

Reporting Going Concern Matters in the Auditor's Report

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

This publication does not amend or override the International Standards on Auditing (ISAs), the texts of which alone are authoritative. The frequently asked questions are not meant to be exhaustive¹ and reading this publication is not a substitute for reading the ISAs.

Question 1

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

The table below provides an overview of the purpose of MURGC and KAM sections and EOM paragraphs:

Heading	Purpose
Material Uncertainty Related to Going Concern²	<ul style="list-style-type: none"> Applies if the auditor has concluded that a material uncertainty related to going concern exists, and for which adequate disclosure has been made in the financial statements. The use of a separate section that includes reference to the fact that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern is intended to give additional prominence to this information and alert users to this circumstance.
Key Audit Matters³	<ul style="list-style-type: none"> Provides information to intended users to assist them in understanding those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period, including how such matters were addressed in the audit.
Emphasis of Matter⁴	<ul style="list-style-type: none"> Establishes a mechanism for auditors to provide additional communication in the auditor's report, to draw users' attention to a matter(s) presented or disclosed in the financial statements that, in the auditor's judgment, is of

¹ While certain ISA requirements and application and other explanatory material are highlighted, this publication does not cover all of the ISA provisions that are relevant to the auditor's responsibility to report in accordance with the ISAs.

² See ISA 570 (Revised), *Going Concern*

³ See ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

⁴ See ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

Heading	Purpose
	such importance that it is fundamental to users' understanding of the financial statements.

Question 2 *Do MURGC, KAM and EOM apply to all audits?*

The applicability of ISA 570 (Revised), ISA 701 and ISA 706 (Revised) is described in the scope section of those standards.

The MURGC section and EOM paragraphs, and their respective related requirements, apply to all audits, subject to certain conditions being present (see Question 1).

Communicating KAM is required for listed entities.⁵ In addition, ISA 701:

- ▶ Does not preclude communicating KAM when the auditor otherwise decides to do so, or when required by law or regulation.
- ▶ Prohibits the auditor from communicating KAM when the auditor disclaims an opinion on the financial statements, unless such reporting is required by law or regulation.⁶

Question 3 *What are the implications for the auditor's opinion and the auditor's report of MURGC, KAM and EOM?*



MURGC and KAM sections, and EOM paragraphs, included in the auditor's report do not modify the auditor's opinion, nor do they represent separate audit opinions on the matters described in those sections or paragraphs.

The table below shows the implications for the auditor's report when MURGC, KAM and EOM are included:

Heading	Implication for the Auditor's Report	ISA Ref.
Material Uncertainty Related to Going Concern	<p><i>If adequate disclosure of a MURGC is made in the financial statements,⁷ this section of the auditor's report:</i></p> <ul style="list-style-type: none"> ▶ Draws attention to the note in the financial statements disclosing the MURGC. ▶ States that events or conditions indicate that a material uncertainty exists that may cast significant 	ISA 570 (Revised), paragraph 22

⁵ ISA 701, paragraph 5

⁶ ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*, paragraph 29

⁷ If adequate disclosure of a MURGC is not made in the financial statements, then the auditor's report does not include a MURGC section. In those cases, paragraph 23 of ISA 570 (Revised) applies and the auditor expresses a qualified or adverse opinion in accordance with ISA 705 (Revised). In the *Basis for Qualified/Adverse Opinion* section of the auditor's report, the auditor states that a MURGC exists and that the financial statements do not adequately disclose this matter.

Heading	Implication for the Auditor's Report	ISA Ref.
	<p>doubt on the entity's ability to continue as a going concern.</p> <ul style="list-style-type: none"> ▶ States that the auditor's opinion is not modified in respect of the matter. 	
Key Audit Matters	<p>This section of the auditor's report:</p> <ul style="list-style-type: none"> ▶ States that KAM are those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements (of the current period). ▶ States that the matters were addressed in the context of the audit as a whole, and in forming the auditor's opinion, and the auditor does not provide a separate opinion on these matters. ▶ Includes a separate description of each matter and a reference to the related disclosure(s), if any, in the financial statements. ▶ Includes a description of why each matter was considered to be of most significance in the audit and how the matter was addressed in the audit. 	ISA 701, paragraphs 11 and 13
Emphasis of Matter	<p>This section of the auditor's report:</p> <ul style="list-style-type: none"> ▶ Includes a reference to where the relevant disclosures that fully describe the matter can be found in the financial statements. ▶ Indicates that the auditor's opinion is not modified in respect of the matter being emphasized. 	ISA 706 (Revised), paragraph 9

Question 4

What is the interrelationship between MURGC, KAM and EOM?

ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, requires that going concern matters are reported in accordance with ISA 570 (Revised). With the exception of the Opinion and Basis for Opinion sections, ISA 700 (Revised), does not establish requirements for ordering the elements of the auditor's report. However, it does require the use of specific headings for the various sections of the auditor's report to assist making auditor's reports that refer to audits conducted in accordance with ISAs more recognizable.⁸

The standards explain that a MURGC is by its nature a key audit matter.⁹ However, when a MURGC exists

⁸ ISA 700 (Revised), paragraph A19

⁹ ISA 570 (Revised), paragraph A1 and ISA 701, paragraph 15

and adequate disclosure is made in the financial statements, such a matter is reported in accordance with ISA 570 (Revised). Paragraph 22 of ISA 570 (Revised) establishes the minimum information required to be presented in the auditor's report in relation to a MURGC. In particular, the auditor is required to include:

- ▶ A MURGC section that includes the required content described in Question 3 above.
- ▶ A reference in the KAM section (when applicable) to the MURGC section of the auditor's report, illustrated as follows:¹⁰ *"In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report."*



The appendix to ISA 570 (Revised) provides illustrative examples of auditor's reports relating to going concern.

Illustration 1 includes an unmodified opinion when a MURGC exists for a listed entity, the disclosure in the financial statements is adequate, and KAM have been communicated in accordance with ISA 701.

However, the auditor is not precluded from providing additional information to supplement the required content of the MURGC section.¹¹ For example, the auditor may explain:

- ▶ That the existence of a material uncertainty related to going concern is fundamental to users' understanding of the financial statements; or
- ▶ How the matter was addressed in the audit.

Communicating KAM¹² or providing EOM paragraphs¹³ is not a substitute for reporting in accordance with ISA 570 (Revised) when a MURGC exists.

Question 5

When no MURGC exists, can going concern matters be communicated as a key audit matter in the auditor's report?

When ISA 701 applies, matters related to going concern may be determined to be a key audit matter.¹⁴

When the auditor concludes in accordance with ISA 570 (Revised) that no material uncertainty exists relating to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, the auditor may nevertheless determine that one or more matters relating to this conclusion arising from the auditor's work effort under ISA 570 (Revised) are KAM. For example, this may include so-called "close call" situations as contemplated in ISA 570 (Revised), paragraph 20.



Situations when events or conditions were identified that may cast significant doubt on the entity's ability to continue as a going concern but, after considering management's plans to deal with these events or conditions, management and the auditor conclude that no material uncertainty exists are often referred to as "close call" situations.

Paragraph A41 of ISA 701 provides application material to assist the auditor when describing the KAM, in

¹⁰ ISA 701, paragraphs A6 and A58

¹¹ ISA 570 (Revised), paragraph A30

¹² ISA 701, paragraph 4

¹³ ISA 706 (Revised), paragraph A7

¹⁴ ISA 570 (Revised), paragraph A1

particular when the auditor is drawing attention to key aspects of related disclosures in the financial statements. For example, KAM could include aspects of the identified events or conditions disclosed in the financial statements, such as substantial operating losses, available borrowing facilities and possible debt refinancing, or non-compliance with loan agreements, and related mitigating factors.

Question 6

When no MURGC exists, can going concern matters be reported as an EOM in the auditor's report?

EOM paragraphs can be provided for “close call” situations (see Question 5) when the auditor has determined that the matter is not a key audit matter or when ISA 701 does not apply.¹⁵ In these circumstances if, based on the auditor's judgement, the disclosures of management's judgments relating to the events and conditions that may cast significant doubt on the entity's ability to continue as a going concern are fundamental to the users' understanding of the financial statements, then the auditor may include an EOM paragraph in the auditor's report in order to draw attention to the relevant disclosures in the financial statements.



Widespread use of EOM paragraphs in the auditor's report may diminish the effectiveness of the auditor's communication about such matters. (ISA 706 (Revised), paragraph A6).

EOM paragraphs in the auditor's report may also be provided when the going concern basis of accounting is not appropriate and management prepares the financial statements on another basis (e.g., a liquidation basis), and:

- ▶ The auditor determines that the other basis of accounting is acceptable in the circumstances; and
- ▶ There is adequate disclosure about the basis of accounting on which the financial statements are prepared.

In these circumstances it may be considered appropriate to include an EOM paragraph in the auditor's report to draw the users' attention to the alternative basis of accounting and the reasons for its use.¹⁶

¹⁵ Paragraphs A1–A3 of ISA 706 (Revised) and paragraph A8 of ISA 701, provide application and other explanatory material that addresses the relationship between EOM paragraphs and KAM in the auditor's report.

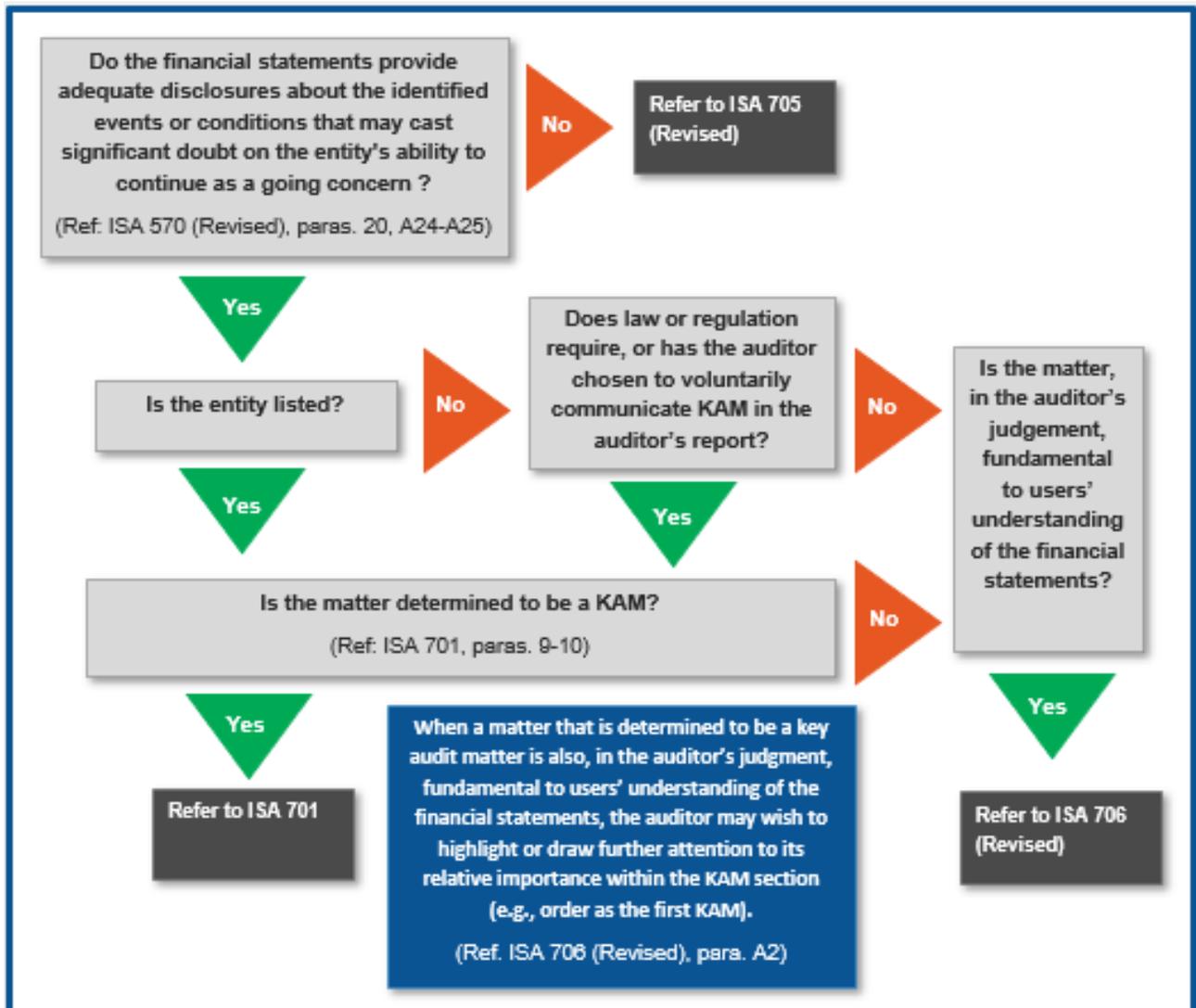
¹⁶ ISA 570 (Revised), paragraph A27

Example – Auditor Reporting on “Close Call” Situations

This decision-tree assists the auditor in determining the relevant ISAs that are applicable when the auditor is reporting on “close call” situations. For the purpose of this example, it is assumed that:

- ▶ Events or conditions were identified that may cast significant doubt on the entity's ability to continue as a going concern but, after considering management's plans to deal with these events or conditions, management and the auditor conclude that no material uncertainty exists.
- ▶ The financial statements are prepared by management in accordance with the International Financial Reporting Standards (IFRS).

 In 2014, the International Accounting Standards Board Interpretations Committee issued an [Agenda Decision](#) clarifying the requirements in IAS 1, *Presentation of Financial Statements*, relating to “close call” situations. In addition, in January 2021, the IFRS Foundation issued educational material that addresses management [Going Concern Disclosures](#) which also provides guidance relevant for “close call” situations.



IAASB's OTHER RELEVANT RESOURCES

The IAASB has developed other implementation support and non-authoritative materials (links below) that are relevant for MURGC and KAM sections, and EOM paragraphs, in the auditor's report:



- ▶ [Auditor Reporting on Going Concern](#)
- ▶ [Going Concern in the Current Evolving Environment – Audit Considerations for the Impact of COVID-19](#)
- ▶ [Auditor Reporting in the Current Evolving Environment Due to COVID-19](#)

Visit the [IAASB website](#) for more implementation support and other non-authoritative materials relevant to auditor reporting.

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