



International Auditing and Assurance Standards Board  
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New York, New York 10017  
USA

August 23, 2023

## **Comments to IAASB's Exposure Draft on Proposed International Standard on Auditing 570 (Revised 202X) Going Concern**

The Nordic Federation of Public Accountants (NRF) is pleased to provide comments to IAASB's Exposure Draft on ISA 570 (Revised) *Going Concern* and proposed conforming and consequential amendments to other ISAs.

NRF appreciates and supports the IAASB's efforts in strengthening the work of the auditor in relation to going concern and contributing to reducing the expectation gap.

At the same time, and in particular since going concern matters relate to future-oriented information, a collaborative multi-stakeholder solution is necessary to address the challenges and achieve the desired progress to narrow the expectation gap. It is therefore important that the IAASB continues to engage with other stakeholders in the financial reporting ecosystem, including accounting standard setters, on these matters.

One of the main drivers of this project has been to respond to some company collapses that have received much public attention. We believe that in situations where there are risks related to going concern the requirements regarding enhancing the risk assessment procedures, considering the wider context in evaluating management's assessment and some of the transparency proposals could be helpful. That is why we would have preferred more targeted and risk-based requirements, i.e., strengthening the requirements in risk situations where the added work effort would make a difference and add value to the stakeholders while allowing less rigorous requirements when dealing with low-risk situations.

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In terms of the proposed disclosures in the audit report any additional information must be clear and meaningful for the intended users. From that perspective we do not believe that the value of disclosing when there are no material uncertainties identified outweighs the risks of creating confusion and new expectation gaps.

Yours sincerely,

A handwritten signature in black ink that reads "Helene Agélie". The signature is written in a cursive style with a distinct flourish at the end of the name.

Helene Agélie

Secretary General and CEO  
Nordic Federation of Public Accountants

**About NRF**

NRF is a separate legal institution, founded in 1932, acting on behalf of and under the direction of the recognized audit and accounting institutes in the Nordic region (DnR in Norway, FAR in Sweden, FLE in Iceland, FSR – danske revisorer in Denmark and Suomen Tilintarkastajat ry – in Finland).

## DETAILED 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?*

We appreciate the IAASB's willingness to explore what changes can be made in the audit in terms of dealing with going concern matters. In that regard we also support the overarching approach of strengthening risk assessment procedures.

In terms of being responsive to the public interest and reducing expectation gaps, we believe going concern matters with its inherent forward-looking evaluations is an area where any improvements truly require cooperation and joint effort from all participants in the corporate reporting ecosystem. Therefore, the auditing standards should be aligned with the financial reporting frameworks.

The project was initiated as a response to some company collapses within the PIE spectrum, but most of the requirements are proposed to be applied on all audits regardless of public interest, size or even risks in terms of going concern assessments. We are concerned that many of the revisions will result in more work and documentation for the auditors with limited added value for the users. Therefore, we encourage the IAASB to consider more conditional requirements but also to further improve scalability and proportionality especially when dealing with low-risk situations.

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?*

We refer to our response to Q1 and would like to add the following. Yes, we believe the proposals will enhance the auditor's work and that in situations where there are risks related to going concern, the proposals could strengthen the auditor's judgments. However, due to the holistic approach and the fact that in many audits there are no or limited issues with going concern, there is a risk that the overall additional work effort will not lead to corresponding added value for the users of the audit report.

The proposals will enhance transparency, but we are not convinced that all those proposals will reduce the expectation gaps.

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?*

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We welcome the proposals that have been made to consider scalability within the application material and in the examples. Our concerns, however, are more related to the proportionality of some of the general requirements. In our view the revised standard should be based on a more consistent application of a risk-based approach, where the use of conditional requirements should be prioritized. As drafted, it is likely that the revisions will cause additional work with limited corresponding value in most audits where there are no or limited going concern issues and especially in SME audits. Since these audits are not the focus area of the project, we believe more can be done in terms of applying a principle-based approach that would allow for less rigorous requirements in low-risk situations.

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 support a stronger emphasis on applying professional skepticism to challenge management in relation to going concern and we believe the proposals appropriately deal with this matter.

### *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"?*

We are generally supportive of the definition but refer to our response to Q16.

Paragraph 20 in the Explanatory Memorandum includes a footnote that refers to earlier proposals discussed within the IASB. In addition to referring to both magnitude and occurrence, those proposals also refer to the timing aspect. In our view the definition could be further clarified by including the timing aspect as well.

The entire definition is drafted as one long sentence. For translation reasons it would be helpful if the definition could be divided into shorter sentences.

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?*

We support the objective of the project in terms of incorporating a stronger focus on risk assessment procedures, but we suggest that the requirements in paragraph 12 would rather be application material to paragraph 11. Also, the application material, paragraph A9, includes as a final sentence: "The auditor uses professional judgment to determine the nature and extent of the risk assessment procedures to be performed to meet the requirements of this ISA", and we would prefer this general statement to have a more prominent position, i.e., in the requirements.

In terms of a more robust risk identification by the auditor, we are concerned that the drafting of the requirement might cause confusion in terms of the division of roles between the auditor and management. The auditor's role is to test the reliability of management's assessment and the assumptions used. The drafting of the requirement seems to imply that the auditor's role in identifying events and conditions has been detached from what management is supposed to do. See also our response to Q16.

We notice a trend amongst the latest IAASB projects of including many references to other standards and we are concerned of the repetitiveness this approach includes, e.g., in terms of the lengths of the revised standards but also the extra work that is caused by the frequency of conforming and consequential amendments to other ISAs.

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 agree that from a user perspective a longer period would be preferred. However, we believe that any changes in this regard should be aligned with applicable reporting frameworks, including national accounting reporting regulations.

Although applicable reporting framework may allow for an extended period, there is a risk the proposal will create confusion and new expectation gaps. If the intent behind the proposed requirements in paragraphs 21-23 is to propose a "comply or explain" approach, we think this could be further clarified.

Extant ISA 570 (Revised) already allows an extended assessment period beyond what is prescribed in the applicable reporting framework in situations where management and/or the auditor deem that to be necessary. Rather than changing the general commencement date we would prefer strengthening this conditional requirement and adding further application material that includes examples of situations where management's assessment needs to cover an extended period.

Finally, we note that in group audits that include statutory financial statements for components, the proposal could lead to multiple assessments of going concern at different times in cases where the components are dependent on financing from the parent company.

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*

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*have been identified that may cast significant doubt on the entity's ability to continue as a going concern?*

We understand this proposal is intended to address the request to strengthen the standard by providing for more rigorous procedures to appropriately challenge management's assumptions and judgements underpinning its assessment of the entity's ability to continue as a going concern. However, we are not convinced that making this a general requirement instead of taking a risk-based approach strikes the right balance from a cost-benefit perspective.

If this general approach were to remain, we believe more needs to be done both in terms of proportionality and scalability. Especially, there is a need to clarify expected work efforts in situations both where there are no uncertainties related to going concern and in SME/LCE audits.

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 of ISA 540 (Revised), but they might be a bit over-engineered when dealing with SMEs.

10. *Do you support the enhanced requirements and application material, as part of evaluating management's plan 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?*

While recognizing some challenges related to evaluating the intent and ability of third parties, we support the enhanced requirements and application material as part of evaluating management's plan for future actions.

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 support reinforcing the need for robust communication and interactions with TCWG, including encouraging early transparent dialogues between the auditor, management and TCWG. However, for example in the Nordic region where it is quite common for TCWG to also be involved in managing the entity, the consequence of the reference to ISA 260 is that the extended requirements in proposed paragraphs 39 would not apply. In our view, communicating matters related to going concern is relevant in these situations as well.

Also, the emphasis on timeliness expressed in paragraph 63 in the Explanatory Memorandum is not obvious in the requirement and only mentioned as a reference in paragraph A87 to ISA 260. If ED-570 is intended to include enhanced requirements and application material, we would recommend the IAASB to consider including timeliness explicitly in the requirement.

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?*

Paragraph 40 refers to laws, regulations, and relevant ethical requirements that the auditor needs to be aware of and comply with regardless of this requirement, i.e., the requirement can only serve as a reminder and does not add anything. One might therefore ponder whether this information should be included in a requirement.

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?*

While we do support transparency it is important that any added information in the audit report is clear and meaningful for the intended users.

We understand that including a statement as proposed in paragraph 33 a) to some extent could be justified as only clarifying in writing the assessment an auditor already must do. It could also have the benefit of ensuring that the auditor gives sufficient attention to the going concern assessment when performing the audit.

Having said that we believe there are also some substantial concerns with the proposed statement. It could be confusing, especially for the intended users of financial statements of entities other than listed entities, in that it might be unclear how the statement is intended to be interpreted. There is a risk that the proposed statement might be perceived as the auditor confirming that the entity is a going concern. This is especially apparent in situations where the applicable reporting framework does not require management to provide an explicit statement on going concern. It could also give the impression that the auditor has greater responsibility for going concern assessments than management has.

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?*

We support the specific requirement in paragraph 33 (b) that relates to listed entities.

In terms of extending the scope to also apply to audits of financial statements of entities other than listed entities, we believe that matter should rather be dealt with holistically within the Listed Entity and Public Interest Entity (PIE) project.

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, the proposals are clear in that all implications for the auditor's report relating to the auditor's required conclusions and related communications about going concern should be addressed in accordance with ED-570.

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.*

As an overarching comment we have some concerns with the proposals regarding the auditor's expected role in *identifying risks* related to going concern. Both the Explanatory Memorandum and ED-570 include many references to the auditor either *identifying material uncertainties* or *identifying events and or conditions*.

A robust corporate reporting system requires collaboration between all participants. In our view this is particularly prominent when dealing with future-oriented information. The auditor's role is to test the reliability of management's assessment and the assumptions used. However, there is a risk that this way of drafting gives the impression that the auditor's work in this regard is detached from what management is expected to do. This

could imply a shift in the division of roles and responsibilities between the auditor and management that might cause unintended unclarity and create new expectation gaps.

In the consequential amendments to ISA 800 the illustrative examples (1 and 2) include wording about going concern as stipulated in ED 570 33 a). The inclusion of this section in circumstances where ISA 800 is applicable should, in our view, be conditional to where the special purpose framework is prepared under the going concern basis of accounting.

## **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 the ED-570.*

We would encourage the IAASB to consider the length of the sentences, since long sentences risk causing translation issues.

*(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 strongly support the intent to coordinate effective dates with the fraud project. If the PIE project would also impact the special requirements in ED-570 related to listed entities, we recommend the IAASB to coordinate effective dates with that project as well.