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Mr. Tom Seidenstein, Chair
IAASB
529 Fifth Avenue
New York, NY 10017
United States of America

Exposure Draft: Proposed International Standard on Auditing 570 (Revised) – Going Concern and Proposed Conforming and Consequential Amendments to Other ISAs (ED-570)

Dear Mr Seidenstein,

RSM International Limited, a worldwide network of independent audit, tax and consulting firms, appreciates the opportunity to comment on the IAASB's exposure draft, Proposed International Standard on Auditing (ISA) 570 (Revised) – Going Concern. We support the IAASB's reconsideration of ISA 570 (Revised), Going Concern, to enhance and modernise the standard.

We are supportive of ED-570 and believe that it provides an appropriate principles-based reference framework for auditors to apply in their assessment of going concern, but we do have concerns about scalability (as discussed in our response to question #3) and encourage the IAASB to further consider this aspect. In our attached response to the specific questions posed in ED-570, we make several suggestions with the aim of enhancing the drafting and clarifying certain requirements, such as the commencement date of management's assessment of going concern and certain transparency requirements.

If your team has any questions about our response, please contact me at (marion.hannon@rsm.global).

Yours sincerely,



Marion Hannon
Global Leader, Quality & Risk

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

Yes, we agree that the proposals in ED-570 are responsive to the public interest except for the following:

- As further discussed in our response to question #3 below, we do not believe the standard is sufficiently scalable to entities of different sizes and complexities.
- As further discussed in our response to question #13 below, we are of the view that some of the proposals relating to changes to the auditor's report could lead to "boilerplate" statements, which would reduce their value to financial statement users and as such do not necessarily support the public interest.

We believe that it is important to emphasize that management and those charged with governance have primary responsibility for assessing and safeguarding the going concern of the entity. Although this is implicit throughout ED-570, we believe it would be in the public interest to explicitly state this primary responsibility.

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, we believe that, when considered collectively, the proposals in ED-570 will facilitate enhancing and strengthening the auditor's judgments and work relating to going concern in an audit of the financial statements.

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?**

No, we do not believe the proposed standard is sufficiently scalable to entities of different sizes and complexities for the following reasons:

- We believe the requirements of ED-570 do not sufficiently consider situations in which there is a low or remote risk of material uncertainty related to going concern. We believe it may be helpful to clarify the requirements and application material to address situations where no events or conditions that may cast significant doubt on the entity's ability to continue as a going concern exist.
- If the auditor assesses the risk of there being events or conditions that may cast significant doubt about the entity's ability to continue as a going concern as low or remote (including obtaining an understanding of management's assessment of going concern in accordance with paragraph A18, when applicable), we believe the further audit procedures to respond to the risk do not necessarily need to include a more extensive evaluation of management's assessment of going concern as explained further in the response to question #8.

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, we believe the requirements and application material of ED-570 appropriately reinforce the auditor's application of professional skepticism in relation to going concern.

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, we support the definition of Material Uncertainty (Related to Going Concern) and the application material to the definition clarifying the phrase “may cast significant 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, we believe ED-570 appropriately builds 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.

- 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)?**

No, we do not 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). We believe the applicable financial reporting framework should determine the timing and requirements of management’s assessment of going concern. For financial reporting frameworks that require management to complete a going concern assessment that is at least twelve months from the date of the financial statements, ED-570 would require the auditor to request management extend its assessment of going concern in all circumstances even if the risk or indications of events or conditions that may cast significant doubt about the entity’s ability to continue as a going concern is low or remote. We believe this is not consistent with risk-based auditing and may create an unnecessary burden on management and the auditor without resulting in added benefits to the users of the financial statements. We do not believe requesting management to extend its assessment of going concern should be required in all circumstances but may be performed if the risk assessment would warrant such a request. If management’s assessment does not cover a reasonable period after the date of approval of the financial statements or date of the auditor’s report, we recommend that ED-570 include a requirement to perform further audit procedures based on the risk assessment regarding the entity’s ability to continue as a going concern in order to cover such a period, for example, inquiry or asking management to extend its assessment of going concern. We believe this is consistent with a risk- and principles-based audit approach.

In most cases, indicators that may cast significant doubt on the entity’s ability to continue as a going concern would be known prior to the date of approval of the financial statements. In this case, we are supportive of requirements to inquire of management as to its knowledge of events or conditions (paragraph 20), requesting management to evaluate the potential significance of identified events or conditions identified beyond the period of assessment (paragraph A39) and requesting management to extend their initial assessment of going concern beyond the period of management’s initial assessment (paragraph A41).

Other than the change in the commencement date of the twelve-month period of management’s assessment of going concern in paragraph 21, we are supportive of paragraphs 20-23 of ED-570 and related application material, including paragraphs 22 and A43-A44 in circumstances where management is unwilling to make or extend its assessment. If the board determines that a change in the commencement date of the twelve-month period of management’s assessment of going concern in paragraph 21 is beneficial and in the public interest, we recommend clarifying in application guidance that the auditor’s request of management to make or extend its assessment be reasonable and generally mirror the

requirements of the applicable financial reporting framework, unless in the auditor's judgment, there are identified risks of events and conditions that may cast a significant doubt on an entity's ability to continue as a going concern beyond that period.

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?**

We do not support the enhanced approach as outlined in ED-570. We believe the proposals are counter to the risk-based approach to an audit. We believe the auditor should read and obtain an understanding of management's assessment of going concern in accordance with paragraphs 12(d) and 12(e) and related application material as part of risk assessment procedures performed. However, we believe that the auditor should design and perform further audit procedures, which may include a more extensive evaluation of management's assessment of going concern, in response to the assessed risk in accordance with ISA 330, The Auditor's Responses to Assessed Risks.

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?**

Yes, we believe ED-570 appropriately incorporates 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.

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?**

We are supportive of the enhanced requirements and application material for the auditor to evaluate whether management has the ability to carry out specific courses of action when evaluating management's plans for future actions. We also support the requirements and application material for the auditor 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.

However, we do not support the requirement for the auditor to evaluate whether management has the intent to carry out specific courses of action and instead recommend this be included as a factor to consider within application guidance. We are appreciative of the examples within paragraphs A48 and A52, but in some cases, such as when the timing of such actions is well into the future or contingent on other circumstances, the only evidence of management's intentions may be through inquiry with management. In such cases, the reliability of the audit evidence obtained may be low. If this is intended to be acceptable, we recommend clarifying that the extent of audit evidence obtained over management's intentions may vary and should be based on the facts and circumstances.

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?**

Yes, we believe that 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.

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?**

Yes, we 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 in accordance with paragraph 40 of ED-570.

- 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 do not support the requirement to state that the auditor concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate as described in paragraphs 33(a)(i), 34(a) and 35(c)(i) due to the following concerns:

- We support enhanced transparency regarding going concern in the auditor's report. However, in situations where the auditor has concluded that the going concern basis is appropriate, we believe that the explicit statements described in paragraphs 33(a)(i), 34(a) and 35(c)(i) have the potential to dilute the importance of other information provided in the auditor's report.

For example, when a material uncertainty exists, extant ISA 700 (Revised), Forming an Opinion and Reporting on the Financial Statements, requires the auditor to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the opinion. As such, the lack of inclusion of such a statement drawing attention to the related disclosures in the financial statements or modification to the auditor's report in relation to going concern is meant to convey that the auditor concluded that management's use of the going concern basis of accounting is appropriate.

- Many financial reporting frameworks require disclosure of the basis of accounting used when they are not prepared on the going concern basis of accounting and/or when a material uncertainty in the entity's ability to continue as a going concern exists. Thus, the opinion on the financial statements inherently includes a conclusion about the going concern basis based on what is disclosed in the financial statements, and we believe it is not necessary to include such a statement in the auditor's report as well when there is no issue with the disclosure.

In addition, we encourage the IAASB work with accounting standard setters, such as the International Accounting Standards Board, in order to include the disclosures and information on going concern that are requested by stakeholders in the various financial reporting frameworks. This would reinforce the primary responsibility of assessing and disclosing information on going concern on management and those charged with governance while at the same time bringing those disclosures directly covered by the auditor's opinion.

- Stating that the auditor concluded that management's use of the going concern basis of accounting is appropriate could be interpreted as an opinion within an opinion. In other words, the opinion would include an opinion on the financial statements as well as an opinion on the appropriateness of the use of the going concern basis.

If the board believes it is in the public interest to require in the auditor's report a statement that the auditor has concluded management's use of the going concern basis of accounting is appropriate, we recommend including a requirement similar to paragraph 11(b) of ISA 701, Communicating Key Audit Matters in the Independent Auditor's Report, that says, in effect, that the auditor's report shall state that the assessment of going concern was addressed in the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, and the auditor does not provide a separate opinion on these matters.

Except for the statement described in the paragraphs above, we support the requirements and application

material that facilitate enhanced transparency about the auditor's responsibilities and work relating to going concern, and we believe they provide useful information for intended users of the audited financial statements.

In addition, we believe the proposals enable greater consistency and comparability across auditor's reports globally.

- 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?

Yes, we support the requirements and application material that facilitate further enhanced transparency about the auditor's responsibilities and work relating to going concern for audits of financial statements of listed entities.

We believe that these requirements and application material *should not* be extended to also apply to audits of financial statements of entities other than listed entities for reasons similar to those that do not require disclosure of key audit matters in the auditor's report for entities other than listed entities. Enhanced transparency and disclosure about the auditor's responsibilities and work related to going concern are generally more appropriate for listed entities but may not be necessary or serve a purpose for non-listed entities. We note in relation to non-listed entities there is generally greater communication between the auditor and the owners as these entities are often owner managed.

- 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.**

Yes, we believe it is 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.

- 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 noted that paragraph 34 of ED-570 states that the auditor *shall express an unmodified opinion* when there is a material uncertainty made in the financial statements and adequate disclosure about the matter is made in the financial statements. Even though this is consistent with paragraph 22 of extant ISA 570 (Revised), we do not believe the statement, "shall express an unmodified opinion" is appropriate, since there could be issues other than going concern that may cause an auditor to express a modified opinion. We recommend one of the following:

- Deleting the reference to the type of opinion entirely.
- Changing "shall express an unmodified opinion" to "may express an unmodified opinion [assuming no other issues identified that would cause a modified opinion]."
- Changing it to "express an unmodified opinion with respect to this matter."

Request for general comments

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 ED-570.**

We have no concerns in this regard.

- 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 a 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 have no concerns regarding the effective date if the effective date is in line with the fraud project, so the auditor's reports can be amended at the same time. We are concerned that early application may result in varying auditor's reports for the same or similar periods within the marketplace, potentially causing confusion for users of the financial statements. For example, when the use of the going concern basis of accounting is appropriate and no material uncertainty exists, an auditor's report reflecting early application of ED-570 would include a conclusion by the auditor regarding such matters, whereas an auditor's report reflecting extant ISA 570 (Revised) would not. This may potentially cause certain users to question why this information has been included in one report but not the other or infer inappropriate assumptions regarding the inclusion or exclusion of the information.