

Going Concern in an Audit of Financial Statements

Objectives of Agenda Item

1. The objectives of this agenda item are to:
 - (a) Provide an overview of the feedback received to date related to going concern in an audit of financial statements, including from the Discussion Paper (DP), [*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*](#); and
 - (b) Obtain the Board's views on the possible direction on the matters identified relating to the audit implications of the going concern assumption.

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.

Approach to Board Discussion:

2. The WG Chair will:
 - (a) Provide the Board with an update on the information-gathering activities performed to date and an overview of the responses received to the DP.
 - (b) Present each matter identified by the WG related to going concern and the possible action(s).
 - (c) Ask for the Board's views on the possible actions in the order set out in the slide presentation (Agenda Item 5-B). *Note: The possible actions are in the context of setting out the objectives and scope of the project in the project proposal.*
 - (d) Ask for the Board's views as to whether there are other matters that the WG should consider as it progresses its work on this project.

The NVivo reports (attached as Agenda Items 5-A.1 through 5-A.9) have been presented as supplements to this Agenda Item and will not be separately discussed.

Matters for IAASB Consideration

1. The IAASB is asked for its views on:
 - (a) Whether the key public interest matters from respondent's comments have been appropriately identified; and
 - (b) The possible actions for each of the topics set out below.

Section I Introduction

1. At the August 2020 meeting, IAASB Staff presented a summary of the completed and planned future information-gathering activities related to going concern in an audit of financial statements (see [Agenda Item 1 from the August 2020 IAASB meeting](#)). These information gathering activities are intended to assist the IAASB to better understand the issues and perspectives. This enables any future activities by the IAASB to be focused on the most appropriate actions to address them. These actions may include:
 - (a) Revising standards (i.e., either regarding the requirements or application material).
 - (b) Development of non-authoritative support materials
 - (c) Other – which may include action by others in the financial reporting ecosystem. Although not in the remit of the IAASB's activities, it will be further considered whether the IAASB can encourage actions by others (for example through its global voice).
2. The Discussion Paper (DP), [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](#) was finalized and published on September 15, 2020 with a response deadline of February 1, 2021.
3. This paper summarizes feedback from DP respondents and input from other information-gathering activities performed to date, organized by broad themes identified related to each question set out in the DP. For further information on the other information-gathering activities performed to date which formed the basis for the input summarized throughout this paper (included in each section titled "*Input from Other Information-Gathering Activities*"), see **Appendix C**.
4. Possible actions are included for each theme identified, which are summarized at the end of the section for each theme and also in **Appendix F**.

Appendices to this Paper

5. The following appendices accompany this paper:

Appendix A	Listing of Individual NVivo Reports and Excel Summary Spreadsheet Tabs (other Agenda Items accompanying this paper)
Appendix B	List of Respondents to the DP
Appendix C	Summary of Other Information Gathering Activities Related to Going Concern

Appendix D	Approach to Analyzing DP Comments in NVivo
Appendix EE	Going Concern Academic Research Literature Review
Appendix F	Summary of Themes and Possible Actions

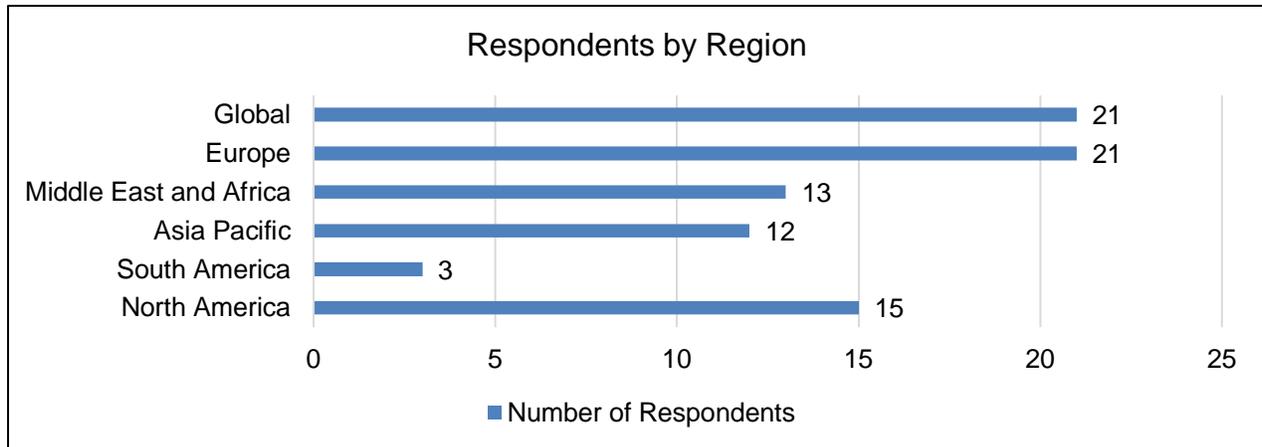
Detailed Analysis of Respondents' Comments

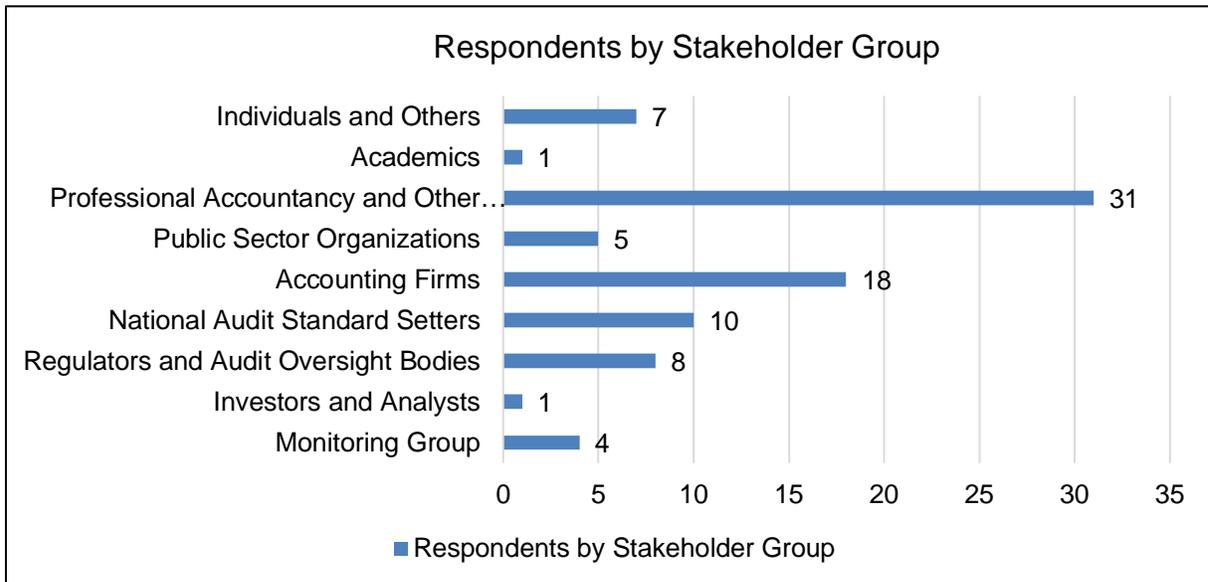
- Appendix B** lists the respondents to the DP. NVivo, a qualitative data analysis tool, has been used to support Staff's analysis of the comment letters on the DP. **Appendix D** explains how NVivo was used, while **Appendix A** provides a listing of the individual NVivo reports applicable to each section of this paper.
- Members can refer to these appendices and the NVivo reports in **Agenda Item 5-A** to inform themselves about the underlying comments that drive the analysis presented in this paper.

Section II Discussion Paper Responses

Summary of DP Respondents

- The IAASB received 85 responses from a broad range of stakeholders, summarized by geographical area and stakeholder group below:





9. The respondents represent a wide range of stakeholder groups and geographical dispersions.

Section III Summary of Feedback

10. The purpose of this section is to summarize responses from the DP as follows:
- (a) Section III-A – Summary of Key Messages from Respondents and proposed public interest issues.
 - (b) Section III-B–Section III-H – Summary of responses to the questions in the DP that are relevant to going concern.
11. Within the section for each question, responses have been further organized by broad theme identified as appropriate.
12. Each section also summarizes feedback from other information-gathering activities related to the DP question or broad theme where applicable.
13. The WG has provided a possible path forward for each theme in a box at the end of each sub-section. A table with symbols is included in the top of each box to summarize possible actions that could be undertaken in relation to that theme. The symbols are as follows:

Symbol	Description
R	Standard-Setting (Requirements) – New or changed requirements in the ISA(s).
A	Standard-Setting (Application Material) – Changed or additional application material to clarify or further explain application of the relevant requirement.
G	Non-Authoritative material – Supporting materials and guidance developed outside of the ISAs.
E	Education – Educational initiatives or outreach (where within the remit of the IAASB)
O	Actions for others - Where an issue or challenge has been identified, but it does not relate to actions that are within the IAASB’s remit and will need efforts from another participant in the financial reporting ecosystem to address it.
N	No further action recommended

Section III-A Summary of Key Messages from Respondents

- Overall feedback from respondents to the DP and input from other information gathering activities indicates that a fundamental revision of ISA 570 is not needed. However, there are targeted areas where enhancements to requirements or application material may be beneficial.
- The following are the key messages and public interest issues from the WG’s analysis of the DP responses:

Public Interest Issues	Key Messages
Collaboration with Others	<ul style="list-style-type: none"> Most respondents commented that the going concern requirements for management should be enhanced, which would require changes to the applicable financial reporting framework. Respondents cautioned against changes to the auditing standards that are not aligned with requirements in the applicable financial reporting framework. While changes to the applicable financial reporting framework are outside the remit of the IAASB, respondents encouraged the IAASB to liaise with the IASB on this topic. Respondent feedback is set out in more detail in Section III-G. Question 3(cii) of the DP. Respondents emphasized the importance of all stakeholders in the financial reporting ecosystem addressing the issues surrounding going concern and encouraged the IAASB to continue dialogue with others through continued outreach and monitoring of initiatives performed by other stakeholders or jurisdictions. Respondent feedback is set out in more detail in Section III-C. Question 1(b) of the DP.
Enhanced transparency	<ul style="list-style-type: none"> Enhanced transparency with stakeholders through the auditor’s report and reinforcing the need for robust communication and interactions with those charged with governance.

Fostering an appropriately independent, challenging, and skeptical mindset of the auditor	<ul style="list-style-type: none"> • Emphasizing the concept of professional skepticism in ISA 570 (Revised), including when evaluating management’s assessment of the entity’s ability to continue as a going concern.
Keeping ISAs fit for purpose	<ul style="list-style-type: none"> • Clearer linkage between ISA 570 (Revised) and other ISAs, including more robust risk assessment procedures related to going concern using the concepts in ISA 315 (Revised 2019) and a more robust evaluation of management’s going concern assessment using the concepts in ISA 540 (Revised). • The definitions of certain terminology within the standard, including “Material uncertainty related to going concern” and “going concern”. • The required timeline for the going concern assessment.

16. Respondents also encouraged the IAASB to consider all possible actions to address the matters raised (e.g., standard-setting, non-authoritative support materials or education). Respondents also noted that this initiative should involve collaboration between this project and other IAASB projects and workstreams when appropriate.
17. The key messages above are described in more detail in the sections that follow, which are set out in the order of the questions presented in the DP.

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?

18. The DP defined the expectation gap, in general terms, as the difference between what users expect from the auditor and the financial statement audit, and the reality of what an audit is. It referred to a May 2019 publication by the Association of Chartered Certified Accountants (ACCA) titled “[Closing the Expectation Gap in Audit](#),” which describes three components of the expectation gap: the “knowledge gap,” the “performance gap,” and the “evolution gap”.
19. Respondents commented to provide views on the primary cause of the expectation gap.

What We Heard from DP Respondents (See NVivo – Agenda Item 5-A.1):

Monitoring Group Members

20. The Monitoring Group members who commented on this topic recognized that the knowledge gap, performance gap, and evolution gap contribute to the overall expectation gap. A Monitoring Group member added that there may be gaps between what the users expect from the auditor and the financial statement audit and noted this could include a misunderstanding of the role of auditors (knowledge gap), unclear or inconsistently applied requirements (performance gap) or the need for enhancements to add more value (evolution gap).

Other Respondents

21. Respondents commented that the three-component framework used in the DP to define the expectation gap, was helpful to understand the issues.
22. There were comments from respondents who used different terminology to describe the primary causes of the expectation gap set out in the discussion paper and there were a couple of respondents who commented that there is no expectation gap.
23. Respondents commented that all three components described in the DP (the “knowledge gap”, the “performance gap”, and the “evolution gap”) contribute to the expectation gap.
24. Other respondents, while acknowledging all three components contribute to the expectation gap, emphasized the knowledge gap as a primary driver. Respondents further commented that a knowledge gap exists not only in relation to the auditor’s responsibilities related to going concern, but also in relation to management’s and the entity’s responsibilities related to going concern.
25. When respondents indicated the knowledge gap as the primary driver, the suggested solutions were not always limited to possible actions to address the knowledge gap. Solutions were suggested to address all three components of the expectation gap.

Input from Other Information-Gathering Activities:

26. On September 28, 2020, the IAASB facilitated a roundtable among global experts about the expectation gap related to fraud and going concern. Further details about the take-aways from the discussion were published in a document titled “[Summary of Key Take-aways: IAASB Fraud and Going Concern Roundtables](#)”. Based on views expressed in the roundtable, participants noted all three components (knowledge gap, evolution gap, and performance gap) contribute to the expectation gap, though participants also commented that it is more heavily driven by the knowledge gap.
 - (a) It was noted that the role of the auditor may be misunderstood in some cases and the expectation of what the auditor does in relation to going concern needs to be better understood by all. Participants commented that users of the financial statements need to be better informed about management’s and the auditor’s responsibilities, respectively, regarding going concern.
 - (b) Participants commented that auditors cannot be responsible for “predicting the future” and that the auditor’s role is to test the reliability of management’s assessment and the assumptions used. Investors then use that information to make a judgment as to the future prospects of the entity.
 - (c) It was suggested that in some audit failures, the auditing standards were sufficient, but auditors did not apply them properly.

Going Concern Possible Action #1:	R	A	G	E	O	N
						✓

Q1(a):

While the definition used in the DP was helpful to describe the issues and foster discussion, an exact definition of the expectation gap is not necessary to explore possible IAASB actions or necessary enhancements to address the issues identified by respondents. DP respondents provided suggested actions for the IAASB or for others that are detailed in each subsequent section of this paper.

The WG considered the additional points from the Expectation Gap Roundtable described above in forming the possible actions related to requiring more robust challenge of management and in relation to question 3(c)(i) around enhanced transparency.

For further details, see sections “More Robust Challenge of Management”, “Enhance Transparency with Those Charged with Governance”, and “Enhance Transparency in the Auditor’s Report”.

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?

Collaboration with Others

Continued Outreach and the Importance of the Role of Other Stakeholders in the Financial Reporting Ecosystem

What We Heard from DP Respondents (See NVivo – Agenda Item 5-A.2, Subheading “Q1b-2.7 - IAASB - 7. Continued Outreach with Stakeholders”):

Monitoring Group Members

27. Monitoring Group members were supportive of the IAASB’s continued outreach and dialogue with other stakeholders and variously noted the following:
 - (a) A collaborative, multi-stakeholder solution is necessary to address the challenges and achieve the desired progress to narrow (with the goal to minimize as much as possible) the expectation gap.
 - (b) Support was expressed for continued engagement and input from stakeholders, discussions with national standard setters, roundtable discussions and consideration of other reviews and research.
 - (c) Perspectives gathered from various stakeholder groups as part of the feedback to the DP can inform the IAASB about possible further standard setting responses to narrow the expectation gap which the IAASB can begin while a more holistic multi-stakeholder solution is developed.
 - (d) The IAASB should continue to engage with accounting standard setters and others who may be able to enhance going concern requirements for preparers of financial statements and those charged with governance.

For further details of responses related to the need for changes in the applicable financial reporting framework, see analysis of responses to question 3(cii) in **Section III-F** of this paper.

Other Respondents

28. Other respondents were also supportive of the IAASB's continued outreach with stakeholders. The following include specific observations and suggestions on continued outreach:
- (a) The majority of respondents noted the IAASB should engage with the IASB regarding requirements in the applicable financial reporting framework related to going concern. For further details, see analysis of responses to question 3(cii) in **Section III-F** of this paper.
 - (b) Respondents noted that all stakeholders in the financial reporting ecosystem have a role to play in addressing this issue and encouraged the IAASB to:
 - (i) Liaise with other relevant parties who are likely to take action to ensure coordination of efforts.
 - (ii) Engage with investors and user groups to ensure their views are understood and to better understand the information that is being sought about both management responsibilities and the auditor's work related to going concern.
 - (iii) Continue to collaborate with other accounting and audit standard setters, regulators, those charged with governance, network firms, public sector representatives, academia and internal audit organizations throughout the duration of the project and encourage holistic action across all relevant stakeholders.
 - (c) Respondents noted it is necessary to have a public debate with all stakeholders involved to discuss what really is expected from auditors including a cost-benefit analysis. The various roles and responsibilities of the parties involved in the financial ecosystem should be clear.

Input from Other Information-Gathering Activities:

29. Refer to **Appendix D** for summary of outreach meetings performed and scheduled to date.
30. The following input was obtained through the Expectation Gap Roundtable – During the roundtable held in September 2020 to discuss the expectation gap related to fraud and going concern, participants expressed that the expectation gap related to going concern will not be narrowed by standard-setting alone. It was emphasized that it will require efforts from all participants in the financial reporting ecosystem. Participants noted that the role of users should be further considered, and their needs understood. Participants also noted that certain changes in the auditing standards will need to be considered in tandem with the relevant responsibilities of management (i.e., possible changes to the applicable reporting framework may need to come before changes to auditing standards).

Coordination with Other IAASB Projects and IESBA

What We Heard from DP Respondents (See NVivo – Agenda Item 5-A.9, Subheadings “1. Coordination with IESBA” and “2. Coordination with Other Current IAASB Workstreams”):

Monitoring Group Members

31. A Monitoring Group Respondent commented that the IAASB should consider how they can work with others in the financial reporting system to collectively reinforce the need for, and enhance professional skepticism throughout an audit, including an increased willingness to challenge

management. They highlighted that others are contributing to this, and commented about IESBA's Role and Mindset of a Professional Accountant

32. A Monitoring Group Member commented that the continued efforts of the IAASB's Auditor Reporting Implementation project can be a mechanism to inform and educate users as well as solicit feedback on the effectiveness of the current reporting model.

Other Respondents

33. Other respondents highlighted the importance of appropriate coordination between the IAASB and IESBA to ensure consistency with the provisions of the IESBA International Code of Ethics for Professional Accountants ("IESBA Code").
34. A respondent encouraged the IAASB to continue collaboration with IESBA regarding auditor independence as the consequences of reporting on going concern uncertainties for the client, shareholders and the auditors themselves make auditor independence critical to audit quality in this area.
35. Respondents encouraged the IAASB to consider information gathered by the IAASB's Auditor Reporting Post-Implementation Review (AR PIR) workstream and work collaboratively with that project working group as the going concern project progresses. For further details on specific feedback from respondents about whether more transparency is needed from the auditor related to going concern in an audit of financial statements, refer to section titled "Enhance Transparency in the Auditor's Report".
36. Respondents commented that the IAASB take into consideration the work being undertaken by the IAASB Less Complex Entities (LCE) Task Force in ensuring any enhancements to the standards are scalable and proportionate.
37. A respondent commented that the IAASB work with the Professional Skepticism Working Group to develop a framework which solidifies the concept of professional skepticism.
38. Respondents commented that information from a future ISA 540 (Revised) post-implementation review may provide input on how effective the application material relating to professional skepticism has been.

Input from Other Information-Gathering Activities:

39. On March 2, 2021, the IAASB Staff met with IESBA staff representatives to discuss possible areas of future coordination. The following topics were discussed:
 - (a) Consideration of enhancements to the concept of professional skepticism, and how it interplays with the IESBA's Role and Mindset project.
 - (b) Consideration of technology (in particular, around ethical considerations such as independence) when auditor's access client information technology (IT) systems.
 - (c) Obligations regarding preparation and presentation of information.
 - (d) Acting with sufficient expertise and acting in the public interest when determining the appropriateness of management's going concern assessment.

Enhance Understanding of Issues Related to Going Concern

Work Performed by Others

What We Heard from DP Respondents (See NVivo – Agenda Item 5-A.2, Subheading “Q1b-2.3 - IAASB - 3. Look at Work Done in Other Jurisdictions”):

Monitoring Group Members

40. Monitoring Group members suggested that the IAASB look to jurisdictions that have amended local auditing standards and addressed some of the issues presented in the DP to determine if there are standards or guidance that could be beneficial in a global context.
41. A Monitoring Group member suggested the IAASB explore examples where jurisdictions have taken additional steps to enhance the role of the auditor by requiring additional communication to outside parties, including to relevant authorities, with a view to protecting the public interest.

Other Respondents

42. Respondents noted that changes have been made to audit requirements in other jurisdictions related to going concern. Those respondents encouraged the IAASB to explore differences between ISA 570 and local auditing standards related to going concern (e.g. Australia, United Kingdom, United States).
43. Respondents also encouraged the IAASB to monitor other initiatives related to going concern being performed by other jurisdictions or stakeholders.

Input from Other Information-Gathering Activities:

44. The following summarizes information from on other information-gathering activities performed to date related to work performed by other stakeholders:
 - (a) The Canadian Public Accountability Board (CPAB) launched a Going Concern project in 2019. They performed a review of a sample of Canadian reporting issuers where management (and the auditor’s report) did not disclose a going concern risk, but the company had shown some recent financial difficulties. They reviewed the procedures performed related to going concern in the audit files of these companies. They published a [CPAB Exchange publication](#) with insights from their work.
 - (b) In February 2021, Accountancy Europe published “[Going Concern: Recommendations to Strengthen the Financial Reporting Ecosystem](#)”. The publication proposes recommendations related to going concern for key parties in the financial reporting ecosystem. Accountancy Europe has asked stakeholders to share thoughts and opinions on these recommendations by April 30, 2021.
 - (c) In the United Kingdom, in September 2019, the Financial Reporting Council (FRC) issued a [revised going concern audit standard](#) with strengthened requirements, particularly around the auditor’s evaluation of management’s assessment of going concern, professional skepticism, and more robust auditor reporting requirements.
 - (d) In Australia, the [February 2020 Interim Report](#) from the Parliamentary Joint Committee on Corporations and Financial Services regarding the Regulation of Auditing in Australia recommended a formal review on the sufficiency and effectiveness of reporting requirements

related to management's assessment of going concern, to be completed by the end of the 2020-2021 financial year.

- (e) In the United States, in 2014, the Financial Accounting Standards Board issued [Accounting Standards Update No. 2014-15](#), "Presentation of Financial Statements—Going Concern (Subtopic 205-40)" which provided guidance in US GAAP about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures.

Root Cause Analysis

- 45. Respondents to the DP provided comments about what can be done, by the IAASB and/or others to narrow the expectation gap related to going concern in an audit of financial statements. In relation to this, respondents encouraged the IAASB to perform a root cause analysis of corporate failures. It was noted that respondents' comments on this matter were either specifically focused on understanding the root cause of fraud cases (and therefore these comments are addressed by the Fraud Working Group) or were focused on the need to understand the root cause of corporate failures more broadly. The following paragraphs summarize comments where respondents indicated the need to understand root causes of corporate failures more broadly.

What We Heard from DP Respondents (See NVivo – Agenda Item 5-A.2, "Q1b-2.1 - IAASB - 1. Perform Root Cause Analysis of Recent Corporate Failures"):

Monitoring Group Members

- 46. A Monitoring Group member recommended the IAASB engage in a multi-stakeholder approach to perform a root-cause analysis of corporate failures to determine the underlying issues and whether there is a need to improve the standards to more clearly specify or increase the auditor's responsibility around going concern.

Other Respondents

- 47. Respondents commented that an in-depth root cause analysis of corporate failures or scandals would be highly beneficial to understand the role of the different parties and, in any cases involving audits that failed to identify or report material uncertainties or predict corporate failure, the reasons for that failure. Respondents suggested that this analysis should be performed prior to proposing changes to the auditing standards to ensure the solutions address the underlying issues.

Input from Other Information-Gathering Activities:

- 48. On March 8, 2021, the IAASB presented an update to the Consultative Advisory Group ("CAG") representatives about high-level observations from responses to the DP. At that meeting, representatives expressed support for performing activities to understand the root cause of corporate failures.
- 49. Expectation Gap Roundtable: At a roundtable held on September 28, 2020 relating to the expectation gap regarding going concern, participants noted that standards should only be updated if evidence and research indicate that updates are needed to address the root cause of recent issues.

Consider Educational Efforts or Non-Authoritative Guidance

What We Heard from DP Respondents (See NVivo – Agenda Item 5-A.2, Subheading “Q1b-2.2 - IAASB - 2. Educational Efforts or Additional Guidance” and NVivo – Agenda Item 5-A.3, Subheading “Q3a.1.99 - Plus Enhanced Application Material or Guidance”):

Monitoring Group Members

50. A Monitoring Group member encouraged the IAASB to consider whether other approaches such as robust investor education may assist in enhancing investors' understanding of the current role and responsibilities of the auditor with respect to going concern.

Other Respondents

51. While not all within IAASB's remit, the following comments were highlighted regarding the need for more education or training:
 - (a) There is a need for education of stakeholders and users of financial statements on the roles of all parties in the financial reporting ecosystem and the auditor's and management's responsibilities related to going concern.
 - (b) There is a need for enhanced training for auditors related to evaluating management's going concern assessment.
 - (c) An advocacy effort targeted to management, investors, and governments may be appropriate to articulate the role of the auditor regarding going concern.
 - (d) The IAASB or others could undertake public education campaigns regarding the concept of reasonable assurance, and the importance of other participants in the financial reporting ecosystem.
52. Respondents commented that the IAASB should provide auditors with guidance to enhance the implementation of the existing principles-based requirements and improve consistency in application. Respondents encouraged the IAASB to develop non-authoritative guidance in lieu of standard setting wherever appropriate to achieve its objectives.
53. Respondents provided specific suggestions for areas where non-authoritative guidance may be useful. Specific suggestions for non-authoritative guidance include:
 - (a) Guidance to explain how existing requirements in individual ISAs beyond ISA 570 (Revised) contribute to identifying issues related to going concern and to emphasize that auditors should be cognizant of going concern considerations throughout the audit. For example, the guidance can explain that a procedure could achieve the objective of both an individual ISA and ISA 570 (Revised) and explain the “why” behind requiring a certain procedure (e.g., testing of internal controls).
 - (b) Guidance on the application of professional skepticism.
 - (c) Guidance that helps apply the standards in the context of the current environment, considering advancements in technology.
 - (d) Guidance that provides practical examples and tools responsive to differences encountered across publicly traded entities and small and medium-sized entities.

- (e) Guidance around the work required by the auditor to evaluate the feasibility of management's plans, the work to be done regarding cash flow projections, and how to evaluate if there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern ("MURGC") or just a "close call".
- (f) Guidance to assist auditors evaluate what type of modified opinion is appropriate in what circumstances.
- (g) Guidance to assist auditors in identifying and assessing going concern risks.
- (h) Guidance to assist auditors in determining which controls are relevant to the audit related to evaluating management's going concern assessment.
- (i) Guidance around the appropriateness of the period used by management in its going concern assessment, particularly when events or conditions relevant to the entity's ability to continue as a going concern have been identified beyond the period of management's assessment.

Input from Other Information-Gathering Activities:

54. The IAASB received feedback through the Implementation Monitoring project that there should be additional guidance on what the auditor needs to do if they identify events or conditions which may cast significant doubt on the entity's ability to continue as a going concern. The feedback also included that more guidance is needed to explain and provide examples of "mitigating" factors."

Going Concern Possible Action #2:	R	A	G	E	O	N
Q1(b)			✓	✓	✓	
Collaboration with Others						
<i>Importance of the Role of Others in the Financial Reporting Ecosystem</i>						
The WG will:						
<ul style="list-style-type: none"> (a) Make recommendations about communicating about the IAASB's work on going concern, which may include issuing a communication from the Chair of the IAASB to briefly explain the importance of this topic and that the IAASB is progressing its work on going concern. This communication could also emphasize the importance of others playing a role in narrowing the expectation gap. (b) Continue to perform outreach with other stakeholders in the financial reporting ecosystem on the topic of going concern (e.g., the IASB, corporate governance groups, regulators, academics, network firms, and others). (c) Send relevant aspects of DP responses to the IASB in coordination with the IAASB-IASB Liaison Working Group. (d) Make recommendations about how best to encourage others in the financial reporting ecosystem to act where possible actions suggested in the DP responses are outside the remit of the IAASB or may be more effective if addressed by other stakeholders. 						
The WG will also coordinate with other IAASB workstreams or projects and the IESBA as appropriate over the course of the project.						

Enhance Understanding of the Issues Related to Going Concern

Observe What Others Have Done and Consider Alternatives to Standard Setting Where Appropriate

- (a) The WG will continue to consider the work of other stakeholders (e.g. national standard setters (NSS), professional organizations in various jurisdictions, etc.) on the topic of going concern when discussing possible actions for the issues brought forth by stakeholders.

Analysis of Corporate Failures

- (a) The WG will seek to obtain available information from past corporate failures when information is public or is otherwise made available to the IAASB (e.g., inspection reports, summaries of enforcement actions, news articles, academic studies, etc.) and determine if lessons may be learned from past failures. The WG may recommend issuing material highlighting the lessons learnt or engaging with other stakeholders who may be well-suited to provide this type of education or guidance.

Consider Educational Efforts or Non-Authoritative Guidance

- (a) The WG recommends exploring whether there are further education efforts or support material within the remit of the IAASB that may be helpful to foster enhanced user understanding of the roles of each party in the financial reporting ecosystem.
- (b) The WG also recommends further consideration of how the IAASB can use its global voice to encourage other stakeholders to act where appropriate, including development of educational materials.

The WG will consider what aspects of the matters raised through collaboration may be addressed by standard setting (changes to requirements or application material) and what aspects are best addressed through non-authoritative guidance or education over the course of the project.

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?

- 55. Overall, there were more respondents who encouraged exploring enhanced or additional auditing requirements for going concern than those who did not. Respondents encouraged the IAASB to consider possible ways forward to provide clarity (e.g., standard setting through changes to requirements or guidance or non-authoritative support materials and education). Where respondents encouraged enhancements, there were common themes. These sections summarize feedback and possible actions organized by themes identified.

Enhanced Linkages and More Robust Evaluation of Going Concern in Other Areas of the Audit

Enhanced linkages

What We Heard from DP Respondents (See NVivo – Agenda Item 5-A.3, Subheadings “Q3a.1.04 - Yes - Closer or Enhanced Linkage to Other ISAs” and “Q3a.1.09 - Yes - More Robust Risk Assessment Requirements”):

Monitoring Group Members

56. A Monitoring Group member encouraged the IAASB to explore how the assessment of indicators about whether there are potential threats to an entity’s ability to continue as a going concern can benefit from information gathered during the risk assessment procedures.

Other Respondents

57. Respondents commented generally that the interactions between ISAs dealing with main principles applicable to audit and ISAs dealing with specific elements of the audit (e.g., going concern) should be clearer. Respondents suggested further exploration of the best way to facilitate integrated application of all the ISAs.
58. A respondent also commented that the detection of significant doubt about going concern should raise the auditor’s awareness of possible issues elsewhere in the audit (e.g., fraud risk considerations) where management could be motivated to misstate results.
59. Respondents commented regarding linkage to specific other ISAs as follows:

ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement*

60. Respondents commented that there should be a clearer link between the requirements in ISA 315 (Revised 2019) and the auditor’s evaluation of management’s going concern assessment. Respondents commented that this may include:
 - (a) Providing clarity that the auditor must obtain an understanding of the entity’s business model, objectives and strategies, how the entity is structured and financed, and how the entity measures and reviews its financial performance, including its budgeting and forecasting processes.
 - (b) Providing clarity that the auditor must obtain an understanding of any changes in the method or information used by management in reaching their conclusions, alternative scenarios considered, and the nature and extent of oversight and governance over management’s assessment of the entity’s ability to continue as a going concern.
 - (c) Clarifying that the understanding of the entity’s financial reporting process under ISA 315 (Revised 2019) should include an understanding of management’s assessment process for going concern.
 - (d) Emphasizing that the understanding obtained under ISA 315 (Revised) is essential to the auditor’s ability to exercise appropriate professional skepticism when evaluating management’s assessment of going concern.
61. A respondent commented that enhanced requirements for risk assessment procedures could result in earlier identification of situations where management has not taken the appropriate steps to

understand or appropriately address the basis for their going concern assertion. It can also result in identification of events or conditions not identified by management that may cast significant doubt about an entity's ability to continue as a going concern.

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

62. Respondents commented that there should be a clearer link between the requirements in ISA 540 (Revised) and ISA 570 (Revised), including:
 - (a) Challenging the methods, significant assumptions, and data used in management's cash flow forecasts used in the going concern assessment.
 - (b) Requiring the auditor to consider potential indicators of management bias in the preparation of management's assessment of going concern.
63. Respondents encouraged the IAASB to undertake post-implementation reviews related to ISA 315 (Revised 2019) and ISA 540/540 (Revised) to aid in identifying areas that may not be implemented as intended or may need further clarification for the auditor.

Input from Other Information-Gathering Activities:

64. May 2020 NSS Meeting - Request for Input
 - (a) In the United Kingdom, one of the objectives of the revision of ISA (UK) 570, Going Concern, in 2019 was to clarify the links between ISA (UK) 570 to important principles in other ISAs (UK) including ISA (UK) 315 and ISA 540. Other revisions included a more structured risk assessment process, an enhanced understanding of the processes that oversee management's assessment, a more robust evaluation of management's assessment, a greater emphasis on professional skepticism, including the evaluation of contradictory evidence, and greater transparency in the auditor's report.
 - (b) One participant commented that ISA 570 (Revised) does not provide sufficient linkage to ISA 720 (Revised), *The Auditor's Responsibility Relating to Other Information*, as to how going concern risks are disclosed in other information.
65. Clarity Post-Implementation Monitoring Review
 - (a) One respondent noted that a procedure should be added to ISA 570 (Revised) to emphasize that auditors are required to revise their risk assessment under ISA 315 (Revised 2019), paragraph 37, if the auditor obtains new information which is inconsistent with the audit evidence on which the auditor originally based the identification or assessments of the risks of material misstatement.
66. Accountancy Europe Publication "Going Concern: Recommendations to Strengthen the Financial Reporting Ecosystem"
 - (a) In their publication Accountancy Europe recommends broadening the auditor's area of consideration and work effort to enhance the auditors' risk assessment adaptability and agility.
67. Academic research about going concern indicators (for a summary of findings from each report, refer to **Appendix E**):

- (a) Academic study "Greater Reliance on Major Customers and Auditor Going-Concern Opinions" (2020): Overall, the study indicates that supply chain relationships are relevant business risks associated with auditors' going concern assessments.
- (b) Academic study "ISA 570: Italian Auditors' and Academics' Perceptions of the Going Concern Opinion" (2019): Financial indicators including net liability or net current liability position, fixed term borrowings approaching maturity, and indications of withdrawal of financial support by creditors were among the most important perceived going concern indicators by Italian audit partners and academics. Important operating indicators included management's intention to liquidate the entity and losses of major markets, key customers, franchises, licenses, or principal suppliers.
- (c) Academic Study "A Synthesis of Research on Auditor Reporting on Going Concern Uncertainty: An Update and Extension" (2019): Certain client characteristics are associated with the issuance of opinions noting uncertainty about an entity's ability to continue as a going concern (such as failing to remediate internal control deficiencies or having overly optimistic forecasts).

Going Concern Possible Action #3:	R	A	G	E	O	N
Q3(a) - Enhanced Linkages	✓	✓	✓	✓		

The WG recommends:

- (a) Exploring possible actions to address and enhance linkages to ISA 315 (Revised 2019) and emphasize the importance of a robust risk assessment regarding a company's going concern assertion (standard-setting changes to requirements or application material, issuance of non-authoritative guidance, or education).
- (b) Exploring possible actions to enhance linkages between work effort in ISA 540 (Revised) and ISA 570 related to testing of management's assessment (standard-setting changes to requirements or application material, issuance of non-authoritative guidance, or education).
- (c) Exploring possible issuance of non-authoritative material in relation to matters impacting the ISA 315 (Revised 2019) risk assessment procedures identified in the academic research such as the identification of events and conditions (e.g., key customers, franchises, licenses, or principal suppliers.), taking into consideration the application material that already exists in ISA 570 (Revised.).

Professional Skepticism

What We Heard from DP Respondents (See NVivo – Agenda Item 5-A.3, Subheading “Q3a.1.10 - Yes - Professional Skepticism”, “Q3a.2.10 - No - Professional Skepticism”, and “Q3a.3.10 - Mixed Response - Professional Skepticism”):

Monitoring Group Members

- 68. Monitoring Group members encouraged the IAASB to emphasize the concept of professional skepticism to enhance how it is applied in practice, whether through changes to the standard or issuing additional guidance.

Other Respondents

69. Other respondents commented that the IAASB should strengthen requirements in ISA 570 related to how auditors exercise professional skepticism. Respondents suggested:
- (a) Adding concepts similar to those recently added in ISA 315 (Revised 2019) and ISA 540 (Revised), including
 - (i) A requirement to design and perform audit procedures in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory, including evidencing how contradictory evidence was considered and concluded on.
 - (ii) A stand-back requirement to consider all evidence obtained in forming conclusions.
 - (iii) Use of stronger language in the standard (e.g., “challenge, question and reconsider”).
 - (iv) A requirement to consider the potential for management bias in management’s going concern assessment.
 - (b) Adding a requirement to have documented evidence to the fact that the auditor remained alert throughout the audit, including performance of minimum procedures that are documented in the audit file.
70. NSS respondents also commented that merely requiring auditors to be “more skeptical” or increasing the number of references to professional skepticism in the standard is unlikely to be effective.

Input from Other Information-Gathering Activities:

71. Expectation Gap Roundtable – Participants supported more robust requirements to encourage auditors to exercise professional skepticism when undertaking going concern procedures. Participants also expressed support for the introduction of a stand-back requirement to emphasize that auditors must consider cumulative audit evidence obtained in formulating their conclusions.
72. Academic study "Are Auditors Professionally Skeptical? Evidence from Auditors' Going-Concern Opinions and Management Earnings Forecasts" (2014): The study concludes that auditors are professionally skeptical about management earnings forecasts when performing going concern procedures.
73. CPAB Exchange: “Going Concern Project Overview”, Published January 2020: In this publication, CPAB noted they found there was an opportunity for auditors to increase their application of professional skepticism. The additional challenge to management and application of professional skepticism could be improved by:
- (a) Critically evaluating whether key assumptions are optimistic, realistic or conservative.
 - (b) Obtaining and assessing alternative scenarios, such as severe but plausible scenarios to challenge the reasonability of management’s assumptions.

Going Concern Possible Action #4:

R	A	G	E	O	N
✓	✓	✓			

Q3(a) - Professional Skepticism

The WG discussed that enhancements to professional skepticism that may be needed more broadly across the full suite of ISAs are not within the remit of the WG. As such, the WG recommends:

- (a) Exploring possible standard-setting actions to emphasize the concept of professional skepticism in ISA 570 (Revised) in a manner similar to recently issued standards, including:
 - (i) Emphasize designing and performing audit procedures in a manner not biased towards excluding contradictory evidence or obtaining audit evidence that may be corroborative.
 - (ii) Add focus on management bias in the auditor's performance of risk assessment and audit procedures.
 - (iii) Use of stronger language in the standard (e.g., "challenge", "question", and "re-consider").

Collaborating with the Professional Skepticism Working Group as to whether non-authoritative guidance is needed to illustrate the application of professional skepticism when performing procedures required by ISA 570 (Revised). The WG recommends monitoring the projects covering ISA 500, *Audit Evidence*, and CUSP¹ (i.e. use of stronger language) as to whether these matters are addressed more broadly or whether changes of this nature should be made to each individual standard moving forward.

The WG will also consider possible actions related to professional skepticism together with consideration of other areas for enhancements (for example, related to more robust procedures to test management's assessment of going concern as described in section "More robust challenge of management").

More Robust Challenge of Management

What We Heard from DP Respondents (See NVivo – Agenda Item 5-A.3, Subheading "Q3a.1.08 - Yes - More rigorous challenge of management's assessment")

Monitoring Group Members

- 74. A Monitoring Group member suggested assessing whether the requirements and guidance sufficiently convey the message that further inquiries and more robust procedures would be necessary if early indicators of potentially significant financial distress were present, and that this may be earlier than when events or conditions that case doubts on going concern can be identified.

¹ *Complexity, Understandability, Scalability, and Proportionality (CUSP)*

Other Respondents

75. Respondents commented that there should be enhanced requirements around a robust challenge of management's assessment of going concern, as is done in some standards to emphasize how professional skepticism may be exercised. Specific suggestions included:
- (a) The auditor's evaluation of management's assessment should draw on a wider range of available information to support their work through enhanced risk assessment procedures and a more rigorous challenge of the method, data and assumptions used by management in making their going concern assessment.
 - (b) There should be more robust challenge of management when the going concern assessment is limited to the minimum one-year requirement, but there are circumstances that indicate a longer period would be more appropriate.
 - (c) There could be an explicit requirement for the auditor to request specific and separate assessments from management around (1) the appropriateness of the going concern basis of accounting, and (2) the identification of events and conditions that may cast significant doubt on the entity's ability to continue as a going concern. In relation to the second assessment, the auditor could be required to confirm that it includes the business model/purpose and cash flow analysis.
 - (d) Providing clarity around when it may be appropriate to consider the use of experts.
 - (e) Requiring the auditor to step back from the detail of the assessment and consider the broader commercial picture.
 - (f) Evaluating the risk of management bias in the going concern assessment.
76. Respondents commented that more guidance on how to evaluate management's assessment of the entity's ability to continue as a going concern would be helpful.
77. A respondent commented that it may be helpful to provide clarity around the extent to which mitigating factors may be considered, including significant assumptions and judgments about the feasibility of management's plans and the importance of assessing the extent to which such plans are within management's control.
78. For further details on comments related to enhanced linkage to the procedures required by ISA 540 (Revised), see earlier section "Enhanced Linkage and More Robust Evaluation of Going Concern in Other Areas of the Audit".
79. For further details on comments related to enhancements to professional skepticism, see earlier section "Professional Skepticism".

Input from Other Information-Gathering Activities:

80. May 2020 NSS Meeting Request for Input
- (a) One participant commented that the auditor's work effort in relation to the evaluation of management's assessment should be enhanced. In particular, it should draw on a wider range of available information to support the auditor's work (through enhanced risk assessment procedures) and a more robust evaluation of management's assessment, including a more rigorous challenge of the method, information and assumptions used by management.

- (b) One participant commented there should be more guidance with respect to:
 - (i) Auditing management’s cash flow and other projections when considered a significant factor in management’s plans to address going concern.
 - (ii) The degree of uncertainty associated with management’s plans in unstable economic environments.
 - (iii) Management delaying the issuance of the financial statements when going concern is an issue and there is no statutory deadline for issuance of the financial statements.

- 81. In the UK, ISA (UK) 570 was revised to strengthen the work effort of the auditor in relation to the evaluation of management’s going concern assessment.
- 82. CPAB Exchange: “Going Concern Project Overview”, Published January 2020: In this publication, CPAB notes that in the audit files they reviewed, auditors evaluated whether management’s forecast supporting its assessment of going concern was anchored in accurate, historical cashflows. They looked for evidence such as contracts to support forecasted revenues and future commitments. Auditors also demonstrated they were corroborating evidence to evaluate whether management’s analyses were consistent by comparing going concern assessments with management discussion and analysis, liquidity covenants, sensitivities and impairment testing, as required by the standards.

Going Concern Possible Action #6:		R	A	G	E	O	N
Q3(a) More robust challenge		✓	✓	✓	✓		
As noted in Possible Action #3, the WG recommends exploration of possible actions to enhance linkages between work effort in ISA 540 (Revised) and ISA 315 (Revised 2019) with ISA 570. This would include exploring possible actions (through standard setting changes to requirements or application material, issuance of non-authoritative guidance, or education) to enhance the rigor around the auditor’s evaluation of management’s going concern assessment.							

Definition of Material Uncertainty and Other Terminology in ISA 570 (Revised)

What We Heard from DP Respondents (See NVivo – Agenda Item 5-A.3, Subheadings “Q3a.1.06 - Yes - Definition of Material Uncertainty” and “Q3a.3.06 - Mixed Response - Definition of Material Uncertainty” and “Q3a1.05 – Yes – Definition of Going Concern”):

Monitoring Group Members

- 83. A Monitoring Group member encouraged the IAASB to consider that the identification of a “material uncertainty” relating to going concern relies on judgment and is not well understood. In addition, it can appear ‘binary’ in nature with a significant step existing between circumstances where a MURGC is identified and where it is not.

Other Respondents

- 84. Respondents commented that the concept of a MURGC is inconsistently understood with varying interpretations. They noted that more robust definitions and/or guidance and education are necessary to improve consistency.

85. Respondents noted that there needs to be a consistent and aligned definition and guidance in both the accounting and auditing standards related to the concept of a MURGC.
86. A respondent encouraged the IAASB to work with the IASB to consider:
- (a) Supplementing the current binary approach of disclosing material uncertainties related to going concern with additional going concern disclosures.
 - (b) Exploring whether there is merit in replacing the term “going concern” with terminology that is more easily understood (e.g. explore other concepts such as resiliency).
 - (c) Providing guidance on specific industry going concern factors beyond generic financial measures and indicators through collaboration with other parties such as industry associations to provide clarity and drive consistency.
87. A respondent recommended the IASB clarify the difference between the MURGC threshold and the liquidation basis of accounting threshold as it is not sufficiently understood.
88. A respondent commented that trying to better explain the term “material uncertainty” is not going to significantly address the challenges around going concern. Rather, they noted that greater transparency in management disclosures about matters related to longer term viability and future prospects would provide more timely and relevant information to users about the entity’s financial condition and would allow users of financial statements to apply their own judgment in making decisions based on that more relevant and useful information.
89. Respondents noted there is confusion around other terms in the standard, including “going concern” and “significant doubt” and encouraged the IAASB to further explore the terminology used, as well as provide greater clarification regarding the measures, assumptions or judgments that support them.
90. Respondents noted that the International Standard on Review Engagements (ISRE) 2410 would benefit from revision to clarify the auditor’s responsibilities related to going concern at an interim stage and align the interim reporting with requirements for year-end auditor’s reports.

Input from Other Information-Gathering Activities:

91. In the Less Complex Entity (LCE) Roundtable held on October 7, 2020² participants noted there is a lack of understanding of what is a “material uncertainty” is. Participants also noted differences in the level of detail provided in the applicable financial reporting framework and the auditing standards may cause management and auditors to disagree on when a MURGC exists.
92. May 2020 NSS Meeting Request for Input: One participant recommended the IAASB provide further guidance on what is a MURGC.
93. In the UK, ISA (UK) 570 was revised to remove the description of a material uncertainty related to going concern from the body of the standard and include “Material uncertainty related to going concern” as a defined term in the Definitions section of the standard.

² For details of this event, refer to **Appendix D**.

Going Concern Possible Action #5: Q3(a) - Definition of Material Uncertainty	R	A	G	E	O	N
	✓	✓	✓	✓		

The WG recommends:

- (a) Exploring a possible standard-setting action to add “Material Uncertainty Related to Going Concern” as a defined term, while remaining cognizant of alignment between the applicable accounting framework and the auditing standards
- (b) Consideration of how national standard setters have addressed this issue at jurisdictional levels when exploring possible actions.
- (c) Consideration of non-authoritative support materials or education to clarify the definition of a material uncertainty related to going concern and provide guidance for auditors in determining whether a material uncertainty related to going concern exists.

The WG also discussed that there is inconsistency in terminology used in ISA 570 (Revised) and ISRE 2410³ and recommend that this be addressed in a separate future project related to ISRE 2410 and is not in scope for this project. The WG recommends this is added as a topic in Category A of the IAASB Framework for Activities.

Timeline for Assessment

What We Heard from DP Respondents (See NVivo – Agenda Item 5-A.3, Subheadings “Q3a.1.12 - Yes - Timeline for Assessment”, “Q3a.2.12 - No - Extended Timeline for Assessment”, and “Q3a.3.12 - Mixed Response - Timeline for Assessment”):

Monitoring Group Members

- 94. A Monitoring Group Member commented that the IAASB should consider whether the time horizon over which the going concern assessment is made should be lengthened, either in all cases or if certain conditions exist. They also commented that the IAASB should consider to what degree the audit requirements should align with accounting and disclosure requirements.

Other Respondents

- 95. Respondents who were not supportive of extending the time period for assessment beyond a minimum of twelve months noted the following reasons:
 - (a) A change in the auditor’s time period for assessment can only be made in connection with a change in the time period for management’s assessment under the applicable accounting framework. Management has primary responsibility for assessing an entity’s ability to continue as a going concern and accordingly, auditors should not be required to assess a period longer than the period required by the applicable financial reporting framework.
 - (b) The further into the future that management or the auditor look, the assessment becomes less meaningful due to the higher level of uncertainty.

³ International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*

- (c) The extant requirement in the accounting standards to consider all available information about the future, which is at least but is not limited to, 12 months from the end of the reporting period is sufficient.
 - (d) The principle in ISA 570 (Revised) that the auditor's assessment covers the same period as that used by management (a minimum of 12 months) to make its assessment is appropriate.
 - (e) Management may not have sufficient information to assess going concern beyond 12 months (for example, a non-profit organization with a 12-month funding cycle).
 - (f) Extending the time period for the going concern assessment may inadvertently increase the expectation gap as financial statement users may derive unwarranted assurance about the future viability of the entity from the longer-term assessment.
96. While the majority of respondents who commented about the timeline for assessment were not supportive of extending the minimum time period beyond 12 months, respondents were supportive of exploring a change in the commencement date of that 12-month period to be the date the financial statements are approved by management and those charged with governance (or the date the auditor's report is signed) instead of the financial reporting date. Respondents also commented that alignment of the going concern assessment period across jurisdictions could enhance comparability of financial statements and help reduce the expectation gap.
97. The requirement for the period for assessment to start on the date the financial statements are issued or approved, or when the auditor's report is signed, already exists in certain jurisdictions (including Australia, New Zealand, United Kingdom, and the United States).
98. A respondent commented that, absent revisions to international accounting standards on the length and start date of the going concern assessment period, the IAASB could consider including a requirement in ISA 570 (Revised) for the auditor to assess the reasonableness of the period utilized by management in their going concern assessment.
99. Respondents who were supportive of extending the minimum assessment period to greater than 12 months noted it should extend to a period long enough to adequately incorporate solvency risk associated with the entity.

Input from Other Information-Gathering Activities:

100. LCE Roundtable: Participants noted that auditors are required to evaluate management's going concern assessment which should cover at least twelve months from the date of the financial statements. However, auditor's reports of LCEs may not be signed until much later, sometimes 9-10 months past the date of the financial statements (or even longer). Additional emphasis may therefore be needed to require auditors to consider an extended period in situations where the auditor's report is issued much later than the date of the financial statements.
101. May 2020 NSS Meeting Request for Input: A participant noted the IAASB should provide clarity that the requirement for the assessment to cover twelve months from the financial reporting date is the minimum, but that any further information on going concern after that period should be evaluated.
102. CPAB Exchange: "Going Concern Project Overview", Published January 2020: In this publication, CPAB note that in their review, they saw examples where the audit team had access to longer-term management projections, but the detailed audit analysis was only focused on a one-year time frame, as required by the auditing standard. CPAB recognize there are challenges in longer-term

assessments, however given the reputational harm when companies fail shortly after the on-year time frame has passed, they question whether the benefits of examining a longer-term projection outweigh the costs.

Going Concern Possible Action #7: Q3(a) - Timeline for Assessment	R	A	G	E	O	N
	✓	✓				

The WG recommends:

- (a) Exploring a possible standard-setting action to extend the timeline for assessment period to at least twelve months from the date the financial statements are approved, or the date the auditor’s report is signed. The WG acknowledges this is an area where alignment between the applicable financial reporting framework and the auditing standards is an important consideration.
- (b) Exploring a possible standard-setting action requiring the auditor to challenge the reasonableness of management’s assessment period based on circumstances specific to the entity and the audit.

The WG does not recommend further consideration of extending the minimum period of “at least but not limited to twelve months” to greater than twelve months without specific requirements in the applicable financial reporting framework to do so.

Technology and Other Tools

What We Heard from DP Respondents (See NVivo – Agenda Item 5-A.2, Subheading “Q1b-2.6 - IAASB - 6. Consider Impact of Technology” and NVivo – Agenda Item 5-A.3, Subheading “Q3a.1.01 - Yes - Altman Z Score Model or Other Corporate Failure Prediction Models”):

Monitoring Group Member

103. A Monitoring Group member supported investigating the benefits of potentially requiring auditors to perform additional procedures when risk assessment procedures indicate heightened going concern considerations, such as the use of predictive models (e.g., Altman Z Score Model). They noted this may be an avenue where technology can assist auditors in relation to auditing the going concern assertion and improving audit quality.

Other Respondents

104. Respondents commented that the increased use of technology has the potential to evolve the nature and extent of going concern procedures. Examples noted include:

- (a) Technology can be used to test large sets of client data for anomalies.
- (b) Machine learning can be used in the risk assessment process to help identify specific characteristics in a population that warrant greater scrutiny, helping target areas of focus for the audit.
- (c) Failure prediction models used to assess an entity’s ability to continue as a going concern.

105. A respondent noted that exploring how technology can be used better in the performance of an audit may result in a better outcome than modifying the existing requirements and guidance.

106. Respondents commented that the IAASB should consider providing specific guidance and support materials in respect of the use of technology by auditors and that the auditing standards should evolve quickly to keep pace with technology advancements.

Input from Other Information-Gathering Activities:

107. Technology Roundtable held on September 2, 2020: Data analytics, artificial intelligence and machine learning algorithms provide auditors with opportunities to review an entire population for anomalies. *Note: This roundtable focused on fraud (how technology facilitates the perpetration of fraud, and how technology is used in financial statement audits and forensic audits). However, some feedback from participants may also be relevant to going concern, summarized below:*

- (a) Benefits of using advanced technology to perform going concern audit procedures include:
- (i) Deeper insights can be obtained through analysis of large sets of client data.
 - (ii) Auditors can perform procedures faster and more efficiently across many audits and perform analysis more frequently as needed or desired (e.g., quarterly instead of annually)
- (b) Challenges of using advanced technology to perform audit procedures include:
- (i) Obtaining data and verifying completeness/accuracy can be challenging.
 - (ii) Increasing accessibility of data outside the entity can create challenges for auditor to determine relevance and reliability.
 - (iii) Technology can help identify anomalies and 'red flags' that require further investigation. However, it cannot replace professional judgment and professional skepticism.

108. Academic research about failure prediction models (for a summary of findings from this report, refer to Appendix E):

- (a) Academic Study "A Synthesis of Research on Auditor Reporting on Going Concern Uncertainty: An Update and Extension" (2019:): Statistical Failure Prediction Models (SFPs) like Altman Z and other models of bankruptcy prediction use public data and appear to be better predictors of company failure than an auditor's opinion that there is a MURGC (Gerakos et al. 2016; Alareeni and Branson 2017).

Going Concern Possible Action #8:	R	A	G	E	O	N
	✓	✓	✓			

Q3(a) Technology

The WG recommends:

- (a) Exploring possible activity (i.e. enhancements to requirements or application material or development of non-authoritative guidance)
- (b) The WG will collaborate with the Technology Working Group to determine which aspects of technology or statistical techniques are also relevant to ISA 570, and other areas where standard-setting or non-authoritative guidance may be necessary to modernize ISA 570.

Other Possible Areas for Enhancements

What We Heard from DP Respondents

Third-Party Support (See NVivo – Agenda Item 5-A.3, Subheading “Q3a.1.11 - Yes - Third Party Support”)

109. Respondents noted the IAASB should consider adding the following concepts that exist in US GAAS:⁴

- (a) A requirement for the auditor to obtain written evidence of the intent of a supporting party to provide financial support when that third-party support is necessary in supporting management’s assertion about the entity’s ability to continue as a going concern for a reasonable period of time.
- (b) A requirement for the auditor to obtain sufficient appropriate evidence about the ability of the supporting party to provide the necessary financial support.
- (c) Articulation of the concept of obtaining sufficient appropriate audit evidence about “intent” and “ability” and the related application guidance which provides further context and clarity.

Other Concepts of Financial Health or Resilience (See NVivo – Agenda Item 5-A.3, Subheading “Q3a.1.13 - Yes- Other Concepts of Financial Health”, “Q3a.2.13 - No - Other Concepts of Financial Health”, and “Q3a.3.13 - Mixed Response - Other Concepts of Financial Health”)

110. Respondents who were not supportive of introducing other concepts of financial health (e.g., resilience, viability, solvency) noted the following reasons:

- (a) Introducing other concepts into the ISAs beyond going concern may cause confusion among users and contribute to an increased expectation gap.
- (b) The auditor’s responsibilities need to be determined in the context of the entity’s reporting responsibilities, which vary by jurisdiction. Therefore, respondents do not view broader auditor responsibilities around these other concepts as within the purview of the IAASB.
- (c) Alignment of multiple and different concepts used by varying jurisdictions would require considerable effort.

⁴ AICPA AU-C 570, *The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern*

111. Respondents supported initiatives to explore whether resiliency concepts other than going concern might be useful but acknowledged this would require collaboration with the IASB and other accounting standard setters, as well as other parties in the financial reporting ecosystem such as regulators. If a regime to report resiliency information is developed, the IAASB could then provide input on whether the information is verifiable so that assurance can be provided. A respondent noted that a cost-benefit analysis is required to ensure that any demands for information and reassurance about an entity's resilience can realistically be met.
112. Respondents noted that, while they do not believe now is the right time for the IAASB to devote extensive resources to develop thinking around viability or resilience, the IAASB might consider bringing some elements of viability reporting into going concern assessments. Elements might include auditor assessment of stress or reverse stress testing performed by management, probability assessment for different scenarios, and looking beyond one year.

Audit Documentation (See NVivo – Agenda Item 5-A.3, Subheading “Q3a.1.02 - Yes - Audit Documentation”)

113. A respondent encouraged the IAASB to consider whether additional documentation of the auditor's work effort on going concern would improve audit quality. They noted the following examples for possible documentation requirements in ISA 570 (Revised):
- (a) Documentation of the entity's internal controls related to going concern.
 - (b) Documentation of any indicators of possible management bias related to going concern and the auditor's evaluation of the implications for the audit.
 - (c) Documentation of significant judgments around whether or not a MURGC exists and the appropriateness of management's use of the going concern basis of accounting disclosures in the financial statements.

Other (See NVivo – Agenda Item 5-A.3, Subheadings “Q3a.1.07 - Yes - Internal Controls” and “Q3a.1.98 - Yes – Other”)

114. Respondents noted there should be enhanced responsibilities for management and those charged with governance around internal controls related to going concern procedures.
115. A respondent noted that auditors may be able to better identify and assess going concern risks through audit firm processes for monitoring media releases, industry outlooks and other sources of external publicly available information which are shared with engagement teams.
116. A respondent commented that in cases where there are conditions that may cast significant doubt on the entity's ability to continue as a going concern, auditors should be required to request management to provide written confirmation of the appropriateness of its assessment based on sufficient and appropriate supporting evidence.
117. A respondent commented that the IAASB should consider whether additional requirements or guidance is needed for government auditors. They noted that going concern as discussed in the DP is generally not relevant for government auditors and government entities. They noted that if the IAASB were to consider additional requirements related to going concern, it may be beneficial to examine the need for government auditors to perform audit procedures related to identifying any

fiscal sustainability challenges for government entities and potentially disclosing them in their auditor's report.

Input from Other Information-Gathering Activities:

118. Expectation Gap Roundtable:

- (a) Participants noted that regarding going concern, there is an inherent uncertainty in considering future events, and all stakeholders experience that uncertainty (management, those charged with governance, auditors, investors, etc.).
- (b) Participants noted there is consideration for targeted work in respect of management's assertions about the financial health of the company (e.g., viability statements).

119. Clarity Post-Implementation Review

- (a) A respondent noted that ISA 570 (Revised) should explain in the application and other explanatory material or in the Introductory Scope section, the difference between the concepts of "going concern" and "solvency"; and importantly, the auditor's obligations under ISA 570 regarding these concepts. For example, in Australia, directors sign a declaration on solvency which is subject to audit. There are examples of where preparers and auditors confuse this declaration with an assessment of going concern.

120. Brydon Review and UK BEIS Consultation

- (a) In his review, Sir Donald Brydon recommended that directors publish a Resilience Statement which would incorporate a going concern opinion for the short term, a statement of resilience in the medium term and a consideration of the risks to resilience in the long term.
- (b) UK Department for Business, Energy, & Industrial Strategy's (BEIS) Consultation on ["Restoring trust in audit and corporate governance"](#) published in March 2021: BEIS propose new reporting requirements for directors of PIEs of an Annual Resilience Statement, setting out how directors are assessing the company's prospects and addressing challenges to its business model over the short, medium and long-term, including risks posed by climate change.

121. Accountancy Europe Publication "Going Concern: Recommendations to Strengthen the Financial Reporting Ecosystem": In their publication, Accountancy Europe recommends assessing companies' longer-term viability and resilience. The note that the current work of companies and auditors on going concern focuses on the next 12 months. Some stakeholders suggest that on top of this, legislators could consider introducing a longer-term assessment of public interest entities' (PIEs') viability and resilience. This would concern a company's ability to adapt to changes to survive and thrive in the long run. Viability and resilience statements would be prepared by management and the auditor's involvement could follow a staggered approach, i.e. with more involvement in the short-term assessments.

122. They also recommend interconnecting financial and non-financial information. They note that understanding a company's resilience requires looking at both financial information and non-financial information (NFI). Legislators could consider requiring all PIEs' management to consider financial information and NFI to have a complete picture about the company. Legislators could also consider mandating assurance on certain parts of NFI reporting for all PIEs."

Going Concern Possible Action #9:

R	A	G	E	O	N
✓	✓	✓			

Q3(a) Other Enhancements

The WG recommends:

- (a) Exploring possible actions (standard setting, application material or guidance) to clarify considerations when written evidence of third-party intent to provide financial support is obtained, and whether and in what circumstances this constitutes sufficient appropriate audit evidence.
- (b) Monitoring progress on the CUSP project related to audit documentation and considering whether additional specific documentation requirements are needed in ISA 570 (Revised) as the project progresses.
- (c) Possible enhancement of application material to emphasize consideration of external publicly available information in assessing risks related to going concern.
- (d) Further consideration of whether additional application material relevant to the public sector is necessary.
- (e) Monitoring global developments related to reporting on resiliency or sustainability measures. While the WG does not propose possible actions related to resiliency or sustainability based on the responses to the DP, this is an emerging area the WG will continue to monitor. This could be added as a topic in Category A of the IAASB Framework for Activities.

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?

What We Heard from DP Respondents (See NVivo – Agenda Item 5-A.4):

123. In response to specific DP questions about whether changes should apply to all audits or only in specific circumstances, the majority of respondents who commented on this question noted that enhancements to requirements should be applicable to all entities.
124. These respondents noted that the basic principles that underpin going concern are the same for all entities, and therefore from a public interest perspective, requirements should be written in a scalable and proportionate manner that can be applied to all entities. These respondents noted that the standard should allow for flexibility so that judgment can be used to determine if additional procedures are warranted based on the circumstances of the entity and the audit. Respondents also commented that requiring different levels of procedures for different entities may widen the expectation gap, further contributing to a knowledge gap around the scope of a financial statement audit.
125. Where respondents supported requiring enhancements only in certain circumstances, they noted that enhanced requirements should be required for listed entities or other public interest entities, certain regulated entities (e.g., financial institutions), public sector entities, or entities determined to be high risk.

Going Concern Possible Action #10:

Q3(b)

The WG will:

- (a) Consider scalability and proportionality when considering enhancements that will be in the scope of the project, while also recognizing the view from DP respondents that any enhancements related to going concern should be required for all entities.
- (b) Monitor the work being done with IESBA on the Definitions of Listed Entity and Public Interest Entity.

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? If Yes, What Additional Information is Needed and How Should this Information be Communicated (e.g. in Communications with Those Charged with Governance (TCWG), in the Auditor’s Report, etc.)?*

126. This section summarizes feedback related to whether more transparency is needed about the auditor’s work in relation to going concern. Responses to the question included respondents who were in the following categories:
- (a) Supportive of enhanced transparency both with TCWG and in the auditor’s report.
 - (b) Supportive of enhanced transparency with TCWG, but not in the auditor’s report.
 - (c) Supportive of enhanced transparency in the auditor’s report, but not with TCWG.
 - (d) Not supportive of enhanced transparency in either the auditor’s report or with TCWG.
 - (e) Support of enhanced transparency in other areas (e.g. with regulatory authorities).
127. There were also respondents who had mixed views, responded in relation to either the auditor’s report or TCWG but not both, or did not comment.
128. In the following sections, the feedback is summarized related to each topic about enhanced transparency related to the auditor’s procedures around going concern. For details of underlying comments, refer to NVivo report 5-A.5.

Enhance Transparency with TCWG

What We Heard from DP Respondents (See NVivo – Agenda Item 5-A.5, Subheading “Q3ci.2 - Yes - TCWG - Enhanced Requirements for Communication with Those Charged with Governance”, “Q3ci - No - Further Transparency Not Necessary for TCWG Specifically”, and “Q3ci.3 – Mixed Views, Unclear or Other”)

Monitoring Group Members

129. A Monitoring Group member encouraged the IAASB to consider whether auditors appropriately engage with TCWG. They noted this includes the application of appropriate rigor in determining who to speak to, whether meetings should include management, whether the auditor is sufficiently considering management bias, and whether the auditor appropriately communicates the results of the relevant audit procedures. They also noted that currently, the auditor is only required to

communicate matters to TCWG when events or conditions are identified that may cast significant doubt on the entity's ability to continue as a going concern. Where relevant, the auditor should be required to communicate to TCWG on going concern, including commenting on the quality of management's assessment and how they have evaluated relevant events and conditions. This would encourage early, transparent dialogue between the auditor, those charged with governance and management.

Other Respondents

130. Respondents commented that enhancements can be made to require greater transparency and enhance two-way communication with TCWG. Specific suggestions included:
- (a) Require the auditor to communicate with TCWG about the quality of management's going concern assessment, the procedures they performed to evaluate going concern, and the conclusion reached, including whether the disclosures being made by management are appropriate given the circumstances. This could encourage early transparent dialogue among the auditor, those TCWG and management.
 - (b) If management is reluctant to make or extend its assessment when requested to do so by the auditor, require the auditor to discuss the matter with management and, if appropriate, with TCWG.
 - (c) Require communication with TCWG when the auditor has determined there is no MURGC, but it was a "close call" and involved significant judgment.
 - (d) Require communication with TCWG about indications of potential going concern issues at an early stage of the audit.
 - (e) Promote a more robust dialogue with TCWG that includes sharing views about management's assessment of going concern and includes a discussion of significant assumptions made in light of the identified events or conditions.
131. Respondents who did not support additional transparency with TCWG noted the current requirements are appropriate and sufficient.

Input from Other Information-Gathering Activities:

132. Expectation Gap Roundtable: Participants called for more robust two-way communication between the auditor and those charged with governance related to going concern. It was highlighted that communications with TCWG were often only done as the end and may be perceived as 'an afterthought' when it should be integral to the auditor's procedures throughout. Participants noted that more effective engagement between TCWG and the auditor would help both parties in their duties so that they may better challenge management.
133. May 2020 NSS Meeting: A participant noted that an update was made to ISA (UK) 570 that if management is unwilling to make or extend its assessment when requested to do by the auditor, the auditor shall discuss with management and if appropriate, those charged with governance.
134. CPAB Exchange: "Going Concern Project Overview", Published January 2020: In this publication CPAB notes that the audit committee plays a key role in overseeing the determination of whether going concern disclosure is necessary, encouraging open communication among management, the audit committee and the auditor. In the best examples they reviewed, they saw evidence of robust

written communication with audit committees to assess and conclude on the company's required disclosures.

Going Concern Possible Action #11: Q3(ci) - TCWG	R	A	G	E	O	N
	✓	✓				

The WG recommends:

- (a) Exploring possible standard-setting actions to increase two-way communication with TCWG.
- (b) Further consideration of whether amendments are necessary to ISA 260, *Communication with Those Charged with Governance* resulting from enhancements made to communication with TCWG related to going concern.

Enhance Transparency in the Auditor's Report

What We Heard from DP Respondents (See NVivo – Agenda Item 5-A.5, Subheadings “Q3ci.1 – Yes – Auditor’s Report, “Q3ci – No – Further Transparency Not Necessary for Auditor’s Report Specifically”, and “Q3ci.3 – Mixed Views, Unclear or Other” and NVivo – Agenda Item 5-A.3, Subheading “Q3a.1.03 - Yes - Articulation of Auditors Responsibility and Objectives”):

Monitoring Group Members

- 135. Monitoring Group members noted that more information is needed about an entity when its going concern status is in the “no material uncertainty” stage so that there is less of a cliff edge once it is determined that there is a MURGC. They noted the disclosure about MURGC relies on a number of judgments and is not well understood and can appear ‘binary’ in nature with a significant step existing between circumstances where a ‘material uncertainty’ is identified and where it is not.
- 136. A Monitoring Group member commented that the Auditor Reporting Post-Implementation Review project can serve as a mechanism to inform and educate users as well as solicit feedback as to the effectiveness of the current reporting model.
- 137. A Monitoring Group member noted that the IAASB should consider whether requiring explicit statements on whether a MURGC has been identified and on the appropriateness of management’s use of the going concern basis of accounting.
- 138. A Monitoring Group member noted it may be helpful for the auditor to clearly communicate any specific or general limitations in their audit, however, such communications should not be viewed as an alternative to carrying out appropriate audit procedures. They noted communication is less likely to be useful if it uses “boilerplate” wording.
- 139. A Monitoring Group member suggested that a key focus of the IAASB’s review should be to clarify the responsibility of auditors in relation to going concern and what is expected from auditors with the objective of enhancing audit quality. They noted clear communication about what auditors are expected to achieve is necessary for both auditors and users of the financial statements.

Other Respondents

- 140. Respondents who were supportive of enhancements to auditor reporting requirements related to going concern noted the IAASB should consider:

- (a) Requiring the auditor to provide information about the nature, timing and extent of the auditor's work or procedures on going concern in the auditor's report, as well as the results and any significant findings.
 - (b) Enhancements to the wording in the auditor's report to provide clear descriptions of the auditor's responsibilities and the responsibilities of management and TCWG and also to describe the inherent limitations of the auditors' responsibilities in relation to going concern.
 - (c) Reconsidering the auditor reporting responsibilities in respect of material uncertainties related to going concern, including whether more information is needed to align to the extent of reporting with that required for key audit matters (KAMs). For example, in "close call" situations where no MURGC exists, but the auditor determines that one or more matters relating to this conclusion arising from the auditor's work effort under ISA 570 are key audit matters, the auditor is required to provide more detail around the procedures the auditor performed in the KAM, than in the MURGC section of the auditor's report if they had determined there was a MURGC.
 - (d) Requiring more explicit statements regarding going concern conclusions in the auditor's report
 - (i) A respondent noted that there are different views about whether the auditor's responsibilities include reporting on the entity's going concern status, and that it is important that this is clarified.
 - (e) Requiring disclosures in the auditor's report about management's going concern assessment that are less binary in nature.
 - (f) Requiring disclosure of the time period and start date that the going concern assessment covers.
136. Respondents commented that changes to introduce further transparency need alignment with the requirements of the applicable financial reporting framework. These respondents believed that auditor reporting on going concern issues is inextricably linked with management reporting on going concern and the IAASB should engage with the IASB on this issue. They believed that this would open the debate on the time period to be considered in the assessment and the possibility for more nuanced reporting.
141. When respondents did not support enhancements to auditor reporting requirements, they noted the following reasons:
- (a) The current requirements are considered sufficient.
 - (b) Adding length to the auditor's report about going concern in all circumstances is likely to unbalance the report, overly focusing on going concern matters and possibly even exacerbating the expectation gap, given that there is already a misconception of a guarantee of going concern.
 - (c) Lengthy disclosures about going concern may result in a self-fulfilling prophecy, making users nervous about going concern even in circumstances where going concern risks was low.
 - (d) The auditor does not conclude on the ability of the entity to continue as a going concern and should avoid additional wording that may imply otherwise.

- (e) Listing procedures performed is not overly useful as users are most interested in whether the auditor identified issues. The auditor is already required to report a MURGC or a KAM in the close call situations.
- (f) Education may be a more effective tool to educate users on the scope of the auditor's work related to going concern.
- (g) Further discussion on going concern in the auditor's report may become boilerplate in nature, which is not useful.
- (h) The auditing standard has sufficient reporting requirements, but the accounting standards need to be enhanced with respect to the going concern assessment.

142. Respondents noted the IAASB should consider clarifying the distinction between the sections in the auditor's report relating to a MURGC, key audit matters, and emphasis of matter paragraphs.

Input from Other Information-Gathering Activities:

143. Expectation Gap Roundtable:

- (a) Participants called for more bespoke information to be disclosed by the auditor in the auditor's report regarding the work performed and findings in respect of going concern.
- (b) However, the need to maintain balance as to how much information is disclosed was emphasized; the information must remain meaningful.
- (c) Participants noted that greater transparency in the auditor's report would likely lead to different behaviors. For example, greater transparency can lead to higher accountability pressure as managers may expect their judgments to be scrutinized more comprehensively. They also noted that greater transparency may also help demonstrate the value of an audit.

144. Separate Auditor reporting session of the Expectation Gap Roundtable (held on September 28, 2020)

- (a) There were mixed views on the addition of the MURGC section in the auditor's report. Some participants called for more bespoke information in the auditor's report regarding the work performed for going concern (i.e., more KAM-like reporting as described in paragraph 124(c)). However, they noted information must be meaningful and not boilerplate. Others cautioned against adding to the length and complexity of the report.
- (b) Participants noted that management should be required to provide enhanced disclosures.
- (c) Participants noted that the COVID 19 environment provides an opportunity to see how the reporting fares.

145. LCE Roundtable

- (a) Participants suggested it may be useful to consider if there is a "middle ground" that can be disclosed in the auditor's report to explain circumstances without raising serious concerns as to the entity's ability to continue as a going concern.

146. Academic Research on going concern reporting (for a summary of findings from each report, refer to Appendix E)

- (a) Academic study "Investor Reaction to Auditors' Going Concern Emphasis of Matter: Evidence from a Natural Experiment" (2019). Results from the study support the argument that vague

going concern financial statement disclosures are more difficult to assess. The authors suggest that in order to increase the informativeness of financial statements, standard setters may consider improving the content of existing disclosures.

- (b) Academic study "Measuring the Market Response to Going Concern Modifications: The Importance of Disclosure Timing" (2018:): This study finds that the incremental effect of the market reaction to an opinion noting uncertainty about the entity's ability to continue as a going concern was weak and smaller in magnitude than that found previously in the academic literature.
 - (c) Academic study "Going-concern Uncertainties in Pre-bankrupt Audit Reports: New Evidence Regarding Discretionary Accruals and Wording Ambiguity" (2008): This study found that a large percentage of opinions noting issues with the entity's ability to continue as a going concern are written ambiguously and with an overuse of conditional language.
 - (d) Academic Study "A Synthesis of Research on Auditor Reporting on Going Concern Uncertainty: An Update and Extension" (2019): This study suggests that an auditor's report noting uncertainty about an entity's ability to continue as a going concern is unlikely to send a company into bankruptcy. However, there are studies that found associations between auditor reports noting issues with a company's ability to continue as a going concern and increases in companies' cost of equity capital, downgrades in credit ratings, share price consequences to equity owners, investor perceptions about audit quality, and subsequent auditor litigation.
147. Post-Clarity Implementation Monitoring Project: A respondent noted it would be helpful to include as an appendix to ISA 570 (Revised) a diagrammatic representation or decision tree around auditor reporting considerations.
148. Auditor Reporting Post-Implementation Review Survey
- (a) Respondents to the survey indicated the MURGC section in the auditor's report was seen as a beneficial addition and especially valuable in the current circumstances where many entities are facing uncertainties associated with the COVID 19 pandemic.
 - (b) The aspects where respondents noted challenges were:
 - (i) There is confusion about the purpose of the different sections of the auditor's report (KAM, emphasis of matter (EOM) and MURGC).
 - (ii) There were suggestions from respondents to make the requirements for the MURGC section similar to KAMs so that a fuller story may be told. In the MURGC section, auditors are not required to explain how the matter was addressed in the audit. This leads to possible perception that this section is less important and provides less information relative to KAM reporting.
 - (iii) Interim reporting requirements related to going concern are different from the annual requirements.
 - (iv) Management disclosures related to going concern should be more robust.
 - (c) There were mixed views on whether there should be more information in the auditor's report related to going concern. Respondents noted more transparency may be helpful but

commented that more information will increase the length and complexity of the auditor's report and may also create imbalance of the report towards going concern matters.

149. May 2020 NSS Meeting Request for Input

- (a) A participant noted that the separate MURGC section is not understood in practice, especially by insolvency administrators and courts.
- (b) Another participant noted that there has been some variation in how practitioners report going concern matters as either a KAM or a MURGC. For example, where the auditor concludes that there is a MURGC, auditors have correctly included in the MURGC section but some have voluntarily reported additional information, similar to where going concern is reported as a KAM. Consideration of whether this voluntary reporting should be required would promote consistency and best practice on this matter.
- (c) Another participant commented about potential inconsistencies and challenges associated with auditor reporting matters relating to a MURGC. They noted that in practice, the different reporting requirements related to KAMs and MURGCs result in some cases where the auditor includes less documentation in their audit report when there is MURGC as opposed to a 'close call' or other issue where the going concern matter is reported as a KAM.

150. Accountancy Europe Publication "Going Concern: Recommendations to Strengthen the Financial Reporting Ecosystem". In their publication, Accountancy Europe recommends:

- (a) Mandating going concern disclosures for management even if there are no material uncertainties identified. Subsequently, the note that auditors should be required to always provide:
 - (i) A statement on their consideration of management's going concern assumption, even in case of no MURGC or issues identified with management's assessment.
 - (ii) A conclusion on management's statement that no MURGC has been identified.

The publication notes that some countries are considering the idea of 'gradual' reporting on going concern for both management and auditors. They note standard setters could explore whether this could replace the current 'pass/fail' outcome of the going concern assessment.

- (b) A change in mindset, transparency and communication, noting that companies' and auditors' mindsets need to move away from fears about negative implications of going concern disclosures. Both should rather demonstrate their knowledge and competency in this area through disclosing additional information. Management's disclosures and related auditor's communication should not be boilerplate but should instead provide useful information understandable to stakeholders."
- (c) Clarifying and harmonizing the period for the going concern assessment. They note that standard setters should mandate a disclosure specifying what period management's going concern assessment covered. They believe they should also ensure harmonization of the starting date and length of the period for the assessment across European countries.

Going Concern Possible Action #12:	R	A	G	E	O	N
	✓	✓	✓			
Q3(ci) Auditors Report						
The WG recommends						
(a) Exploring possible standard-setting actions to increase transparency in the auditor’s report in respect to going concern (in conjunction with the AR PIR Working Group), including consideration of expanding the informational content in MURGC paragraphs to include how the auditor addressed this matter in the audit (in a KAM-like style.)						
(b) Exploring further actions to further clarify (through standard-setting or non-authoritative guidance) the various auditor reporting requirements where confusion has been cited (e.g., KAM, vs. MURGC, vs. EOM).						
The WG will monitor results in other jurisdictions where extended auditor reporting requirements have been implemented or introduced. The WG will also continue to liaise with the AR PIR Working Group.						

Enhanced Transparency – Other

What We Heard from DP Respondents (See NVivo – Agenda Item 5-A.5, Subheadings “Q3ci.3 - Yes - Regulatory Authorities - Requirement to Communicate with Regulatory Authorities When Necessary” and “Q3ci.4 - Yes – Other”):

Other Respondents

- 151. Respondents encouraged the IAASB to explore additional requirements to make communications to outside parties, including to relevant authorities, where issues related to going concern are identified by the auditor, and management and TCWG do not take appropriate measures, with a view to protecting the public interest.
- 152. A respondent commented that the auditor could provide a high-level report to stakeholders separate from the auditor’s report.
- 153. A respondent noted that formal communication through a required annual assurance meeting would help auditors to be more transparent about the auditor’s work in relation to going concern in an audit of financial statements and also serve to enhance the communication and transparency between various interest parties.
- 154. Respondents encouraged the IAASB to consider post-implementation reviews of extended reporting requirements in certain jurisdictions, such as UK and the Netherlands, to help understand if similar changes on a global level would be useful.

Input from Other Information-Gathering Activities:

- 155. Accountancy Europe Publication “Going Concern: Recommendations to Strengthen the Financial Reporting Ecosystem”: In their publication, Accountancy Europe recommends making early warning mechanisms for auditors more effective to help prevent corporate failures and enable timely restructuring when insolvency is looming.

156. In France, the statutory auditor profession is under the oversight of the Minister of Justice and requires the statutory auditor to perform additional duties beyond the financial statement audit that are in the public interest, including an early warning procedure that is required by business law. When the statutory auditor notices, during the performance of the engagement, facts that may threaten the going concern of the entity, they must launch an early warning procedure. The early warning procedure occurs in a series of steps as determined necessary. The order of the steps are as follows: 1) auditor notification to the Chairman of the Board (if a Board of Directors exists), (2) a request for Board meeting, (3) a request for a general meeting, and (4) inform the Trade Tribunal. The auditor can stop after whichever step provides a satisfactory answer that the going concern risk has been resolved. For example, if the auditor is satisfied after notifying the Chairman of the Board and receiving a satisfactory response, they are not required to request a Board meeting.

Going Concern Possible Action #13:	R	A	G	E	O	N
	✓	✓				

Q3(ci) Other

The WG recommends exploring possible standard-setting actions related to considering whether the auditor is required by law, regulation or ethical requirements to report to an appropriate external authority.

The WG will monitor extended reporting requirements made in other jurisdictions.

Section III-F 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? If Yes, What Further Information Should Be Provided, Where Should this Information be Provided, and What Action is Required to Put this Into Effect?*

Enhancements to the Applicable Financial Reporting Framework

What We Heard from DP Respondents (See NVivo – Agenda Item 5-A.6):

Monitoring Group Members

157. Monitoring Group members encouraged the IAASB to continue dialogue with the IASB and other accounting standard setters about whether the current interplay of the accounting and auditing standards best serve stakeholder interest or whether enhancements to the financial reporting framework should be pursued. The encouraged the IAASB to engage with accounting standard setters about enhancements to requirements for preparers of financial statements and those charged with governance, including enhanced disclosures.
158. A Monitoring Group member noted that based on their experience, they observe instances where disclosures about going concern judgments are not provided, contributing to a lack of high-quality financial reporting in ‘close call’ situations. They suggest the IAASB work with the IASB to a greater extent to achieve a stronger connection between ISA 570 and IFRS that might be similar to what exists between ISA 570 and U.S. GAAP (Presentation of Financial Statements – Going Concern (Subtopic 205-40)).

Other Respondents

159. The majority of respondents to the DP commented that enhancements are needed in the applicable financial reporting framework and that reporting requirements need to be aligned with auditing requirements. They noted a greater impact on the quality of going concern assessments and the related audit procedures will be realized when both the accounting and the auditing standards have been updated. They noted the following areas of focus:
- (a) There should be explicit financial statement disclosure requirements for all scenarios on the spectrum of risk related to going concern (i.e., where there is very limited risk, where there are indications of risk but no MURGC exists, where a MURGC exists, and where the going concern basis of preparation is not appropriate).
 - (b) The IASB should explicitly require disclosure of close call significant judgements.
 - (c) More robust definitions for “going concern”, “material uncertainty related to going concern” and “significant doubt” are needed in the accounting and auditing standards to improve inconsistency.
 - (d) Management needs more detailed requirements or guidance on how to make going concern assessments, including how to identify whether there is a MURGC, how to determine if an entity is not a going concern and a framework for reporting. This may include minimum requirements on how to perform robust going concern assessments.
 - (e) The IASB should consider whether changes are needed to the length of time and the start date for the period of management’s going concern assessment.
160. Respondents encouraged consideration of implemented or proposed changes made to the applicable financial reporting framework in certain jurisdictions to enhance management’s requirements and disclosures related to going concern (e.g., United States, New Zealand, Australia).
161. Respondents encouraged education for preparers and users of the financial statements on the concepts of going concern, and the respective responsibilities of management or those charged with governance and of the auditor in relation to going concern.

Input from Other Information-Gathering Activities:

162. Expectation Gap Roundtable: Participants questioned how much more could be changed in the auditing standards without changes to the applicable financial reporting framework. It was highlighted that accounting standard setters and other stakeholders should drive increased transparency in management’s disclosures in respect of going concern. Also, it was noted that more information about broader entity risks in the front end of the annual report and in the financial statements is needed (e.g., in management’s discussion and analysis), with further description about how those risks have impacted the audit of the financial statements.
163. IAASB Consultation on the Proposed Strategy for 2020-2023 and Work Plan for 2020-2021: A respondent noted the IAASB should increase collaboration with the IASB on the topic of going concern.
164. May 2020 NSS Request for Input: Participants noted that there is a need for the IASB and the IAASB to work collaboratively to develop an appropriate and aligned approach for preparers and auditors related to going concern.

165. CPAB Exchange: "Going Concern Project Overview", Published Jan 2020: This publication notes that Management has the most relevant information to assess the company's future performance and viability and takes the first step in assessing going concern. In the best examples they reviewed as part of their initiative on this topic, management prepared a thorough assessment, which the auditor reviewed and challenged. The work that management prepared was similar in depth and nature to their assessments of asset impairment, providing balanced information and analysis that facilitated the auditor's independent evaluation. They noted a range of quality of assessments prepared by management.
166. Brydon Review: In his published report, Sir Donald Brydon in the UK noted the following:
- "Regarding going concern and longer-term viability reporting, most respondents to the Call for Views thought that there was ample room to improve the current requirements. It was argued that the current going concern assessment sets the bar too high for directors having to disclose any 'material uncertainties' relating to a company's ability to continue as a going concern, by allowing proposed mitigating action to be taken into account, and that strengthening related requirements for auditors will not address this underlying weakness."*
167. Accountancy Europe Publication "Going Concern: Recommendations to Strengthen the Financial Reporting Ecosystem". In their publication, Accountancy Europe recommends:
- (a) Broadening companies' work effort. Standards and/or relevant legislation need to broaden companies' work effort on going concern assessments. Companies should implement integrated systems and have adequate procedures to prepare reliable cashflow forecasts. They should also stress test and reverse stress test the validity of their going concern analysis. Management should have the necessary education, competencies, and skills to prepare such forecasts and analyses.
 - (b) Mandating disclosure on companies' risk management systems on going concern and expand the auditor's involvement. Standard setters and/or legislators should require companies to provide disclosure on the functioning of their risk management systems on going concern. The auditor's role should evolve to either provide assurance on these parts of the risk management systems, or these should be audited within the financial statements audit. For this to work in practice, auditors might need to consider internal controls over financial reporting as a whole.

Going Concern Possible Action #14:

R	A	G	E	O	N
				✓	

Q3(cii) – Enhancements to the Applicable Financial Reporting Framework

The WG notes that enhancements to the applicable financial reporting framework are outside the remit of the IAASB, but that this is an area where the IAASB will continue to work collaboratively with accounting standard-setters.

The WG recommends continued engagement with accounting standard-setters to communicate the feedback received related to this matter from the DP responses. This will include collaboration with the IAASB-IASB Liaison Working Group to input into the IAASB response to the forthcoming Request for Input on the IASB agenda consultation.

Section III-H Question 4 of the DP: *Are there Any Other Matters the IAASB Should Consider as it Progresses its Work on Going Concern in an Audit of Financial Statements?*

Considerations for Audits of Less Complex Entities

What We Heard from DP Respondents (See NVivo – Agenda Item 5-A.7):

Other Respondents

- 168. Respondents commented that often one of the key challenges facing audit firms in conducting going concern procedures is the lack of formal documented forecasts by management and TCWG. They also noted it can also be challenging to obtain evidence to support management’s assertion if the business survival depends on the owners’ funds and willingness to invest.
- 169. Respondents commented that the IAASB will need to consider how any future enhancements are scalable for audits of LCEs.

Input from Other Information-Gathering Activities:

Less Complex Entities

- 170. LCE Roundtable: Participants noted:
 - (a) Often, managers of LCEs do not prepare any formal forecast or going concern assessment. Even if management prepares formal forecasts, there is often a lack of comparable information to assess reasonableness of assumptions used in going concern assessments, though they acknowledged this is not necessarily specific to LCEs. Participants noted these circumstances make it difficult to assess reasonableness and feasibility of management’s plans. Auditors often place reliance on the knowledge of the owner-manager and on management representations.
 - (b) Often, LCEs operate with less formality and regularity than more complex entities. For example, entities may extract money from the business on an as-needed basis, and therefore it may be difficult to predict purpose, timing and amounts from a cash flow perspective for purposes of assessing going concern.
 - (c) There are often key person dependencies where the business depends heavily on the skills of certain individuals.

- (d) Where the survival of the company depends on the owner-manager or a related party, it can be difficult to verify that they have the capacity and willingness to continue to fund the company in difficult times. The ability of the auditor to obtain evidence on the ongoing or future financial support can be challenging to determine. One participant suggested there be a requirement to assess the party's performance relative to past commitments.

171. Similar points as discussed in the LCE roundtable were also submitted in responses to the IAASB Discussion Paper on LCEs, including challenges due the lack of formal going concern assessments from management and challenges when the survival of the entity depends on the owner-managers.

<p>Going Concern Possible Action #15:</p> <p>Q4 – Other matters</p> <p>Less Complex Entities</p> <p>The WG recommends consideration of whether the current application material related to less complex entities is sufficient to address scalability.</p>	<table border="1" style="margin-left: auto; margin-right: auto; border-collapse: collapse;"> <tr> <th style="background-color: #4F81BD; color: white; padding: 2px;">R</th> <th style="background-color: #4F81BD; color: white; padding: 2px;">A</th> <th style="background-color: #4F81BD; color: white; padding: 2px;">G</th> <th style="background-color: #4F81BD; color: white; padding: 2px;">E</th> <th style="background-color: #4F81BD; color: white; padding: 2px;">O</th> <th style="background-color: #4F81BD; color: white; padding: 2px;">N</th> </tr> <tr> <td style="padding: 2px;"></td> <td style="text-align: center; padding: 2px;">✓</td> <td style="padding: 2px;"></td> <td style="padding: 2px;"></td> <td style="padding: 2px;"></td> <td style="padding: 2px;"></td> </tr> </table>	R	A	G	E	O	N		✓				
R	A	G	E	O	N								
	✓												

<p>Matters for IAASB Consideration</p> <p>2. The IAASB is also asked whether there are other matters that the WG should consider as it progresses its work on this project.</p>
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APPENDIX A

Listing of NVivo Reports and Excel Summary Spreadsheet Tabs

Agenda Item	Reference to Question # in the DP	NVivo Word File Reference	Excel Tab Reference (Agenda Item 5-A.9)
5-A.1	1(a)	120210511-IAASB-Agenda Item 5-A.1 – Going Concern-Question 1(a)	Q1a-2
5-A.2	1(b)	120210511-IAASB-Agenda Item 5-A.2 – Going Concern-Question 1(b)	Q1b-2
5-A.3	3(a)	120210511-IAASB-Agenda Item 5-A.3 – Going Concern-Question 3(a)	Q3a
5-A.4	3(b)	120210511-IAASB-Agenda Item 5-A.4 – Going Concern-Question 3(b)	Q3b
5-A.5	3(c)(i)	120210511-IAASB-Agenda Item 5-A.5 – Going Concern-Question 3(c)(i)	Q3ci
5-A.6	3(c)(ii)	120210511-IAASB-Agenda Item 5-A.6 – Going Concern-Question 3(c)(ii)	Q3cii
5-A.7	4	120210511-IAASB-Agenda Item 5-A.7 – Going Concern-Question 4	Q4
5-A.8	N/A This report contains a summary of comments where respondents referenced coordination with	20210511-IAASB-Agenda Item 5-A.8 - Going Concern-References to Other Workstreams	N/A This report contains a summary of comments where respondents referenced coordination with other workstreams and is not related to a

	other workstreams and is not related to a particular question within the DP.		particular question within the DP.
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APPENDIX B

List of Respondents to the DP

#	Abbrev.	Respondent	Region
Monitoring Group (4)			
1	BCBS	Basel Committee on Banking Supervision	GLOBAL
2	IAIS	International Association of Insurance Supervisors	GLOBAL
3	IFIAR	International Forum of Independent Audit Regulators	GLOBAL
4	IOSCO	International Organization of Securities Commissions	GLOBAL
Regulators and Oversight Authorities (8)			
5	BAOA	Botswana Accountancy Oversight Authority	MEA
6	CPAB	Canadian Public Accountability Board	NA
7	CSA	Canadian Securities Administrators	NA
8	CEAOB	Committee of European Auditing Oversight Bodies	EU
9	FRC	Financial Reporting Council	EU
10	IRBA	Independent Regulatory Board for Auditors	MEA
11	IAASA	Irish Auditing and Accounting Supervisory Authority	EU
12	NASBA	National Association of State Boards of Accountancy	NA
National Auditing Standard Setters (10)			
13	AUASB	Australian Auditing and Assurance Standards Board	AP
14	AASB	Canadian Auditing and Assurance Standards Board	NA
15	CNCC-CSOEC	Compagnie Nationale des Commissaires aux Comptes and the Conseil Supérieur de l'Ordre des Experts-Comptables	EU
16	HKICPA	Hong Kong Institute of Certified Public Accountants	AP
17	IDW	Institut der Wirtschaftsprüfer in Deutschland e.V.	EU
18	JICPA	Japanese Institute of Certified Public Accountants	AP
19	KICPA	Korean Institute of Certified Public Accountants	AP
20	MIA	Malaysian Institute of Accountants	AP
21	NZAuASB	New Zealand Auditing and Assurance Standards Board	AP
22	NBA	Royal Netherlands Institute of Chartered Accountants	EU

#	Abbrev.	Respondent	Region
Accounting Firms (18)			
23	BDO	BDO International Limited	GLOBAL
24	CR	CohnReznick	NA
25	CG	Crowe Global	GLOBAL
26	DTTL	Deloitte	GLOBAL
27	EY	Ernst & Young Global Limited	GLOBAL
28	GTI	Grant Thornton International Ltd	GLOBAL
29	HLB	HLB International	GLOBAL
30	KPMG	KPMG International	GLOBAL
31	MAZ	Mazars	GLOBAL
32	MAZUSA	Mazars USA	NA
33	MHA	MHA Macintyre Hudson	EU
34	MNP	MNP LLP	NA
35	MGN	Moore Global Network	GLOBAL
36	PKF	PKF International Limited	GLOBAL
37	PwC	PricewaterhouseCoopers	GLOBAL
38	RSM	RSM International Limited	GLOBAL
39	NI	Nexia International	GLOBAL
40	SRA	SRA	EU
Public Sector Organizations (5)			
41	AGSA	Auditor General of South Africa	MEA
42	ACAG	Australasian Council of Auditors General	AP
43	NZAG	New Zealand Auditor-General	AP
44	OAGC	Office of the Auditor General of Canada	NA
45	GAO	US Government Accountability Office	NA
Member Bodies and Other Professional Organizations (31)			
46	AE	Accountancy Europe	EU
47	AICPA	American Institute of Certified Public Accountants	NA
48	IBR-IRE	Belgian Institute of Registered Auditors	EU

#	Abbrev.	Respondent	Region
49	BICA	Botswana Institute of Chartered Accountants	MEA
50	CAQ	Center for Audit Quality	NA
51	CFOF	CFO Forum of South Africa	MEA
52	CAANZ-ACCA	Chartered Accountants Australia and NZ and ACCA - Joint	GLOBAL
53	CII	Confederation of Indian Industry	MEA
54	CPAA	CPA Australia	AP
55	FACP	Federacion Argentina de Consejos Profesionales de Ciencias	SA
56	ICPAU	Institute of Certified Public Accountants of Uganda	MEA
57	ICAEW	Institute of Chartered Accountants in England and Wales	EU
58	ICAS	Institute of Chartered Accountants of Scotland	EU
59	IoDSA ACF	Institute of Directors in South Africa's Audit Committee Forum	MEA
60	ISCA	Institute of Singapore Chartered Accountants	AP
61	IAA	Inter-American Accounting Association	NA
62	IATA	International Air Transport Association	GLOBAL
63	IFAC	International Federation of Accountants	GLOBAL
64	KNL	Kriton	EU
65	MICPA	Malaysian Institute of Certified Public Accountants	AP
66	IMCP	Mexican Institute of Public Accountants	NA
67	NYSSCPA	New York State Society of CPAs	NA
68	PAFA	Pan African Federation of Accountants	MEA
69	PIRC	Pensions and Investment Research Consultants	EU
70	REA	REA Auditores - Consejo General de Economistas	EU
71	SAICA	South African Institute of Chartered Accountants	MEA
72	EACLN	European Audit Committee Leadership Network	EU
73	FAR	The Institute for the Accountancy Profession in Sweden	EU
74	TURMOB	Union of Chambers of Certified Public Accountants of Turkey	MEA
75	WPK	Wirtschaftsprüferkammer	EU
76	BNCTI	Belgian National Chapter of Transparency International	EU

#	Abbrev.	Respondent	Region
Investors and Analysts (1)			
77	CRUF	Corporate Reporting Users Forum	GLOBAL
Academics (1)			
78	ASC	Auditing Standards Committee of the Auditing Section of the American Accounting Association	NA
Individuals and Others (7)			
79	AAQ	Ahmed Al-Qawasmi	MEA
80	AFV	Alvaro Fonseca Vivas	SA
81	CM	Christian Munarriz	SA
82	CC	Constantine Cotsilinis	EU
83	DT	Dmitrii Timofeev	EU
84	MB	Michael Bradbury	AP
85	TU	The Unlimited	MEA

Summary of Other Information Gathering Activities Related to Going Concern

I. Introduction

1. The diagram below depicts the various information-gathering activities that have been completed or are underway to ensure that the IAASB is as informed as possible in considering recommendations of the Going Concern Working Group, and when deciding on possible further actions in relation to this topic. The broad collection of information will assist with analyzing identified issues, determining recommendations, and directing the development of a targeted project proposal to be presented to the Board in October 2021.



2. At the time of the August 2020 meeting, IAASB Staff had undertaken the following information-gathering activities.
 - (a) **Project Inputs**—Feedback submitted on the topic of going concern through other completed or ongoing IAASB projects were compiled and assessed for broad themes.
 - (b) **Other Jurisdictional Inputs**—Considered results from reviews and initiatives performed in other jurisdictions covering the topic of going concern in an audit of financial statements.
 - (c) **Academic Research**—An academic desktop review was undertaken of relevant research related to the topic of going concern in an audit of financial statements. **See Appendix E** for details.
 - (d) **NSS Outreach**—Liaised with representatives from the National Standard Setters (NSS) on the topic of going concern during the IAASB's annual NSS meeting, discussing initiatives that are ongoing or recently completed in NSS jurisdictions.
 - (e) **Targeted Outreach**—As a follow up from the NSS outreach, IAASB Staff met with representatives the United Kingdom, to gather more information about the revised going concern standard issued in the UK in 2019.

The Going Concern Working Group will continue to monitor developments mentioned above, as well as other or related developments that may arise.

II. Information Gathering Activities Performed Since August 2020 Meeting

Roundtables

3. In addition to publishing and receiving responses to the DP, the IAASB completed additional information-gathering activities since the prior Board meeting. Three virtual roundtables were held. Although only two of these roundtables specifically focused on going concern, the technology-focused fraud roundtable provided feedback that may be relevant to going concern as well. A summary of each event is included below. A [document was published](#) on the IAASB website which summarizes the key take-aways from each event.
 - (a) *Expectation Gap and Auditor Reporting Roundtable*—Roundtable discussion on the differences between public perceptions about the role of the auditor and the auditor's obligations under the ISAs, including the topics set out in the DP. This roundtable also included a discussion on auditor reporting to understand whether the standards are consistently understood and implemented in a manner that achieves the IAASB's intended purpose in developing them (held on September 28, 2020). Participants included investors, analysts, corporate governance experts, audit firms, academics, regulators, public sector representatives, and select others.
 - (b) *Audit Procedures Related to Fraud and Going Concern in Audits of LCEs*—Roundtable discussion on the nature of fraud and going concern considerations in audits of LCEs and challenges that auditors face in applying audit requirements related to these topics (held on October 7, 2020). Participants included practitioners undertaking small- and medium-sized (SME) audits, audit methodology experts, third party audit solution companies, and representatives from professional accountancy bodies.
 - (c) *Technology-Focused Fraud Roundtable*—Roundtable discussion on technological advancements in fraud perpetration and identification (held on September 2, 2020). This roundtable also explored forensic audits. Participants included forensic auditors, financial statement auditors, fraud audit methodology experts, third party audit solution companies, regulators, academics, and public sector representatives.

Other Outreach

4. Since the August 2020 IAASB meeting, the following additional outreach was performed.

Outreach Group	Date(s) Held	Details
Consultative Advisory Group (CAG)	September 9, 2020 and March 8, 2021	Minutes for the September meeting are available here . At the March 8, 2021 meeting, the WG Chair provided the CAG with high-level observations from the DP responses and a brief update on the timeline and target milestones for the project.

Outreach Group	Date(s) Held	Details
<p>Canadian Public Accountability Board (CPAB)</p>	<p>October 2, 2020 and April 23, 2021</p>	<p>At the October meeting, CPAB provided an update on their going concern initiative. In 2019, they gathered information and reviewed the audit files of a sample of companies to enhance their understanding of how auditors approach their work to review management’s assessment of going concern.</p> <p>A summary of the results of the first phase of their work, which included an evaluation of how auditors in Canada are complying with the fraud auditing standard, can be found here.</p> <p>At the April call, the WG Chair and IAASB Staff provided CPAB with high-level observations from the DP responses. CPAB provided an update regarding the planned activities for their going concern initiative in 2021.</p>
<p>Forum of Firms (FoF)</p>	<p>October 6, 2020</p>	<p>IAASB Staff provided the FoF with an update regarding the information-gathering activities related to going concern and asked for broad feedback. The FoF was broadly supportive of the project and provided some additional feedback.</p>
<p>Center for Audit Quality (CAQ)</p>	<p>October 15, 2020 and March 25, 2021</p>	<p>At the October meeting, IAASB Staff provided the CAQ with high-level observations and take-aways from the three virtual IAASB roundtables discussed earlier in this document.</p> <p>At the March meeting, IAASB Staff provided the CAQ with high-level observations related to going concern from the DP responses.</p>
<p>Accountancy Europe</p>	<p>October 29, 2020 and March 22, 2021</p>	<p>At the October meeting, Accountancy Europe provided the IAASB with an update on their project focused on going concern. IAASB Staff provided Accountancy Europe participants with high-level observations and take-aways from the three virtual IAASB roundtables discussed earlier in this document.</p> <p>At the March meeting, IAASB staff provided an update on the fraud and going concern initiatives, including an update of high-level themes from discussion paper responses. Accountancy Europe provided an update on their fraud and going concern initiatives, noting they recently published</p>

Outreach Group	Date(s) Held	Details
		publications on these topics and asked stakeholders to respond by April 30, 2021.
National Standard Setters (NSS)	November 3, 2020	IAASB Staff provided the NSS with high-level observations and take-aways from the three virtual IAASB roundtables discussed earlier in this document.
South Africa Corporate Reporting Users Forum (CRUF)	November 24, 2020	IAASB Staff provided the CRUF with high-level observations and take-aways from the virtual IAASB roundtables discussed earlier in this document. CRUF members provided feedback and indicated they would submit a response to the discussion paper.
UK CRUF	December 2, 2020	IAASB Staff provided the CRUF with high-level observations and take-aways from the virtual IAASB roundtables discussed earlier in this document. CRUF members provided feedback and indicated they would submit a response to the discussion paper.
Public Company Accounting Oversight Board (PCAOB)	April 23, 2021	The WG Chair and IAASB Staff provided the PCAOB with high-level observations from the DP responses and discussed the PCAOB's work on going concern.

5. In addition, the following outreach meeting is planned:
 - (a) The Royal Netherlands Institute of Chartered Accountants (NBA) – Scheduled for May 12, 2021
6. As the going concern project progresses, further research and outreach will be undertaken as necessary.

Academic Desktop Review

7. An academic desktop review was performed to identify recent relevant research related to going concern. For summary of the process undertaken, see **Appendix EE**.

Going Concern Working Group

8. The work with respect to the going concern initiative was initially undertaken by IAASB Staff and Josephine Jackson, Chair of the Going Concern Working Group.
9. The Going Concern Working Group more formally commenced its activities in quarter 1 of 2021 and met four times by videoconference (January 28, March 22, March 25, and April 20 of 2021). Members of the Going Concern Working Group are:
 - (a) Josephine Jackson, IAASB Member and Chair of the Working Group
 - (b) Edo Kienhuis, IAASB Member

- (c) Wendy Stevens, IAASB Member
 - (d) Isabelle Tracq-Sengeissen, IAASB Member
 - (e) Rene Herman, Technical Advisor
 - (f) Susan Jones, Technical Advisor
10. Information about the Going Concern Working Group members and the project can be found [here](#).

APPENDIX D

Approach to Analyzing DP Comments in NVivo

1. The IAASB staff used NVivo, a qualitative data analysis tool, to assist with the analysis of responses to the DP. The following sets out how the comments have been assimilated to present the matters in Section III.
2. The NVivo analysis is provided in nine separate Microsoft Word files (which contain the detailed comments pertaining to each question and broad theme in the DP) and one Microsoft Excel spreadsheet which summarizes the number of responses related to each question and theme.
3. The Excel summary spreadsheet includes separate tabs for each question related to going concern from the DP and summarizes the list of respondents who provided a response related to that question, as well as broad themes. Each Excel tab links back to a Microsoft Word report generated using NVivo.
4. Each NVivo Microsoft Word report contains the respondents' answers relating to a specific question from the DP. Matters noted within this paper relating to respondents' comments can be traced back to the individual comments made in the NVivo Microsoft Word report. References to the corresponding NVivo reports are included for each sub-topic.
5. A listing of the relevant NVivo reports and the corresponding Excel spreadsheet can be found in **Appendix A.**

APPENDIX E

Going Concern Academic Research Literature Review

Introduction

The purpose of this report is to present a summary of the academic research performed on the topic of going concern to date. This report:

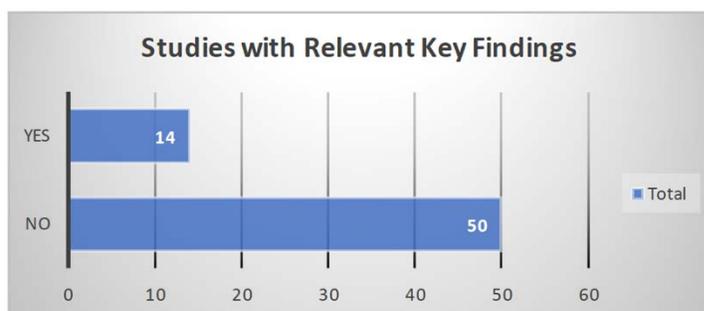
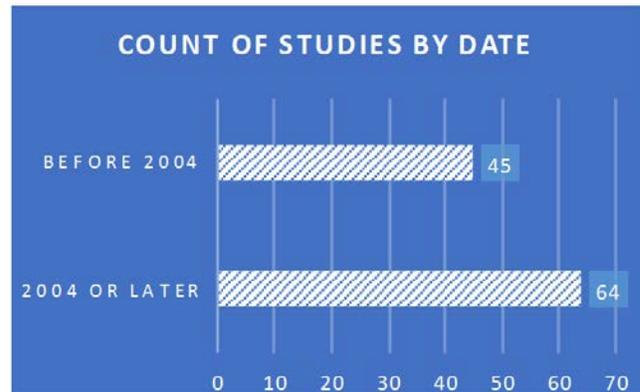
1. Outlines the scope of the academic research and other literature review undertaken to date; and
2. Identifies key findings and aspects of the academic research literature review relevant for the going concern information gathering activities.

Scope of the Academic Research and Other Literature Review

The compilation of the initial list of research was outsourced to a team of researchers from the University of Dayton, School of Business Administration and Department of Accounting. This initial list was compiled by searching for published studies which either in their abstract, or in their title available on electronic databases accessed via the internet, included key words on a range of issues around going concern and/or International Standard on Auditing (ISA) 570, *Going Concern*.

To this initial list of research, certain other published studies and literature were added based on feedback from Travis Holt, PhD (KPMG Academic Fellow). From this list, 45 reports were scoped out because they predated the last major revision to ISA 570 in 2004.

Of the remaining 64 reports, 14 reports were determined to have findings that presented new information and were relevant to standard setting and the objectives of this going concern initiative.



The following pages summarize key findings included in the relevant reports, organized by broad category.

Key Findings from Academic Research

Theme	Findings
Going Concern Indicators	<p><u>Academic study "Greater Reliance on Major Customers and Auditor Going-Concern Opinions" (2020)</u></p> <ul style="list-style-type: none"> ➤ This study finds that increased reliance on major customers in distressed firms is associated with higher rates of opinions noting uncertainty about an entity's ability to continue as a going concern (GCOs). ➤ Overall, the study indicates that supply chain relationships are relevant business risks associated with auditors' going-concern assessments. <p><u>Academic study "ISA 570: Italian Auditors' and Academics' Perceptions of the Going Concern Opinion" (2019)</u></p> <ul style="list-style-type: none"> ➤ This study identifies going concern indicators that are regarded by Italian partners in auditing firms and Italian academics as being the most important. ➤ Financial indicators including net liability or net current liability position, fixed term borrowings approaching maturity, and indications of withdrawal of financial support by creditors were among the most important GCO indicators. Important operating indicators included management's intention to liquidate the entity and losses of major markets, key customers, franchises, licenses, or principal suppliers.
Professional Skepticism	<p><u>Academic study "Are Auditors Professionally Skeptical? Evidence from Auditors' Going-Concern Opinions and Management Earnings Forecasts" (2014)</u></p> <ul style="list-style-type: none"> ➤ This study examines auditors' ability to exercise skepticism related to managements' earnings forecast when assessing going concern. ➤ They find that management earnings forecasts are negatively associated with both auditors' GCOs and subsequent bankruptcy. ➤ Using a bankruptcy prediction model, they find that the weight auditors put on management forecasts in the going-concern decision is not significantly different from the model. ➤ Compared with the bankruptcy model, auditors assign a lower weight to management forecasts they perceive as being less credible. ➤ The study suggests auditors are being professionally skeptical about management earnings forecasts when making going-concern decisions.
Going Concern Reporting	<p><u>Academic study "Investor Reaction to Auditors' Going Concern Emphasis of Matter: Evidence from a Natural Experiment" (2019)</u></p> <ul style="list-style-type: none"> ➤ This study uses the adoption of International Standards on Auditing by Canada in 2010 to examine investor reactions to a going concern emphasis of matter (GC-EOM) paragraph in the auditor's report over audited financial statement (GC-FS) disclosures. ➤ Key Findings were:

Theme	Findings
	<ul style="list-style-type: none"> ○ Firms with first-time GC-FS disclosures experienced significantly lower abnormal returns than comparable firms without GC-FS disclosures. The investor reaction to GC-FS disclosures did not change after the implementation of the new auditing standard requiring a GC-EOM. This result, however, does not take into account the severity level of GC-FS disclosures. ○ Conditioning on the linguistic severity of the GC-FS (weak and severe), they first document a negative price response to severe but not weak GC-FS before the regulatory change. This implies that investors react to financial statement disclosures and account for their degree of interpretability in the absence of a GC-EOM. When the uncertainty disclosure is accompanied by a GC-EOM, they find incremental negative abnormal returns and lower abnormal trading volume only for weak GC-FS. Collectively, these findings imply that an emphasis of matter paragraph in the auditor's report can have incremental value to investors. ○ The results support the argument that vague going concern financial statement disclosures are more difficult to assess, as well as the call by the International Auditing and Assurance Standards Board (2014) to clarify IFRS disclosure requirements relating to going concern uncertainties. The authors suggest that in order to increase the informativeness of financial statements, standard setters may consider improving the content of existing disclosures. <p><u>Academic study "Measuring the Market Response to Going Concern Modifications: The Importance of Disclosure Timing" (2018)</u></p> <ul style="list-style-type: none"> ➤ This study finds that the majority of GCOs are issued concurrently with earnings announcements (EAs) and that EAs in the year of new GCOs elicit large negative market reactions. ➤ By disentangling the informational content of the EA and the GCO, they find that the incremental effect of the market reaction to the GCO is weak and smaller in magnitude than that found previously in the academic literature. <p><u>Academic study "Going-concern Uncertainties in Pre-bankrupt Audit Reports: New Evidence Regarding Discretionary Accruals and Wording Ambiguity" (2008)</u></p> <ul style="list-style-type: none"> ➤ This study examined audit reports of Spanish companies in the year prior to their bankruptcy. ➤ They found that companies receiving a GCO present negative discretionary accruals (a measure of audit quality), in line with the reversal of previous earnings overstatements prompted by stricter auditors. Conversely, the lack of a GCO is consistent with slightly positive (or near zero) accruals that cover up upward manipulation not reversed by the auditor.

Theme	Findings
	<ul style="list-style-type: none"> ➤ They also found that a large percentage of GCOs are written ambiguously and with an overuse of conditional language. ➤ “Our evidence supports the need to strengthen the enforcement mechanisms that permit a better control of auditor behavior. The mere existence of a Going Concern audit standard is not enough to avoid auditor abuses or to improve the quality of auditor reporting in code-law countries like Spain.”
<p>The Effects of Fees on Going Concern Reporting</p>	<p><u>Academic study "Auditor Fees and Going-Concern Reporting Decisions on Bankrupt Companies: Additional Evidence" (2015)</u></p> <ul style="list-style-type: none"> ➤ This study investigates the impact of both audit and non-audit fees on auditors’ propensity to issue GCOs. ➤ They found no relation between audit or non-audit fees and auditors’ going concern decisions. <p><u>Academic study "Auditor Fees and Auditor Independence: Evidence from Going Concern Reporting Decisions" (2013)</u></p> <ul style="list-style-type: none"> ➤ This study investigates the impact of both audit and non-audit fees (both current and future) on auditors’ propensity to issue GCOs to financially distressed clients. ➤ They found that auditors issue significantly fewer GCOs in the current period to clients that pay higher subsequent total fees. ➤ Consistent with arguments that auditor reporting may have become less conservative in years following the initial fee disclosure period of 1999–2003 (Feldmann and Read 2010), they find that non-audit fees in the current year are also significantly negatively associated with GCOs during 2004-2006. <p><u>Academic study "Audit Fees, Non-Audit Fees and Auditor Going-Concern Reporting Decisions in the United Kingdom" (2008)</u></p> <ul style="list-style-type: none"> ➤ This study investigates the impact of both audit and non-audit fees on auditors’ propensity to issue GCOs to financially distressed clients in the UK. ➤ In financially distressed clients, they find a positive relation between audit fees and the issuance of GCOs. However, they find a negative relation between non-audit fees and going-concern opinions.
<p>Effects of Auditor Characteristics on GCOs</p>	<p><u>Academic study "Auditor Size and Going Concern Reporting " (2018)</u></p> <ul style="list-style-type: none"> ➤ This study finds that auditor size is positively associated with auditors’ propensity to issue GCOs after controlling for clients’ financial health. ➤ They found that Big 4 auditors are more likely than mid-tier auditors to issue GCOs to distressed clients.

Theme	Findings
	<ul style="list-style-type: none"> ➤ They also found that the Big 4 are less likely to issue false-positive (Type I error) GCOs, and no evidence that the Big 4 are more or less likely to fail to issue a GCO to a client that eventually files for bankruptcy (Type II error). <p><u>Academic study "Auditor-in-Charge Characteristics and Going-concern Reporting" (2014)</u></p> <ul style="list-style-type: none"> ➤ This study investigates the association between Auditor-in-charge characteristics and auditors' propensity to issue a GCO in Sweden. ➤ They found a negative relation between the number of audit assignments and the likelihood to issue a GCO. This finding holds even when restricted to Big 4 auditors. ➤ They also found a negative relation between the age of the auditor-in-charge and the likelihood to issue a GCO. <p><u>Academic study "Auditor Differentiation, Mitigating Management Actions, and Audit-Reporting Accuracy for Distressed Firms" (2011)</u></p> <ul style="list-style-type: none"> ➤ This study investigates the association between industry specialization and audit methodology and auditors' propensity to issue a GCO. ➤ They found specialist auditors are more likely to issue a GCO for soon-to-be bankrupt companies when management undertakes strategic turnaround initiatives. ➤ They found that firms using a business risk methodology are less likely to issue a GCO for a company that subsequently goes bankrupt when a client undertakes operating initiatives such as cost-cutting in response to financial distress. ➤ They found very strong evidence that auditors, irrespective of their type, are less likely to issue a GCO for clients that subsequently go bankrupt when the client is planning on raising cash in the short term.
<p>Overall - Synthesis of Going Concern Research</p>	<p><u>Key points from "A Synthesis of Research on Auditor Reporting on Going Concern Uncertainty: An Update and Extension" (2019)</u></p> <ul style="list-style-type: none"> ➤ The issuance of a GCO is primarily determined by characteristics of the audited client company. ➤ Among the most notable findings in the recent literature is that clients are more likely to receive a GCO if they: <ul style="list-style-type: none"> i. Have financial statement filing delays (Cao et al. 2018), suggesting that client delays in filing their financial statements is seen as a sign of risk or financial distress.

Theme	Findings
	<ul style="list-style-type: none"> ii. Employ an innovative business strategy (e.g., often-fluctuating product mix, rapid and sporadic growth patterns) as opposed to firms that are cost-leaders with a narrow and constant mix of products, and cautious incremental growth patterns (Chen et al. 2017). iii. Engage in controversial activities related to customers, employees, the environment or the community (Koh and Tong 2013). iv. Are overly optimistic, for example have overly optimistic financial forecasts (Feng and Li 2014), have over-confident management (Kim 2017), and report financial results less conservatively (DeFond et al. 2016). v. Have a new CFO (Zaher 2015; Beams et al. 2016). vi. Have a poor workplace environment for employees (Huang et al. 2017). vii. Fail to remediate internal control deficiencies (Hammersley et al. 2012). viii. Have a CEO with friendship ties to audit committee members (Bruynseels and Cardinaels 2014) <ul style="list-style-type: none"> ➤ SFPMs (like Altman Z and models of bankruptcy prediction) use public data and appear to be better predictors of company failure than GCOs (Gerakos et al. 2016; Alareeni and Branson 2017). From a practical perspective, a well-developed SFPM could serve as an effective decision aid for auditors concerned with making more accurate going-concern judgements. ➤ Receiving a going concern opinion increases a financially distressed company's probability of bankruptcy only by an average of 0.84 percent in the US, suggesting that, from a practical perspective, auditors and firms, generally, do not need to be overly 5 concerned with the prospect of a GCO sending a company into bankruptcy – i.e., the “self-fulfilling prophecy” hypothesis (Gerakos et al. 2016). Auditors should therefore be aware that client's material uncertainty about the going concern could lead to bankruptcy and not the issuance of a GCO ‘as such’. ➤ The following observations suggest that the auditor's GCO is important as it has a substantial impact in a multitude of ways: <ul style="list-style-type: none"> i. A first-time GCO increases the company's cost of equity capital by an average of 3.3 to 5.2 percent (Amin et al. 2014). ii. Credit rating agencies typically downgrade the company's credit rating after a first time GCO (Feldman and Read 2013; Strickett and Hay 2015) iii. Recent research documents negative share price consequences to equity owners (Czerney et al. 2019), consistent with prior research.

Theme	Findings
	<p>iv. Experienced investors associate type II errors with lower audit quality, and type I errors with higher audit quality (Christensen et al. 2016).</p> <p>v. There is a significant negative association between GCOs and subsequent auditor litigation, suggesting that auditors deter lawsuits by issuing GCOs (Kaplan and Williams 2013).</p> <ul style="list-style-type: none"> ➤ Big 4 auditors appear more likely to issue GCOs than non-Big 4 auditors (Habib 2013). However, follow-up research provides some mixed findings in this regard. ➤ A recent study (Ahn and Jensen 2018) finds that auditors use information about their office's prior GCO 'error rates' to improve audit quality and "calibrate" future GCO decisions. ➤ Lambert and Peytcheva (2017) find evidence that auditors are prone to the fallacy of evidence averaging. In other words, auditors tend to average the diagnosticity of all the available evidence jointly at the end of a task. Accordingly, when strong negative GCO evidence is averaged with milder negative evidence, or with positive evidence, it may lead to more positive overall GCO assessments than if the strong negative evidence was evaluated in isolation. In terms of practical implications, auditors should be cautious as going-concern related evidence is often evaluated at the end of the audit (all other evidence being available already). ➤ There is some evidence that audit firm tenure may adversely influence GCO decisions in the initial years of an engagement (Read and Yezegel 2016). Hence, from a practical perspective, auditors should exert particular care and attention for new audit clients. ➤ GCO issuance increases the likelihood of auditor dismissal; such dismissals following a GCO are greater when management is more powerful (i.e., has longer tenure) than the audit committee (Kim 2017). Anticipation of such practices may influence the auditor's objectivity in future reporting decisions and may stimulate "opinion shopping" on the side of the client. From a practical perspective, auditor awareness of such independence threats is important both for GCO decisions and in client acceptance decisions. ➤ Audit committees appointing a former employer audit firm are less likely to receive a GCO. However, larger and higher expertise audit committees mitigate this lower GCO propensity (Dhaliwal et al. 2015). Awareness of social ties and their potential adverse effects is important from a practical perspective.

Summary of Themes and Possible Actions

Note to IAASB: The following table summarizes the possible actions that the Working Group may consider as part of the project proposals process. The Working Group will use the IAASB's input to determine whether to develop a project proposal and, if so, to help identify and prioritize the matters that should be considered for inclusion in the project proposal.

Issue/Theme	Standard-Setting - Requirements	Standard-Setting – App. Material	Non-Authoritative Guidance	Education	Actions for Others	No Further Action Recommended
Expectation Gap						X
Continued Outreach and the Importance of the Role of Other Stakeholders in the Financial Reporting Ecosystem					X	
Coordination with Other IAASB Projects and IESBA	<i>N/A – The WG will coordinate with other IAASB workstreams or projects and the IESBA as appropriate over the course of the project.</i>					
Work Performed by Others	<i>N/A – The WG will continue to consider the work of other stakeholders (e.g., national standard setters (NSS), professional organizations in various jurisdictions, etc.) on the topic of going concern when discussing possible actions for the issues brought forth by stakeholders.</i>					
Analysis of Corporate Failures			X	X	X	
Consider Educational Efforts or Non-Authoritative Guidance			X	X	X	
Enhanced Linkages	X	X	X	X		
Professional Skepticism	X	X	X			

More Robust Challenge of Management	X	X	X	X		
Definitions of Material Uncertainty and Other Terminology in ISA 570 (Revised)	X	X	X	X		
Timeline for Assessment	X	X				
Technology and Other Tools	X	X	X			
Third-party Support	X	X	X			
Other Concepts of Financial Health or Resilience						X ⁵
Audit Documentation	<i>WG recommends monitoring the CUSP project related to audit documentation and considering whether additional specific documentation requirements are needed in ISA 570 (Revised) as the project progresses.</i>					
Public Sector Considerations		X				
Enhance Transparency with TCWG	X	X				
Enhance Transparency in the Auditor's Report	X	X	X			
Enhanced Transparency - Other	X	X				

⁵ The WG does not recommend further action regarding other concepts of financial health or resilience for the scope of the going concern project. The WG recommends monitoring global developments related to resiliency or sustainability reporting and adding to Category A of the Framework for Activities.

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Enhancements to the Applicable Financial Reporting Framework					X	
Considerations for Audits of Less Complex Entities		X				