

August 25, 2023

Karen DeGiobbi, CPA, CA  
Director, Auditing and Assurance Standards  
Auditing and Assurance Standards Board  
277 Wellington Street West Toronto,  
ON M5V 3H2

Dear Ms. DeGiobbi

We appreciate the opportunity to comment on the Auditing and Assurance Standards Board (AASB) Exposure Draft - Proposed Amendments to Canadian Auditing Standard (CAS) 570 – Going Concern (ED-570).

We are generally supportive of the proposals in ED-570 and believe most will enhance audit quality. We do, however, have some concerns relating to your specific questions and these are outlined in our responses below.

1. *Do you agree that no Canadian amendments are required to ISA 570 (Revised 202X) to adopt it as CAS 570? If not, what Canadian amendments do you believe are required, and why?*

Many of the ISA 570 (Revised 202X) audit reporting proposals improve the transparency and clarity of the auditor's responsibilities relating to management's going concern assessment. However, we believe the proposals as currently drafted can be misinterpreted by users and may expand the expectations gap. As a result, we believe one amendment to the audit report should be required.

Specifically, we are concerned that users may misinterpret the statement added to the auditor's report "We have concluded that managements' use of the going concern basis of accounting in the preparation of the financial statements is appropriate". General purpose financial statements are prepared using the going concern basis of accounting, unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Without describing the standard applied to use the going concern basis of accounting, some users may interpret the statement in the auditor's report as providing assurance over the entity's ability to continue as a going concern and this could have the unintended consequence of diminishing the intended effect of more robust disclosures relating to material uncertainties that cast significant doubt on an entity's ability to continue as a going concern.

Accordingly, we believe that an additional explanatory sentence should be added to the auditor's report to add clarity, improve transparency, and maintain the quality of audit reporting. To communicate the standard that is applied by financial statement preparers and assessed by auditors, we suggest adding the following sentence after the statement concluding that the going concern basis is appropriate: "The going concern basis of accounting is appropriate for general purpose financial statements, other than when management either intends to liquidate the entity or to cease operations or has no realistic alternative but to do so."

This addition will clarify the standard used by auditors to assess whether the going concern basis of accounting is appropriate, improve transparency and reduce the possibility of misinterpretation. This addition to the auditor's report is not inconsistent with the proposed requirements in the ISA.

2. Do you believe the proposed revisions would create any implementation challenges for practitioners in Canada?

The IAASB notes that certain jurisdictions such as Australia, New Zealand, the United Kingdom, and the United States, have amended their national equivalent going concern standards to require the commencement date of the twelve-month period of management's assessment to be the date the financial statements are issued, approved or when the auditor's report is signed. In Canada, in assessing whether the going concern assumption is appropriate, the accounting standards require that management considers all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period.

The ED- 570 proposals require the auditor to evaluate management's assessment of going concern from the date of approval of the financial statements. Under ED-570, the auditor's required going concern assessment period will be longer than the minimum required under Canadian accounting standards.

Unlike the jurisdictions noted above, practitioners in Canada will have the additional challenge of requesting management extend their assessment beyond the minimum required by accounting standards. While there is flexibility in the proposed standards for those circumstances where management is unwilling to make or extend its going concern assessment, there are many practical challenges that an auditor will face because the accounting standards are not fully aligned with the proposed auditing standards. Many private companies, not-for-profit and other entities may not prepare information beyond the minimum requirements of Canadian accounting standards, nor extend their assessment for an auditor. Auditors may encounter independence challenges or may not be able to provide an unmodified audit report.

As a practical matter, ED-570 will change the Canadian accounting standards as management's going concern assessment period will have to correspond with the assessment period evaluated by auditors. We encourage the AASB to engage with the Canadian Accounting Standards Board to introduce amendments to align the accounting and auditing standards consistent with other jurisdictions noted above.

3. Do you have any concerns with the proposed effective date for CAS 570, which is for audits of financial statements with financial reporting periods beginning on or after approximately 18 months from the IAASB's approval of ISA 570 (Revised 202X)? The proposed effective date for CAS 570 will be consistent with the anticipated effective date

of a revised CAS 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements.

No, subject to the AASB satisfactorily addressing the matters raised in questions 1 and 2.

If you have any questions or require additional information, please contact me at [michael.walke@ccaq-ccqa.com](mailto:michael.walke@ccaq-ccqa.com)

Yours very truly,



M. C. Walke  
CEO  
Canadian Centre for Audit Quality