

Going Concern

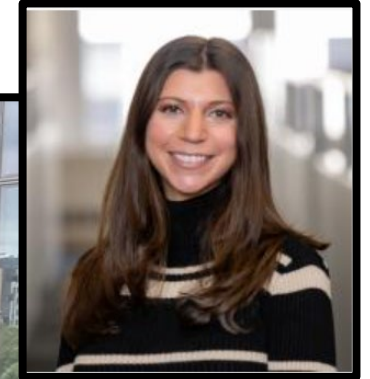
Edo Kienhuis

Going Concern Task Force (GC TF) Chair

IAASB Meeting

September 16-20, 2024

GC TF and Staff



Activities and Outreach since June 2024



Liaison and Engagement with Accounting Standards Setting Bodies

- Discussion with IASB



Stakeholder Outreach

- Engagement with prudential regulators
- American Institute of Certified Public Accountants (AICPA)



Monitoring Jurisdictional Developments

- Standard-setting and other initiatives

Heatmap* of Key Themes From Feedback Received



Scalability

- Support for the scalability guidance and examples
- Clarity needed for the required work effort to
 - Evaluate **management's assessment** when there are no going concern risks
 - Perform audit procedures to evaluate the **method, assumptions and data** in all instances and irrespective of whether events or conditions are identified
 - Support proportional application to entities operating in the **public sector**
- Suggestions to consider a differential approach that would apply only to listed entities or public interest entities (PIEs)

Matter for IAASB Consideration

Question 1

The Board is asked whether they agree with the GC TF summary of respondents' feedback presented in **Section I** and whether there are any other significant issues raised that also should be considered.

Question 2

The Board is asked for its views on the GC TF recommendation discussed in paragraph 18 in the Issues Paper to not pursue a differential approach to the 'performance' requirements of the standard.



Management's Assessment of Going Concern

- Recognition that proposed approach is more robust over extant, but seen as inconsistent with concept of risk-based audit
- Views that requiring audit procedures to evaluate the method, assumptions and data
 - Should focus more on significant assumptions and judgements made by management
 - May not always apply or be appropriate
 - May risk overlooking a critical event or condition or distract from the evaluation of other significant judgments
- Stronger work effort suggested for events or conditions not previously identified or disclosed to the auditor

Task Force Views and Key Changes

Management's Assessment of Going Concern

- Emphasized significant judgments when evaluating management's assessment
- Scalability enhancements to the requirement for evaluating the method, significant assumptions and data
- Clarity provided for 'method' in the context of the standard
- Strengthened the requirements for
 - Evaluating the relevance and reliability of the data
 - Events or conditions not previously identified or disclosed to the auditor
 - Period beyond management's assessment

Matters for IAASB Consideration

Question 1

The Board is asked whether they agree with the GC TF summary of respondents' feedback presented in **Section II** and whether there are any other significant issues raised that also should be considered.

Question 3

The Board is asked for its views on the GC TF recommendations discussed in the Issues Paper and reflected in **Agenda Item 3-B** to address matters relevant to management's assessment of going concern.



**Paras. 17–20, 24–25
and A21A, A29–A31,
A32–A41, A46**

Management's Plans for Future Actions

- Support for the enhanced requirements and application material
- Suggestions for
 - A stronger requirement to evaluate intent to maintain or provide financial support
 - Relegating management's intent to the application material
 - Providing further guidance and examples of what constitutes sufficient appropriate evidence when evaluating ability and intent
 - Linking the requirements to evaluate managements' plans for future actions with the requirement to evaluate the method, assumptions and data

Task Force Views and Key Changes

Management's Plans for Future Actions

- Aligned the requirement to evaluate management's plans with changes made to the definition
- Clarified the expectation for the auditor to obtain audit evidence about the ability and intent to provide financial support
- Established a clearer link to the requirement to evaluate the significant assumptions and data when management's plan is based on forecasts
- Clarifications to the application material

Matters for IAASB Consideration

Question 1

The Board is asked whether they agree with the GC TF summary of respondents' feedback presented in **Section III** and whether there are any other significant issues raised that also should be considered.

Question 4

The Board is asked for its views on the GC TF recommendations discussed in the Issues Paper and reflected in **Agenda Item 3-B** to address matters relevant to management's plans for future actions.



**Paras. 26-27 and
A47–A50, A52–A54**

Public Sector Considerations

- Cross cutting messages that ED-570 does not sufficiently consider the uniqueness of the public sector environment
- Suggestions for
 - Further public sector considerations to support proportionate application
 - Scalability guidance

Task Force Views and Key Changes

Public Sector Considerations

- New application material with *Considerations Specific to Public Sector Entities* to
 - Support proportionate application
 - Recognize the unique circumstances of auditing going concern in the public sector context

Matters for IAASB Consideration

Question 1

The Board is asked whether they agree with the GC TF summary of respondents' feedback presented in **Section IV** and whether there are any other significant issues raised that also should be considered.

Question 5

The Board is asked for its views on the GC TF recommendations discussed in the Issues Paper and reflected in **Agenda Item 3-B** to address matters relevant to the public sector considerations.



**Paras. A2, A18A,
A25A, A31A, A42C,
A66**

Documentation

- Encouragement to incorporate specific documentation requirements that would clarify the application of ISA 230 to the auditor's work on going concern
- Suggestion for documenting
 - Key elements of the understanding of the entity and its environment
 - Indicators of possible management bias
 - Significant judgments relating to the determination of the appropriateness of management's use of the going concern basis of accounting, whether a material uncertainty exists and the appropriateness of disclosures
 - The identified events or conditions that may cast significant doubt

Task Force Views and Key Changes

Documentation

- Added a specific documentation requirement for the auditor's significant professional judgements made when
 - Concluding on the appropriateness of the basis of accounting
 - Concluding whether a material uncertainty exists
 - Determining the adequacy of the disclosures related to going concern

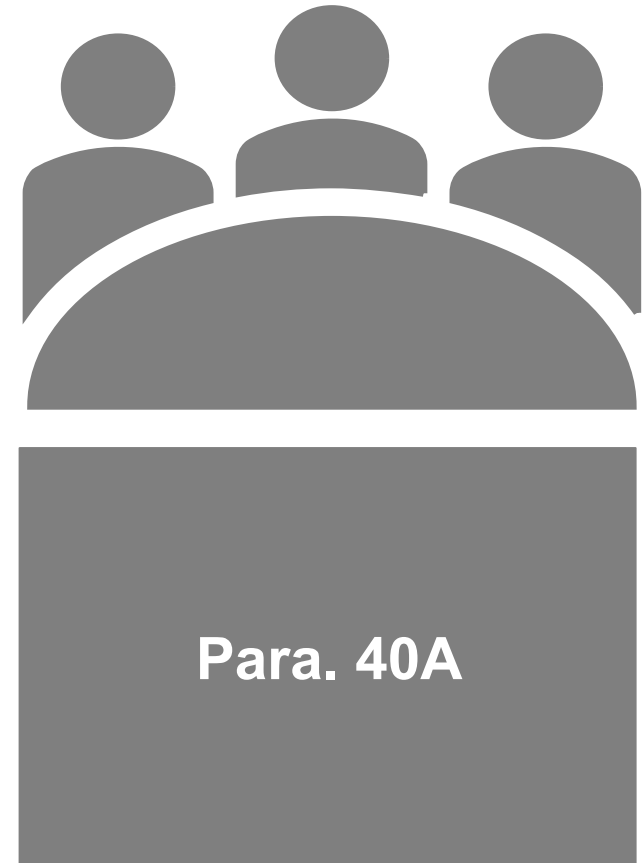
Matters for IAASB Consideration

Question 1

The Board is asked whether they agree with the GC TF summary of respondents' feedback presented in **Section V** and whether there are any other significant issues raised that also should be considered.

Question 6

The Board is asked for its views on the GC TF recommendations discussed in the Issues Paper and reflected in **Agenda Item 3-B** to address matters relevant to documentation.



Other Matters and Translations

- Views that further consideration is needed for
 - Information that becomes available after the date of the auditor's report
 - Evaluating and concluding whether a material uncertainty exists
 - Elevating certain application material as requirements
 - Special purpose frameworks and review engagements
- No significant translation issues

Task Force Views and Key Changes

Other Matters and Translations

- Guidance added to support the auditor when concluding whether a material uncertainty exists
- No changes proposed for
 - When information becomes available after the date of the auditor's report
 - Elevating certain application material as requirements
 - Special purpose frameworks and review engagements

Matters for IAASB Consideration

Question 1

The Board is asked whether they agree with the GC TF summary of respondents' feedback presented in **Section VI** and whether there are any other significant issues raised that also should be considered.

Question 7

The Board is asked for its views on the GC TF recommendations discussed in the Issues Paper and reflected in **Agenda Item 3-B** to address other matters.



**Paras. 28, 29–30 and
and A51, A55, A56–
A60A, A63, A77**

Key Changes Since June 2024

Definition of Material Uncertainty (Related to Going Concern)

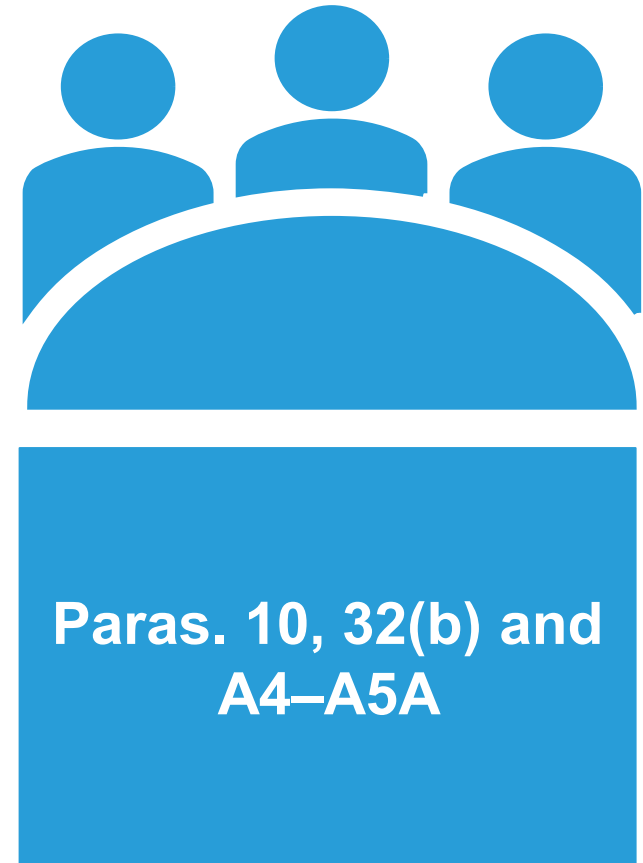
- Reallocated disclosures to paragraph 32(b)
- Inserted the phrase “*realize its assets and discharge its liabilities in the normal course of business*” to align with language used in paragraphs 2 and 32(b)

Matters for IAASB Consideration

Question 8

The Board is asked for its views on the GC TF revisions for the matters discussed in **Part B** of the Issues Paper and as reflected in **Agenda Item 3-B** for:

- a) The definition of Material Uncertainty (Related to Going Concern).



Key Changes Since June 2024

Risk Identification and Assessment

- Changes to paragraph 11
 - Strengthened the work effort to “determination”
 - Aligned the text more closely with the original text in ED-570

Matters for IAASB Consideration

Question 8

The Board is asked for its views on the GC TF revisions for the matters discussed in ***Part B*** of the Issues Paper and as reflected in **Agenda Item 3-B** for:

b) Risk identification and assessment.



**Paras. 11–15 and
A6–A18, A19–A21,
A22–A25, A26–A28**

Key Changes Since June 2024

**Timeline Over
Which the Going
Concern
Assessment is
Made**

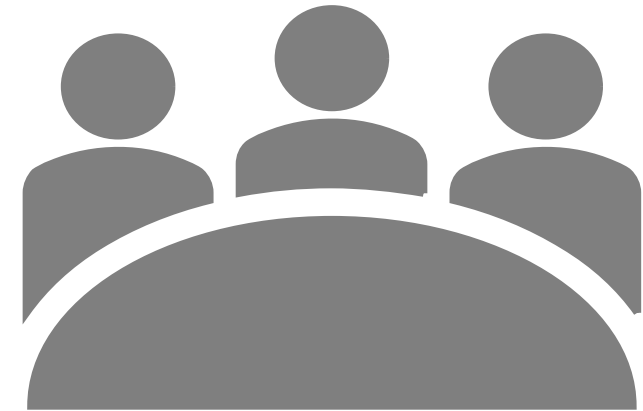
- Retained the distinction between management's unwillingness to *make* or *extend* an assessment
- Replaced *believes* with *in the auditor's professional judgment* in paragraph 23

Matters for IAASB Consideration

Question 8

The Board is asked for its views on the GC TF revisions for the matters discussed in **Part B** of the Issues Paper and as reflected in **Agenda Item 3-B** for:

- c) The timeline over which the going concern assessment is made.



**Paras. 16, 21–23 and
A28A, A42–A42B,
A43–A45**

Key Changes Since June 2024

Communication with Appropriate External Parties

- Elevated “right” to report to an appropriate authority to the requirement
- Clarified the drafting not to imply that communication occurs when the auditor’s final conclusion is made
- Retained the references to the NOCLAR provisions of the IESBA Code in the application material

Matters for IAASB Consideration

Question 8

The Board is asked for its views on the GC TF revisions for the matters discussed in ***Part B*** of the Issues Paper and as reflected in **Agenda Item 3-B** for:

- d) Communication with appropriate external parties.



Key Changes Since June 2024

Transparency About Going Concern in the Auditor's Report

- Retained 'guarantee' in the explicit statements
- Illustrations
 - Added a subtitle to illustrations 1-2 to signpost that *No material uncertainty exists* and to distinguish from when a material uncertainty exists
 - Changed the ordering of the statements in illustrations 3-6
- Recognized that a “close call” is by its nature a key audit matter
- Retained the required reference to disclosures when significant judgments are made by management

Matters for IAASB Consideration

Question 8

The Board is asked for its views on the GC TF revisions for the matters discussed in **Part B** of the Issues Paper and as reflected in **Agenda Item 3-B** for:

- e) Transparency about going concern in the auditor's report.



**Paras. 33–37; A1,
A67–A85, and
Illustrations 1–6 of
the Appendix**

Other Changes Since June 2024

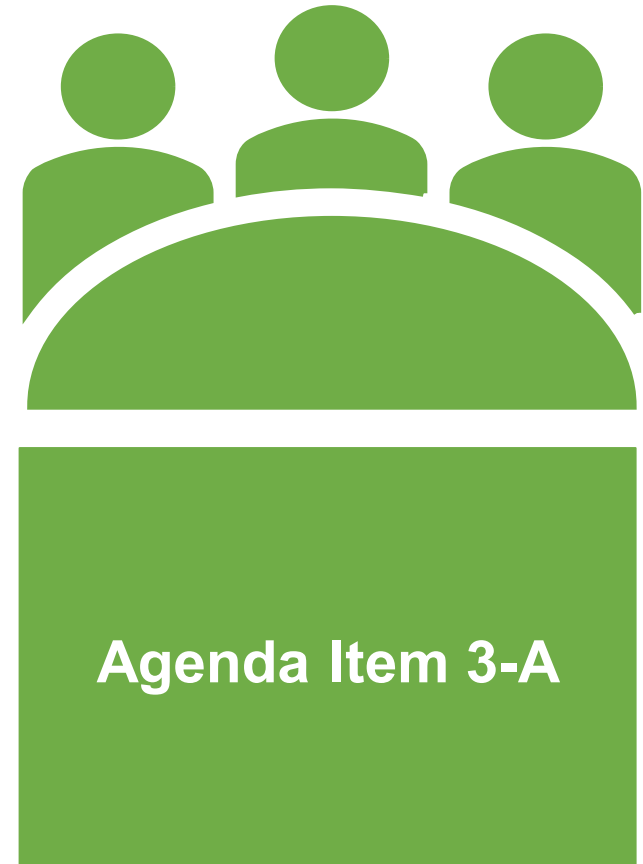
Other Changes

- In response to offline comments
- Revisions of a clarifying nature

Matters for IAASB Consideration

Question 9

The Board is asked for its views on the other changes made to proposed ISA 570 (Revised 202X) discussed in **Agenda Item 3-A** and as reflected in **Agenda Item 3-B**.



Going Concern: Way Forward to Final Approval

December 2024



- Expected approval of the final standard and the conforming and consequential amendments to other ISAs

- Ongoing outreach with
 - IASB and IPSASB
 - SMPAG
 - Other key stakeholders as part of general outreach program
- Coordination with IESBA and other IAASB task forces, consultation groups



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