Reference #774812

24 August 2023

Mr. Willie Botha
Technical Director
International Auditing and Assurance Standards Board
529 Fifth Avenue
New York
10017 USA

Submitted electronically at www.iaasb.org

Dear Willie,

Comments on the International Auditing and Assurance Standards Board (IAASB) Exposure Draft: Proposed International Standard on Auditing 570 (Revised 202X) Going Concern (ED 570) and Proposed Conforming and Consequential Amendments to Other ISAs

The South African Institute of Chartered Accountants (SAICA) appreciates the opportunity to provide comments on the IAASB Exposure Draft.

SAICA is South Africa's pre-eminent accountancy body which is widely recognised as one of the world's leading accounting institutes. The Institute provides a wide range of support services to more than 55 000 members and associates who hold positions as chief executive officers, managing directors, board members, business owners, chief financial officers, auditors, and leaders in their spheres of business operation.

To inform our submission, SAICA established a task group consisting of members of our Assurance Guidance Committee and its related project groups. Our Assurance Guidance Committee has approved this submission. We also had outreach sessions with a group of practitioners and a small group of users of financial statements.

As an overall comment, we are supportive of the proposed revision to the standard. Participants in our outreach to the group of users of the financial statements were particularly supportive of the proposals as they believed it would enhance the focus of both the auditor and of management/those charged with governance on the importance of the assessment of the going concern assumption in the preparation of the financial statements.

Our responses to the questions posed in the explanatory memorandum contain suggestions to enhance clarity on certain proposals to facilitate consistent application of the standard.

Please do not hesitate to contact us should you wish to discuss any of our comments. You are welcome to contact Thandokuhle Myoli (thandokuhlem@saica.co.za) or Annerie Pretorius (AnnerieP@saica.co.za).

Kind regards

Thandokuhle Myoli
Executive: Audit and Assurance
The South African Institute of Chartered Accountants

RESPONSE TO REQUESTS TO COMMENTS

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?

1. Yes, we agree that the standard-setting responses in the proposed standard meet the project objectives that support the public interest. Overall, we are of the view that the proposals will assist with positive changes in how auditors assess management's assessment of the going concern assumption, and that the proposals not only highlight the responsibilities of the auditor but also those of management and those charged with governance, regarding the assessment of an entity's going concern assumption.

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?

2. Yes, in our view the revisions sufficiently guide auditors in obtaining information that may assist with the identification of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, and in obtaining audit evidence when assessing management's assessment of the going concern assumption.

3. The reminders in the proposed standard about the appropriate exercise of professional scepticism should result in a more critical assessment of audit evidence obtained, thus strengthening the auditor's judgements.

4. We also agree that the proposals enhance transparency about the auditor's conclusions regarding going concern and on the auditor's assessment in reaching those conclusions (regarding listed entities).

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?

5. Yes, we believe the standard is principles based and thus scalable to entities of different sizes and complexities. The application material provides useful guidance in this regard.

6. We however suggest that paragraphs 2 and 4 of the standard or the related application material should clarify the impact on the auditor's considerations and reporting obligations (regarding going concern) in instances where the going concern basis of accounting or the accrual basis of accounting is not applicable, for example where the financial statements are prepared on a liquidation basis or a cash basis of accounting.

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?

7. Yes. While the application of professional scepticism is implied in the extant standard, the proposed standard contains references throughout that serve as reminders to the auditor that an attitude of professional scepticism should be maintained.

8. The IAASB may consider including an example in paragraph A32 where information from external sources was contradictory to assumptions used/assessments made by management.

Question 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"?

Definition of material uncertainty

9. We support the inclusion of a definition of Material Uncertainty in the standard. We however have comments on the articulation of the definition and its interaction with other requirements in the proposed standard.

10. Extracts from the proposed standard – note that the bold text indicates our own emphasis:

Material uncertainty (Related to Going Concern) – ***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 where the magnitude of its potential impact and likelihood of occurrence is such that, in the auditor's professional judgment,* ***appropriate disclosure of the nature and implications of the uncertainty*** *is necessary for:*

(a) In the case of a fair presentation financial reporting framework, the fair presentation of the financial statements, or

(b) In the case of a compliance framework, the financial statements not to be misleading.

A4: The applicable financial reporting framework may or may not explicitly use the term "material uncertainty" when ***describing the uncertainties that are required to be disclosed*** *in the financial statements* ***related to*** *the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. …*

32. If the auditor concludes that management's use of the going concern basis of accounting is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether the financial statements:

- *(a) Adequately* ***disclose the principal events or conditions*** *that may cast significant doubt on the entity's ability to continue as a going concern and management's plans for future actions to deal with these events or conditions; and*
- *(b)* ***Disclose clearly that there is a material uncertainty*** *related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business.*

34. If adequate disclosure of a material uncertainty is made in the financial statements, the auditor shall express an unmodified opinion and the auditor's report shall include a separate section under the heading "Material Uncertainty Related to Going Concern" and

…

- *(c)* ***State that these events or conditions indicate that a material uncertainty*** *exists that may cast significant doubt on the entity's ability to continue as a going concern;*

…

11. The definition of "material uncertainty", read with paragraph A4, indicates that, where a material uncertainty related to going concern exists, a *description,* in the financial statements, *of the nature and implications of the uncertainty(ies)* related to the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, would be necessary in order for the financial statements to achieve fair presentation or for the financial statements not to be misleading, in the case of a compliance framework.

12. The disclosure required by paragraphs 32 and 34(c) however appears to focus on the *events and conditions*, rather than the *uncertainties related to* those events and conditions. Paragraph 32(b) requires a statement that there is material uncertainty, but does not require disclosure of the nature and implications of the uncertainty. The statement required by paragraph 34(c) appears to imply that the existence of the events and conditions (that have been disclosed in the financial statements) indicates that a material uncertainty exists, again without an apparent focus on the *nature and implications* of the uncertainty related to the events and conditions.

13. To facilitate application of the standard, we propose alignment of the above paragraphs.

‘May cast significant doubt’

14. We agree with the clarification of the term “may cast significant doubt” as articulated in paragraph A5 of the proposed standard. However, because of the importance of this concept, we propose that the second sentence of paragraph A5 *“For purposes of this ISA, the phrase “may cast significant doubt” is used in circumstances when the individual or collective magnitude of identified events or conditions is such that the entity will be unable to meet its obligations and continue is operations for the foreseeable future unless management takes remedial actions to mitigate the effects of these events or conditions,”* should be elevated to the main text of the standard and not only be included in the Application and Other Explanatory Material.

15. Auditors may also benefit from further clarification in the standard in the form of a definition of or guidance on how the auditor would determine or evaluate the “**magnitude** of its potential impact and **likelihood** of occurrence”. It may also be useful to explore how these concepts interplay with the disclosures on the nature and implications of uncertainties noted in paragraph 12 above, and whether the extent of remedial actions needed would impact the decision on whether a significant doubt exists. This could be addressed in application material to the standard.

16. In our experience, some auditors tend to consider both the magnitude and likelihood as ‘high’ in all cases.

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?

17. We agree with the manner in which ED-570 has incorporated the foundational requirements of ISA 315 (Revised 2019). We also agree with the incremental risk assessment procedures which are proposed in ED-570.

18. We are however of the view that the guidance currently contained in the first sentence of paragraph A6 “*The auditor’s identification of events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern is before consideration of any related mitigating factors included in management’s plans for future actions.”* should be elevated to the main text of the standard.

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)?

19. We are of the view that the principle that should be contained in the standard is that the period of the auditor's assessment of the going concern assumption should be the same as that of management's assessment of the going concern assumption as required by the applicable financial reporting standards.

20. We acknowledge that the requirement in paragraph 21 for the auditor to request management to extend its assessment to at least twelve months from the date of approval of the financial statements is not contradictory to the requirement of a financial reporting framework that prescribes a *minimum period* for which management is required to make its assessment or where a financial reporting framework does not specify the period to be covered by management's assessment.

21. However, even on consideration of paragraphs 22, A44 and A45, our understanding of the proposed standard is that the auditor's assessment of the going concern assumption is required to span a period of 12 months from the date of approval of the financial statements. Consider the following example: Management's assessment has been performed for a period of 12 months from the date of the financial statements. Management is unwilling to extend its assessment to cover a period to at least 12 months from the date of approval of the financial statements. The entity has profitable operations and management has provided additional information to support their assessment to the auditor, as envisioned in the example in paragraph A44. In this scenario, the auditor's conclusion on the going concern assessment spans 12 months from the date of approval of the financial statements, while management's assessment spans 12 months from the date of the financial statements. This position is not equitable to the auditor.

22. We therefore struggled to envisage a scenario where the auditor would find it acceptable for management not to perform an assessment for a period of at least 12 months from the date of approval of the financial statements, and thus question whether the proposed standard does indeed provide "flexibility".

23. While we support the proposal in ED–570 in principle, we have concerns about introducing such an amendment in the auditing standards prior to a similar change being made in the

requirements of the relevant financial reporting standards e.g. in International Financial Reporting Standards (IFRS) Accounting Standards. We reiterate our comment in paragraph 19 of this letter.

24. We suggest that the word “believe” in paragraph 23 of the proposed Standard be replaced with “assesses” or “concludes based on audit evidence that”. The IAASB may also consider adding “...and the auditor’s report” at the end of paragraph 23.

Question 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?

25. We support the proposal as this may assist auditors in timeously identifying events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern.

26. We are also of the view that users of the auditor’s report may, and rightly so, expect the performance of audit procedures in all circumstances on consideration that the auditor’s conclusions will, in terms of the proposals, be reflected in the auditor’s report. Obliging the auditor to design and perform audit procedures may assist in reducing the expectation gap regarding the auditor’s assessment of the going concern assumption.

Question 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?

27. Going concern assessment is typically performed by management by providing a cash flow forecast or a letter of financial support/subordination agreement. The example in paragraph A31, second bullet, explains that a cash flow forecast is a “method” as envisaged in ED 570. It may be useful to practitioners if the Application and Other Explanatory Material relating to paragraph 19 clarified whether letters of financial support/subordination agreements would be regarded as “methods” for assessing the going concern assumption. We suggest that the application material should clarify whether the reference to “method” in ED 570 has the same meaning as in ISA 540 (Revised).

28. Refer to the comments in question 5 above around evaluating “**magnitude** of its potential impact and **likelihood** of occurrence” of events of conditions. Given the uncertainty in its determination, focused audit work is required regarding these concepts.

29. A going concern assessment by definition is an evaluation of the “occurrence” and “existence” assertions over the business and aspects of the business and since it deals with “uncertainty”, it is necessary that some of the elements of ISA 540 (Revised) are brought into ISA 570. Moreover, having plans does not mean that the plans will be realised, thus making an evaluation of “intent and ability” of future actions important. This explicit requirement is a good enhancement.

Question 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?

30. We agree with the requirement of par 27 for the auditor to evaluate the intent and ability of third parties to maintain or provide financial support. We however have significant reservations regarding the articulation of paragraph A52.

31. The articulation of paragraph A52 appears to imply that the auditor may need to consider requesting confirmation from third parties prior to management having obtained documented evidence that they have obtained the necessary financial support for the entity to continue operating as a going concern. The articulation of the paragraph appears to imply that the auditor’s written confirmation would be the primary determinant of the terms of conditions of the commitment, the legality and enforceability of the commitments and the period/date over which third parties intended to provide the financial support.

32. Paragraph A52 also references legality and enforceability. In our experience, most letters of financial support are not legally binding. Paragraph A52 appears to imply that the auditor would be precluded from considering a letter of financial support as audit evidence unless it is legally binding. If this is the intention of the application guidance, we suggest that this should be more explicitly articulated. We are of the view that a letter of support, if not legally binding, would not be precluded from being considered as audit evidence, although we agree that this would have an impact on the reliance that the auditor would be able to place thereon.

33. The last bullet in paragraph A53 makes reference to audited financial statements. It is often the case that the latest audited financial information is out of date compared to when the entity relying on the support is issuing its financial statements. It is not clear whether the auditor would be able to consider unaudited financial information as audit evidence at all.

Question 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?

34. This requirement aligns with ISA 315 (Revised 2019) and ISA 330 and enhances timeous, transparent dialogue.

Question 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?

35. The new proposed requirement reinforces a consideration of a reporting obligation/right on the auditor that may be established by law/regulation/relevant ethical requirements. The approach taken in ED 570 is consistent with the approach taken in other standards (for example ISA 240). We support the proposed requirement.

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?

36. We support the proposals in paragraph 33(a) and 34 but suggest the following:
    - Given the importance of these paragraphs, we suggest that the placement thereof in the auditor's report should be prescribed by the standard. We suggest that the standard should prescribe the "Going Concern" or "Material Uncertainty Related to Going Concern" paragraphs to be placed after the Basis for Opinion paragraph but before the paragraph dealing with Key Audit Matters (where applicable).
    - The "Going Concern" heading should be amended to reflect "Going Concern Basis of Accounting" to be more descriptive of the content of the paragraph to enhance users' understanding thereof; and
    - **The prescribed wording of these paragraphs should contain context around the fact that the auditor's assessment is done at a point in time and that such an assessment is inherently dependent on the future which is impossible to predict with any level of certainty: The scope of an audit does not include assurance on the future viability of the audited entity.**

37. Regarding circumstances where the auditor concluded that the use of the going concern basis of accounting is appropriate and that no material uncertainty exists: There may be circumstances where the auditor may want to elaborate in the auditor's report on the evidence considered in reaching the auditor's conclusion regarding the identification of a material uncertainty. We therefore suggest that application material relating to paragraph 33(a)(ii) should indicate that the auditor is permitted to provide a bespoke description of the evidence that the auditor considered in reaching the auditor's conclusion. This should however not be required of the auditor in all circumstances.

38. The requirement in paragraph 34(d) is similar to a rule of the South African auditing standard-setter/regulator which will become effective in 2025 and will thus enhance consistency between rules affecting registered auditors in South Africa and the International Standards on Auditing.

39. We have concerns regarding the proposals in paragraph 33(b)(ii). We are of the view that users of the auditor's report may equate "close call" scenarios to a scenario where the auditor concluded that a material uncertainty exists, i.e. that the similarity in the "look and feel" of the disclosures in the two scenarios would result in a material uncertainty conclusion not being instantly recognisable.

40. We also have a concern that disclosures required of the auditor in a close call scenario may not be commensurate with the disclosure that is required of management in the financial statements. Using IFRS Accounting Standards as an example, management would only be required to comply with the *overarching* disclosure requirements of IAS 1 regarding a close call scenario. Where applicable, the following disclosure in the financial statements is required by IAS 1:
    - Sources of estimation uncertainty (paragraphs 125–133); and
    - Significant judgements (paragraph 122).

41. The absence of detailed disclosure of management's assessment of the going concern assumption in the financial statements may put the auditor in a difficult position in describing their assessment in the auditor's report, which is exacerbated by the proposed standard's caution of not providing original information about the entity in the auditor's report.

42. We propose that the disclosure in the auditor's report required by paragraph 33(b)(ii) **should not be required** of the auditor until such time as management is required by the applicable financial reporting standards (e.g. IFRS Accounting Standards) to disclose an equivalent level of detail of their assessment in the financial statements.

43. Comments on the illustrative auditor's reports in the Appendix:

a. Illustration 2 – The reference to "the political and economic uncertainties faced by the Company…" may be understood to imply that most listed entities would be in a close call scenario as listed entities generally face economic and political uncertainties. This may result in the inclusion of this paragraph in auditor's reports as a matter of course, which is not our understanding of the intention of the proposals. We suggest that "political and economic" should be deleted from the paragraph.
b. If the requirement in paragraph 33(b)(ii) is retained, we suggest that the following introductory sentence should be added to the illustrative examples of close call scenarios on listed entities to provide context to the reader of the auditor's report:

   "We set out below our evaluation of management's assessment of the entity's ability to continue as a going concern:", which would precede "[*Description of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern in accordance with ISA 570 (Revised 202X).]*

c. We suggest a similar proposal to (b) above in the illustrative auditor's reports where the auditor concluded that there was material uncertainty regarding a listed entity.

44. It may be useful to practitioners if the IAASB staff provided non-authoritative guidance on the level of detail to go into when having to describe how the auditor evaluated management's assessment of the entity's ability to continue as a going concern.

Question 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?

45. We support these requirements applying to listed entities.

46. We are supportive of a consideration of extending these requirements to audits of financial statements of entities other than listed entities, for example to public interest entities (PIEs) as defined in the applicable code of ethics, as part of the IAASB's project on PIEs.

47. We however do not support these requirements applying to non-PIE entities.

Question 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.

48. We found the proposals and consequential amendments to the other standards sufficient to clarify that the reporting implications regarding going concern are dealt with in ISA 570 (Revised 202X).

49. Further clarification is required to provide guidance on when an auditor would reach a conclusion of expressing a qualified or an adverse opinion due to going concern issues. Although addressed in other statements, it is not clear in those statements or in ED 570 how the auditor should determine whether an issue that relates to going concern is "fundamental" and "pervasive".

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.

50. We urge the IAASB to strengthen the documentary proof and/or written representations provided by management by including an additional requirement alongside paragraph 38 for the auditor to request management and, where applicable, those charged with governance, to provide written representations that all identified events or conditions that may cause significant doubt on the entity's ability to continue as a going concern have been disclosed to the auditor and included as part of management's assessment of going concern.

51. We note that the IAASB may need to consider how amendments made to ISA 570 may impact the Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities.

Question 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.
(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.

52. (a) The IAASB standards are not translated in South Africa. We do not foresee translation issues regarding the Afrikaans illustrative auditor's reports that are published by our auditing standard-setter as guidance for registered auditors in South Africa.

(b) We are of the view that an effective date of 12 months after approval of the final standard would have been sufficient to allow for implementation of the revised standard. However, considering the objectives of allowing time for translations of the standard and to coordinate effective dates with the fraud project, we agree with an 18 month implementation date.