



Exposure Draft

Proposed Amendments to Canadian Auditing Standard (CAS) 570

Going Concern

June 2023

This Exposure Draft closes for comments on July 31, 2023.
Comments to IAASB are due on August 24, 2023.

The Auditing and Assurance Standards Board (AASB) welcomes feedback from any interested party on any or all the questions posed in this Exposure Draft.

You can provide feedback to the AASB on the proposals in a variety of ways:

- Participate in the [Connect.FRASCanada.ca](https://connect.frascanada.ca) surveys as they become available throughout the comment period.
- Connect directly with the AASB by attending a discussion session on this Exposure Draft. Session dates and registration information will be posted to the [project page](#).
- Write a response letter and upload it via our [online form](#). Response letters can be addressed to:

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

Note: Response letters will be posted online shortly after this Exposure Draft closes for comment. Confidentiality can be requested when uploading letters via the online form.

This Exposure Draft reflects proposals made by the AASB.

Comments are requested from those who agree with the Exposure Draft as well as from those who do not.

Helpful tips when participating in a consultation:

- Comments are most helpful if they relate to a specific paragraph or group of paragraphs found in the Exposure Draft.
- If you identify a potential issue in this Exposure Draft's proposals, we encourage you to clearly explain the issue and include a suggested alternative, supported by specific reasoning.
- The AASB does not expect you to reply to every single question posed – only those to which you feel you can or should respond.

HIGHLIGHTS

The AASB proposes, subject to comments received following exposure, to adopt with appropriate Canadian amendments, if any:

- proposed International Standard on Auditing (ISA) 570 (Revised 202X), *Going Concern*; and
- proposed conforming and consequential amendments to other ISAs

issued by the International Auditing and Assurance Standards Board (IAASB). The result would be revised respective CASs.

This Exposure Draft consists of:

- an explanation of why change is needed;
- key public interest considerations;
- proposed changes;
- a link to the IAASB's Exposure Draft, including its Explanatory Memorandum;
- a description of the AASB's process for adopting ISAs;
- a discussion of proposed significant Canadian amendments; and
- a proposed effective date.

Please review "**Comments requested**" on [page 4](#) for information on preparing your response to this Exposure Draft.

Why change is needed

Corporate failures around the globe in recent years have brought the topic of going concern to the forefront and led to demands for enhanced transparency on going concern. Conditions such as war and the global pandemic have also heightened risks, focusing attention on the challenges and issues pertaining to the auditor's responsibilities and work related to management's assessment of an entity's ability to continue as a going concern, and the reporting thereof. Ongoing economic uncertainties and the recent turmoil in the financial sector have put a spotlight on the topic of going concern, further emphasizing the need for a more robust standard. The input from, and timely response by, interested and affected parties, therefore, is crucial to ensure that proposed ISA 570 (Revised 202X) remains fit for purpose in the current and future macroeconomic and geopolitical environments.

As part of its information gathering activities, the IAASB issued a Discussion Paper, "[Fraud and Going Concern in an Audit of Financial Statements: Exploring the Differences Between Public Perceptions About the Role of the Auditor and the Auditor's Responsibilities in a Financial Statement Audit](#)," in September 2020. The Discussion Paper considered additional information that could be communicated by the auditor, and the issues and challenges in applying extant ISA 570 (Revised), *Going Concern*, in light of the changing environment, jurisdictional developments and changing public expectations.

The AASB conducted extensive outreach to obtain the views of interested and affected parties in Canada on the matters discussed in the IAASB's [Discussion Paper](#). Consistent with the views expressed by many, the AASB expressed support for the IAASB in developing material to enhance the auditor's ability to identify and assess going concern risks and in working with the International Accounting Standards Board to explore clarifications to "material uncertainty related to going concern".

In addition, the AASB, in collaboration with the Association of Chartered Certified Accountants, the Chartered Professional Accountants of Canada, and Chartered Accountants Australia and New Zealand has released the report [Closing the Expectation Gap in Audit – The Way Forward on Fraud and Going Concern: A Multi-stakeholder Approach](#). The report examines the auditor's role in the areas of fraud and going concern and the related expectation gap and identifies recommendations to narrow this gap.

At its May 2021 meeting, the IAASB discussed the responses to the [Discussion Paper](#) and possible actions to address the issues that had been identified. The discussion informed the development of the IAASB's project proposal to revise extant ISA 570 (Revised), which was approved in March 2022.

Key public interest considerations

All the proposed revisions in the Exposure Draft are made with public interest considerations at the forefront. The key public interest considerations include:

- promoting consistent practice and behaviour and facilitating effective responses to identified risks of material misstatement related to going concern;
- strengthening the auditor's evaluation of management's assessment of the entity's ability to continue as a going concern ("management's going concern assessment"), including reinforcing the importance of professional skepticism; and
- enhancing transparency with respect to the auditor's responsibilities and work related to going concern where appropriate, including strengthening communications and reporting requirements.

Appendix 1 in the IAASB's Explanatory Memorandum (pages 38-47 of the IAASB's [Exposure Draft](#)) provides further details on the key public interest considerations, including how the proposed changes in the Exposure Draft address the key public interest matters.

Proposed changes

The Exposure Draft proposes several key changes, which include:

- defining material uncertainty related to going concern;
- enhancing the risk identification and assessment requirements so they are consistent with those set out in ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*;¹
- enhancing the auditor's evaluation of management's going concern assessment, including requirements to support the auditor's application of professional skepticism;
- adding a requirement for the auditor to request management to extend its going concern assessment of the entity to cover at least 12 months from the date of approval of the financial statements if management has not already done so;
- enhancing the auditor's consideration of information related to management's going concern assessment that becomes available to the auditor after the date of the auditor's report but before the date the financial statements are issued;
- adding requirements to enhance communications about going concern in the auditor's report, including:
 - the auditor's conclusion on the appropriateness of management's use of the going concern basis of accounting in preparing the financial statements;
 - a statement as to whether, based on the audit evidence obtained, the auditor has identified a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; and
 - for audits of listed entities, requiring additional communications in the auditor's report in certain circumstances, including:
 - a reference to related disclosure(s) in the financial statements, if any; and
 - a description of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern.

¹ ISA 315 (Revised 2019), paragraphs 19-27

IAASB Exposure Draft

The IAASB's Exposure Draft, "[Proposed International Standard on Auditing 570 \(Revised 202X\) Going Concern and Proposed Conforming and Consequential Amendments to Other ISAs](#)," is available on the [IAASB website](#).

In addition to the text of proposed ISA 570 (Revised 202X), the IAASB's [Exposure Draft](#) includes the Explanatory Memorandum, which provides background to, and an explanation for, the proposed revisions to extant ISA 570 (Revised).

Process for adopting ISAs

The AASB has committed to adopting ISAs as CASs. The Board recognizes that it has a vital role in monitoring revisions to the ISAs to ensure that they remain in the Canadian public interest. To do so, the AASB issues a Canadian exposure draft for every IAASB exposure draft of a proposed ISA. Adoption of an ISA as a CAS is not automatic. The AASB follows amendment criteria, set out in the [Appendix](#), when it considers whether Canadian amendments are required in specific circumstances.

The AASB's commitment to adopt ISAs as CASs includes aligning the effective date. The Board makes CASs available shortly after they are approved so those affected can become familiar with them and prepare to implement them by the effective date.

Proposed significant Canadian amendments

The AASB is not proposing any Canadian amendments to ISA 570 (Revised 202X). Respondents are asked whether there are any unique circumstances in the Canadian environment that require consideration for amendment. The amendment criteria the Board followed are outlined in the [Appendix](#).

Proposed effective date

The IAASB expects to approve the final ISA 570 (Revised 202X) in December 2024. The IAASB proposes that ISA 570 (Revised 202X) be effective for financial reporting periods beginning approximately 18 months after the approval of the standard. The IAASB will coordinate the effective date of the final ISA 570 (Revised 202X) with its project to revise ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*. Earlier application would be permitted.

The revised CAS is expected to have the same effective date as the revised ISA. Auditors will be permitted to apply the revised CAS before the effective date.

Comments requested

Comments are most helpful if they relate to a specific paragraph or group of paragraphs. Any comments that express disagreement with the proposals in the Exposure Draft should clearly explain the problem and suggest an alternative, supported by specific reasoning. When a respondent agrees with proposals in the Exposure Draft, it will be helpful for the AASB to be made aware of this view.

Responding to the IAASB's Exposure Draft

Respondents are also asked to provide comments on the IAASB's Exposure Draft directly to the IAASB and provide the AASB with a copy of the response. The AASB will take these comments into account when drafting its own response to the IAASB's Exposure Draft. Respondents are asked not to include comments on matters particular to the Canadian environment in their responses to the IAASB. Such comments should be included only in responses sent to the AASB.

Please refer to the “Guide for Respondents” contained in the IAASB’s Exposure Draft and respond to the specific questions therein.

Providing comments to the AASB

The AASB would appreciate receiving responses to the questions set out below, in addition to receiving a copy of the response to the IAASB’s Exposure Draft.

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? Note: Proposed amendments need to meet the criteria set out in the [Appendix](#).
2. Do you believe the proposed revisions would create any implementation challenges for practitioners in Canada?
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*.

The deadline for providing your comments to the AASB on the above is July 31, 2023.

APPENDIX

Criteria for amending ISAs when adopting them as CASs

With respect to the adoption of ISAs² as CASs, and the adoption of an International Standard on Assurance Engagements (ISAE) as a Canadian Standard on Assurance Engagement (CSAE) and International Standard on Related Services (ISRS) as a Canadian Standard on Related Services (CSRS), on a case-by-case basis, the AASB's overriding goal is to adopt ISAs into the Assurance Handbook without amendment. However, there may be circumstances where amendments are required. The following sets out the limited circumstances when the AASB will make amendments to ISAs:

1. The AASB limits additions to an ISA to those required to comply with Canadian legal and regulatory requirements.³
2. The AASB limits deletions from, or other amendments to, an ISA to the following:
 - (a) The elimination of options (alternatives) provided for in the ISA.
 - (b) Requirements or guidance, the application of which Canadian law or regulation³ does not permit, or which require amendments to be consistent with law or regulation.
 - (c) Requirements or guidance, where the ISA recognizes that different practices may apply in different jurisdictions and Canada is such a jurisdiction.
3. The AASB may make amendments to an ISA with respect to requirements or guidance that do not fall within 1 or 2 above when it believes that there are circumstances particular to the Canadian environment where such amendments are required to serve the Canadian public interest and maintain the quality of auditing and reporting in Canada.
4. To the extent possible, amendments that are:
 - (a) additions to an ISA will not be inconsistent with the current requirements or guidance in the ISA; and
 - (b) deletions from, or other amendments to, an ISA will be replaced by an appropriate alternative that achieves the objective of the deleted requirement.

Proposed amendments to an ISA are highlighted in exposure drafts of proposed Canadian standards. The AASB indicates the reasoning for the amendments and respondents are invited to comment on them, including when the amendment will not result in convergence with the ISA in accordance with the IAASB's guide for national standard setters. Amendments to ISAs will be separately identified in the final Assurance Handbook material.

2 Reference to ISAs in this appendix also includes reference to International Standards on Quality Management adopted as Canadian Standards on Quality Management, relevant ISAEs adopted as CSAEs and relevant ISRSs adopted as CSRSs, where applicable.

3 Canadian incorporating and other governing legislation often require entities to prepare financial statements in accordance with Canadian generally accepted accounting principles (GAAP). Accordingly, if Canadian GAAP necessitates a different audit response in Canada, these differences fall within the definition of a legal or regulatory requirement.

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