

Going Concern – Cover Note

Objective:

The objective of the IAASB discussion in March 2024 is to provide the Board with:

- (a) A high-level overview of the stakeholder feedback to the Exposure Draft (ED-570): [Proposed International Standard on Auditing 570 \(Revised 202X\), Going Concern and Proposed Conforming and Consequential Amendments to Other ISAs](#).
- (b) An update on the Going Concern Task Force (GC TF) activities and outreach undertaken since the publication of ED-570.

Introduction

1. ED-570 was exposed for public comment on April 26, 2023, for a 120-day public comment period that closed on August 24, 2023. Seventy-eight written responses were received from all geographical regions with a diverse representation of stakeholder constituencies, including four Monitoring Group member¹ respondents, regulators and audit oversight authorities, jurisdictional/ national auditing standard setters (NSS), accounting firms, public sector organizations, member bodies and other professional organizations, academics, and individuals. While comment letters included responses provided by a diverse representation of stakeholder constituencies and geographical regions, no written responses have been received from investors. The GC TF intends to undertake further outreach activities with this particular stakeholder group to supplement the information-gathering on ED-570.

Structure of the IAASB Discussion

2. The IAASB discussion will comprise the following:
 - Presentation with an overview of the responses to ED-570, including feedback for the high-level themes (see **Agenda Item 2-A**).
 - Board reflections on the feedback.

Update on Activities

Resources Developed

3. In support of the outreach for ED-570, and to inform stakeholders on key aspects where enhancements were proposed for going concern, the GC TF incoming and outgoing Chairs and Members developed a short three-part video series providing:
 - An [overview for key changes on going concern](#) that explain the key aspects of the proposed

¹ The Monitoring Group comprises the Basel Committee on Banking Supervision (BCBS), the European Commission, the Financial Stability Board, the International Association of Insurance Supervisors (IAIS), the International Forum of Independent Audit Regulators (IFIAR), the International Organization of Securities Commissions (IOSCO) and the World Bank. The BCBS, IAIS, IFIAR and IOSCO submitted responses to ED-570.

revisions.

- Explanation for targeted aspects of the proposals, such as the changes proposed in relation to the [timeline over which the going concern assessment is made](#) and for [transparency about going concern in the auditor’s report](#).

Outreach Activities

Engagement with NSS and Forum of Firms (FoF)

4. Since the publication of ED-570, the GC TF participated in the following outreach activities and meetings in which proposed ISA 570 (Revised 202X) was discussed:
 - Feedback was sought from NSS on certain proposals of ED-570 at the IAASB NSS group’s meeting on June 12-13, 2023. Topics specifically explored during the NSS session included the proposals for the timeline over which the going concern assessment is made and enhanced transparency about going concern in the auditor’s report.
 - The GC TF Chair, Members and IAASB Staff engaged in a deep dive session with FoF Representatives on June 27, 2023, focused on going concern. During the session, feedback on certain proposals in ED-570 was sought relating to the proposed change in the commencement date of the twelve-month period of management’s assessment of going concern and the proposed changes to enhance transparency in the auditor’s report. In addition, the session included a question for representatives to provide insights from firms on how going concern matters are being addressed in practice considering the ongoing uncertainties in the broader economic environment.

A summary of the key takeaways from the outreach with NSS and FoF is provided in **Appendix 2**.

Liaison and Engagement with Accounting Standard Setting Bodies

5. In developing ED-570, the IAASB engaged with other stakeholders in the financial reporting ecosystem with a direct influence on financial reporting. This included continued dialogue with the International Accounting Standards Board (IASB) and the International Public Sector Accounting Standards Board (IPSASB).
6. The following meetings and discussions are relevant:
 - In June 2023, the GC TF incoming and outgoing Chairs and Staff discussed with IASB representatives certain proposals included in ED-570 that relate to terminology (e.g., the proposed definition of Material Uncertainty (Related to Going Concern) and clarifying the phrase “may cast significant doubt”), the change in the commencement date of the period of management’s assessment to the date of approval of the financial statements and for transparency about going concern in the auditor’s report. In providing their feedback in June 2023, before the written responses from the feedback were available, IASB representatives considered that the proposals in ED-570 remain aligned and consistent with the requirements of IAS 1² with respect to management’s responsibilities related to going concern.

² International Accounting Standard (IAS) 1, *Presentation of Financial Statements*

- In November 2023, the GC TF Chair and Staff provided an initial overview of the responses received to ED-570 to IASB representatives, including high level observations from the feedback that may also be relevant for the IASB.
- In December 2023, the IASB provided the IAASB with a Technical Update³ on their standard-setting activities and future plans. As part of the update, the IASB provided an overview of the liaison activities with the IAASB for going concern. Also, at the meeting, the GC TF Chair recognized the importance of the ongoing close collaborative relationship given the interdependencies between the auditing and financial reporting aspects for going concern, and expressed disappointment that the IASB has not undertaken a project to improve the financial reporting aspects related to management’s responsibilities for going concern.
- In January 2024, Staff of the IAASB provided an update to Staff of the IPSASB on the going concern project. During the meeting, highlights from respondents’ feedback to ED-570 were shared for matters that may be relevant to the IPSASB’s *Presentation of Financial Statements* project, which aims to replace IPSAS 1,⁴ including areas where respondents urged for improvements to the financial reporting framework in relation to management’s responsibilities for going concern.

Other Activities

7. Other activities in support of the outreach for ED-570 included:

- Social media campaign (e.g., periodical releases and reminders to provide feedback via LinkedIn, Tweeter, specific releases for the short video series, and tagging on both IAASB and International Federation of Accountants (IFAC) social media networks).
- IFAC Gateway article that highlighted the key changes proposed in ED-570 and the reason for the changes. In addition, the Gateway article was leveraged to promote the short video series.
- IAASB E-news featuring ED-570 and spotlight interview with the incoming GC TF Chair.
- Featuring ED-570 on IAASB’s home page and adding new content to the Going Concern project page.
- Meetings and events after the approval of the exposure draft, through 2023, with various stakeholders as part of the IAASB general outreach program where ED-570 was discussed, including:
 - Meeting with the International Forum of Independent Audit Regulators’ (IFIAR) Standards Coordination Working Group (SCWG) – Madrid, Spain
 - Participation at the Nordic Federation of Public Accountants (NRF) Annual Meeting – Helsinki, Finland
 - Presentation and meeting with the International Organization of Securities Commissions’ (IOSCO), Committee on Issuer Accounting, Audit and Disclosures (Committee 1) – Paris, France

³ See [Agenda Item 5](#) presented to the IAASB at the December 2023 quarterly meeting.

⁴ International Public Sector Accounting Standard (IPSAS) 1, *Presentation of Financial Statements*

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IAASB Main Agenda (March 2024)

- Presentation and meeting with the Basel Committee on Banking Supervision's (BCBS), Accounting and Auditing Expert Group – Paris, France
- Presentation and meeting with the Small and Medium Practices Advisory Group (SMPAG) of IFAC – New York, United States
- Presentation and meeting with the Monitoring Group (joint meeting involving the IAASB and the IESBA) – Basel, Switzerland

Next Steps

8. The going concern project is expected to be discussed by the Board at its June, September and December 2024 quarterly meetings, when the GC TF will present its views and proposals in response to the feedback to ED-570. The IAASB's approval of the final pronouncement is targeted for December 2024. In June 2024, the GC TF will present an analysis of respondents' feedback to ED-570 and its initial views and proposals to address certain themes identified from the responses.

GC TF Members and Activities

GC TF Members

1. The GC TF consists of the following members:
 - Edo Kienhuis (Chair)
 - Greg Schollum
 - Sue Almond
 - Wendy Stevens
 - Kai Morten Hagen
2. Information about the project can be found [here](#).

GC TF Meetings

3. Since March 2023, the GC TF held 1 in person meeting and 1 virtual meeting.

Feedback from Outreach with NSS and FoF Representatives

Feedback from NSS

1. At the IAASB NSS group's meeting on June 12-13, 2023, the GC TF Chair provided an overview of the key proposals for going concern, and sought feedback from NSS representatives for selected topics in ED-570 related to:

- The timeline over which the going concern assessment is made; and
- Transparency about going concern in the auditor's report.

A summary of the key comments from NSS for each of these topics is provided below.

Timeline Over Which the Going Concern Assessment is Made

2. NSS representatives had mixed views about the practical application of the proposal in ED-570 to extend the commencement date of the twelve-month period of management's assessment from the date of the financial statements to the date of approval of the financial statements. Comments included that in certain jurisdictions it would not be possible to apply the requirement, if not supported by changes in the applicable financial reporting framework or within national regulations. NSS representatives also:

- Encouraged the GC TF to continue its engagement and dialogue with the IASB with respect to this matter.
- Commented that the scalability aspects of the proposal should be further considered, particularly with respect to how the requirement would apply for audits of smaller or less complex entities (e.g., providing context for when there is lack of analysis provided by management or clarifying management's responsibilities with respect to preparing an assessment of the entity's ability to continue as a going concern).
- Noted that it would be helpful if a threshold is provided to support the applicability of the requirement (e.g., for the extension to apply only when events or conditions are identified that may cast significant doubt on the entity's ability to continue as a going concern).

3. NSS representatives also had mixed views about the flexibility provided in ED-570 for circumstances where management is unwilling to make or extend its assessment and can support the appropriateness of their use of the going concern basis of accounting. Comments included that:

- Providing such flexibility, may be perceived as overriding the requirement and reducing its overall effectiveness.
- The flexibility provided in the application material is not sufficient and cannot override the obligation stated in the requirement.

Transparency about Going Concern in the Auditor's Report

4. Overall, there was support from NSS representatives for the proposals in ED-570 to enhance transparency about the auditor's work and responsibilities related to going concern in the auditor's report. In particular, there was strong support from those jurisdictions who have implemented (or are considering implementing) similar enhancements in their national equivalent standards. Suggestions

included for the GC TF to further consider the results of post-implementation reviews undertaken in these jurisdictions to assess the effectiveness of the going concern revisions made.

5. NSS representatives also commented as follows:
 - Requiring auditors to make explicit statements in the auditor’s report, without a disclosure requirement for management, implies that auditors have a greater responsibility than management about going concern and turns implicit management assertions into explicit assertions.
 - Further consideration is needed whether extending the proposals to describe how the auditor evaluated management’s assessment of going concern should apply to audits of all entities (e.g., this may be only useful for listed entities or public interest entities (PIEs)).
6. The difference in approach with the proposals for communicating fraud related matters in the auditor’s report should be explained, as well providing clarity for when there is interrelated reporting on fraud and going concern matters. In addition, during the fraud outreach with NSS, there was broad support for using the KAM “mechanism” when determining those fraud related matters that required significant auditor attention and related discussions around the rationale used for the different approaches when addressing transparency about fraud and going concern in the auditor’s report.

Feedback from Deep Dive Session with FoF

7. The GC TF Chair, Member and Staff attended a session at the FoF meeting that took place on June 27, 2023, and provided an update on the recently approved ED-570. Following the brief update, FoF Representatives were asked to discuss the questions below in breakout groups:

Questions for FoF Representatives

- A. Representatives are asked to share their views on the change in the **commencement date** of the twelve-month period of management’s assessment of going concern, from the date of the financial statements (in extant ISA 570 (Revised), *Going Concern*) to the date of approval of the financial statements (see paragraphs 37-41 of the Explanatory Memorandum (EM)).

As part of the feedback, the IAASB is particularly interested in hearing:

- (a) About the impact and any potential practical implications of the proposed change.
 - (b) Whether the proposals provide sufficient flexibility, in circumstances where management is unwilling to make or extend its assessment, for management to provide additional information to the auditor in order to support the appropriateness of their use of the going concern basis of accounting (see paragraphs 42-44 of the EM).
 - (c) Whether, and if so, in what circumstances, firms apply a different commencement date of the period, other than the twelve months from the date of the financial statements (in extant ISA 570 (Revised)), for the auditor’s evaluation.
- B. Representatives are asked to share their views on the proposed changes to the **auditor’s report about going concern** (see paragraphs 68-93 of the EM). In particular, the IAASB is interested in views on whether the:

- (a) New requirements and application material will facilitate enhanced transparency about the auditor’s responsibilities and work relating to going concern.
- (b) Proposals enable greater consistency and comparability across auditor’s reports globally.
- (c) Proposals to describe how the auditor evaluated management’s assessment of going concern, that are applicable to audits of listed entities, is an appropriate proportional response. In this regard should the IAASB consider extending these proposals to apply to audits of financial statements of entities other than listed entities?
- C. Please share any insights on what is being done differently within your network with respect to going concern considering the ongoing uncertainties in the broader economic environment.

8. A summary of the main points and key takeaways from the discussion is provided below.

Change in the Commencement Date of the Twelve-Months Period of Management’s Assessment of Going Concern (Question A):

- Overall, there were mixed views among FoF Representatives for the proposed change in the commencement date of the twelve-months period of management assessment of going concern, from the date of the financial statements (in extant) to the date of the approval of the financial statements (in ED-570).
- There was recognition that the proposals support the public interest, as well as that in certain jurisdictions there are no legal restrictions that would prevent the auditor to request management to extend the going concern assessment beyond the minimum period prescribed by the applicable financial reporting framework. In addition, some FoF Representatives acknowledged that requesting an extension of the commencement date to the date of approval of the financial statements or the date of the auditor’s report is already a well-established practice for firms in the post pandemic environment.
- However, concerns included that by virtue of this proposal, the IAASB is setting a new requirement on management that should be addressed by the financial reporting framework and not by the auditing standards. Comments were also made that going concern is an area where there is already an expectation gap, and that this proposal may exacerbate such gap.
- Whilst recognizing that the flexibility provided by the standard is helpful, comments were made that without a corresponding change in the requirements of the financial reporting framework, there may be situations in practice whereby management has complied with the requirements of the applicable financial reporting framework, but the auditor is not able to issue an unmodified audit opinion.
- FoF Representatives also believed there may be practical challenges with implementing the requirement. For example, some entities may have a twelve-months budgeting cycle that matches the date of the financial statements and it may be challenging for management to extend its period of assessment. In addition, comments were made that in some industries it is not unusual for there to be a longer delay in the issuance of the auditor’s report. There may also be discrepancies across jurisdictions as to what constitutes the date of approval of the financial statements (e.g., for listed entities this may be the date when the financial statements are approved by the audit committee). Some FoF Representatives also suggested further guidance to be provided to address the circumstance of a restatement of prior period financial

statements (e.g., would a revised going concern assessment be required when prior period financial statements are restated).

- Views also included that the requirement appears more appropriate for listed entities and seems onerous for smaller or less complex entities, and especially for owner-manager entities. Given the increased work effort for the auditor this may also adversely impact audit fees.
- Suggestions included that firms may explore requiring a twelve-months going concern assessment commencing at the date of approval of the financial statements as a precondition before accepting or continuing the audit.

Proposed Changes to the Auditor's Report About Going Concern (Question B):

- Representatives expressed the following concerns with respect to providing explicit statements about going concern in the auditor's report for all entities:
 - The proposals may exacerbate the expectation gap, given that intended users may believe that there is a guarantee from the auditor that the entity will continue as a going concern for the foreseeable future.
 - The statements increase the length of the auditor's report, and this may have the unintended consequence of users not reading the full report, thereby reducing its value.
 - The extant model of reporting going concern by exception is seen as effective as it emphasizes the informational value of the auditor's report when there are going concern issues to highlight.
 - The explicit statements are perceived as overlapping and being repetitive of the auditor's responsibilities.
- There were also mixed views regarding the proposals to describe how the auditor evaluated management's assessment of going concern, that are applicable to audits of listed entities. Comments included:
 - Intended users are more interested in the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and how management's judgments underpin the going concern assessment. It was therefore seen valuable to enhance the requirements for management's disclosures about going concern.
 - While acknowledging that it adds transparency, views included that adding more disclosures in the auditor's report appeared to compensate for inadequate management disclosures about going concern.
 - There were concerns that the disclosure may become boilerplate, as well as concern that it adds length to the auditor's report which may detract users from reading the report.
- In addition, FoF Representatives in general did not support extending the proposal to describe how the auditor evaluated management's assessment of going concern to audits of financial statements of entities other than listed entities. However, there was support for reporting going concern matters in a single section of the auditor's report.
- Views also included that providing more information in the auditor's report on how the auditor evaluated management's assessment of going concern may have positive effects, for example,

modifying auditor behavior and improving audit quality. In addition, it may provide an opportunity for the auditor to explain and demonstrate what going concern procedures they have performed in the course of the audit.

Insights on What is Done Differently by Firms with Respect to Going Concern in Today's Business Environment (Question C):

- Comments were made that even good organizations can go out of business in today's business environment, given the increased uncertainties in the wider political and economic environment, as well as because of other factors that may impact the entity's ability to continue as a going concern (e.g., effects of disruptive technologies). As a result, it has become increasingly difficult to predict future events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
- In response to these conditions, firms are implementing more stringent client acceptance and continuance procedures and are more wary of taking on new clients with going concern risks.
- Firms are also assigning more specialists to audited clients with going concern risks (e.g., corporate finance experts to assess areas like cash flow forecasts or financing), have introduced internal review processes and required consultations for entities that have modified opinions with respect to going concern and are more frequently seeking external information sources when evaluating audit evidence about going concern.