INSTITUTO NACIONAL
DE CONTADORES PÚBLICOS
COLOMBIA

August 24, 2023

248-23

Mr.
International Federation of Accountants - IFAC
International Auditing and Assurance Standards Board (IAASB)
529 Fifth Avenue
New York, NY 10017 USA

Ref.: Proposed International Standard on Auditing 570 (Revised 202X) Going Concern and Proposed Conforming and Consequential Amendments to Other ISAs

Dear Sirs:

The INCP (Colombia's National Institute of Public Accountants) would like to express its gratitude for this opportunity to make and submit some comments on the Proposed International Standard on Auditing 570 (Revised 202X) Going Concern and Proposed Conforming and Consequential Amendments to Other ISAs. Included below are our responses to the questions asked in the exposure draft; thank you for your consideration thereof:

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?

Yes, the improvement project accomplishes that responsibilities of both, management and auditor, contribute to the public interest. Thus, we support that the implications and changes required for this ISA and all the other standards to align with the new definition of publicly traded entities and the definition of PIE (Public Interest Entities) of the IAASB and the Code of Ethics continue to be studied.

We emphasize that this assessment must be previously performed by management, being aware of the legal requirements of each country regarding going concern, insolvency or other related local regulations, so that the auditor can do their job.

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?

Yes, the clarity given to the auditor's obligation to communicate and report the existence of material uncertainties regarding the entity's ability to continue as a going concern is very important. However, we believe it should be clarified that management is also responsible for communicating these circumstances and it is not only the auditor's duty to communicate with applicable regulatory, enforcement or supervisory authorities. In line with this, companies must be stronger in building models so that they can be audited and included in the associated disclosures made by management.

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?

We agree. The standard proposal is fully scalable to entities of different sizes and complexities. It harmonizes with the other audit standards the associated requirements in each phase of the audit. It also details, in each section, the audit procedures applicable to each situation identified, providing further examples and tools so that the auditor can make better informed judgments and, more importantly, with professional skepticism.

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

Yes, it explicitly requires the auditor to design and impartially apply more robust audit procedures to evaluate the assessment made by the company's management. Procedures must go beyond simple investigation and discussion with management.

It is appropriate to include new material to support the auditor in identifying circumstances or conditions that may create fraud risks in this setting and that should be considered when addressing their risk assessment.

There is a new requirement to evaluate the method, assumptions and data used in management's assessment of going concern, which is more structured. However, this must be consistent with IAS 1 and IAS 10, so that management is clear about the process that they must execute to facilitate the related audit process.

Clarifications regarding the auditor's responsibilities to report a control deficiency in cases where management's assessment of going concern has not been properly supported are appropriate.

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”?

Yes. The definition of material uncertainty gives greater clarity and is consistent with that used in other accounting and auditing standards or frameworks. We appreciate that the definition clarifies the phrase “may cast significant doubt.” We also appreciate the provision of guidelines for use as a threshold to assess the magnitude of the impact of events or conditions that cast doubt.

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?

Yes. The articulation of ISA 315 (Revised 2019) and ISA 240 - *Auditor's responsibilities relating to fraud in an audit of financial statements* is evidenced. This increases the transparency in the financial statements for the different stakeholders.

Likewise, it requires the auditor to design and apply risk assessment procedures to obtain audit evidence that provides an appropriate basis for the identification of relevant facts or conditions, highlighting the auditor's professional judgment to determine the nature and scope of risk assessment procedures that must be performed to comply with the requirements of the standard.

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)?

Yes, we agree, management’s assessments must be performed at least 12 months from the date of approval of the financial statements. However, we consider that the accounting frameworks should also be aligned under this parameter. This will prevent unnecessary discussions between the auditor and the management of companies. We know that this alignment it is difficult to achieve, but the IAASB may take concertation actions with other organisms.

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?

Yes. The auditor must apply more stringent procedures to appropriately call into question management's assumptions and judgments on which their assessment of the entity's ability to continue as a going concern is based.

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?

We support the incorporation of the concepts introduced of ISA 540 (Revised) for the auditor's evaluation of the method, assumptions and data used for management's assessment of going concern, as this will allow the auditor's review to verify whether the selected method is appropriate, the calculations applied to the method are accurate, the assumptions used by management are consistent, and the data are adequate.

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?

Yes, we support them, we believe they are appropriate for the auditor to verify whether management's plans are feasible and if management has both the willingness and the ability to perform them.

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 [1] way communication with TCWG about matters related to going concern?

We consider them appropriate for the auditor. A transparent two-way dialogue can only happen when the management and TCWG of the entities give the required importance to the matters related to the going concern for the users and stakeholders of the financial information.

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 believe that it should be a joint obligation with the management and TCWG of the entities. The auditor's report would be expected to be enough to report users and stakeholders, including the appropriate authorities of "going concern"-related matters.

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?

Yes, we support the requirements. However, we consider that there must be a balance between the responsibility of management and the responsibility of the auditor. We believe that IAS 1 - Presentation of financial statements, should be strengthened to assess a going concern with a clear framework for the auditor to assess it. In addition, a strong disclosure of events or conditions that have been identified by management that may cast significant doubt on the entity's ability to continue as a going concern should be required, even if these do not lead to material uncertainty. Otherwise, this task would be more difficult to perform since the reference framework used by management may result in a subjective assessment.

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?

In this regard, we consider that this matter can be included as a key audit topic in cases where there is significant uncertainty for a listed entity or as a highlighted paragraph for non-listed entities. This is in order to focus the financial information user on the relevant matters of the audit.

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.

No.

Request for General Comments

17. The IAASB is also seeking comments on the matters set out below:

(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.

We agree and consider that it is a reasonable time to allow the correct disclosure about the changes, improvements and new requirements of the standard to guarantee its correct application.

Should you require further information on these answers, please do not hesitate to contact us.

Best regards,

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