

# Going Concern

**Josephine Jackson**

**Going Concern Task Force (GC TF) Chair**

**IAASB CAG Meeting**

**September 7-8, 2022**

**Agenda Item D.1**

# Agenda: Selected Topics on Going Concern

**Update on  
Developments**

**Risk  
Assessment  
Procedures  
and Related  
Activities**

**Management's  
Assessment of  
Going Concern**

**Professional  
Skepticism**

**Terminology**

**Timeline &  
Transparency**

**Development  
of Non-  
Authoritative  
Guidance**

**Discussed at the June 2022 Board Meeting**

# Update on Developments: June 2022 Board Meeting Discussion

- Proposed change in the **commencement date** of the period of the auditor's evaluation of management's assessment
- Enhancements to strengthen the requirements for **communication with those charged with governance** (TCWG)
- New requirements for **communication with appropriate external parties**.
- Enhancements to strengthen the requirements to increase **transparency in the auditor's report** about the auditor's work related to going concern:
  - For all entities – providing explicit statements about going concern in the auditor's report
  - For a listed entity – describing in the auditor's report how the events or conditions were addressed in the audit

# Update on Developments: Liaison and Engagement with Others

## IASB

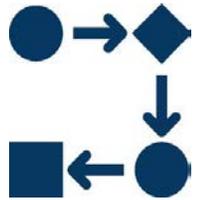
IASB decided not to add a project on going concern in its future workplan

IAASB Chair sent a written response acknowledging the decision and expressing the desire to continue the dialogue on this topic

## IPSASB

Intends to approve a project proposal to revise IPSAS 1, *Presentation of Financial Statements* in early 2023

# Risk Assessment Procedures and Related Activities



Proposed changes to restructure ISA 570 to align with the **structure and flow** of ISA 315 (Revised 2019)



Proposed changes to demonstrate the integrated nature of ISA 570 and ISA 315 (Revised 2019), including **strengthening and enhancing requirements and application material** for a more robust identification of whether events or conditions exist that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern

# Management's Assessment of Going Concern

**Enhancements to  
require a more  
robust evaluation of  
management's  
assessment of  
going concern**

- Audit procedures:
  - Irrespective of whether events or conditions are identified
  - To evaluate the method, assumptions and data used by management to make its assessment
- New application material to address scalability

# Professional Skepticism

**Reinforce a more  
robust exercise of  
professional  
skepticism**

- New requirements and application material:
  - To emphasize the importance of professional skepticism when designing and performing audit procedures in a manner that is not biased.
  - To challenge managements' assessment more robustly and to evaluate the risk of management bias.
- Examples when events or conditions may present fraud risk factors.

# Terminology

## Clarifying Key Concepts

- Definition
  - Proposed definition for **Material Uncertainty** (related to going concern) based on existing description in extant ISA 570
- Application Material
  - Determining whether a material uncertainty related to going concern exists

# Timeline

## Timeline Over Which the Going Concern Assessment is Made

- Commencement date of the period of the auditor's evaluation of management's assessment changed to the date of approval of financial statements
- Period of at least 12 months remains unchanged
- Auditor evaluates the reasonableness of management's choice of assessment period

# Transparency – External Parties & TCWG

## Communication with Appropriate External Parties

- New requirement and application material to report to an appropriate authority outside of the entity when a MURGC or modified opinion is issued
- Applicable for communications to relevant regulatory, enforcement, supervisory or other appropriate authority outside the entity

## Communication with TCWG

- Strengthened requirements and new application material that builds on the foundational requirements in ISA 260 (Revised)
- Enhancing timely, two-way communication with TCWG
- Requirement as part of risk assessment procedures to obtain an understanding of how TCWG exercise oversight over management's assessment

# Transparency – Auditor’s Report

## *Basis of Accounting is Appropriate*

<i>Applicability</i>	<b>Going Concern Section (No Material Uncertainty Exists)</b>	<b>MURGC Section (Material Uncertainty Exists)</b>
<b>All entities</b>	<p>Explicit statements:</p> <ul style="list-style-type: none"> <li>▶ That management’s use of the going concern basis of accounting is appropriate</li> <li>▶ No material uncertainties related to events or conditions have been identified</li> </ul>	<p>In addition to the extant requirements, an explicit statement:</p> <ul style="list-style-type: none"> <li>▶ That management’s use of the going concern basis of accounting is appropriate</li> </ul>
<b>Listed entities</b>	<ul style="list-style-type: none"> <li>▶ Description of how the auditor addressed the events or conditions</li> </ul>	<ul style="list-style-type: none"> <li>▶ Description of how the auditor addressed the events or conditions</li> </ul>

# Development of Non-Authoritative Guidance

- August 2022: Frequently Asked Questions released
- Purpose:
  - Targeted and timely response to questions raised in the feedback about MURGC, KAM and EOM
  - To enhance the understandability and consistent implementation of the ISAs

## Non-Authoritative Guidance - FAQs

IAASB

Frequently Asked Questions  
August 2022

### Reporting Going Concern Matters in the Auditor's Report

*This publication has been developed by the Going Concern Task Force of the International Auditing and Assurance Standards Board (IAASB) to address some of the common questions in relation to the use of and the interrelationship of Material Uncertainty Related to Going Concern and Key Audit Matters sections, and Emphasis of Matter paragraphs, in the auditor's report prepared in accordance with International Standards on Auditing (ISAs).*

*This publication does not amend or override the International Standards on Auditing (ISAs), the texts of which alone are authoritative. The frequently asked questions are not meant to be exhaustive<sup>1</sup> and reading this publication is not a substitute for reading the ISAs.*

#### ABBREVIATED TERMS FREQUENTLY USED IN THIS PUBLICATION:

MURGC – Material Uncertainty  
Related to Going Concern

KAM – Key Audit Matters

EOM – Emphasis of Matter

**Question 1** What is the purpose of MURGC and KAM sections and EOM paragraphs in the auditor's report?

The table below provides an overview of the purpose of Material Uncertainty Related to Going Concern (MURGC) and Key Audit Matters (KAM) sections and Emphasis of Matter (EOM) paragraphs:

Heading	Purpose
<b>Material Uncertainty Related to Going Concern<sup>2</sup></b>	► Applies if the auditor has concluded that a material uncertainty related to going concern exists, and for which adequate disclosure has been made in the financial statements. The use of a separate section that includes reference to the fact that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern is intended to give additional prominence to this information and alert users to this circumstance.
<b>Key Audit Matters<sup>3</sup></b>	► Provides information to intended users to assist them in understanding those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period, including how such matters were addressed in the audit.

# Way Forward

**Monitoring jurisdictional developments, ongoing dialogue and engagement with others in the financial reporting ecosystem**

## Q4 2022:

- Development of exposure draft: IAASB deliberation of issues and proposals
- Coordination with other IAASB task forces and Consultation Groups

## Q1 2023:

- IAASB approval of exposure draft (March 2023)

# Matters for IAASB CAG Consideration



- Representatives are asked for their views on the Going Concern Task Force proposals presented in **Agenda Item D.1** to address the key issues for:
  - Terminology (i.e., the definition of *Material Uncertainty (Related to Going Concern)*)
  - The timeline over which the going concern assessment is made
  - Enhancing transparency about going concern in the auditor's report

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