

IAASB
Attn. Mr. Thomas Seidenstein, Chairman
529 Fifth Avenue, 6th Floor
10017 New York
USA

P.O. Box 242
2130 AE Hoofddorp
Mercuriusplein 3
2132 HA Hoofddorp
T +31 88 4960 301
nba@nba.nl
www.nba.nl

Date	Re	Our ref	Attachment
July 25, 2023	ED ISA 570	MD	-

Direct dial nr
T +31 88 496 02 54

Dear Mr. Seidenstein,

The NBA welcomes the opportunity to respond to the Exposure Draft of the Proposed International Standard on Auditing 570 (Revised 202X) Going Concern and Conforming and Consequential Amendments to Other ISAs (hereafter 'ED-570').

Executive summary

Overall we are supportive of the Exposure Draft and the clarifications made to the auditor's responsibilities. However, we have significant concerns about the following key items of the proposals which we would like to bring to your attention:

- The NBA opposes the use of auditing standards for (implicit) imposing reporting requirements on management. The NBA is of the opinion that requirements on management's assessment and reporting on going concern should form part of the financial reporting framework and that auditing standards should build on these requirements. The NBA is concerned that ED-570 (implicitly) imposes requirements on management.
- The NBA is of the view that the auditor should remain to be required to audit information provided by management. Following this principle, the NBA does not support reporting by auditors on matters where management does not disclose information. The only exceptions to this rule can be when disclosures are required on the auditors' own procedures or when the information is necessary to explain the basis for a modified audit opinion.
- Notwithstanding the previous comments, the NBA agrees with the notion that the minimal period for a going concern assessment should be 12 months after the date of the auditor's report.

Request for Comments

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 objective that support the public interest as set out in Appendix 1?

We believe that setting of requirements on financial reporting or management indirectly thru auditing standards is not in the public interest. Consequently, we do not think it is in the public interest that IAASB sets implicit requirements on management's assessment of an entity's ability to continue as a going concern nor on disclosures by management thereof. The NBA appreciates that there is a public interest in enhancing those requirements, but it is upon the financial reporting standard setters to address these expectations. Hence, the NBA strongly supports IAASB's ongoing efforts to liaise with

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financial reporting standard setters and others to enhance the requirements for management in this regard.

Notwithstanding the previous comment, the NBA agrees with the notion that the minimal period for a going concern assessment should be 12 months after the date of the auditor's report.

2 Do you believe that the proposals in ED-570, considered collectively, will enhance and strengthen the auditor's judgements 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?

We believe that the proposals will enhance and strengthen the audit work in relation to going concern. While we object to the proposed generic reporting requirements for auditors in situations where the company does not report on going concern, we would suggest that IAASB clarifies that auditors could provide additional information in all situations where management reports on going concern, also in the cases where this is not required by the applicable financial reporting framework.

We observe that an entity's going concern is increasingly dependent on the continued operation of IT systems. We therefore suggest to include in paragraph A15 the notion that the use and complexity of IT may result in business risks that may result in events or conditions affecting the entity's ability to continue as a going concern. This may include amongst others aspects such as cybersecurity, IT maintenance, backup and recovery, availability of data, etc.

Finally, it is important to recognize that in some cases the entity's reporting differs from (conventional) going-concern based accounting. This may be the case for limited-life entities, or for entities that are in the process of liquidation. It is important that the standard explains how auditors need to apply or modify the requirements of the standard when dealing with such situations.

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 are of the opinion that the standard is scalable to entities of different sizes and complexities. We do note though that the standard should provide better guidance on situations where the entity's ability to continue as a going concern is almost self-evident, and how auditors could in such circumstances fulfill the requirements of the standard in an appropriate and straightforward manner.

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

We welcome the fact that the standard assists the auditor in putting the appropriate challenges to management and requires the auditor to make the necessary assessments. Hence, we believe that this standard appropriately reinforces professional skepticism.

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"?

While we are generally supportive of the definition of Material Uncertainty, we would expect the application material to explain why both the magnitude and likelihood should be such that disclosure would be necessary, or whether it would be possible that either the magnitude or the likelihood alone could already be sufficient to come to a material uncertainty. We therefore propose that the related application material (paragraphs A5 and A6) covers both the magnitude and likelihood. We observe that likelihood is currently not addressed in the application material.

6 Does ED-570 appropriately build on the foundational requirements in ISA315 (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?

We note that the requirement that auditors become responsible for obtaining sufficient appropriate audit evidence to identify events and conditions that may cast significant doubt about the entity's ability to continue as a going concern and must publicly report on this, is a major change. We reiterate that this is primarily management's responsibility, and that the auditor should primarily assess whether management has properly identified and, where relevant, reported on such events and circumstances.

As noted before, in our view, the primary role of the auditor is and should remain to audit and opine on information provided by management. We disagree with the proposed requirements that ask auditors to report on going concern where there are no requirements for management to do so, except for the rare case where such reporting would be necessary as the basis for a modification to the auditor's opinion.

While we are generally comfortable with how the ED-570 expands on ISA315, we are concerned that the level of detail in letters (a) up to and including (l) of the proposed standard will be considered as separate requirements for each of which a separate consideration and documentation would be expected. We suggest to move the lettered items to the Application Material, and to limit the requirement to consideration of The Entity and its Environment, The Applicable Financial Reporting Framework, and The Entity's System of Internal Control.

Additionally, we think it would be helpful if the standard would explain whether these are financial statement level risks, or assertion level risks.

With respect to the related application material, specifically paragraph A18, we suggest to clarify that inquiry alone would not be sufficient to determine the basis for management's continued use of the going concern assumption.

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)?

We fully appreciate the interest of stakeholders that (at least) a 12 months period after the date of approval of the financial statement would be relevant for consideration. However, this evaluation or the end date of the evaluation may not be consistent with the requirements in the financial reporting framework. We reiterate that auditing standards should not be used to impose (indirectly) requirements on management to make assessments about going concern.

8 Do you support the enhance 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?

We agree with the proposed approach as a principle. As noted before, we suggest that the standard should provide better guidance on situation where the entity's ability to continue as a going concern is almost self-evident, and how auditors could in such circumstances fulfill the requirements of the standard in an appropriate and straightforward manner.

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?

Generally, we support the linkage between ED-570 and ISA540. We observe that the ED-570 singles out some but not all of ISA540's requirements, and also that part of those references are made in the requirements whilst others are in the application material. The rationale for that distinction is not clear. We ask the IAASB to further clarify (in the Basis for Conclusions or in the application material) the



rationale behind the approach, and in particular why IAASB deems certain requirements in ISA540 not relevant for going concern assessment.

10 Do you support the enhance 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?

We have some concern with the requirement in paragraph 26 (a). We are of the view that the current proposal is too weak, and we suggest to clarify that management's plans for future actions in relation to going concern should sufficiently alleviate or remediate the events and conditions that cause doubts about the entity's ability to continue as a going concern.

With respect to the related application material in paragraph A48 we suggest to clarify that inquiry of management or those charged with governance without inspection, review, or conformation of underlying information cannot be sufficient to fulfill the requirement properly.

Finally, we propose that the wording around 'intent' of future financial support are worded more soundly. This is because intent is too weak in situations where such financial support would be needed. We therefore suggest to replace 'intent' in paragraphs 27 and A52 by a conformation by those who would provide the support for which a legal expert has assessed the enforceability of the undertaking.

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?

We suggest to include the importance of two-way communication also at the level of requirements, instead of only at the application material. We otherwise agree with the proposed enhancements.

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 observe that this requirement reiterates legal, regulatory or other requirements that may exist in a certain jurisdiction. Therefore we are of the opinion that it would be better placed in application material.

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?

We reemphasize our viewpoint that the primary role of an auditor is to express an opinion on information published by the entity. We therefore are not supportive of explicit statements by auditors on going concern, especially when management is not making explicit statements about its assessment of going concern.

As you may be aware, the NBA has introduced mandatory reporting requirements for auditors on the audit approach with respect to going concern. We would be pleased to share our experiences, both on the process and on the monitoring of the reporting by auditors with you.

14 This question relates to the 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?

We suggest that the requirement to report on the auditor's evaluation of management assessment, which deals with the work of the auditor, should be required for all statutory audit, not only for audits of listed entities. This is because there are many large entities for which such information would be meaningful to stakeholders.

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.

We support the approach taken.

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.

We do not have further comments to make.

Request for General Comments

12 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.

We do not have specific comments to offer

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 with the proposed implementation period.

Closing Remarks

For further information, please contact Martijn Duffels (m.duffels@nba.nl).

Yours sincerely,

NBA, the Royal Netherlands Institute of Chartered Accountants,

/s/ A. Dieleman

Anton Dieleman,
Chair of the Dutch Assurance and Ethics Standards Board
NBA

NBA

