



Ernst & Young
111 Eagle Street
Brisbane QLD 4000 Australia
GPO Box 7878 Brisbane QLD 4001

Tel: +61 7 3011 3333
Fax: +61 7 3011 3100
ey.com/au

EY ISA570 Sub 6

Mr. Matthew Zappulla
Technical Director
Auditing and Assurance Standards Board
Level 20, 500 Collins Street
Melbourne, Vic, 3000, Australia

14 August 2023

Consultation Paper: Exposure of the IAASB's proposed ISA 570 (Revised, Going Concern, and Proposed Conforming and Consequential Amendments to Other ISAs ("consultation paper"))

Dear Matthew,

EY Australia is pleased to have the opportunity to provide feedback on the exposure of the consultation paper. EY Australia sets out in the accompanying document Ernst & Young Global Limited's ("EY"/"EY Global") views on the Exposure Draft, *Proposed International Standard on Auditing 570 (Revised 202X), Going Concern, and Proposed Conforming and Consequential Amendments to Other ISAs (ED-570)*, issued by the International Auditing and Assurance Standard Board (IAASB), as well as below additional feedback of EY Australia responsive to Australian specific questions raised by the AUASB in the consultation paper.

EY Global's views are in draft and we ask that they are not distributed outside yourself and the AUASB staff. EY Australia has input into the EY Global response and thus the reason why our views are expressed in the EY Global submission and not included separately below.

EY appreciates the opportunity to provide our perspectives and would be pleased to discuss this letter with your or the AUASB staff at your convenience.

Yours sincerely

Gareth Bird
Partner - Audit Quality, Professional Practice Group
Ernst and Young

EY Australia's responses to Australian specific questions raised by the AUASB in the consultation paper

Below is EY Australia's response to specific questions raised by AUASB. These are responsive to the standard as written as well as discussions that took place in the AUASB virtual roundtable on Wednesday 26 July 2023.

Q18. Whether you agree with the AUASB's preliminary view in relation to the Aus paragraphs and Appendices contained in the current ASA 570? In particular do you agree with the AUASB's preliminary view on the period of evaluation of management's assessment? If not, provide reasons why.

Aus Paragraph / Appendix		AUASB's Preliminary View	EY comment
3.1	Refers to the responsibilities of those charged with governance under the Corporations Act 2001 to make a formal statement in relation to the solvency of the entity.	Still applicable as the requirements in the Corporations Act 2001 relating to solvency have not changed.	Agree
13.1	Requires the auditor to assess the appropriateness of management's going concern assumption for the relevant period (detailed in para 13.2 below).	No longer required as IAASB ED covers this sufficiently.	Agree
13.2	Defines the relevant period of the auditor's evaluation of management's assessment of going concern which is the period of approximately twelve months from the date of the auditor's current report to the expected date of the next auditor's report.	The current ISA 570 requires management's assessment to cover at least twelve months from the date of the financial statements. IAASB ED proposes to extend the date of the period of management's assessment to be at least twelve months from the date of approval of the financial statements which is different to the Aus paragraph requirement. Whilst	Agree (i.e. do not amend ISA 570 for this matter) Where the next auditor's report is issued more than 12 months after previous auditor's report, this reduces the time covered by the auditor's report in respect of going concern. It is not necessary to explicitly state that the subsequent auditor's report

Aus Paragraph / Appendix		AUASB's Preliminary View	EY comment
		these dates in most instances will align, they may not in all circumstances. The AUASB's preliminary view is that the difference in time period between the IAASB ED and ASA 570 is likely to be minimal, and it is appropriate to adopt the IAASB's period of assessment i.e., do not amend ISA 570 for this matter. Refer to question 18 where we are seeking views on whether to retain Aus 13.2 or to adopt the IAASB's proposed period of assessment.	supersedes the previous one.
A15.1	Application material to clarify that, other than enquiry of management, the auditor does not have a responsibility to perform any other audit procedures to identify events or conditions that may cast significant doubt on the entity's ability to continue as a going concern beyond the period assessed by management.	No longer required as covered by IAASB ED paragraph A40, which states that other than the enquiry of management, the auditor does not have a responsibility to perform any other audit procedures to identify events or conditions that may cast significant doubt on the entity's ability to continue as a going concern beyond the period assessed by management.	Agree

Aus Paragraph / Appendix		AUASB's Preliminary View	EY comment
A21.1	Refers to [Aus] Appendix 1 which contains an explanatory diagram mapping going concern considerations and types of audit opinions.	Dependent on the question below however the AUASB considers this is still applicable as stakeholders have previously expressed strong support for this Appendix.	Agree Appendix 1 should be retained.
A33.1	Refers to the inclusion of Illustration 4A of Appendix 2.	Still applicable.	Agree
A35.1	Refers to the auditor's responsibilities under the Corporations Act in relation to the reporting of insolvent trading.	Still applicable as the requirements under the Corporations Act in relation to the reporting of insolvent trading have not changed.	Agree
Appendix 1	Contains an explanatory diagram mapping going concern considerations and types of audit opinions.	The AUASB's view is that this is still applicable as stakeholders have expressed strong support for this Appendix.	Agree
Appendix 2	Contains illustrations of auditor's reports relating to going concern.	The illustrative auditor's reports will be revised and updated for Australian requirements.	Agree

Q19. Whether the proposed changes in the IAASB ED are adequately aligned with existing financial reporting requirements?

Refer to EY Global views. Further comments from EY Australia are:

If the main purpose of the revised standard is to encourage disclosure (as indicated in the Virtual Roundtable), it is imperative that AASB 101 *Presentation of Financial Statements* is amended first. Management are not required to comply with auditing standards, auditors are required to.



AASB 101 requires management to assess going concern taking into account information about a period which is at least twelve months from the end of the reporting period. This requires updating to align with the auditing standard (i.e. at least twelve months from the date of approval of the financial report). We encourage the AUASB to open dialogue with the AASB if the IASB does not update IFRS for enhanced disclosure of management's assessment. Locally, the AASB can provide further guidance or requirements in this area.

Q20. Whether the proposed changes in the IAASB ED have any corresponding impact on the current requirements of ISRE/ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*?

No impact.

Q21. Have applicable laws and regulations been appropriately addressed in the proposed standard and are there any references to relevant laws or regulations that have been omitted?

No omissions identified.

Q22. Whether there are any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?

None identified. However, whilst not a regulation, consider impact, if any, on Guidance Statements e.g. GS018 Franchising Code of Conduct - Auditor's Report. In addition, we recommend AUASB seek the views of APRA and ASIC (for AFSL reporting) in relation to liquidity, working capital and solvency requirements etc. that may be impacted.

Q23. Whether there are any principles and practices considered appropriate in maintaining or improving audit quality in Australia that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?

Whilst we agree the proposed standard is scalable for type and size of entity, it does not appear to allow scalability in relation to scenarios where there is no risk in relation to the entity's ability to continue as a going concern (history of profitability and ready access to financial resources). This is inconsistent with ASA 315 and ASA 330, where the auditor would not be required to design a response where there is no risk of material misstatement.

In addition, refer to EY Global views in response to Q10 above, which recommends additional application guidance in relation to the following paragraph:

27. If management's plans for future actions include financial support by third parties or related parties, including the entity's owner-manager, the auditor shall evaluate the intent and ability of those parties to maintain or provide the necessary financial support. (Ref: Para. A52-A54)



Q24. What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the main changes to the requirements of the proposed standard? If significant costs are expected, the AUASB would like to understand:

- (a) Where those costs are likely to occur;**
- (b) The estimated extent of costs, in percentage terms (relative to audit fee); and**
- (c) Whether expected costs outweigh the benefits to the users of audit services?**

Additional costs to the firm:

- ▶ Amend internal process including audit applications and templates e.g. audit reports, management representation letters etc.
- ▶ Train staff on requirements of new standard (developing training and cost of all staff attending training)
- ▶ Implement an initial program to review the “procedures” as described (similar to when KAMs were introduced)

Additional costs to individual teams:

- ▶ Performing audit procedures in all cases, not just when a risk of material misstatement exists (incl. testing the relevance and reliability of information) (refer to response to Q.23)
- ▶ Write “how the auditor evaluated management’s assessment of the entity’s ability to continue as a going concern” sections.

Q25. What, if any, implementation guidance auditors, preparers and other stakeholders would like the AUASB to issue in conjunction with the release of ASA 570 (specific questions/examples would be helpful)?

Refer to EY Global views above. We also recommend that example reports and implementation guidance be added as appendices to the standard.

Q26. Are there any other significant public interest matters that stakeholders wish to raise?

No

END