

Meeting: IAASB Consultative Advisory Group (CAG)

Meeting Location: Virtual Zoom Meeting

Meeting Date: September 7–8, 2022

Agenda Item D

Going Concern – Cover and Report Back

Objectives of Agenda Item

1. The objectives of this Agenda Item are to:
 - (a) Obtain the Representatives' views on the Going Concern Task Force's proposals to revise ISA 570 (Revised), *Going Concern*.
 - (b) Report back on Representatives' comments made at the March 2022 IAASB CAG meeting.

Update on Activities Since the March 2022 IAASB CAG Meeting

2. In March 2022, the IAASB discussed and approved a [project proposal](#) for the revision of ISA 570 (Revised) and the conforming and consequential amendments to other relevant ISAs.
3. In June 2022, the Going Concern Task Force presented to the Board its initial views and recommendations for two key issues identified, namely the timeline over which the going concern assessment is made and transparency about the auditor's responsibilities and work related to going concern, and related proposed actions (see [Agenda Item 5](#) presented to the IAASB at its June 2022 quarterly meeting).
4. At the upcoming IAASB meeting in September 2022, the Going Concern Task Force will present and discuss with the Board its initial views and recommendations in relation to certain other proposed actions of the project proposal to address key issues related to risk identification and assessment, management's assessment of going concern, professional skepticism and terminology.
5. It is envisaged that an exposure draft for proposed ISA 570 (Revised) will be presented for approval at the IAASB March 2023 meeting.
6. The Appendix to this paper provides a history of previous discussions with the IAASB CAG and the IAASB on this topic, including links to the relevant IAASB CAG documentation.

Liaison and Engagement with Others

7. Since March 2022, the Going Concern Task Force continued to liaise with the International Accounting Standards Board (IASB) and engaged in dialogue with other relevant stakeholders on topics related to going concern that are of mutual relevance.
8. At its April 2022 meeting, the IASB concluded its deliberations on the feedback and decisions about its priorities and work plan for 2022 to 2026. As a result of those deliberations, the IASB decided not

to add to its work plan a project on going concern disclosures.¹ The IAASB Chair subsequently sent a letter² to the IASB dated May 13, 2022, acknowledging the IASB decision and expressing the Board's desire to continue the dialogue and seek alternative approaches to address management's responsibilities with respect to preparing financial statements on a going concern basis. The importance of an ongoing close collaborative relationship was also highlighted especially when considering the interdependencies of the respective global standard setting activities. In July 2022, as part of its ongoing engagement with stakeholders, the IAASB Chair and Staff met with representatives of the IASB to further discuss matters of mutual relevance, including on going concern.

9. In May 2022, as part of its mid-period work plan consultation, the International Public Sector Accounting Standards Board (IPSASB) added to its 2022 work program a project to revise the overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content, including disclosure.³ Staff of the IPSASB provided an update to IAASB Staff about the recently added project to its work program. The IPSASB will commence its scoping activities in quarter 3 and 4 of 2022 and intends to approve a project proposal to revise IPSAS 1⁴ in early 2023.

IAASB CAG Discussion in September 2022

10. The IAASB CAG discussion in September 2022 will comprise a high-level review of the Going Concern Task Force's key proposals to date to revise ISA 570 (Revised), with a focus on the public interest issues identified in the project proposal for:
- Risk assessment procedures and related activities.
 - Management's assessment of going concern.
 - Professional skepticism.
 - Terminology.
 - Timeline over which the going concern assessment is made.
 - Transparency about the auditor's responsibilities and work related to going concern.
 - Development of non-authoritative guidance.
11. A presentation to guide the discussion has been provided (see **Agenda Item D.1**).

Matters for IAASB CAG Consideration:

1. 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:
- (a) Terminology (i.e., the definition of *Material Uncertainty (Related to Going Concern)*).
 - (b) The timeline over which the going concern assessment is made.

¹ See [IASB Update April 2022](#).

² See [IAASB-Response-to-IASB-April-2022-Work-Plan-Update-Going-Concern.pdf \(ifac.org\)](#)

³ See the [IPSASB Mid-Period Work Plan Consultation Summary](#).

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

(c) Enhancing transparency about going concern in the auditor's report.

Feedback

12. Extracts from the approved March 2022 IAASB CAG meeting minutes relevant to going concern, as well as an indication of how the Going Concern Task Force or the IAASB has responded to the Representatives' comments, is included in the table below.

Report Back on the March 2022 IAASB CAG Meeting	
Representatives' Comments	Going Concern Task Force / IAASB Response
<i>Overall Responses</i>	
Drs. Cela and Orth, Mss. Blomme and Vanich, Messrs. Hansen, Ishiwata, Munter, Rees, Sobel, Thompson and Yoshii all noted their support for the project to revise ISA 570 (Revised). Ms. McGeachy specifically conveyed the SMP Advisory Group support for the project. Ms. Wei expressed support for the project and from a capital market regulators perspective noted the relevance of the proposed actions for supporting improved audit quality with respect to going concern.	Support noted.
<i>Risk Identification and Assessment</i>	
Ms. Vanich supported the actions related to risk identification and assessment and suggested that, in addition to emphasizing the timely identification of events and conditions that may cast significant doubt on the entity's ability to continue as a going concern, to also consider highlighting, when events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the effect and related impact on the broader identification and assessment of risks of material misstatement at the financial statement and assertion levels.	Point noted. While undertaking the actions included in paragraph 35 (action AB.1) of the project proposal, the Going Concern Task Force has considered enhancements to the standard so as to highlight the broader connection with the assessment of risks of material misstatement at the financial statement and assertion levels as required by ISA 315 (Revised 2019) ⁵ (see Agenda Item D.1).
<i>Timeline Over Which the Going Concern Assessment is Made</i>	
Dr. Orth and Ms. Blomme highlighted the importance of the financial reporting standards in relation to going concern and supported that the	Point noted. Ms. Jackson agreed that for certain actions it may

⁵ ISA 315 (Revised 2019), *Identifying and Assessing the Risk of Material Misstatement*

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going concern requirements for management should also be enhanced. They also emphasized the importance of a holistic approach in relation to addressing going concern that would involve liaison and coordination with accounting standard-setting bodies. Ms. Blomme noted that certain actions, such as the enhancements to the timeline of twelve-months over which the going concern assessment is made, can only be undertaken in conjunction with revisions to the applicable financial reporting framework because it would not be possible to require the auditor to consider a different period for the assessment that the period considered by management.	<p>be difficult to undertake substantial revisions in the auditing standards without changes in the applicable financial reporting framework. However, Ms. Jackson also noted that there are enhancements that can be made in this regard which will be considered as part of the project.</p> <p>In June 2022, the Board discussed, and broadly supported the Going Concern Task Force proposals for a change in the <u>commencement date</u> of the twelve-month period of the auditor's evaluation of management's assessment of the entity's ability to continue as a going concern as well as the inclusion of a new requirement for the auditor's consideration of whether the <u>period</u> chosen by management to make its assessment of going concern is reasonable.</p>
<i>Information from Sources External to the Entity</i>	
Ms. Vanich encouraged the Going Concern Working Group to reconsider the use of the words "readily available" in the proposed action related to information from sources external to the entity. She noted that this particular action should be focused on more relevant factors, such as the level of subjectivity involved in management's assessment of an entity's ability to continue as a going concern and the necessity to obtain evidence from sources external to the entity, rather than how easy it would be for the auditor to obtain such audit evidence. Mr. Hansen also noted that the response to consider readily available third-party information needed to be tailored to the circumstances.	<p>Point accepted.</p> <p>Ms. Jackson acknowledged these aspects noting that they would be further considered. The Going Concern Task Force has revised the project proposal accordingly (see paragraph 35, action AB.3, of the project proposal).</p>
<i>Terminology</i>	
Ms. McGeachy emphasized the importance of providing a definition or description for <i>Material Uncertainty Related to Going Concern</i> because the term is not commonly understood.	<p>Support noted.</p> <p>In its proposals related to clarifying the terminology in ISA 570 (Revised) as presented in Agenda Item D.1, the Going Concern Task Force has proposed a definition for the term material uncertainty (related to going concern) drawing on the existing</p>

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	description in extant ISA 570 (Revised).
<i>Management's Assessment of Going Concern</i>	
Ms. Vanich supported embedding the relevant concepts of ISA 540 (Revised) ⁶ when designing and performing audit procedures, noting that this would enable a more robust evaluation of management's assessment of going concern, especially when testing the use of significant assumptions.	Support noted. The Going Concern Task Force has proposed new requirements and application material in proposed ISA 570 (Revised) to embed the relevant concepts of ISA 540 (Revised) so as to enable a more robust evaluation of management's assessment of going concern related to testing the method, assumptions and data (see Agenda Item D.1).
Ms. McGeachy noted the importance of establishing a more robust evaluation of management's assessment of going concern by practitioners and reflected that there is lack of understanding among practitioners about the additional audit procedures that need to be performed in this regard.	Support noted. Also see previous comment above.
Mr. Sobel supported the proposed project objectives that support the public interest and for the project scope. He particularly noted the importance of the project objective to " <i>Establish a more robust evaluation of management's assessment of going concern, including reinforcing the importance, throughout the audit, of the appropriate exercise of professional skepticism</i> " and called for its relevance to be maintained as the project progresses.	Support noted. Also see previous comment above.
Ms. Blomme referred to earlier work undertaken by Accountancy Europe on both fraud and going concern that was initiated in light of corporate failures and the risks exacerbated by the COVID-19 pandemic. ⁷ She also noted the renewed focus	Point noted. Ms. Jackson acknowledged the relevance of these matters noting that the impact of subsequent events will be further considered in the course of the project. The Going Concern Task Force has

⁶ ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

⁷ See <https://www.accountancyeurope.eu/publications/going-concern-recommendations-to-strengthen-the-financial-reporting-ecosystem/> and <https://www.accountancyeurope.eu/publications/responses-to-fraud-and-going-concern-recommendations-to-strengthen-the-financial-reporting-ecosystem/>

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for going concern in Europe as a result of the heightened risk and ongoing uncertainties in certain sectors and countries. In light of current uncertainties in Europe, Dr. Orth questioned whether the project to revise ISA 570 (Revised) would consider the impact of subsequent events on management's assessment of going concern.	revised the project proposal accordingly (see paragraph 35, action AB.2 of the project proposal).
<i>Professional Skepticism</i>	
Mr. Ishiwata and Ms. Vanich expressed support for inclusion of actions that emphasized a robust exercise of professional skepticism when performing procedures related to going concern.	Support noted. The Going Concern Task Force has proposed new requirements and application material in proposed ISA 570 (Revised) with respect to professional skepticism (see Agenda Item D.1).
Mr. Ishiwata emphasized the importance of aligning with action-oriented terminology used in other ISAs when undertaking revisions to ISA 570 (Revised).	Point noted. In undertaking the project, the Going Concern Task Force is applying the Drafting Principles and Guidelines developed by the IAASB's Complexity, Understandability, Scalability and Proportionality (CUSP) Working Group (the CUSP Guidelines), including those with respect to use of action-oriented terminology.
Ms. Vanich questioned whether the IAASB's approach to professional skepticism should be reconsidered given the importance for the auditor to exercise professional skepticism throughout the audit, rather than emphasizing professional skepticism separately in each subject matter standard.	Point noted, however Ms. Jackson acknowledged the ongoing efforts of the IAASB to appropriately emphasize the importance of exercising professional skepticism throughout the audit, and this was being done in the entire suite of ISAs.
<i>Transparency About the Auditor's Responsibilities and Work Related to Going Concern – Communication with Those Charged with Governance</i>	
Ms. McGeachy noted that it would be useful to consider providing guidance on strengthening communication with those charged with governance (TCWG) about going concern. Mr. Yoshii noted the importance to strengthen the communications with TCWG given the relevance	Points noted. The Going Concern Task Force has proposed new requirements and application material in proposed ISA 570 (Revised) for communication with TCWG (see Agenda Item D.1).

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TCWG have in providing information to shareholders and investors.	
<i>Transparency About the Auditor's Responsibilities and Work Related to Going Concern – Transparency About Going Concern in the Auditor's Report</i>	
Messrs. Ishiwata, Munter, Hansen and Yoshii highlighted the importance of the actions related to enhancing transparency in the auditor's report. Messrs. Ishiwata and Yoshii specifically noted the importance of addressing the demands for providing more informational content in the Material Uncertainty Related to Going Concern paragraphs as well as enhancing transparency for situations when no material uncertainties have been identified. Messrs. Munter and Hansen added that providing more information about going concern in the auditor's report is a very important aspect for investors and other users of audited financial statements.	<p>Point noted.</p> <p>Ms. Jackson acknowledged stakeholder support, including from users, for enhanced transparency about going concern in the auditor's report, especially for "close call" situations.⁸ She emphasized that the project proposal includes actions to further consider requirements and application material to address these situations as well as to consider enhancing the informational content of Material Uncertainty Related to Going Concern paragraphs.</p> <p>The Going Concern Task Force has proposed new requirements and application material in proposed ISA 570 (Revised) for enhancing transparency in the auditor's report about the auditor's responsibilities and work related to going concern (see Agenda Item D.1).</p>
Mr. Yoshii noted that the disclosures related to going concern in the auditor's report appear to be less conspicuous than Key Audit Matters and observed that the prominence of such disclosures should be elevated.	<p>Point noted.</p> <p>The Going Concern Task Force has proposed new requirements and application material in proposed ISA 570 (Revised) for the auditor of a listed entity to describe how the events or conditions were addressed in the audit (see Agenda Item D.1) that aligns with communicating Key Audit Matters.</p>
<i>Liaison with IASB</i>	
Drs. Orth and Cela, Ms. Blomme and Messrs. Ishiwata and Ruthman expressed their support for the continued efforts to coordinate and liaise with	Support noted.

⁸ Situations when events or conditions were identified that may cast significant doubt on the entity's ability to continue as a going concern but, after evaluating the adequacy of disclosures in view of the requirements of the applicable financial reporting framework, and considering management's plans to deal with these events or conditions, management and the auditor conclude that no material uncertainty exists (i.e., "close call" situations).

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the IASB over the course of the project. Mr. Ruthman noted that the two standard setters need to work “in harmony,” and that it was important for both standard setters to be responsive and address the issues related to going concern such that the auditors can effectively perform their role and responsibilities.	
Mr. Munter noted his support for progressing with the IAASB’s project on going concern. Whilst recognizing that, in an ideal situation, this would include a collaborative approach, Mr. Munter emphasized that it would not be in the public interest for the IAASB to delay its project so it can align with any future IASB project that may be to undertaken with respect to going concern.	Support noted. Ms. Jackson noted that the project to revise ISA 570 (Revised) focuses on actions within the IAASB’s remit and that the project is not dependent on changes in the financial reporting framework.
Mr. Rees acknowledged the liaison ongoing between the IASB and IAASB as well as the mutual benefits and information sharing that has taken place. Mr. Rees updated the CAG on the work the IASB has undertaken with respect to analyzing the stakeholder feedback received from its Third Agenda Consultation and the resulting impact on the future work plan. Mr. Rees also noted that the New Zealand External Reporting Board has issued a standard ⁹ that focuses and consolidates going concern disclosures. Mr. Thompson and Ms. Blomme noted that the European Federation of Accountants and Auditors for SMEs (EFAA) and Accountancy Europe (AE) have responded to the IASB’s <i>Third Agenda Consultation</i> . They noted that in those responses the IASB was encouraged to further consider undertaking a going concern research project to identify changes which are needed in the financial reporting standards.	Points noted. Ms. Jackson acknowledged the close liaison with IASB. She further noted that close liaison and engagement with the IASB will continue (also refer to paragraph 8 above that discusses the ongoing liaison with the IASB undertaken since March 2022 in relation to going concern).

⁹ See [Going Concern Disclosures, \(Amendments To FRS-44\)](#).

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<i>Scalability</i>	
Mr. Ruthman highlighted that more needs to be done in the public sector to raise awareness among management and TCWG to understand the importance of the going concern basis of accounting and their responsibilities regarding the assessment of going concern. He also noted that in the public sector, going concern matters can sometimes be very straightforward and that these circumstances should be taken into account when developing revisions to ISA 570 (Revised). Mr. Ruthman noted that, depending on the facts and circumstances, there needs to be an efficient way to tailor the auditor's response to evaluating management's assessment of going concern when such assessment is clearly straightforward.	<p>Point noted.</p> <p>In undertaking the project to revise ISA 570 (Revised), the Going Concern Task Force will also consider aspects and considerations specific to public sector entities. In addition, as part of its ongoing liaison and dialogue with others, the Going Concern Task Force will further engage with the IPSASB in relation to matters relevant for the public sector.</p>
Dr. Cela and Mr. Thompson highlighted the need to consider scalability related to less complex entities (LCEs), as well as the use of clear, simple and concise language when developing revisions to ISA 570 (Revised).	<p>Point noted.</p> <p>Ms. Jackson highlighted that the project will apply the CUSP Guidelines. In addition, Ms. Jackson acknowledged that as part of the information gathering and research activities, the IAASB hosted a series of roundtables on fraud and going concern, including a roundtable focused on audits of LCEs, where proportionality and scalability was discussed.</p>
Mr. Thompson questioned how the IAASB would ensure that the CUSP Guidelines are adhered to.	<p>Point noted.</p> <p>Mr. Botha noted that the CUSP Guidelines will be discussed with the Board at its April 2022 meeting, when they will be finalized. Mr. Botha noted that these principles and guidelines are intended to be updated from time to time with new relevant content as they are intended to be an evolving non-authoritative document. He added that recently completed IAASB projects already benefited from a review of Staff supporting the CUSP Working Group and that going forward discipline will be required from the Board, Task Force's and Staff to adhere to and apply the CUSP Guidelines.</p>

Material Presented – IAASB CAG Papers

Agenda Item D.1 Presentation

Material Presented – IAASB CAG Reference Papers

Agenda Item D.2	IAASB Going Concern Issues Paper (September 2022)
Agenda Item D.3	IAASB Going Concern Drafting Paragraphs for Proposed ISA 570 (Revised) (September 2022)
Agenda Item D.4	IAASB Going Concern Mapping the Proposals to the Key Actions in the Project Proposal (September 2022)

Appendix

Project Details and History

Project: Going Concern

Link to IAASB Project Page: [Going Concern Page](#)

Task Force Group Members

- Josephine Jackson, IAASB Member and Task Force Chair
- Edo Kienhuis, IAASB Member
- Wendy Stevens, IAASB Member
- Isabelle Tracq-Sengeissen, IAASB Member

Summary

	IAASB CAG Meeting	IAASB Meeting
Update on information-gathering activities and discussion on proposed 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 .	September 2020	August 2020
Update on the responses received to the Discussion Paper and activities to date with regard to going concern. <i>IAASB Meeting only:</i> Obtained Board views on the proposed possible way forward for matters identified in the Discussion Paper and for the key public interest issues identified for going concern.	March 2021	May 2021
Approval of a project proposal for revision of ISA 570 (Revised).	March 2022	March 2022
Development of Exposure Draft	N/A	June 2022

IAASB CAG Discussions: Detailed References

Information gathering	<u>September 2020</u> See IAASB CAG meeting material and CAG minutes (Agenda Item F) September 2020 IAASB CAG meeting material
	<u>March 2021</u> See IAASB CAG meeting material and CAG minutes (Agenda Item C) March 2021 IAASB CAG meeting material
Project Proposal	<u>March 2022</u> See IAASB CAG meeting material and CAG minutes (Agenda Item C) March 2022 IAASB CAG meeting material