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International Auditing and Assurance Standards
Board
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Ref:

Subject: IAASB ED Proposed International Standard on Auditing 570 Revised – Going Concern - and Proposed Conforming and Consequential Amendments to Other ISAs.

Dear Sir,

The Compagnie Nationale des Commissaires aux Comptes (CNCC) and the Conseil National de l'Ordre des Experts-Comptables (CNOEC) are pleased to provide you with their comments on the Proposed International Standard on Auditing 570 Revised – Going Concern - and Proposed Conforming and Consequential Amendments to Other ISAs.

Overall, we support the revision to the ISA 570 and the amendments to the other ISAs made necessary by this revision.

Under the going concern basis of accounting, the financial statements are prepared on the assumption that the entity is a going concern and will continue its operations for the foreseeable future. When management is aware of material uncertainties related to events or conditions that may cast a significant doubt upon the entity's ability to continue as a going concern, those uncertainties are required to be disclosed.

We think it is necessary to emphasize that the primary responsibilities for the preparation and fair presentation of the financial statements of a company, including the assessment of its ability to continue as a going concern, lies with Management and those charged with governance of the entity.

Envoyer obligatoirement toute correspondance aux deux adresses ci-dessous :

Improving transparency on the use of the going concern assumption in the preparation of the financial statements requires to enhance the whole ecosystem, not just the auditing standards. Management should be required to disclose why it prepared the financial statements using the going concern assumption and the auditor would then be required to confirm in its auditor's report that using the going concern assumption was appropriate.

At this stage, the ED requires improved transparency from the auditor in the auditor's report without having obtained any guarantee from the financial reporting standard setter (IASB) that they would enhance the disclosure's requirements regarding going concern in the financial reporting standards, or even worse, knowing that they will not modify current financial reporting standards.

This may widen the expectation gap instead of narrowing it, by leaving the impression to the reader of the audited financial statements that the primary responsibility for the assessment of the going concern assumption of the entity lies with the auditor. We therefore support the ED from the auditor's point of view, but we consider that the entire project is standing on one leg as long as the financial reporting standard setter has not done its share, and we believe that, at this stage, the public interest is not entirely served.

Responses to specific questions raised in the Exposure Draft are set out below.

If you have any questions about our views on these matters, please do not hesitate to contact us.

Yours faithfully,



Yannick Ollivier
President of CNCC



Cécile de Saint Michel
President of CNOEC

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 agree, but we think it is important to remember that there are several stakeholders involved in assessing and safeguarding the going concern of the entity: as the *first line*, Management and those charged with governance (Audit Committee, Board of Directors...) and as a *second line*, auditors.

All the other stakeholders of today's financial reporting ecosystem - investors, public oversight bodies, standards setters and even banks - have also an important role in safeguarding the going concern, but the responsibility for the assessment of the entity's going concern lies with Management and those charged with governance.

We consider that more detailed disclosures should be required from Management to explain its assessment of the Going concern assumption.
Given that enhancing disclosures within the purview of accounting standards is outside the scope of the IAASB's standard setting, we encourage the IAASB to continue asking the IASB to tackle this issue.

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 agree that the ED strengthens the auditor's judgement and the required work effort relating to going concern in an audit of financial statements.

However, we should bear in mind that some events, with a potentially significant impact on the entity, remain unpredictable and/or will be sudden.

Given that the assessment of an entity's ability to continue as a going concern has inherent limitations that cannot be eliminated, we believe that the going concern expectation gap in an audit of financial statements will not diminish with improved transparency through communication and reporting of the auditor's responsibilities and work.

This gap in expectations will remain for the following reasons:

- Management is not required to disclose in the financial statements its assessment of the entity as a going concern (i.e. what assumptions management has made in assessing the entity as a going concern).
- There is no clear definition of the concept of "may cast significant doubt on the entity's ability to continue as a going concern" in financial reporting standards (it has been defined with an auditor's view in A5 of the ED)

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 believe 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?

Regarding the objective to emphasize in the IAASB International Standards, the application of professional skepticism, we consider that the requirements and application material of ED-570 will help in reinforcing the exercise of 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”?

We support the definition of Material Uncertainty, but we believe that the Paragraph A5 could be developed with more examples and illustrations, and especially with more refined examples than just the classic example of running short of cash and having to dispose of certain assets. Furthermore, for educational purposes, the definition of *going concern* should be added to the Definition section (and therefore to the glossary). As such, we suggest moving (or repeating) the first sentence of paragraph 2 to the Definition section, so we have a definition of that principle as well included in the Glossary.

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?

In the application material of ISA 200, through the conforming amendment to ISA 315 (Revised 2019), Paragraph A16 states that “For the purposes of the ISAs, a risk of material misstatement exists when there is a *reasonable possibility* of: (a) A misstatement occurring (i.e., its likelihood); and (b) Being material if it were to occur (i.e., its magnitude)”.

In the revised ISA 315, the key concept is the existence of a *reasonable possibility* of material misstatement, which is not defined in % but is clearly less than 50%.

We wonder whether the concept of *reasonable possibility* is included in the definition of *material uncertainty* in proposed ISA 570, in which the concept of the degree of probability is used to determine whether a material fact may give rise to significant doubt; in this case, where should the probability bar be placed? with what different possible levels (highly probable, probable, improbable, etc.)?

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 twelve-month period of management’s assessment of going concern, but on condition that the application paragraph A44, relating to the situation where the Management has chosen not to extend the period of assessment, remains as it is proposed in the ED. We do believe that in many instances, when management will refuse to extend the period of assessment, the auditor will be able to obtain sufficient evidence by other means.

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 agree.

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?

We think 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 would like to be added in the application material that the auditor should remain alert to the entity's credit rating, especially when the rating is downgraded. Downgraded credit ratings are usually discussed at the Board and at the Audit Committee of the entity and, unfortunately, they often lead to a downfall of the entity by increasing the cost of its financing or, even worse, by preventing its access to finance. Downgraded credit ratings are often a bad signal that the auditor may consider carefully.

We believe that the requirement in paragraph 27 (financial support by third parties or related parties, including the entity's owner-manager), should be enhanced by requesting the auditor to exercise professional skepticism when verifying the reliability and binding nature of the letter of support. For an example, a support granted by the Board of the parent company to the Board of the entity may be more enforceable than a support letter sent by the parent company to the auditor of its subsidiary,

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?

Please see our response to Question 1.

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 are fully supportive as statutory auditors in France do have such a responsibility. Indeed, the French law provides for specific reporting responsibilities on the part of the statutory auditors in case it comes across with going concern uncertainties in the course of its audit. It is a specific legal procedure (named "*Procédure d'Alerte*", "Early warning procedure") in case of going concern uncertainties, which requires the statutory auditor to enquire from Management how the latter intends to tackle the difficulties. It also requires the statutory auditor to escalate the Going concern issue to those charged with governance in case the response from Management is not considered sufficient to tackle the issue and ultimately, to inform the Tribunal of commerce if neither Management nor those

charged with Governance provide the statutory auditor with a convincing plan of how they intend to overcome the difficulty.

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.

We are not against such requirement, but we consider that it should be mirrored by a similar requirement imposed to the entity to disclose basis for going concern assumption.

Accounting Standard Setters should develop requirements to enhance quality of the reporting of the Management assessment of the Going concern assumption.

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?

More illustrations should be included in the application material.

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 encourage the IAASB to consider the pros and cons of extending the scope to PIEs as part of the second phase of the PIE project.

Indeed, listed entities are required to communicate externally any event that may influence their share price, and therefore most probably when events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, these events and conditions will have been communicated to the market, so the auditor will not be in a position of including in the audit report information that has not been disclosed by the entity.

For non-listed PIE, information about events or conditions that have been identified that may cast significant doubt on the entity's ability to continue as a going concern may not have been disclosed publicly by the entity, so the auditor could be required to communicate an information that management has not communicated, and that may relate to a situation that does not anymore exist at the date of the audit report.

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.

No comment.

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.

No comment.

Request for General Comments

17. (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 did not identify any potential translation issues in French.

17. (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 support the proposal that the amendments to ISA 570 (Revised) become effective for financial reporting periods beginning approximately 18 months after approval of the final ISA, given that the effective date must be the same as the revised ISA 240, so that audit reports only need to be amended once.