



Organización Internacional de Comisiones de Valores
International Organisation of Securities Commissions
Organisation internationale des commissions de valeurs
Organizaçào Internacional das Comissões de Valore

November 2, 2007

Mr. James M. Sylph
Executive Director, Professional Standards
International Auditing and Assurance Standards Board
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, NY 10017 USA

Email address: Edcomments@ifac.org

Re: Exposure Draft of Proposed Redrafted International Standard on Auditing ISA 570, *Going Concern*

Dear Mr. Sylph:

The International Organization of Securities Commissions (IOSCO) Standing Committee No. 1 on Multinational Disclosure and Accounting (SC 1) appreciates the opportunity to comment on the Exposure Draft of proposed redrafted international standard on auditing ISA 570, *Going Concern* (the ED). As an international organization of securities regulators representing the public interest, IOSCO SC 1 is committed to enhancing the integrity of international markets through promotion of high quality accounting, auditing, and professional standards.

Members of SC 1 seek to further IOSCO's mission through thoughtful consideration of accounting, auditing and disclosure concerns and pursuit of improved global financial reporting. As we review proposed auditing standards, our concerns focus on whether the standards are sufficient in scope and adequately cover all relevant aspects of the area of audit being addressed, whether the standards are clear and understandable, and whether the standards are written in such a way as to be enforceable. Our comments in this letter reflect those matters on which we have achieved a consensus among the members of SC

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1; however, they are not intended to include all comments that might be provided by individual members on behalf of their respective jurisdictions.

General Comments on ISA 570

In general, the changes made to redraft ISA 570 have reorganized the standard while preserving the original content somewhere in the new ISA, with most of the specific content in the extant ISA now moved to appear only in the application section. This movement of much of the content and explanation for the requirements to the Application Material section highlights the importance that the Application section will have in using and enforcing ISAs once the Clarity Project is completed.

We note some changes that could be construed as generalizing ISA 570 in a way that softens the standard or at least makes it less explicit. For example, a relevant and descriptive piece of guidance, one which could be helpful in alerting an auditor to the full range of matters to consider in determining whether a going concern assumption is appropriate, has been deleted with the explanation that the matter is already covered by the broader, more generic terms used in the ISA. This is the case where the need for the auditor to consider "business risks" has been deleted, with the explanation given by the IAASB being that the matter of business risks is viewed as being implicitly included in the term "events and conditions" that the auditor must consider.

While one can certainly argue that "business risks" are part of what is intended to be encompassed by the term "events and conditions", in the context of evaluating an entity's ability to continue as a going concern, the need to evaluate business risks seems highly relevant and worthy of explicit mention.

We have a number of additional comments on changes that we believe would further improve the clarity of this ISA.

Objectives – Paragraph 9

We believe the stated objectives for this ISA address the right subject matter, but they are stated in a way that seems indirect and wordy. The objectives might be stated more concisely and directly, for example, as follows:

"The objective of the auditor is to determine whether management's use of the going concern assumption in preparing and presenting the financial statements is appropriate, and to report accordingly."

Requirements

Performing Risk Assessment Procedures - Paragraphs 10 and 11

We believe these paragraphs should be more closely linked with ISA 315 and should be consistent in language with the requirements in 315. We also urge that paragraph A6 be moved forward to be a part of these requirements because in a situation where the auditor has already identified events or conditions relevant to a going concern assumption, the auditor should always be required to request management to begin making an assessment if management has not already done so.

In paragraph 11, it is unclear what the statement "The auditor shall remain alert throughout the audit for events or conditions that may cast significant doubt on the entity's ability to continue as a going concern" means in terms of auditor actions. We believe what is intended to be required from the auditor should be stated more clearly. For example, "throughout the audit, the auditor shall evaluate whether there are events and conditions that may cast doubt on the entity's ability to continue as a going concern."

Audit Conclusions and Reporting - Paragraph 17

Reference should be made to the auditor's need to evaluate whether the going concern assumption is appropriate.

Management Unwilling to Make or Extend Its Assessment – Paragraph 22 and Paragraph A6

Paragraph 22 seems to be out of sequence in the requirement section. Paragraph 22 addresses what the auditor shall do when the management is unwilling to make or extend its assessment when requested to do so by the auditor. However, there is no preceding or corresponding requirement to request management to provide such an assessment. Therefore, we propose moving paragraph A6 from the application material section to the requirement section to follow paragraph 14.

Communicating with Those Charged with Governance - Paragraph 25

We think more should be said about what the auditor needs to do when management has not made a going concern analysis in order to communicate with those charged with governance as well as make an appropriate and informative auditor's report. A case of management unwillingness to consider its use of the going concern assumption would raise an accounting policy and compliance with GAAP issue in many jurisdictions. In such jurisdictions where a going concern assessment is required by the reporting framework and management does not make such an assessment, the auditor should be discussing this lack of compliance with the framework both with management and with those charged with governance.

Application and Other Explanatory Material

Further Audit Procedures when Events or Conditions are Identified - Paragraph A19

We believe the following actions should be added to the list of examples:

- Confirming the existence, terms and adequacy of borrowing facilities
- Obtaining and reviewing reports of regulatory actions
- Determining the adequacy of support for any planned disposals of assets

Paragraph A23 regarding disclaimers in cases of multiple uncertainties


We continue to have the concern that we have expressed previously about disclaimers under ISA 570. Stated very directly, our concern is that ISA 570 makes it too easy for an auditor to decide to disclaim an opinion in cases involving multiple uncertainties. While we recognize that there may be some extremely rare cases where the interaction of multiple uncertainties could make it absolutely impossible for an auditor to obtain sufficient audit evidence to form an opinion, there is also a risk that some auditors will read the current language in ISA 570 as a way to avoid difficult or unpleasant complexities in the audit or to provide a disclaimer instead of an adverse opinion. In our view, the ED's paragraph 23 as now stated and shown below does not provide enough guidance to discourage unnecessary disclaimers.

"In extreme cases, such as situations involving multiple uncertainties that are material to the financial statements, the auditor may consider it appropriate to express a disclaimer of opinion instead of adding an Emphasis of Matter paragraph. ISA 705 (Revised) establishes requirements and provides guidance on this issue."

At a minimum, we believe the language used in this ISA should be as rigorous as the language that now appears in the Exposure Draft of ISA 705, specifically that it should include the phrase "In extremely rare circumstances". We also question from a process standpoint whether it is appropriate to have a statement in Application Material paragraph A14 provide an option not to do something that is in a requirement.

We appreciate the Board's thoughtful consideration of the points raised in this letter. If you have any questions or need additional information about the comments that we have provided, please do not hesitate to contact me at 202-551-5300 or contact members of the SC 1 Audit Subcommittee.

Sincerely,



Julie A. Erhardt

Chair

IOSCO Standing Committee No. 1

Responses to the Particular Questions for Respondents Raised in the ED

1. Are the objectives to be achieved by the auditor, as stated in the proposed redrafted ISA, appropriate?

We believe the objectives could be stated more concisely – please see our comment for paragraph 9 in the main body of this letter.

2. Have the criteria identified by the IAASB for determining whether a requirement should be specified been applied appropriately and consistently, such that the resulting requirements promote consistency in performance and the use of professional judgment by auditors?

We have commented earlier in this letter that we believe that Application Material paragraph A6 discusses an action that would be applicable in virtually all audits and should be moved to the Requirements section.