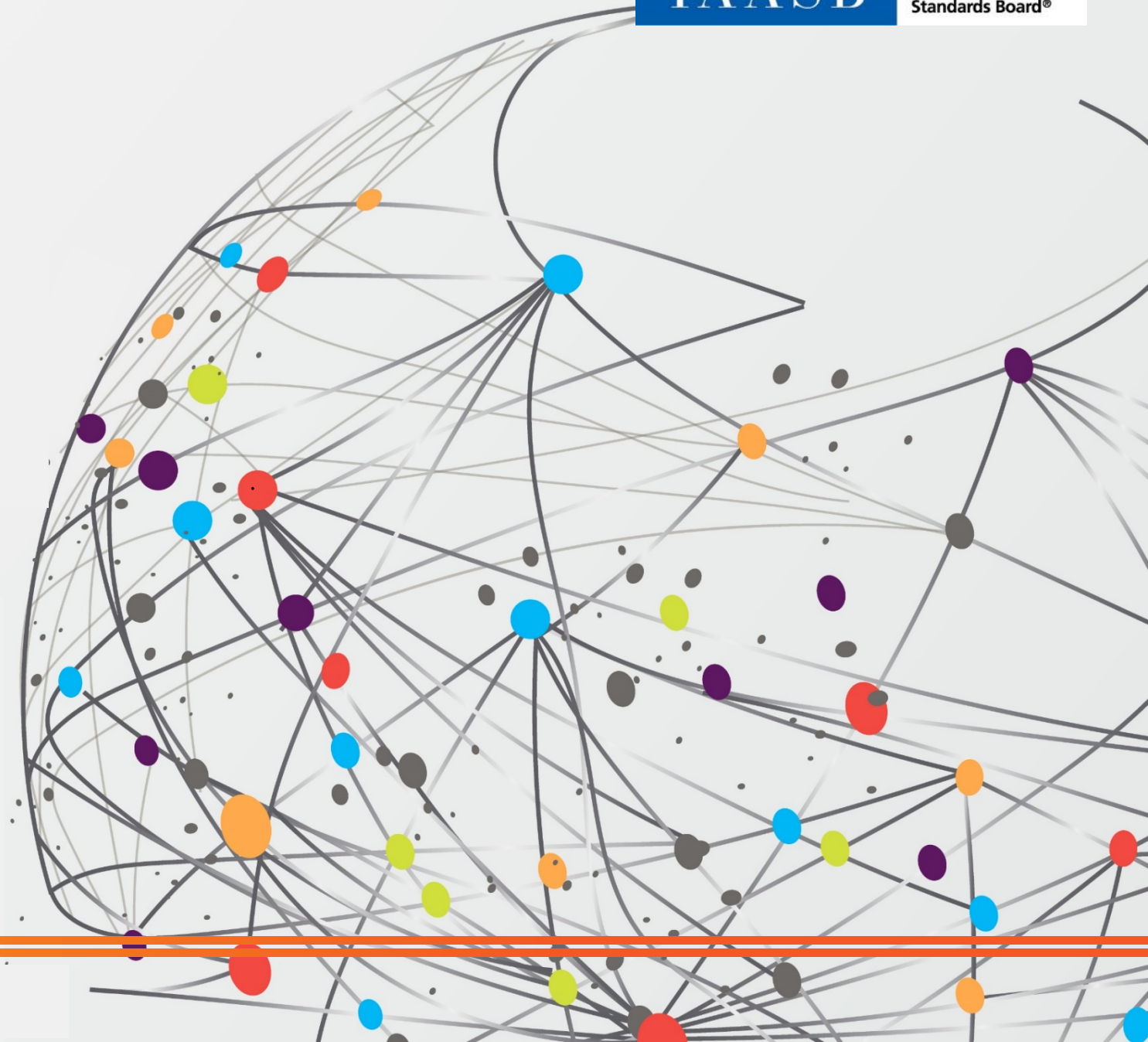


Going Concern

Agenda Item 5-B

*IAASB May 2021 Meeting
Josephine Jackson,
Going Concern Working Group Chair*

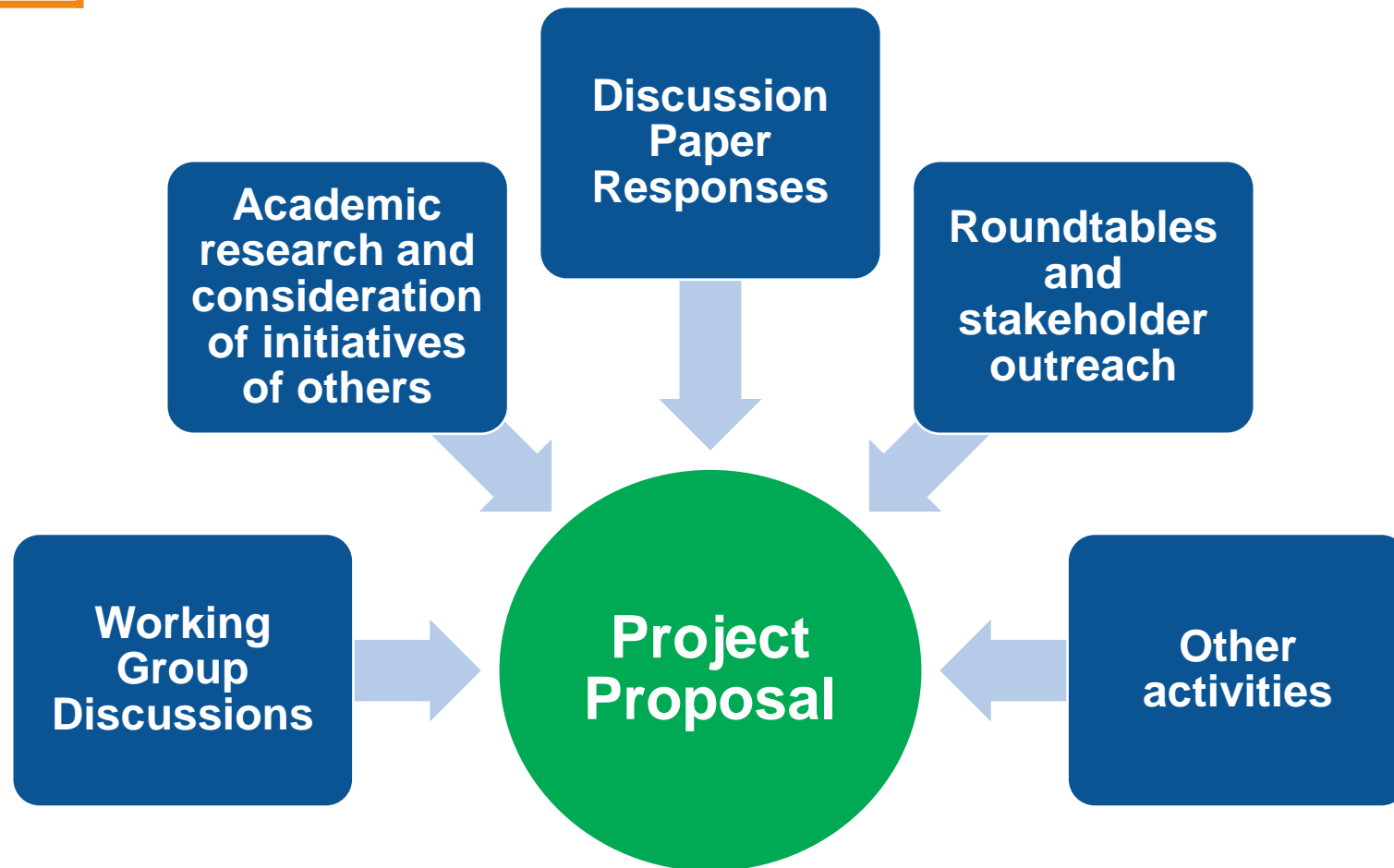


Objectives

- a) Provide an overview of feedback received related to going concern from the DP
- b) Obtain Board views on the possible direction on the matters identified

This discussion will inform whether the IAASB will proceed to develop a project proposal and if so, help identify and prioritize the matters that should be considered for inclusion in the project proposal.

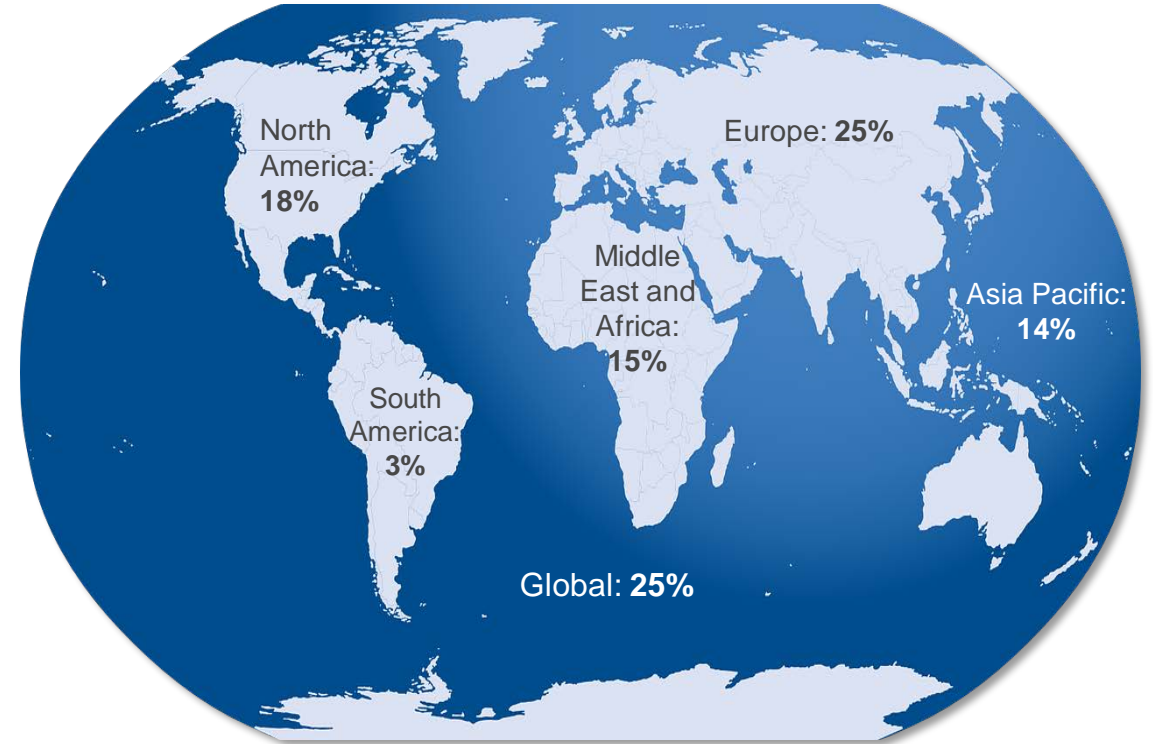
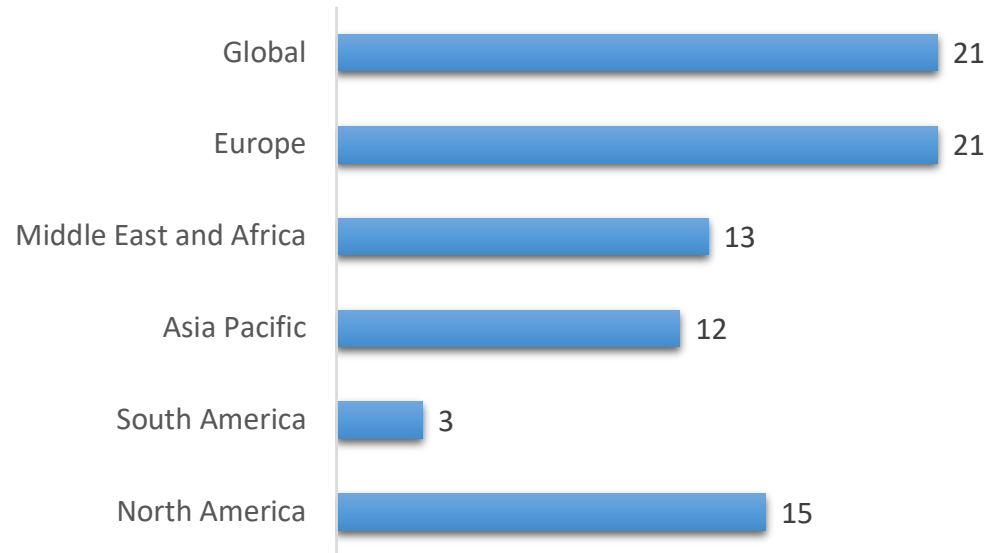
Information Gathering Activities



Overview of DP Respondents

Respondents by Region

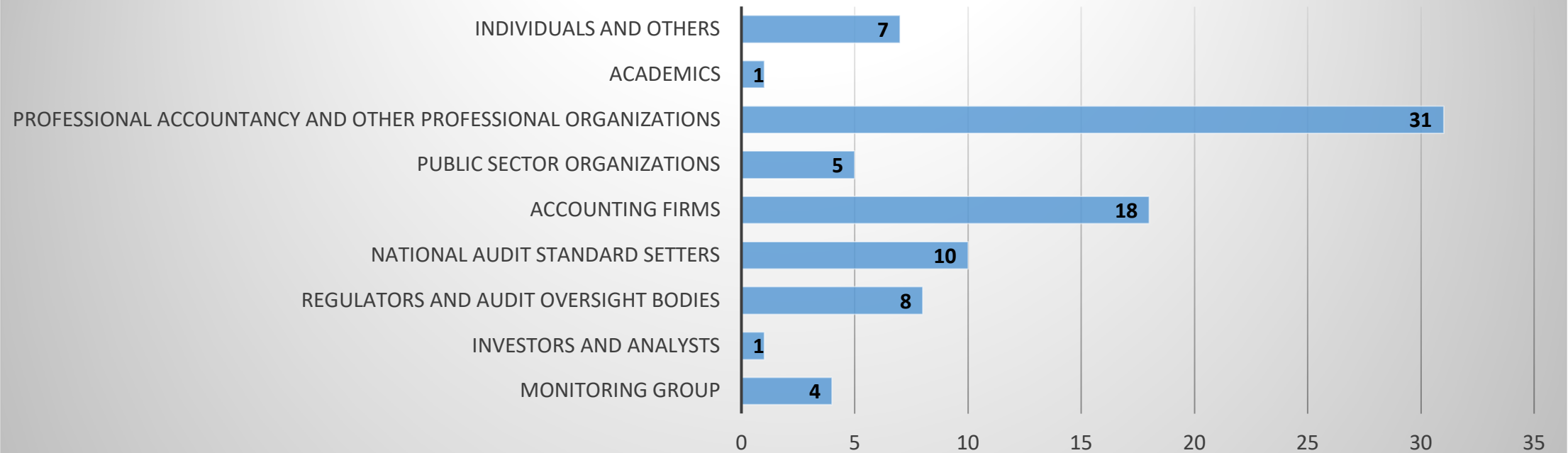
■ Number of Respondents



Total responses: 85

Overview of DP Respondents

Respondents by Stakeholder Group



Total responses: 85

Summary of Public Interest Matters

- Collaboration with others
- Enhanced transparency
- Independent, challenging and skeptical mindset
- Keeping the ISAs fit for purpose

Section III-B

Question 1(a) of the DP

What do You Think is the Main Cause of the Expectation Gap Relating to Going Concern in an Audit of Financial Statements?

Main Cause of the Expectation Gap

- Three component framework was helpful to understand issues
 - Some suggested alternative frameworks or terminology
- Some emphasised the knowledge gap as a primary driver
 - Suggested solutions were not limited to the knowledge gap
- Solutions addressed in other possible actions.
 - More robust challenge
 - Enhanced transparency

Possible Action #1 –

- Not necessary to explore action/enhancements further.

Section III-C

Question 1(b) of the DP

In Your View, What Could be Done, by the IAASB or Others (Please Specify), to Narrow the Expectation Gap Related to Going Concern in an Audit of Financial Statements?

What Can be Done to Narrow the Gap

- Collaboration with others:
 - Continued outreach / role of other stakeholders
 - Coordination with other IAASB Projects and IESBA
- Enhance understanding of issues related to GC
 - Work performed by others
 - Root cause analysis
- Consider educational efforts or non-authoritative guidance

What Can be Done to Narrow the Gap

Possible Action #2 –

- IAASB Chair communication on the topic, progress, importance of others
- Continued outreach with / encouragement of other stakeholders and IASB
- Continued consideration of the work of others related to going concern
- Seek to obtain information about past corporate failures when available
- Consider educational efforts within the remit of the IAASB

The Working Group will consider which aspects are best addressed through standard setting and which are best addressed through non-authoritative guidance or education

Matters for IAASB Consideration

The IAASB is asked for its views on:

- (a) Whether the key public interest matters from respondents' comments have been appropriately identified; and
- (b) Possible actions #1 and #2

Section III-D

Question 3(a) of the DP

Should the Auditor have Enhanced or More Requirements Regarding Going Concern in an Audit of Financial Statements? If Yes, in What Areas?

Enhanced Linkage to Other Areas of the Audit

- Need clearer link between requirements in other ISAs to drive integrated application
 - ISA 315 (Revised 2019)
 - ISA 540 (Revised)



Possible Action #3 –

- Explore possible actions to address and enhance:
 - Linkages to ISA 315 (Revised 2019) and emphasize robust risk assessment
 - Linkages to ISA 540 (Revised) related to testing of management's assessment
- Consideration of possible non-authoritative material related to identification of events and conditions

Professional Skepticism

- Support for emphasizing and enhancing existing concept of professional skepticism

Possible Action #4 –

- Explore possible standard-setting to emphasize professional skepticism
- Collaboration with Professional Skepticism Working Group and monitoring of Audit Evidence Project and CUSP Project

More Robust Challenge of Management

- Enhanced requirements around robust challenge
- Guidance or clarification on how to evaluate (and challenge) management's assessment

Possible Action #6 –

- Explore possible actions to enhance linkages between ISA 315 (Revised 2019) and ISA 540 (Revised) with ISA 570 which includes possible actions to enhance the rigor around the auditor's evaluation of management's going concern assessment.

Terminology in ISA 570 (Revised)

- Clearer description or definition of material uncertainty related to going concern
- Consider clarity around other terms such as “going concern” or “significant doubt”

Possible Action #5 –

- Explore possible standard setting action to add “Material Uncertainty Related to Going Concern” as defined term, while remaining cognizant of alignment with applicable accounting framework
- Consider non-authoritative guidance or education to provide clarity
- Not to address terminology used in ISRE 2410 - outside project scope

Matters for IAASB Consideration

The IAASB is asked for its views on:

- (a) Whether the key public interest matters from respondents' comments have been appropriately identified; and
- (b) Possible actions #3, 4, 5, and 6

Timeline for Assessment

- Respondents not in favor of extending twelve month period
- Consider whether change in start date of assessment period is warranted
- Alignment with applicable financial reporting framework

Possible Action #7 –

- Explore possible standard setting for:
 - Extending the timeline for assessment to start from date financial statements are approved or auditor's report is signed
 - Challenge reasonableness of management's assessment period
- Not to further consider extending extension of minimum period to greater than twelve months

Technology and Other Tools

- Modernization of ISA 570
- Consideration of bankruptcy prediction models

Possible Action #8 –

- Explore possible future actions to modernize ISA 570
- Collaborate with Technology Working Group

Other Possible Actions

Possible Action #9 –

- Explore possible actions to clarify considerations when written evidence of third-party intent to provide financial support is obtained
- Monitor CUSP project related to audit documentation and consider whether specific requirements are needed in ISA 570 (Revised)
- Possible enhancements to application material:
 - To emphasize consideration of external publicly available information
 - Relevant to public sector
- Monitor global developments related to resiliency or sustainability reporting, but not pursue further in scope of this project at this time.

Section III-E

Question 3(b) of the DP

Is There a Need for Enhanced Procedures Only for Certain Entities or Only in Specific Circumstances? If Yes, for What Types of Entities or in What Circumstances?

Enhancements for All Audits or Certain Entities

- Applicable to all entities
- Some support for listed/PIE/prudentially regulated entities/public sector/high risk

Possible Action #10 –

- Consider scalability and proportionality when considering enhancements
 - Recognize view that any enhancements should be required for all entities
- Monitor work being done with IESBA on Definitions of Listed Entity and Public Interest Entity

Matters for IAASB Consideration

The IAASB is asked for its views on:

- (a) Whether the key public interest matters from respondents' comments have been appropriately identified; and
- (b) Possible actions #7, 8, 9 and 10

Section III-F

Question 3(ci) of the DP

Do you Believe More Transparency is Needed About the Auditor's Work in Relation to Going Concern in an Audit of Financial Statements?

Enhance Transparency with TCWG

- Support for more robust two-way communication

Possible Action #11 –

- Explore possible standard-setting to increase two-way communication with TCWG
- Further consider whether amendments to ISA 260 are needed

Enhance Transparency in the Auditor's Report

- Mixed views on whether more is needed in auditor's report
- Confusion on interplay between KAM and Material Uncertainty related to going concern (MURGC) section
- Coordination with auditor reporting post-implementation project (AR PIR WG)

Possible Action #12 –

- Explore possible standard-setting to increase transparency in the auditor's report related to going concern (in conjunction in AR PIR WG)
- Explore further actions to provide clarity where confusion was cited

Other Enhancements to Transparency

Possible Action #13 –

- Possible standard-setting actions related to considering whether the auditor is required by law/regulation/ethics to report to an appropriate external authority
- Monitor reporting requirements in other jurisdictions

Matters for IAASB Consideration

The IAASB is asked for its views on:

- (a) Whether the key public interest matters from respondents' comments have been appropriately identified; and
- (b) Possible actions #11, 12, and 13

Section III-G

Question 3(cii) of the DP

Do You Believe More Transparency is Needed About Going Concern, Outside of the Auditor's Work Relating to Going Concern?

Enhancements to the Applicable Financial Reporting Framework

- Cooperation with accounting standard-setters is key

Possible Action #14 –

- Enhancements to the applicable financial reporting framework are outside the remit of the IAASB, but the IAASB will work collaboratively with accounting standard-setters
- Communicate feedback received related to this matter from the DP responses to accounting standard-setters (including collaboration with the IAASB-IASB Liaison Working Group)

Section III-H

Question 3(cii) of the DP

Do You Believe More Transparency is Needed About Going Concern, Outside of the Auditor's Work Relating to Going Concern?

Other

- Lack of formal GC assessment for LCEs

Possible Action #15 –

- Consideration of whether the current application material related to less complex entities is sufficient to address scalability

Matters for IAASB Consideration

The IAASB is asked for its views on:

- (a) Whether the key public interest matters from respondents' comments have been appropriately identified
- (b) Possible actions #14 and 15
- (c) Whether there are other matters that the WG should consider as it progresses its work on this project.

Next Steps

- Consideration of comments
 - Refine actions
- Development of project proposal



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