

Agenda Item 4-C (Supplemental)

Mapping the Key Proposals to Clarify or Enhance ISA 570 (Revised)¹ to the Actions in the Project Proposal and the Qualitative Standard-Setting Characteristics

Proposed Actions in the <u>Project Proposal</u> (Ref. Section VI, paragraph 35)	Key Changes Proposed (Ref. Agenda Item 4-A)		Qualitative Standard-Setting Characteristics
	Paragraph	Description	
<p>AB.1: Requirements and Application Material – Risk Identification and Assessment</p> <p><i>Enhance requirements and application material through making targeted revisions to ISA 570 (Revised) to drive the auditor to obtain information that is relevant to timely identification of events and conditions that may cast significant doubt on the entity's ability to continue as a going concern.</i></p> <p>In doing so, more explicitly emphasizing the going concern aspects of the auditor's understanding of the entity and the entity's system of internal control (including how management undertakes the assessment of going concern) when identifying and assessing risks of material misstatement in accordance with ISA 315 (Revised 2019).²</p>	<p>Paras. 10–10A, 11A–11B</p>	<p><i>Requirements</i></p> <p>Enhanced and new requirements to:</p> <ul style="list-style-type: none"> • Enable a more robust approach for performing risk assessment procedures that will provide audit evidence to support an appropriate basis for identifying, on a timely basis by the auditor, the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. • Perform risk assessment procedures related to going concern matters to obtain an understanding about the entity and its environment, the applicable financial reporting framework and the entity's system of internal control by building on the foundational requirements in ISA 315 (Revised 2019). 	<ul style="list-style-type: none"> • <i>Coherence</i>, with the overall body of standards. • <i>Implementability</i>, and ability of being <i>consistently applied</i>. • <i>Comprehensiveness</i>, through limiting the extent to which there are exceptions to the principles set out. • <i>Scalability</i>, to addresses both less and more complex circumstances, commensurate to the nature and circumstances of the entity. • <i>Relevance</i>, by responding to emerging issues and changes in

¹ ISA 570 (Revised), *Going Concern*

² ISA 315 (Revised 2019), *Identifying and Assessing the Risk of Material Misstatement*

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	Paras. A3–A6CG, A7A–A7C	<p><i>Application Material</i></p> <p>New application material to:</p> <ul style="list-style-type: none"> Address scalability. In particular, to provide examples that demonstrate where the nature and extent of the auditor's risk assessment procedures may vary based on the nature and circumstances of the entity. Provide more modern examples of events or conditions may cast significant doubt. Strengthen the link to ISA 240³ where events and conditions that may cast doubt may also be indicative of fraud risk factors. Provide guidance and examples in respect of the auditor's application of ISA 315 (Revised 2019) through a going concern lens. 	business environments.
<p>AB.2: Requirements or Application Material – Timeline for Assessment</p> <p><i>Consider enhancing the requirements or application material to:</i></p> <ul style="list-style-type: none"> <i>Extend the timeline for the assessment period to at least twelve months from the date of approval of the financial statements, or the date the</i> 	Paras. 13B, 14A–14B, 15A, 16B, 16D–16E	<p><i>Requirements</i></p> <ul style="list-style-type: none"> Change in the commencement date of the period of the auditor's evaluation of management's assessment of going concern, from the date of the financial statements to the date of approval of the financial statements. 	<ul style="list-style-type: none"> <i>Relevance</i>, by responding to emerging issues and changes in business environments. <i>Implementability</i>, and ability of being <i>consistently applied</i>.

³ ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

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<p><i>auditor's report is signed.</i></p> <ul style="list-style-type: none"> <i>Evaluate the reasonableness of management's assessment period based on conditions specific to the entity's facts and circumstances, including subsequent events.</i> <p>In doing so, consider applicable financial reporting framework requirements that address the timeline for assessment.</p>		<ul style="list-style-type: none"> Enhanced requirements to consider information subsequent to the date that management made its assessment. Strengthened requirements when management is unwilling to make or extend its assessment. 	
	Paras. A11, A13E–A13F, A15A–A15C, A19B–A19BB	<p><i>Application Material</i></p> <ul style="list-style-type: none"> New application material to explain that management and those charged with governance (TCWG) may provide the auditor additional information to support the appropriateness of the period used by management in its assessment or about events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. New application material in support of the proposed and strengthened requirements, including emphasis when the auditor may consider requesting management to extend its assessment period beyond twelve months from the date of approval of the financial statements. 	

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<p>AB.3: Requirements or Application Material – Information from Sources External to the Entity</p> <ul style="list-style-type: none"> Enhance application material to emphasize consideration of information from sources external to the entity (e.g., media releases, industry outlooks) when evaluating whether events or conditions exist that may cast significant doubt on the entity’s ability to continue as a going concern. Enhance requirements or application material to clarify the considerations, including the intent and ability, related to when written evidence to provide financial support is obtained from a third-party, and for whether and in what circumstances this constitutes sufficient appropriate audit evidence. 	Para. 16CA	<p><i>Requirements</i></p> <ul style="list-style-type: none"> New requirement for the auditor to evaluate the intent and ability of a third or related party, including the entity’s owner-manager, when financial support by such parties is necessary to support management’s assessment of going concern. 	<ul style="list-style-type: none"> <i>Scalability</i>, to addresses circumstances relevant for smaller or less complex entities when financial support is dependent on an entity’s owner-manager. <i>Comprehensiveness</i>, through limiting the extent to which there are exceptions to the principles set out. <i>Relevance</i>, by responding to changes in the way information is disseminated in business environments.
	Paras. A6B, A7AA, A10C, A16D, A17A, A18A–A18B A19–A19AA	<p><i>Application Material</i></p> <p>New application material to:</p> <ul style="list-style-type: none"> Provide guidance for the auditor’s consideration of requesting a written confirmation from third or related parties, including the entity’s owner-manager, and for the terms and conditions of borrowing facilities, including scalability considerations. Provide guidance when finance providers are reluctant to confirm to an entity or their auditor that borrowing facilities will be renewed. Emphasize how information from sources external to the entity can be leveraged in the auditor’s work related to going concern. 	

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<p>AB.4: Definitions and Application Material – "Material Uncertainty Related to Going Concern" and Other Terminology in ISA 570 (Revised)</p> <p><i>Consider if it is necessary to describe or define "Material Uncertainty Related to Going Concern" and enhance application material to clarify key concepts such as "significant doubt," and other related terminology.</i></p> <p>In doing so, consider:</p> <ul style="list-style-type: none"> The importance of alignment between definitions and descriptions set out in financial reporting frameworks and the auditing standards. How national standard setters (NSS) have addressed this issue at jurisdictional levels. 	Para. 9A	<p><i>Definitions</i></p> <ul style="list-style-type: none"> A newly defined term – "Material Uncertainty (Related to Going Concern)." 	<ul style="list-style-type: none"> <i>Clarity and conciseness</i>, to enhance understandability and minimize the likelihood of differing interpretations. <i>Implementability</i>, and ability of being <i>consistently applied</i>.
	Paras. A2B–A2D, A2D, A8	<p><i>Application material</i></p> <ul style="list-style-type: none"> Repurposing previous application material and developing new application material to clarify the term "significant doubt." 	
<p>AB.5: Application Material – Technology</p> <p><i>Enhance application material in ISA 570 (Revised) to reflect the auditor's use of technology to perform the auditor's work related to going concern.</i></p> <p>In doing so, remaining mindful of maintaining a balance of not 'dating' the standard by referring to technologies that may change and evolve, including consulting with a technology expert(s) or the Technology Consultation Group, as needed.</p>	Paras. A3, A4DD, A16BB, A16B, A16D	<p><i>Application Material</i></p> <ul style="list-style-type: none"> Enhanced and new application material to incorporate examples of automated tools and techniques and emphasize the impact of technology on the auditor's work related to going concern. 	<ul style="list-style-type: none"> <i>Relevance</i>, by responding to changes in technology.

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<p>AB.6: Requirements and Application Material – Management’s Assessment of Going Concern</p> <p><i>Enhance requirements and application material to strengthen the auditor’s evaluation of management’s assessment of going concern.</i></p> <p>In doing so, applying the concepts introduced in ISA 540 (Revised),⁴ such as in relation to the auditor’s evaluation of management’s method, assumptions and data, and recognizing circumstances when specialized knowledge or skill is needed.</p>	<p>Paras. 12, 12B, 16A, 16BB, 16C, 24A</p>	<p><i>Requirements</i></p> <p>Enhanced and new requirements to:</p> <ul style="list-style-type: none"> Require the performance of audit procedures to evaluate management’s assessment of going concern, irrespective of whether events or conditions that have been identified. Perform audit procedures to evaluate the method, assumptions and data used by management to make its assessment of going concern by leveraging concepts in ISA 540 (Revised). Strengthened requirements to evaluate whether management has the intent to carry out specific actions in its plan and the ability to do so. New requirement to explicitly request management to update its assessment and for the auditor to perform audit procedures on such revised assessment when the auditor identifies events or conditions that may cast doubt that management has not previously identified or disclosed to the auditor. 	<ul style="list-style-type: none"> <i>Coherence</i>, with the overall body of standards. <i>Implementability</i>, and ability of being <i>consistently applied</i>. <i>Comprehensiveness</i>, through limiting the extent to which there are exceptions to the principles set out. <i>Scalability</i>, to addresses both less and more complex circumstances, commensurate to the nature and circumstances of the entity.

⁴ ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

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	Paras. A8–A9, A10A, A16AA–A16C, A16E, A17–A18B, A35A	<p><i>Application Material</i></p> <p>New application material to:</p> <ul style="list-style-type: none"> Address scalability. In particular, to provide examples that demonstrate how the auditor’s procedures may vary depending on the method, assumptions and data used by management to assess the entity’s ability to continue as a going concern. More robustly challenge the method, assumptions and data used by management to make its assessment of going concern. 	
<p>AB.7: Requirements and Application Material – Professional Skepticism</p> <p><i>Emphasize the robust exercise of professional skepticism when performing procedures related to going concern, through:</i></p> <ul style="list-style-type: none"> <i>Enhancing requirements and application material for the auditor to design and perform procedures that are not biased towards obtaining audit evidence that may be corroborative or towards excluding evidence that may be contradictory.</i> <i>Enhancing requirements and application</i> 	Paras. 12A, 17	<p><i>Requirements</i></p> <ul style="list-style-type: none"> New requirements to emphasize the importance of professional skepticism when evaluating management’s assessment in a manner that is not biased towards obtaining audit evidence that may be corroborative or excluding audit evidence that may be contradictory. New requirements to evaluate whether the judgments and decisions made by management in making its assessment of going concern, even if they are individually reasonable, are indicators of possible 	<ul style="list-style-type: none"> <i>Coherence</i>, with the overall body of standards. <i>Relevance</i>, by responding to evolving stakeholder needs and perceptions.

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<p><i>material for the auditor to evaluate whether judgments made by management in making their assessment, even if they are individually reasonable, include indicators of possible management bias.</i></p> <ul style="list-style-type: none"> <i>Using action-oriented language in the revised standard.</i> <p>In doing so, take into account how the concept of professional skepticism has been incorporated in recently revised standards (e.g., ISA 315 (Revised 2019) and ISA 540 (Revised)).</p>	<p>management bias.</p> <p>Paras. A4C, A10C, A22A–A22C</p>	<p><i>Application Material</i></p> <ul style="list-style-type: none"> Enhanced link to the requirement in ISA 315 (Revised 2019) for the auditor to design and perform risk assessment procedures in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory. New application material to emphasize that some degree of management bias is inherent in the judgements and assumptions management uses in its assessment and to emphasize the relevance of identifying indicators of possible management’s bias and their impact to the audit. 	
<p>C.7: Requirements and Application Material – Communication with TCWG</p> <p><i>Enhance the requirements and application material to strengthen required communications with TCWG, including encouraging more appropriate two-way communication, addressing the timeliness of the communications, and emphasising the ongoing nature of communications with TCWG.</i></p>	<p>Paras. 10A(f), 14A, 25</p>	<p><i>Requirements</i></p> <ul style="list-style-type: none"> Strengthened communication requirements with TCWG to enhance transparency and timely, two-way communication throughout the audit when events or conditions that may cast doubt are identified. New requirement to obtain an understanding, as part of the risk assessment procedures and related 	<ul style="list-style-type: none"> <i>Relevance</i>, by responding to evolving stakeholder needs and perceptions.

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		activities, of how TCWG exercise oversight over management’s assessment of going concern.	
	Paras.A6E–A6F, A13E–A13EA, A36A–A36D	<i>Application Material</i> <ul style="list-style-type: none"> New application material in support of the proposed requirements and added emphasis for circumstances when it may be appropriate to consider whether a significant deficiency in internal control related to going concern should be communicated to TCWG. 	
C.8: Requirements and Application Material – Communication with Appropriate External Parties <i>Enhance the requirements and application material in ISA 570 (Revised) with respect to the auditor’s communications with external parties, including with relevant regulatory authorities (as applicable), when issues are identified relating to going concern, including instances when no further action is taken by management or TCWG.</i> In doing so, monitor any implementation feedback for extended communication requirements made in certain jurisdictions and consider if similar changes on a global level would be useful.	Para. 25A	<i>Requirements</i> <ul style="list-style-type: none"> New requirement for the auditor to consider whether law or regulation require or establish responsibilities under which reporting is required to an appropriate authority for circumstances when a Material Uncertainty Related to Going Concern (MURGC) is included in the auditor’s report or a modified opinion is issued. 	<ul style="list-style-type: none"> <i>Relevance</i>, by responding to evolving stakeholder needs and perceptions.
	Paras. A37A–A37D	<i>Application Material</i> <ul style="list-style-type: none"> Examples and factors for the auditor to consider when reporting to an appropriate authority. 	

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<p>C.9: Requirements and Application Material – Transparency About Going Concern in the Auditor’s Report</p> <p><i>Enhance the requirements and application material in ISA 570 (Revised), where appropriate, to increase transparency in the auditor’s report about the auditor’s responsibilities and work related to going concern.</i></p> <p>This includes considering enhancing auditor reporting for situations where:</p> <ul style="list-style-type: none"> The auditor concludes that no material uncertainty exists, and management’s use of the going concern assumption is appropriate. Significant judgment was required to conclude that no material uncertainty related to going concern exists, after having identified events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern (i.e., “close call” situations). A "Material Uncertainty Related to Going Concern" paragraph is required (i.e., to expand the informational content of such paragraph to describe how the auditor addressed this matter in the audit). 	Paras. 21A–21B, 22–23, 23AA–23A	<p><i>Requirements</i></p> <p>New requirements to:</p> <ul style="list-style-type: none"> Provide explicit statements about going concern in a separate section in the auditor’s report when the basis of accounting is appropriate, and no material uncertainty exists. When events or conditions are identified or when a MURGC section is provided, describing in the auditor’s report of a listed entity how the auditor addressed the events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern. 	<ul style="list-style-type: none"> <i>Proportionality</i>, by acknowledging that the information needs of intended users of auditor’s reports of entities can differ. <i>Comparability and consistency</i>, across auditor’s reports globally about the auditor’s responsibilities and work related to going concern. <i>Implementability</i>, and ability of being <i>consistently applied</i>. <i>Relevance</i>, by responding to evolving stakeholder needs and perceptions.
	Paras. A25C–A25D, A27A–A27H	<p><i>Application Material</i></p> <ul style="list-style-type: none"> New application material, leveraging on ISA 701,⁵ to support consistent application of the proposed auditor reporting requirements. 	

⁵ ISA 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*