

International Auditing and Assurance Standards Board
529 Fifth Avenue, 6th Floor
New York, New York 10017
USA

August 24, 2023

Comments on
Exposure Draft “Proposed International Standard on Auditing 570 (Revised 202X), Going Concern,
and
Proposed Conforming and Consequential Amendments to Other ISAs”

We appreciate the opportunity to comment on the Exposure Draft of Proposed International Standard on Auditing 570 (Revised 202X), Going Concern, and Proposed Conforming and Consequential Amendments to Other ISAs.

The attached are our comments and observations.

We hope they provide useful input in finalizing the proposed revisions.

Yours sincerely,

Hidehiko Yuki
Executive Board Member, Auditing Standards
The Japanese Institute of Certified Public Accountants (JICPA)

Responses to 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.

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 the proposals in ED-570 will enhance and strengthen the auditor's judgments and work relating to going concern in an audit of 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?**

Yes. We believe that the proposed standard is scalable to entities of different sizes and complexities.

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

Responses to 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) including 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?

We agree except for the following points.

(1) Comment on the control deficiencies within the entity’s system of internal control addressed in paragraphs 15, A28, and A30

As stated in paragraph A30, “In some circumstances, however, a lack of detailed analysis by management to support its assessment may not prevent the auditor from concluding whether management’s use of the going concern basis of accounting is appropriate in the circumstances”, internal control related to management’s assessment of going concern may be designed and implemented to varying degrees depending on the risks faced by the entity. For example, in the case stated in paragraph A30, “when the entity has profitable operations and there are no liquidity concerns,” it can be assumed that the entity has internal controls designed that are fairly simple and proportionate to the risks faced by the entity. Specifically, rather than an assessment that includes a detailed quantitative analysis, a qualitative assessment of whether or not there are events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, or an assessment of business risks, may be considered to be a sufficient control. It should be clarified that such simplified internal control that is proportionate to the risks does not fall under paragraph A28, “absence of a process established by management” or paragraph A30, “in situations when, in the auditor’s professional judgment, management has not performed an appropriate assessment, this may be an indicator of a deficiency in internal control in accordance with ISA 265”. For example, to avoid misunderstanding, the phrase “proportionate to the risks” could be added to paragraphs A28 and A30 to state, “absence of a process proportionate to the risks established by management...” (in paragraph A28) and “...management has not performed an appropriate assessment proportionate to the risks, this may...” (in paragraph A30).

(2) Comment on paragraph A9

The last sentence of paragraph A9 states with respect to risk assessment procedures that “the auditor uses professional judgment to determine the nature and extent of the risk assessment procedures” and does not mention “timing”. However, the third sentence of paragraph A9 mentions that the identification of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern through the risk assessment procedures allow for more timely discussions with management regarding management’s plans for future actions and resolution of any identified going concern issues. Therefore, the auditor's exercise of professional judgment with respect to risk assessment procedures would apply not only to the nature and extent of the risk assessment procedures, but also to the timing of the risk assessment procedures. Based on the above, we propose to add “timing” to the last sentence of paragraph A9 to state, “determine the nature, timing and extent of the risk assessment procedure”.

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 support the change in the commencement date of the period of management's assessment of going concern, except for the points we commented below. We appreciate the flexibility provided in paragraph A44 of the application material and such application material allows us to support the change in the commencement date.

Comment on paragraph A29, auditor’s evaluation of management’s assessment

As stated in paragraph A29, management's assessment of the entity’s ability to continue as a going concern is a key part of the auditor's evaluation. In addition, we believe it is important that management's assessment is performed on an ongoing basis until the date of approval of the financial statements. Therefore, we believe that it would be beneficial to mention in the application material that if management has performed a preliminary assessment, the auditor may consider the preliminary assessment and its updates in order to facilitate the evaluation of management's assessment efficiently. Similarly, if management frequently makes assessment as part of continuous monitoring, as described in paragraph A18, we believe it would be beneficial to consider such continuous assessments and updates. In particular, we suggest that the following two points to be mentioned in paragraph A29 or in a separate paragraph following paragraph A29.

- Management's assessment is made for the period beginning on the date of approval of the financial statements, which is a future date after the date of the financial statements. As such, management may perform a preliminary assessment prior to the date of approval of the financial statements (or, if applicable, prior to the date of the financial statements) and update its assessment.
- Management's assessment of the entity's ability to continue as a going concern is a key part of the auditor's evaluation. Therefore, if management makes preliminary assessments or frequently makes assessments as part of continuous monitoring as described in paragraph A18, it is beneficial for the auditor to consider such assessments and its update in order to continue paying attention throughout the audit to information about significant events or condition that may cast significant doubt on the entity’s ability to continue as a going concern.

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 support the enhanced approach in ED-570 except for the following points. We appreciate the flexibility provided in paragraph A30 of the application material regarding paragraphs 17 and 19 and think that such application material allows us to 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.

Comment on the structure of paragraphs 16 and 17 and the reference to paragraph A30

Paragraph A30 contains descriptions of when management's assessment of the going concern lacks a detailed analysis, which is relevant not only to paragraph 17 but also to paragraph 16. In addition, paragraph 16 is a requirement for exceptional circumstances where the management has not yet performed an assessment of the entity's ability to continue as a going, while paragraph 17 is a general requirement to design and perform audit procedures to evaluate management's assessment. We think that it is difficult to understand the structure of the requirements. Therefore, we propose to switch the order of paragraphs 16 and 17, and then merge the paragraphs, and have a reference to paragraph A30 from the merged paragraph.

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 agree that ED-570 appropriately incorporate the concepts introduced from ISA 540 (Revised).

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 agree except for the following point.

Paragraph A50 states that the auditor may consider inquiring of external finance providers regarding the evaluation of management's plans for future action when written confirmation cannot be obtained from the external finance providers that the borrowing facility will be maintained or renewed. We understand this statement intends to mean that, even when written confirmation cannot be obtained, inquiries of external finance providers and an assessment of other surrounding circumstances may provide sufficient audit evidence that there are no material uncertainties.

However, the last sentence of paragraph A50, which states that "If alternative strategies or sources of financing are not available, then a material uncertainty may exist." could lead to the misinterpretation that even when sufficient audit evidence is obtained through inquiries of external finance providers, a material uncertainty exists if there is lack of alternative strategies or sources of financing. To avoid such misinterpretation, we suggest clarifying the last sentence of paragraph A50 to state "If sufficient audit evidence cannot be obtained through inquiries of external finance providers and an assessment of other surrounding circumstances and

alternative strategies or sources of financing are not available...”.

- 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 agree that enhanced requirements and application material strengthen 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?**

We do not object or support the new requirement and application material.

However, we do not believe such a new requirement is useful because, if it is required by law, such reporting is mandatory regardless of whether it is required by ISA or not.

- 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?

Yes. We support the requirements and application material that facilitate enhanced transparency about the auditor’s responsibilities and work relating to going concern. We agree that the proposals provide useful information for intended users of the audited financial statements and 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. We do not believe that the requirements need to be extended to audits of financial statements of entities other than listed entities, since as described in paragraph 73 of the Explanatory Memorandum which explains proportionality, the need for the additional commentary is not likely to be high for entities other than listed entities.

- 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 agree that it is clear from ED-570 and the related conforming amendments that the auditor's report relating to the auditor’s required conclusions and related communications about going concern is to be prepared in accordance with ED-570, not ISA 701 or any other ISAs.

- 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.**

Comment on the wording of paragraph 24

Paragraph 24 states that with respect to information used in management's assessment, “the auditor shall consider whether management’s assessment includes all relevant information of which the auditor is aware as a result of the audit.” However, since the auditor may become aware of information not only as a result of the audit but also during the audit, we suggest that "as a result of the audit" be revised to “during the audit” or "as the auditor performs audit procedures” to avoid misunderstanding.

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.**

(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 have no comments regarding the translations and effective date.

(End)