm going concern, and this in part stems from a lack of understanding around the respective responsibilities of management and the auditor in relation to going concern. The revision of ISA 570 presents an opportunity for the IAASB to seek to close this expectation gap.

We note corporate failures have been identified as a driver of this project and we agree a response to these would clearly be in the public interest. However, the proposed revisions in the Exposure Draft also create some challenges for SMEs and SMPs that would appear to be contrary to other elements of the public interest. The proposed change in commencement period of management's consideration to 12 months following the approval of the accounts, even where this is inconsistent to guidance in financial reporting standards in some jurisdictions and is not required by law or regulatory requirements, is one of these areas. Auditing standards creating requirements for preparers in the absence of any supporting external requirement is a contentious issue. As well as being ideologically problematic this will create onerous additional requirements for many SMEs and micro entities where there are no identifiable going concern issues, so the change would create onerous requirements and increase audit costs but add little value.

Ultimately, it would be in the public interest to reduce the potential for companies going insolvent shortly after the release of financial statements where no going concern issues are identified, with some form of "early warning" i.e., having the company disclose relevant information. The proposed revisions to the auditor's procedures seem unlikely to be able to influence the frequency with which this will happen, as they are aimed at improving disclosures and auditor reporting. Such problems occur more due to underlying issues with the corporate reporting ecosystem, which again points to the need to close the expectation gap. Additionally, both management and the auditor can only react to information known at a point in time whereas many corporate failures arise due to sudden developments after this date (for example the outbreak of the Covid pandemic). As such, expectations around this would always more generally need to be managed too, and the IAASB should do more to make this clearer, for example, by adding a further bullet point in paragraph 5 to discuss the fact that unforeseen future developments unrelated to the known events and conditions cannot factor into going concern assessments, but may be so significant as to rapidly and unexpectedly cause the entity to cease to be a going concern. It may also be useful for more explanatory commentary to be included in auditor's reports to help manage such expectations and the expectation gap and clarify the purpose of audit procedures undertaken and what is not possible.

As we discuss in further detail later in this response, there is also a concern that the proposed language of paragraphs 11 and 33(a)(ii), which imply the auditor has a direct responsibility for the identification of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern could also worsen the expectation gap, so would be contrary to the public interest. The proposed revisions could also do more to emphasize the challenges around auditor judgements in this future-looking area, as we discuss further in the response to question 2. A lack of clarity about such challenges could also further compound the expectation gap and may serve to drive audit partners who sign accounts in jurisdictions with personal liability out of the profession, which would be detrimental to the public interest.

**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?**

The SMPAG believes the proposals will enhance transparency, but there will be a limited impact in strengthening the auditor's judgments and work in relation to going concern. Reviewing management's assessment of going concern is one of the rare forward-looking areas in an audit, making the exercise of judgment even more challenging. There are potentially unlimited factors that can impact the company's position that are outside of the knowledge and control of management and the auditor at the point in time the financial statements are prepared, and the auditor's report signed. The impact of factors occurring subsequently such as a pandemic or industrial action could have the most severe impact on an entity's ability to continue trading for the foreseeable future but may be impossible to predict in advance or address in this standard.

In some jurisdictions, auditors are criticized for adopting a view that aims to corroborate rather than challenge what management are asserting, and this is ordinarily a valid point. However, where the nature of an assertion and its assessment are forward looking, there needs to be an acknowledgement that only limited challenge can be made about future events. To foster realistic expectations, it would be useful for the proposed revisions to have flagged the difficulties in this area further and explain why there is an added layer of complexity for judgements in relation to going concern. This could also be emphasized in proposed disclosures, though we note there are issues with increasing the length of the auditor's report too, which we will later raise. It is important for the standard to acknowledge the limitations in this area because in some jurisdictions there may be auditor liability issues, for example where audit partners signing the engagement may have unlimited personal liability. A lack of clarity about the challenges and failure to manage the expectations gap could lead to feelings of perceived excessive risk for such individuals, ultimately driving them out of the profession.

**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 SMPAG welcomes the attempts that have been made to consider scalability within the application material in the standard and the examples given to illustrate differences for entities will be useful for SMPs. However, more generally in relation to application material, it should be noted that it is possible for regulators to over-interpret this in pronounced standards, which at times can leave SMPs open to challenge where none is warranted. As such, where there may be differences in treatment based on scalability and examples are given, it is imperative to ensure clarity that such examples are illustrative and not exhaustive and other conditions may also be relevant for different treatment in SMEs.

While we recognize attempts have been made to make the standard scalable, there may still be issues in relevance. Audit procedures in relation to going concern often rely on the quality of information that management can provide, and for the smallest entities that do not have very formal forward reporting or cash flow projections, the availability of the information management can produce will be a barrier. For smaller entities, the date of the audit may be significantly later than for larger entities in some jurisdictions, which could create practical challenges in view of the proposed new requirement to commence the twelve-month period from date of approval of financial statements. Twelve months after the date of the approval would in many cases be well into the year following the subsequent period. There is a potential issue that

if a going concern assessment is made on a set of statements where the relevant period of assessment is far beyond the following year-end that stronger assurance is being provided for the foreseeable future than can be the case from the work completed. In this way, there is potential for the expectation gap to be increased rather than reduced through this proposal.

Scalability should not only consider whether the same requirements can be applied to entities of differing sizes, but there also needs to be an assessment of whether additional requirements will add value if applied in certain situations. The current proposals will result in significant extra audit work for SMPs who will need to request additional information from their SME clients, but the available information may add very limited value for some audits. A risk-based assessment would be more appropriate to adopt as a principle in the revisions. For very small entities, enforcing annual production of the information the proposals outline is likely to result in a “checklist like” roll-forward approach. This would add minimal value to the audit but could potentially give an impression the auditor had made broader detailed considerations using such information, which will rarely be the case. If an entity is highly unlikely to have going concern issues based upon a review of different factors, such as the level of reserves and intention to utilize, such review and scrutiny of additional information is unnecessary to support the auditor’s conclusion.

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

The SMPAG believe that the requirements and application material reinforce the requirement to exercise professional skepticism. However, as noted earlier, the considerations made for going concern are different to general audit work due to the forward-looking nature of going concern assessments and the accompanying inherent uncertainties. There can be limited scope and ability to practically challenge management, so an initial focus on corroboration may be more appropriate in this area in the absence of contrary information received from the audit or of which the auditor is otherwise made aware. We also raise a query as to the extent of which additional documentation to evidence exercise of professional skepticism would add in cases where there are very little risks of going concern issues (e.g., due to the level of cash reserves and future commitments).

**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”?**

The SMPAG acknowledges the challenges in defining material uncertainties related to going concern and expected the explanatory memorandum or application material to ED ISA 570 (Revised) to explore these challenges. In the absence of such discussion, the wording of paragraph 10 may imply material uncertainties are readily identifiable, which is often not the case in practice. The reference to the auditor’s professional judgment alone may also be problematic as there is an interplay with the professional judgment of management to consider. Furthermore, as this phrase is not uniformly defined in all accounting standards and ISA 570 is intended to be agnostic of the financial reporting framework, this may give rise to the imposition of the proposed definition of this auditing concept on the financial reporting framework. This may be ideologically and practically challenging.

The phrasing of the actual definition is also problematic, and points to a general issue at times with guidance in standards. The sentence that describes material uncertainty in paragraph 10 is 63 words in length. English users will find this phrasing challenging to understand as it mixes various considerations.

Simultaneously, this mixing of concepts increases the difficulty level for translation of the standard to other languages. We recommend breaking the definition into smaller sentences to minimize interpretation issues when the revised standard is translated and implemented.

**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?**

As explained in more detail elsewhere, we are concerned at the proposed language of paragraphs 11 and 33(a)(ii) because it implies the auditor has a direct responsibility for the identification of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. In our opinion, to fit with ISA 315 (Revised 2019) the auditor should be required to perform procedures to identify the risk(s) of material misstatement associated with going concern issues. These could be the risk(s) that events have occurred or conditions exist that the entity has not properly acknowledged whereby they would cause the entity to cease to be a going concern within the 12 month period under consideration (i.e., the misstatement is then an incorrect use of the going concern assumption in preparing the financial statements) and the risk(s) that they constitute a material uncertainty which the entity has failed to properly disclose (i.e., the misstatement is the incorrect or missing disclosure). An implied requirement for the auditor to perform a (primary) identification of (all such) events and conditions is misplaced, as this is responsibility assigned to management as part of its preparation of financial statements.

The SMPAG agrees with the principles of the foundational requirements but note that some of the areas flagged in paragraph 12 may be less relevant for smaller entities, so could create a challenge for SMPs. While the examples of scalability given in paragraph A13 are useful, they do not acknowledge that in many private owned entities owners are managers, and there are few staff, so they do not necessarily have the sophistication or need to develop formal, complex strategies, objectives and forecasts, budgeting and cash flow information that the revisions to the standard may envision. In many such entities, the infrastructure simply does not exist to be forward looking in such a way, but this does not necessarily give rise to going concern issues due to the financial position of the entity. Consequently, it could be argued there are instances where following the detailed considerations listed would add little value and could potentially be misleading if the information available is known to be imprecise, or otherwise of lower quality.

**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)?**

The SMPAG opposes the change in the commencement date of the twelve-month period to the date of approval of the financial statements. ISA 570 (Revised 202X) will be a global standard for worldwide use, and this change will create an inconsistency with financial reporting standards used in many jurisdictions. We would suggest leaving flexibility to allow a change in the commencement date if deemed appropriate based on assessed risks. In jurisdictions where regulatory scrutiny exists in this area, the commencement

date can already be modified accordingly, so it is not clear how the revision to the auditing standard is helpful. Such a change will create an unnecessary challenge for SMPs, especially where management are unwilling or reluctant to change and could create additional work and challenge in cases where there will be little value in doing so.

It could also be argued that the proposal to change the commencement date could again widen the expectation gap. If the auditing standards effectively prescribe treatment for preparers that the auditor is responsible for seeking resolution on through changes or discussion, that increases the obligation on the auditor in relation to going concern. The auditor is in effect setting the commencement period, which may give implied responsibility for this period being appropriate. Additionally, the point we raised earlier for question 3 is also relevant. If a going concern assessment is made on a set of statements where the relevant period of assessment is far beyond the following year-end, this may give an impression of stronger assurance being provided than can be the case from the work completed. The timeline advised to the auditor and management needs to be harmonized, so in the absence of changes in all relevant financial reporting standards, this change should not happen. Whilst we note paragraphs 22 and A43-A44 provide some flexibility, in practice, the fear of regulatory scrutiny would make these difficult to exercise.

**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?**

The SMPAG notes that this may create challenges in some entities, many clients of SMPs are not able to complete detailed forecasting, so management's assessment is less formal than the proposed changes to the standard may envision. This is especially true in smaller owner-managed businesses where the going concern position is often monitored and understood without formal forecasts or management reporting found in larger entities. There is often also resistance to producing such information as the relevance to going concern is not well understood or accepted, or where management is confident that there are no going concern issues to warrant expending the time and resources to do so. This could create practical challenges for SMPs, when making this evaluation. Ethically the auditor is precluded from assuming a management role.

Furthermore, if the risk of going concern is assessed as low or insignificant, there is little value in evaluating management's assessment of going concern. Designing and performing audit procedures would incur costs that will be disproportioned to the value obtained in such circumstances. A risk-based approach would be more appropriate, as adding extra workload in areas that do not add value may result in such areas getting more attention than warranted, potentially taking resources away from those where the assessed risk may benefit from further work or documentation.

**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?**

The SMPAG have no specific comments in relation to this question other than the approach identified seems over-engineered for SME clients that SMPs will primarily be dealing with.

**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?**

The SMPAG notes that generally, it is unclear what extent of procedures are expected to be carried out to evaluate the intent and ability of management, third parties and related parties to provide financial support. Assessing the ability of management to carry out specific courses of action may be possible, but assessing the intent of both management and third parties is more challenging and subjective, so its inclusion in paragraphs 26 and 27 may create practical challenges. Without detailed information as to management's or a third party's potential commitments or financial objectives, despite there being ready access to funding, assessing what such funding may be used for is likely to be challenging or even impossible for the auditor. The auditor can request information from third parties, but they are ultimately under no obligation to provide evidence supporting their supposed intent. For instance, it may be difficult to encourage a bank to disclose their future intention to provide support to an entity if such a decision has not yet been taken by the bank, and if making such a declaration creates risks for the bank. The refusal of the bank to provide information does not therefore necessarily indicate any heightened risks to going concern, so it is difficult to determine how an auditor could conclude in such circumstances.

The use of third-party information like financial statements can also at times be counter-productive to a going concern assessment. Third party accounts for an entity suggesting it will provide financial support to a related company may show funds being present that could theoretically be used for support. However, the ability to support may not be genuine as those funds could be needed for other activities. Similarly, statements of support from a third-party conveying intention to support may be challenging to validate as there would be a benefit of claiming to support, but ultimately business decisions will determine if this will eventually be forthcoming. As such, these methods would only really give negative assurance in that there is nothing to suggest there is an inability or clearly no intent to support, which will always be of limited value.

**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?**

The Explanatory Memorandum, for example Paragraph 63, refers to improvements to encourage early transparent dialogue between the auditor and TCWG. However, looking at the proposed paragraph 39, the requirement for timeliness of communication does not appear to be conveyed, though we note A87 refers to more general timely communication with a reference to ISA 260. The IAASB should consider if reference to timeliness should be made more explicit based upon what is expressed in the explanatory memorandum.

**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?**

Where law, regulation or relevant ethical requirements require or establish responsibilities for reporting to an appropriate authority outside of the entity, the requirement to report already exists. Consequently, it is not clear why this requirement is then included in the proposed revisions. If this is merely a reminder, it could be counterproductive as there may be other similar requirements which are not included in this way. The inclusion of 'relevant ethical requirements, in the paragraph could also create confusion if further clarity is not provided by the IAASB of what is being referred to, so a reference to the IESBA code or national requirements if they are more restrictive may be appropriate to clarify. Overall, the requirements may give rise to scalability issues as auditors who are unfamiliar with cases where such issues come up could be left

confused or could be given comfort the standard is providing support with reminders in all broader areas, which is not, and cannot be, the case for a global standard.

**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 SMPAG believes the requirement in Paragraph 33 (a) to have this commentary in auditor's reports for financial statements where there are no material uncertainties or going concern issues is problematic. The requirement should be limited to specific cases where such a disclosure may be helpful based upon the facts and circumstances present.

If the audit opinion is unmodified and there are no issues raised in relation to going concern, adding this type of targeted disclosure in one area raises a question as to why other equally important areas where there are no issues should not be discussed in a similar way. As such, this may open the auditor's report for other future revisions which will add little value, especially considering the proposed wording of such commentary reflects only negative assurance and will likely include boilerplate language. The added emphasis the separate section will create may also imply that additional work has been done in this area, so may mistakenly create an expectation that positive assurance is being provided in relation to going concern per se, whereas the auditor's opinion relates to the financial statements taken as a whole and does not constitute an opinion on piecemeal or isolated aspects. Perhaps a resolution to this would be to also require emphasis of management's responsibilities in relation to going concern, or to better explain the threshold considered by management in conducting a going concern assessment. While these would add length to the auditor's report, they would also help to reduce the expectation gap.

The requirements and application material in this area may also increase the expectation gap in other ways too. If the auditor is required to conclude that management's use of the going concern basis is appropriate as required by Para 33(a)(i), this may be interpreted by users as the auditor confirming that the entity is a going concern. The reference to the auditor not having identified material uncertainties in Para 33(a)(ii) is also problematic and may compound lack of clarity between the role of the auditor and management. The wording could more explicitly reflect that it is the auditor's job to check management have done a reasonable job in identifying material uncertainties rather than directly identifying these from the audit evidence obtained. We have discussed this issue further in our response to question 16, as we have identified a related problem with paragraph 11 which refers to the application of ISA 315 (Revised 2019) requirements.

If the proposal is approved, the potential impact on the proposed ISA for Audits of Financial Statements of Less Complex Entities standard (ISA for LCEs) must also be considered. We understand the IAASB will only consider potential consequential amendments once the changes to ISA 570 (Revised 202X) have been finalized. Stakeholders would likely expect changes to be considered as this could potentially create a barrier to the implementation of the ISA for LCEs standard in some jurisdictions as regulators may view this as a factor in any decision on adoption.

**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?**

The SMPAG do not believe this should be extended to audits of financial statements of entities other than listed entities. An SMP auditor may believe it is helpful to include additional descriptions of their work related to specific, significant matters in certain circumstances (KAM) and there is nothing preventing that course of action, but it would be inappropriate to create this as a default requirement (see points raised in response to Q13). Furthermore, given the IAASB's Listed Entity and Public Interest Entity project, there is potential for forthcoming changes in relation to the categorization of entities, which may bear on the applicability of the ISA 570 proposals.

**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.**

The SMPAG have no comments in relation to this question.

**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.**

In several areas of our response, we have raised how the proposed revisions may serve to increase the expectations gap and increase confusion around the respective roles of auditor and those of management. Another problematic area that we have not been able to fully capture in our responses to the overall or specific questions relates to what might be perceived to be an expansion of the scope of the work the auditor is required to undertake. Paragraph 11 of the proposed revisions refers to the requirements of ISA 315 (Revised 2019), identifying that the auditor should 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. Considering the issues that we have flagged due to the nature of going concern assessments being forward looking, this potentially goes beyond the requirements of ISA 315 (Revised 2019) which generally requires auditors to perform risk assessment procedures to identify the risks of material misstatement.

Due to the breadth of factors that can impact going concern and the inherent uncertainty when making assessments of the future, this would appear to give more onerous responsibilities to the auditor, and ones that would be difficult to fulfil entirely. As we have identified in our response to question 13, the wording of paragraph 33(a)(ii) further compounds this issue with reference that implies the auditor should identify material uncertainties that cast doubts over going concern. Together, the wording of these paragraphs

appears to extend the scope of responsibilities of the auditor in relation to going concern and place added onus on the auditor to identify material uncertainties. We would recommend the wording of these paragraphs is adjusted to emphasize the respective roles of management and the auditor making clear the responsibility for identifying material uncertainties or events and conditions that may give rise to going concern issues is the responsibility of management. The auditor's role is to check management have done a reasonable job in identifying material uncertainties rather than directly identifying these from the audit evidence obtained.

## **REQUESTS FOR GENERAL COMMENTS**

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.**

(a) As noted earlier in this response, the extensive use of long sentences within the proposed revisions will create a challenge when translating to other languages. Examples of sentences that are likely to be problematic include sentence 2 of paragraph 4, sentence 1 of paragraph 6, the opening sentence to paragraph 10 and the sentence in paragraph 31. A similar issue exists in the application material, for example the final sentence of A1.

(b) The SMPAG believe it would be appropriate to set an effective date of at least 24 months following approval of the final standard. The IAASB should take into consideration the time it will take for the standard to be translated and then for supporting material to be produced in response and finally rolled out through training within practices. It would also be useful to know whether non-authoritative guidance is going to be issued which will support such endeavors.

The IAASB should also consider other relevant projects and timelines which will cause changes to the auditor's report, and we strongly agree with the objective of harmonizing the effective dates, for example with the fraud project. This will facilitate the roll out of training and allow changes to be communicated at the same time.

## **CONCLUDING COMMENTS**

We hope that the IAASB finds this letter useful. Please do not hesitate to contact me should you wish to discuss matters raised in this submission.

Sincerely,



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Monica Foerster

Chair, SMPAG