

### Revision of ISA 570 (Revised), *Going Concern* – Issues

#### Objective:

The objective of the IAASB discussion in June 2022 is to obtain the Board's input on the Going Concern Task Force's (GC TF) initial views and recommendations addressing selected topics on going concern in an audit of financial statements as outlined in this Agenda Item.

#### *Approach to the Board Discussion:*

The GC TF Chair will go through the questions in the order they are set out in this Agenda Item and where applicable, will refer to the preliminary drafting paragraphs (shown in mark-up from extant) presented in **Agenda Item 5-A**. These preliminary drafting paragraphs are provided for illustrative purposes, in support of the initial views and recommendations of the GC TF on the issues discussed in this Agenda Item. Based on the feedback from the Board in June 2022, the GC TF intends to further develop the preliminary drafting paragraphs for proposed ISA 570 (Revised).

In addition, as part of the discussion in **Part B, Section IV**, the Board's views will be sought on the draft non-authoritative guidance included in **Agenda Item 5-B**.

#### Introduction

1. At the March 2022 IAASB meeting, the Board discussed and approved the [project proposal](#) for the revision of ISA 570 (Revised), *Going Concern* and the conforming and consequential amendments to other relevant ISAs.
2. This paper sets out the GC TF initial views and recommendations with respect to two key issues identified in the project proposal, the related proposed actions, and the way forward.

- **Part A:** Timeline over which the going concern assessment is made.

This key issue is addressed by a proposed action focusing on the *Timeline for Assessment* (see paragraph 35, AB.2 of the project proposal).

- **Part B:** Transparency about the auditor's responsibilities and work related to going concern.

This key issue is addressed by several proposed actions (see paragraph 35, C.8–10 and paragraph 39 of the project proposal) in the following Sections:

| Section | Description   |
|---------|---|
| I       | <i>Communication with Those Charged with Governance (TCWG)</i>  |
| II      | <i>Communication with Appropriate External Parties</i>          |
| III     | <i>Transparency About Going Concern in the Auditor's Report</i> |
| IV      | <i>Development of Non-Authoritative Guidance</i>                |

- **Part C:** Way forward.

*Materials Presented—Appendices, Other Agenda Items and Supplements Accompanying This Paper*

3. This Agenda Item includes the following appendices, other agenda items and supplements:

|                                       |   |
|---------------------------------------|---|
| <b>Appendix 1</b>                     | Background information relevant for each of the issues discussed in this Agenda Item  |
| <b>Appendix 2</b>                     | Extract from the March 2022 IAASB draft meeting minutes for going concern   |
| <b>Appendix 3</b>                     | GC TF members and update on activities since the March 2022 IAASB meeting   |
| <b>Appendix 4</b>                     | Table presented to the IAASB in December 2012 depicting the level of support for the proposals for reporting on going concern included in the ITC. <sup>1</sup> |
| <b>Agenda Item 5-A</b>                | Preliminary drafting paragraphs for proposed ISA 570 (Revised), <i>Going Concern</i>  |
| <b>Agenda Item 5-B</b>                | Draft non-authoritative guidance (Frequently Asked Questions – FAQs)  |
| <b>Agenda Item 5-C (Supplemental)</b> | Auditor reporting on going concern – examples from the United Kingdom and the Netherlands (for reference)   |

*Approach to Addressing the Actions Included in the Project Proposal*

4. In developing its initial views and recommendations discussed in this Agenda Item, and for the preliminary drafting paragraphs presented in **Agenda Item 5-A**, the GC TF followed the recently approved Complexity, Understandability, Scalability and Proportionality (CUSP) Drafting Principles and Guidelines.<sup>2</sup> In applying the CUSP Drafting Principles and Guidelines, the GC TF particularly considered the principles of scalability and proportionality while developing its standard-setting proposals (see paragraphs 45-47).
5. As the GC TF progresses its work to develop the Exposure Draft for proposed ISA 570 (Revised), and while formulating its views and recommendations for the other standard-setting actions in scope of the project, the GC TF intends to further develop, align, and refine its proposals for certain aspects of the issues discussed in this Agenda Item. Such matters will be subject to further deliberation by the IAASB at its September and December 2022 meetings. Where appropriate, the GC TF has indicated placeholders or has highlighted aspects of the issues discussed in this Agenda Item that will need further consideration by the GC TF as the work under the project is progressed.

*Liaison and Engagement with Others*

6. Since March 2022, the GC TF continued to liaise with the International Accounting Standards Board (IASB) and engaged in dialogue with other relevant stakeholders on topics related to going concern that are of mutual relevance.
7. At its April 2022 meeting, the IASB concluded its deliberations on the feedback and decisions about

<sup>1</sup> See [Invitation to Comment: Improving the Auditor's Report](#) (ITC).

<sup>2</sup> See [Agenda Item 1](#) that includes CUSP Drafting Principles and Guidelines presented to the IAASB at its April 2022 meeting.

its priorities and work plan for 2022 to 2026. As a result of those deliberations, the IASB decided not to add to its work plan a project on going concern disclosures.<sup>3</sup> The IAASB Chair subsequently sent a letter<sup>4</sup> to the IASB dated May 13, 2022, acknowledging the IASB decision and expressing the Board's desire to continue the dialogue and seek alternative approaches to address management's responsibilities with respect to preparing financial statements on a going concern basis. The importance of an ongoing close collaborative relationship was also highlighted especially when considering the interdependencies of the respective global standard setting activities.

8. In May 2022, as part of its mid-period work plan consultation, the International Public Sector Accounting Standards Board (IPSASB) added to its 2022 work program a project to revise the overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content, including disclosure.<sup>5</sup> The IPSASB will commence its scoping activities in quarter 3 and 4 of 2022 and intends to approve a project proposal to revise IPSAS 1<sup>6</sup> in early 2023.

### **Part A: Timeline Over Which the Going Concern Assessment is Made**

*Paragraphs 1-12 of Appendix 1 provide background information relevant to the issues presented below for the timeline over which the going concern assessment is made.*

#### *Going Concern Project Proposal – Key Issue*

9. The project proposal included the following key issue (see paragraph 26(b)):

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

- (i) There was a call to consider requiring the auditor to assess the reasonableness of the period utilized by management in their going concern assessment.
- (ii) There are inconsistencies across financial reporting frameworks in the commencement of the twelve-month period for the going concern assessment. This has resulted in reconsideration of whether the twelve-month period over which the going concern assessment is made should commence on the date of approval of the financial statements (or the date of the auditor's report) instead of the date of the financial statements. Stakeholders also noted that in considering the period of assessment, the requirements of the applicable financial reporting framework need to be taken into account.

#### *Going Concern Project Proposal – Proposed Actions*

10. The project proposal included the following action (see paragraph 35, action AB.2):

#### **Requirements and Application Material – Timeline for Assessment**

*Consider enhancing the requirements or application material to:*

- *Evaluate the reasonableness of management's assessment period based on conditions specific to*

<sup>3</sup> See [IASB Update April 2022](#).

<sup>4</sup> See [IAASB-Response-to-IASB-April-2022-Work-Plan-Update-Going-Concern.pdf \(ifac.org\)](#)

<sup>5</sup> See the [IPSASB Mid-Period Work Plan Consultation Summary](#).

<sup>6</sup> International Public Sector Accounting Standard (IPSAS) 1, *Presentation of Financial Statements*

*the entity’s facts and circumstances, including subsequent events.*

- *Extend the timeline for the assessment period to at least twelve months from the date of approval of the financial statements, or the date the auditor’s report is signed.*

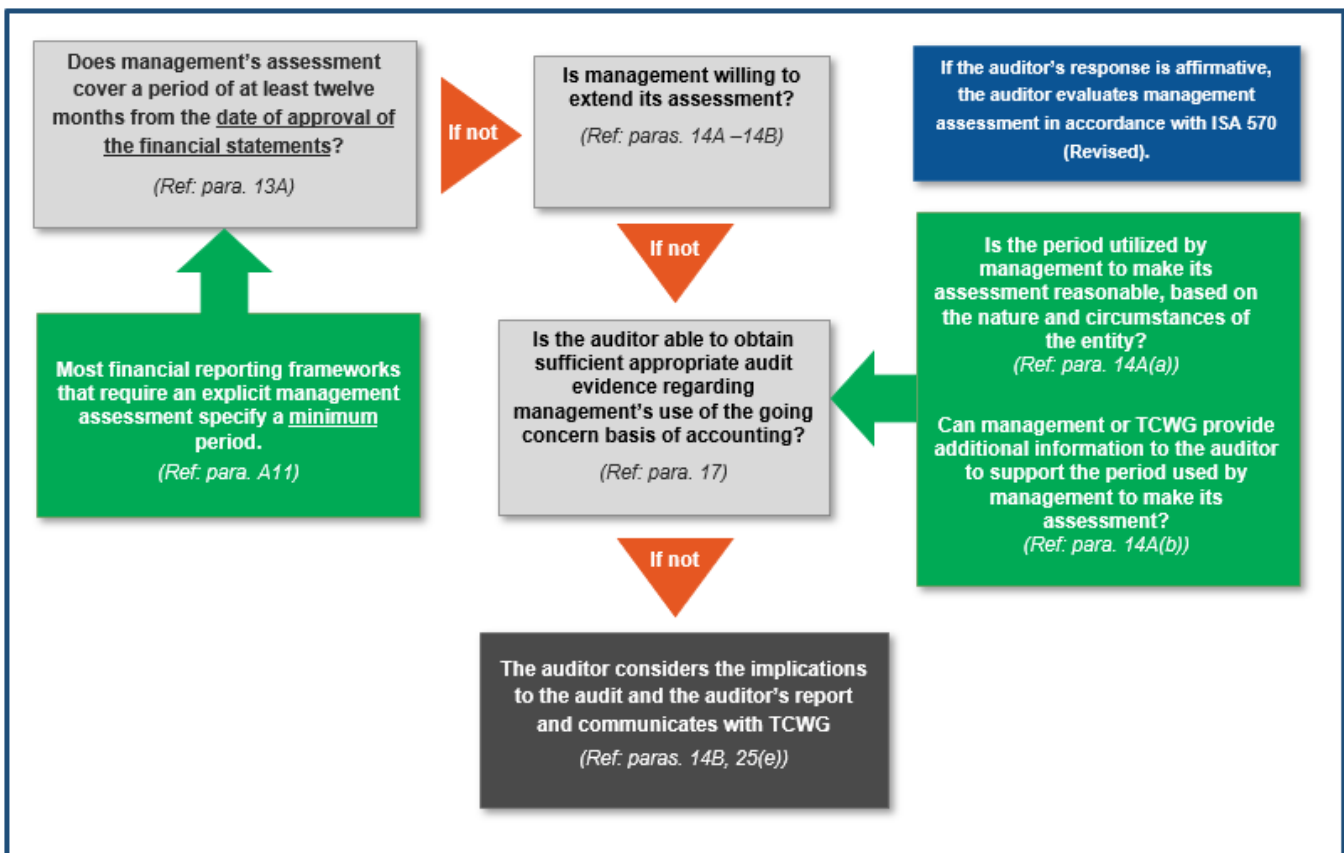
In doing so, consider applicable financial reporting framework requirements that address the timeline for assessment.

11. Paragraph 34 of the project proposal to revise ISA 570 (Revised) recognizes that while the IAASB in its standard setting activities endeavors to remain framework neutral, given the importance of the financial reporting framework in relation to going concern, the GC TF will take into account international financial reporting framework requirements related to the going concern basis of accounting in addressing the proposed actions that will be further deliberated by the IAASB.

*GC TF Initial Views and Recommendations*

Overview of the GC TF Proposals

12. The GC TF proposals and recommendations related to the timeline over which the going concern assessment is made are summarized in the chart below. The chart depicts the auditor’s decision-making process when evaluating the period for management’s assessment of the entity’s ability to continue as a going concern,<sup>7</sup> recognizing this is an iterative process. Each of the GC TF proposals and recommendations are explained below.



<sup>7</sup> Further referred to as “management’s assessment of going concern” or “management’s assessment.”

#### Period for Management’s Assessment

13. The GC TF notes that the requirements in the International Financial Reporting Standards (IFRS) and the IPSAS, establish a **minimum** (“at least, but not limited to”) **twelve-month period** for management’s assessment of going concern.
14. It would not be inconsistent with the requirements in the applicable financial reporting framework for management to consider longer periods than twelve months in its assessment of going concern. The GC TF also notes the clarification provided in this respect by the IFRS Foundation in its [education material](#) issued in January 2021.
15. The GC TF acknowledges the lack of support from respondents to the Discussion Paper (DP)<sup>8</sup> for extending the minimum period of management’s assessment of going concern beyond twelve months. However, the GC TF is of the view that it would be in the public interest for the proposed standard to acknowledge that the financial reporting frameworks specify a minimum period for which management is required to take into account all available information. This would acknowledge that a longer time frame than the minimum period can be considered for circumstances where the commencement date for management’s assessment in the financial reporting framework and the commencement date of the auditor’s evaluation of management’s assessment in ISA 570 (Revised) are different.
16. The GC TF also discussed that the extant application material in paragraph A11 of ISA 570 (Revised) provides a reference to the requirements in IAS 1<sup>9</sup> as an example of a financial reporting framework that requires a minimum time period of twelve months for management to take into account all available information when undertaking its assessment of going concern. Given that the going concern basis of accounting is also relevant to public sector entities and considering increasing global trends for use and adoption of the IPSAS,<sup>10</sup> the GC TF is of the view that the reference should be supplemented with an example that also, in addition to IAS 1, refers to IPSAS 1.

#### Commencement Date of the Period of the Auditor’s Evaluation of Management’s Assessment

17. The GC TF acknowledges the support from respondents to the DP to explore a change in the twelve-month **commencement date** of the period of the auditor’s evaluation of management’s assessment of going concern.
18. The GC TF considered the requirements in the international financial frameworks and the various jurisdictional approaches to the commencement date of management’s assessment of going concern and the auditor’s evaluation thereof. In this respect, the GC TF notes that:
  - (a) There is a difference in the international financial reporting frameworks of the commencement date for management’s assessment of going concern, which are, the **end of the reporting**

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<sup>8</sup> 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](#).

<sup>9</sup> International Accounting Standard (IAS) 1, *Presentation of Financial Statements*

<sup>10</sup> See [IFAC-CIPFA International Public Sector Financial Accountability Index: 2021 Status Report](#) and [IFAC International Standards: 2019 Global Status Report](#)

- period** as required by IAS 1, the **reporting date**<sup>11</sup> required by the IFRS for SMEs<sup>12</sup> and the **date for approval of the financial statements** as required by IPSAS 1.
- (b) Certain jurisdictions have amended their national equivalent ISA 570 (Revised) standard to require a commencement date of the period of the auditor’s evaluation to be the **date the financial statements are issued or approved or when the auditor’s report is signed** (including Australia, New Zealand, the United Kingdom, and the United States).
19. The GC TF believes that it would be in the public interest to introduce a requirement for a different commencement date for the period of the auditor’s evaluation of management’s assessment of an entity’s going concern, with the effect that the minimum twelve-month period would end later compared to what is currently required in ISA 570 (Revised) (i.e., extant paragraph 13 of ISA 570 (Revised) specifies the commencement as the date of the financial statements). Doing so would:
- (a) Be a responsive action in relation to the stakeholder feedback from the DP and other information gathering.
- (b) Enable greater comparability and consistency among jurisdictions globally, given that some jurisdictions have already adopted a different commencement date of the period of the auditor’s evaluation in their national equivalent auditing standards.
- (c) Not be inconsistent with the requirements in the international financial reporting frameworks which establish a minimum period, and not a cap.
- (d) Align with evolving practice whereby a different commencement date of the period of the auditor’s evaluation is often applied, although not required by ISA 570 (Revised).
- (e) Reinforce the duration of reliance users have over going concern, as the commencement date of the assessment would extend.
20. The GC TF are of the view that the “at least twelve months period” in paragraph 13 of ISA 570 (Revised) should be amended to refer to a period of at least twelve months from the **date of approval of the financial statements** as it is defined in ISA 560 (Revised)<sup>13</sup> (see paragraph 13A of **Agenda Item 5-A**). The GC TF rationale and the dates considered are outlined below:
- *Date of approval of the financial statements*<sup>14</sup> – in most jurisdictions, the date of approval of the financial statements is a widely recognized date that may be prescribed in statutory requirements for when management, TCWG or those with recognized authority assert that they have taken responsibility for the financial statements. By having the commencement date of the period of the auditor’s evaluation of going concern being the date of approval of the financial statements, this would reinforce to intended users that more current information with respect of management’s assessment of going concern has been used in making their assessment.

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<sup>11</sup> The Glossary of Terms of the IFRS for SMEs defined “reporting date” as the end of the latest period covered by financial statements or by an interim financial report.

<sup>12</sup> International Financial Reporting Standard for Small and Medium-sized Entities

<sup>13</sup> ISA 560, *Subsequent Events*

<sup>14</sup> ISA 560, paragraph 5(b) defines the date of approval of the financial statements as the date on which all the statements that comprise the financial statements, including the related notes, have been prepared and those with the recognized authority have asserted that they have taken responsibility for those financial statements.

- *Date of the auditor's report*<sup>15</sup> – management may not necessarily know when the date of the auditor's report would be, as this date is not driven by the actions of management. This may in turn cause practical difficulties for when management prepares its assessment of going concern.
- *Date the financial statements are issued*<sup>16</sup> – IAS 10, *Events After the Reporting Period*, explains that management's assessment of the use of a going concern basis of preparation needs to reflect the effects of events occurring after the end of the reporting period up to the date that the financial statements are authorized for issue. However, as stated in paragraph 10 of ISA 560, the auditor has "no obligation to perform any audit procedures regarding the financial statements after the date of the auditor's report," hence the auditor is not required to perform any work with respect to management assessment beyond the date of the auditor's report. Therefore, using the date the financial statements are issued as a commencement date of the period of the auditor's evaluation is not a viable option.

#### Period of Management's Assessment Not Specified

21. In response to stakeholder feedback from the DP, the GC TF is of the view that it is necessary to clarify circumstances in the standard for when the applicable financial reporting framework does not specify the period of management's assessment of going concern. The GC TF notes that the American Institute of Certified Public Accountants (AICPA) has addressed this matter in their standard AU-C Section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*,<sup>17</sup> in a definition of "reasonable period of time" as set out below (own emphasis added).

**Reasonable period of time:** *The period of time required by the applicable financial reporting framework or, if no such requirement exists, within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued, when applicable).*

22. The GC TF proposes that a similar clarification is provided in ISA 570 (Revised) (see paragraph 13A of **Agenda Item 5-A**). This includes adding to the requirement that if management's assessment of going concern covers less than twelve months, or when the applicable financial reporting framework does not specify the period to be covered by management's assessment, then the auditor requests management to extend its assessment.

#### Management Unwilling to Make or Extend Its Assessment

23. To improve the linkage and the flow of the requirements in the proposed standard, the GC TF proposes to relocate extant paragraph 24 for when management is unwilling to make or extend its assessment to a new paragraph following paragraph 14 of ISA 570 (Revised).
24. In addition, for when management is unwilling to make or extend its assessment when requested to do so by the auditor, the GC TF proposes (see paragraphs 14A–14B of **Agenda Item 5-A**):
- (a) A new requirement for the auditor to consider whether the period used by management to make

<sup>15</sup> ISA 560, paragraph 5(c) defines the date of the auditor's report as the date the date the auditor dates the report on the financial statements in accordance with ISA 700.

<sup>16</sup> ISA 560, paragraph 5(d) defines the date of the financial statements are issued as the date that the auditor's report and audited financial statements are made available to third parties.

<sup>17</sup> See [AU-C Section 570, The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern](#), paragraph 11

- its assessment is reasonable, based on the nature and circumstances of the entity.
- (b) A new requirement to strengthen the dialogue between the auditor and management (and if appropriate TCWG), related to discussion of this matter (also see paragraph 31(c) below).
  - (c) To strengthen the existing requirement for the auditor to determine the implications for the audit and for the auditor's opinion when management is still unwilling to make or extend its assessment and the auditor believes it is necessary to do so.
25. The GC TF also proposes new application material in support of the proposed requirements (see paragraphs A13A–A13C of **Agenda Item 5.A**) that:
- (a) Provides an example when it may be reasonable for management not to extend the period of the assessment based on the nature and circumstances of the entity.
  - (b) Draws attention that when management is unwilling to make or extend its assessment this may be a limitation on the audit evidence the auditor is seeking to obtain. In such circumstances, the auditor discusses the matter with management (or TCWG), inquires as to the reasons for management's decision, and explains that the auditor may be able to receive additional information from management and TCWG to support the appropriateness of management's use of the going concern basis of accounting.
  - (c) In circumstances when the auditor is unable to obtain sufficient appropriate audit evidence, expands on the implications for:
    - The audit – revising the assessment of the risks of material misstatement and modifying the planned audit procedures. An example is provided to this effect, that if management's decision is unreasonable in the circumstances, this may indicate a fraud risk factor.
    - The auditor's opinion – issuing a qualified or disclaimer of opinion may be appropriate when management's unwillingness to make or extend its assessment is a limitation on the audit evidence the auditor is able to obtain.

*Matters to be Further Considered*

26. The GC TF has yet to deliberate and develop its recommendations related to:
- The impact of events or conditions subsequent to the period of management's assessment of going concern that may cast significant doubt on the entity's ability to continue as a going concern.
  - The interaction between the new requirements and the auditor's inquiries of management as to its knowledge of events or conditions beyond the period of management's assessment in extant paragraph 15 of ISA 570 (Revised).
27. The GC TF intends to also deliberate whether any further revisions may be necessary as a result of the interaction between the new requirements and the extant requirements in paragraphs 14 and 26 of ISA 570 (Revised).

**Matter for IAASB Consideration:**

1. The Board is asked for its views on the GC TF initial proposals for the timeline over which the going concern assessment is made discussed in paragraphs 12-25 above and as reflected in paragraphs 13A, 14A–14B and A11, A13A–A13C of **Agenda Item 5-A**.



## **Part B: Transparency About the Auditor’s Responsibilities and Work Related to Going Concern**

28. The project proposal included a project objective in paragraph 19(c) to “Enhance transparency with respect to the auditor’s responsibilities and work related to going concern where appropriate, including strengthening communications and reporting requirements.” **Sections I-IV** below provide the GC TF initial views and recommendations in relation to the each of the proposed actions related to enhancing transparency about the auditor’s responsibilities and work related to going concern.

### **I. Communication with Those Charged with Governance (TCWG)**

*Paragraphs 15-22 of Appendix 1 provide background information relevant to the issues presented below for communication with TCWG.*

#### *Going Concern Project Proposal – Key Issue*

29. The project proposal included the following key issue (see paragraph 26 (h)(i)):

#### ***Transparency About the Auditor’s Responsibilities and Work Related to Going Concern***

- (i) The communication with TCWG on going concern may not be sufficiently robust, including that such communication may not always occur on a timely basis throughout the audit.

#### *Going Concern Project Proposal – Proposed Actions*

30. The project proposal included the following action (see paragraph 35, action C.8):

#### **Requirements and Application Material – Communication with TCWG**

*Enhance the requirements and application material to strengthen required communications with TCWG, including encouraging more appropriate two-way communication, addressing the timeliness of the communications, and emphasizing the ongoing nature of communications with TCWG.*

#### *GC TF Initial Views and Recommendations*

31. The GC TF proposes that the extant communication requirements with TCWG in paragraph 25 of ISA 570 (Revised) are enhanced by introducing new communication requirements for (also see paragraph 25 of **Agenda Item 5-A**):
- (a) An overview of the auditor’s procedures performed and the basis for the auditor’s conclusions, including the consideration of management’s plans for further actions.
  - (b) When communicating about the adequacy of the related disclosures in the financial statements, to also include communication about the disclosures that describe mitigating factors in management’s plans that are of significance to overcoming the adverse effects of the events or conditions.
  - (c) Where applicable, management’s unwillingness to make or extend its assessment of the entity’s ability to continue as a going concern when requested.
  - (d) Adding that when applicable, in addition to the implications for the auditor’s report, the auditor

- communicates with TCWG the implications for the audit.
32. The GC TF discussed that there was support from respondents to the DP that application material be developed to support the requirements for communicating with TCWG and agreed that it would be useful to provide examples of the nature, timing and extent of the communications expected. However, the GC TF is of the view that in doing so caution is necessary so as not to repeat extensively the application material included in ISA 260 (Revised)<sup>18</sup> that establishes the overarching framework for communicating with TCWG.
33. The GC TF proposes new application material in support of the proposed requirement to (see also paragraphs A36A–A36C of **Agenda Item 5-A**):
- (a) Highlight that ISA 260 (Revised) explains that timely communication throughout the audit with TCWG contributes to the achievement of robust two-way dialogue between the auditor and TCWG and that the appropriate timing may vary with the circumstances of the engagement, the significance and nature of the matter and the expected action to be taken by TCWG. An example is provided to emphasize those circumstances when prompt communication with TCWG may be necessary.
  - (b) Explain that the communication with TCWG about the audit procedures performed may be relevant for TCWG to understand the audit evidence obtained from the auditor’s work that forms the basis for the auditor’s conclusion, and where applicable, the implications to the auditor’s report (also see the GC TF initial views and recommendations for transparency about going concern in the auditor’s report in **Section III** below).
  - (c) Emphasize the requirements in ISA 265<sup>19</sup> for the auditor to communicate with TCWG significant deficiencies in internal control identified during the audit and provides an example.

*Matters to be Further Considered*

34. The GC TF also discussed that from the feedback received there were calls from respondents to consider inclusion of a requirement in proposed ISA 570 (Revised) for the auditor to obtain an understanding of how TCWG exercise oversight over management’s assessment of going concern. The GC TF discussed that such a requirement would constitute a useful enhancement to the standard, given it would promote a two-way communication with TCWG about what they consider to be events or conditions identified that may cast significant doubt on the entity’s ability to continue as a going concern and enable the auditor to identify areas of potential focus regarding management’s assessment of going concern at the planning stage of the audit.
35. The GC TF intends to further consider and address this matter while developing its proposals and recommendations for the actions related to risk identification and assessment included in paragraph 35, action AB.1, of the project proposal.

**Matter for IAASB Consideration:**

2. The Board is asked for its views on the GC TF initial proposals for communication with TCWG discussed in paragraphs 31-33 above and as reflected in paragraphs 25, A36A–A36C of **Agenda Item 5-A**.

<sup>18</sup> ISA 260 (Revised), *Communication with Those Charged with Governance*

<sup>19</sup> ISA 265, *Communicating Deficiencies in Internal Control to Management and Those Charged With Governance*

## II. Communication with Appropriate External Parties

*Paragraphs 23-34 of Appendix 1 provide background information relevant to the issues presented below for communication with appropriate external parties.*

### *Going Concern Project Proposal – Key Issue*

36. The project proposal included the following key issue (see paragraph 26 (h)(ii)):

#### ***Transparency About the Auditor's Responsibilities and Work Related to Going Concern***

- (ii) Where issues related to going concern are identified by the auditor, there is a need to clarify the auditor's responsibilities for additional communications with external parties, including with relevant regulatory authorities (as applicable).

### *Going Concern Project Proposal – Proposed Actions*

37. The project proposal included the following action (see paragraph 35, action C.9):

#### **Requirements and Application Material – Communication with Appropriate External Parties**

*Enhance the requirements and application material in ISA 570 (Revised) with respect to the auditor's communications with external parties, including with relevant regulatory authorities (as applicable), when issues are identified relating to going concern, including instances when no further action is taken by management or TCWG.*

In doing so, monitor any implementation feedback for extended communication requirements made in certain jurisdictions and consider if similar changes on a global level would be useful.

### *GC TF Initial Views and Recommendations*

38. The GC TF proposes a new requirement following extant paragraph 25 of ISA 570 (Revised) (see paragraph 25A of **Agenda Item 5-A**), for reporting to an appropriate authority outside of the entity. The proposed requirement prescribes that when the auditor considers it necessary to include a "Material Uncertainty Related to Going Concern" (MURGC) paragraph in the auditor's report, or issue a qualified, adverse or disclaimer of opinion in respect of matters related to going concern, for the auditor to determine whether law, regulation or relevant ethical requirements:
- (a) Require the auditor to report to an appropriate authority outside the entity.
  - (b) Establish responsibilities under which reporting to an appropriate authority outside the entity may be appropriate in the circumstances.
39. To support the application of the requirement, the GC TF proposes application material included in paragraphs A37A–A37D of **Agenda Item 5-A**, as follows:
- (a) Repurposing and cross referencing the extant application material in A34 of ISA 570 (Revised) to the new requirement and adding an example to highlight that in some jurisdictions statutory requirements exist for the auditor of a public interest entity (PIE) to report to a supervisory authority.

- (b) Inclusion of new application material for the auditor to consider whether it is appropriate to report the matter in the public interest to an appropriate authority outside the entity, unless precluded by the auditor's duty of confidentiality under law, regulation or relevant ethical requirements. The application material provides an example to this effect, i.e., discussing with a supervisory authority when auditing the financial statements of financial institutions. In addition, a reference is provided to Section 114 of the IESBA Code<sup>20</sup> that sets out requirements to comply with the principle of confidentiality.
- (c) Sets out factors the auditor may consider in determining whether it is appropriate to report the matter in the public interest to an appropriate authority outside the entity, such as views expressed by the regulatory, enforcement or supervisory authority, legal advice obtained by TCWG and actual and planned actions to mitigate the situation.
- (d) Highlights that reporting going concern matters to an appropriate authority outside of the entity may involve complex considerations and professional judgments and that it may be necessary for the auditor in such circumstances to consult internally or on a confidential basis with a regulator or professional body and may also consider obtaining legal advice

**Matter for IAASB Consideration:**

- 3. The Board is asked for its views on the GC TF initial proposals for communication with appropriate external parties discussed in paragraphs 38-39 above and as reflected in paragraphs 25A and A37A–A37D of **Agenda Item 5-A**.

### III. Transparency About Going Concern in the Auditor's Report

*Paragraphs 35-62 of Appendix 1 provide background information relevant to the issues presented below for transparency about going concern in the auditor's report.*

#### *Going Concern Project Proposal – Key Issue*

- 40. The project proposal included the following key issue (see paragraph 26 (h)(iii)):

***Transparency About the Auditor's Responsibilities and Work Related to Going Concern***

- (iii) The auditor's report may not be sufficiently transparent with respect to the auditor's responsibilities and work related to going concern.

#### *Going Concern Project Proposal – Proposed Actions*

- 41. The project proposal included the following action (see paragraph 35, action C.10):

**Requirements and Application Material – Transparency About Going Concern in the Auditor's Report**

*Enhance the requirements and application material in ISA 570 (Revised), where appropriate, to increase*

<sup>20</sup> *International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)*

*transparency in the auditor’s report about the auditor’s responsibilities and work related to going concern.*

This includes considering enhancing auditor reporting for situations where:

- The auditor concludes that no material uncertainty exists, and management’s use of the going concern assumption is appropriate.
- Significant judgment was required to conclude that no material uncertainty related to going concern exists, after having identified events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern (i.e., “close call” situations).
- A “Material Uncertainty Related to Going Concern” paragraph is required (i.e., to expand the informational content of such paragraph to describe how the auditor addressed this matter in the audit).

*GC TF Initial Views and Recommendations*

Overarching Considerations

42. In considering the proposed revisions to ISA 570 (Revised) to enhance transparency in the auditor’s report, the GC TF believes it is necessary to:
- (a) Focus on enhancements that would be most relevant for users of audited financial statements.
  - (b) Propose changes that would align with the requirements in the applicable financial reporting framework addressing management’s disclosures for going concern.
  - (c) Address the issues in a proportionate manner by considering the relative impact that the proposals may have on different users.
  - (d) Consider improvements that would promote global consistency and comparability across auditor’s reports about the auditor’s responsibilities and work related to going concern.

Overview of the GC TF Proposals

43. The GC TF considered previous IAASB discussions and other sources of information on this topic, including related stakeholder feedback from the DP as well as the changes that are being considered or have been made in other jurisdictions to their going concern-related standards. On the basis of this information, the GC TF proposes a tiered approach for enhancing transparency about going concern in the auditor’s report, as summarized in the table below:

| Basis of Accounting is Appropriate, and: | Description   | Applicability |
|--|---|---------------|
| <b>No Material Uncertainty Exists</b>    | Providing explicit statements about Going Concern in the auditor’s report (see paragraphs 51-54): <ul style="list-style-type: none"> <li>• A statement providing a conclusion that management’s use of the going concern basis of accounting is appropriate.</li> </ul> | All entities  |

| Basis of Accounting is Appropriate, and:  | Description  | Applicability   |
|---|--|-----------------|
|   | <ul style="list-style-type: none"> <li>A statement that no material uncertainties related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern have been identified.</li> </ul>  |                 |
| <b>No Material Uncertainty Exists</b><br><br><i>Events or Conditions Have Been Identified that may Cast Significant Doubt on the Entity’s Ability to Continue as a Going Concern<sup>21</sup></i> | Providing explicit statements about Going Concern in the auditor’s report (see paragraphs 51-54): <ul style="list-style-type: none"> <li>As for “No Material Uncertainty Exists” above.</li> </ul>   | All entities    |
|   | Enhanced informational content in the auditor’s report when events or conditions have been identified (see paragraphs 55-66): <ul style="list-style-type: none"> <li>Requiring the auditor to describe how the auditor addressed the events or conditions in the audit.</li> </ul>   | Listed entities |
| <b>Material Uncertainty Exists</b><br><br><i>Adequate Disclosure is Made in the Financial Statements</i>  | Enhanced informational content for MURGC paragraphs in the auditor’s report by providing an explicit statement– in addition to the extant requirements (see paragraphs 67-74): <ul style="list-style-type: none"> <li>A statement providing a conclusion that management’s use of the going concern basis of accounting is appropriate.</li> </ul> | All entities    |
|   | In addition to the enhanced informational content for MURGC paragraphs applicable for audits of all entities (see paragraphs 67-74): <ul style="list-style-type: none"> <li>Requiring auditors to describe how the auditor addressed the events or conditions in the audit.</li> </ul>   | Listed entities |

Qualitative Standard-Setting Characteristics

44. In developing its initial views and recommendations, the GC TF considered the qualitative characteristics set out in paragraph 36 of the project proposal to assess the standard’s responsiveness to the public interest. In doing so, the GC TF particularly deliberated about the judgments relevant for proportionality, comparability and consistency reflected in its standard-setting proposals. Paragraphs 45-50 below set out further information relevant to the GC TF rationale in this respect.

<sup>21</sup> Further referred to as “events or conditions.”

### Proportionality

45. The proposals outlined in the table in paragraph 43 above, reflect the GC TF views that it is in the public interest to enhance transparency in the auditor's report about going concern **in all instances** (i.e., for audits of all entities). The GC TF believes the proposed approach is an appropriate response to stakeholder feedback given that going concern matters are relevant to audits of all entities, regardless of size or complexity. However, the GC TF considers that certain aspects of its proposals should apply only for audits of listed entities and has proposed clarifications to the scope of the proposed standard in this regard (see paragraph 1 of **Agenda Item 5-A**).
46. In forming its view, the GC TF considered previous IAASB rationale, as part of its project to revise the Auditor Reporting Standards,<sup>22</sup> for establishing the applicability of ISA 701<sup>23</sup> and requiring the communication of Key Audit Matters (KAM) for audits of listed entities (or when required by law or regulation with voluntary application permitted for entities other than listed). These previous IAASB deliberations recognized that the information needs of intended users of auditor's reports of entities can differ, the distinction being between those intended users that have access to further information and insights about the auditor's work beyond the financial statements and the auditor's report, and those that do not. It was noted by the IAASB at the time that intended users of listed entities usually do not have direct access to auditor communications with management about their work, including for the issues that were identified and addressed in the course of the audit. For such users, the GC TF is of the view that there is a clear public interest benefit, equivalent as for requiring the communication of KAM, in providing more informational content about the auditor's work and inclusion of additional commentary about going concern in the auditor's report.
47. For other entities, the GC TF believe that intended users of financial statements of entities other than listed entities may have access to this type of information through direct interaction with management and TCWG, thereby obviating the need for the additional commentary. For example, owner-managed entities have direct access to auditors and an understanding of their work. There may be circumstances where intended users of audited financial statements of non-listed entities may include lenders and other creditors that may not have access to information about the audit, beyond the financial statements and the auditor's report. However, the GC TF are of the view that in such circumstances, akin to communicating KAM, the auditor would not be precluded from including the additional commentary in their auditor's report.

### Comparability and Consistency

48. The proposals outlined in the table in paragraph 43 above, reflect the GC TF views that when the going concern basis of accounting is appropriate and when applicable, adequate disclosure of a material uncertainty is made in the financial statements, **any** commentary related to going concern should be included in a separate section of the auditor's report following the Basis for Opinion section in accordance with paragraph 29 of ISA 700 (Revised).<sup>24</sup> That includes either a section on **Going Concern** (when no material uncertainty exists) or in the **MURGC** section (when a material uncertainty exists). This would apply in all instances (i.e., for audits of all entities).
49. The GC TF believes that alignment of the going concern commentary in the proposed sections

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<sup>22</sup> See <https://www.iaasb.org/projects/auditor-reporting>.

<sup>23</sup> ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

<sup>24</sup> ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraph 39(b)(iv)



appropriately reflects the public interest as it enables greater consistency across auditor’s reports and enhances auditor reporting comparability globally. The GC TF also believes that it is not in the public interest for users to have to navigate through the various sections of the auditor’s report in order to access relevant commentary about going concern matters.

50. The GC TF considered respondent feedback from the DP and from the other information gathering sources, including from the Auditor Reporting post-implementation review (PIR), who noted challenges around the purpose and comparability of the different sections of the auditor’s report in respect of commentary on going concern (i.e., KAM, Emphasis of Matter (EOM) and MURGC) (see paragraph 78 and paragraph 64 of Appendix 1). The GC TF intends to further deliberate whether other clarifications to the scope of the proposed standard may be necessary, as well as possible conforming and consequential amendments to ISA 701 and ISA 706 (Revised),<sup>25</sup> so as not to cause confusion about which standard’s requirements are applicable when reporting matters related to going concern.

### Providing Explicit Statements About Going Concern in the Auditor’s Report (No Material Uncertainty Exists)

51. The GC TF discussed the inclusion of explicit statements in the auditor’s report, which was initially proposed by the ITC on auditor reporting (see paragraphs 36-39 of Appendix 1) and noted that such matters were extensively deliberated by the IAASB previously in the course of the project to revise the Auditor Reporting Standards. However, the GC TF acknowledged that from the feedback to the DP there were respondents, including Monitoring Group members, who in addition to the Public Interest Oversight Board (PIOB) continue to support making explicit in all auditor’s reports about the auditor’s responsibilities and work relating to going concern.
52. The GC TF proposes a new requirement, following paragraph 20 of ISA 570 (Revised), for circumstances when the auditor concludes that the going concern basis of accounting is appropriate and no material uncertainty exists. The proposed requirement prescribes that in those circumstances the auditor includes a section in the auditor’s report with a heading “**Going Concern**” and provides two explicit statements (also see paragraph 21A of **Agenda Item 5-A**), as illustrated in the example below:

**Going Concern**

As part of our audit of the financial statements, based on the audit evidence obtained:

- We have concluded that management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
- We have not identified any material uncertainties related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern.

53. The GC TF also proposes new application material (see paragraph A27A of **Agenda Item 5-A**) to explain that there may be circumstances when law or regulation may require the proposed statements to be supplemented with further information, such as, for example, a reference to the relevant accounting policies or notes to the financial statements.

<sup>25</sup> ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report*



54. The GC TF believes that the proposed new requirement:
- (a) Would offer transparency to users that the auditor has fulfilled their existing responsibilities in paragraphs 17 and 18 of ISA 570 (Revised) that extend to all audits, for the auditor:
    - To evaluate whether sufficient appropriate audit evidence has been obtained regarding, and concluding on, the appropriateness of management’s use of the going concern basis of accounting in the preparation of the financial statements.
    - To conclude whether, based on the audit evidence obtained, in the auditor’s judgment, a material uncertainty exists related to events or conditions that, individually or collectively, may cast significant doubt on the entity’s ability to continue as a going concern.
  - (b) Is consistent with the description provided in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of the auditor’s report as required by ISA 700 (Revised). This requirement extends to all audits and includes a description of the auditor’s responsibilities to conclude on:
    - The appropriateness of management’s use of the going concern basis of accounting and,
    - Based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern.
  - (c) Is aligned with the PIOB’s current view as outlined in their latest public interest issues (see paragraph 40 of Appendix 1) and is therefore a responsive action in relation to calls from the PIOB and others.

**Matter for IAASB Consideration:**

4. The Board is asked for its views on the GC TF initial proposals for providing explicit statements on Going Concern in the auditor’s report discussed in paragraphs 51-54 above and as reflected in paragraphs 21A and A27A of **Agenda Item 5-A**.

**Enhanced Information Content in the Auditor’s Report When Events or Conditions Have Been Identified (No Material Uncertainty Exists)**

55. The GC TF acknowledged that from the feedback to the DP there were stakeholders who requested that more information is needed in auditor’s reports about “close call” situations. The GC TF also discussed that anecdotal evidence indicated there has been an increase of “close call” KAM in recent auditor’s reports in light of the exacerbated challenges and issues related to various ongoing uncertainties in the broader business environment.
56. The GC TF notes that in extant ISA 570 (Revised) there are no requirements in respect of the auditor’s report in circumstances when there are events or conditions that have been identified that may cast significant doubt on the entity’s ability to continue as a going concern but, based on the audit evidence obtained the auditor concludes that no material uncertainty exists.
57. Irrespective of the requirements of ISA 570 (Revised) an auditor is not precluded from providing further transparency in the auditor’s report in a “close call” situation as follows:
- (a) ISA 701. The auditor may communicate a KAM provided the matter in their professional judgement was a matter of most significance in the audit, and in those circumstances the

- requirements of ISA 701 are followed. Paragraph A41 of ISA 701 notes in particular that the auditor may determine that one or more matters relating to the conclusion 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 are key audit matters. The GC TF however notes that communicating KAM is only applicable for audits of financial statements of listed entities or when required by law or regulation (with voluntarily application allowed for entities other than listed entities).
- (b) ISA 706 (Revised). When ISA 701 does not apply or when ISA 701 applies but the auditor has determined that the matter is not a KAM, the auditor may include an EOM paragraph to draw attention to the going concern disclosures in the financial statements when, based on the auditor's professional judgement, such disclosures are fundamental to the users' understanding of the financial statements.
58. As discussed in paragraphs 61–62 of Appendix 1, the GC TF notes that as part of IAASB's project to revise the Auditor Reporting Standards, it was agreed not to require a KAM for "close calls." It was decided at that time that such communication would be included in the KAM section of the auditor's report if such matters were determined to be of most significance in the audit. Paragraph A1 of extant ISA 570 (Revised) acknowledged this interaction with ISA 701.
59. The GC TF is of the view that it would be responsive to stakeholder feedback, and in the public interest to enhance transparency in the auditor's report about the auditor's work when events and conditions have been identified, including for "close call" situations. In developing its proposals, the GC TF considered the extant requirement in paragraph 13(b) of ISA 701 for the auditor to describe how the KAM was addressed in the audit, and believes a similar approach is adequate in ISA 570 (Revised), i.e., for the auditor to describe how the events and conditions were addressed in the audit ("additional commentary").
60. Accordingly, the GC TF proposes a new differential requirement in proposed ISA 570 (Revised) that would apply to audits of listed entities (or when required by law or regulation) with voluntarily application for entities other than listed entities permitted (also see paragraph 21B of **Agenda Item 5-A**). The following provides an example that illustrates the presentation in the section on **Going Concern** in the auditor's report for listed entities:

#### **Going Concern**

As part of our audit of the financial statements, based on the audit evidence obtained:

- We have concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
- We have not identified any material uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

*Events or conditions that may cast significant doubt on the entity's ability to continue as a going concern*

- We draw attention to Note XXX in the financial statements, which describe [...]
- *[Description of how the events or conditions were addressed in the audit].*

61. The proposed requirement would provide a new solution compared to the extant standards, by capturing “close call” situations which are currently reported as KAM in accordance with ISA 701 or in an EOM paragraph in accordance with ISA 706 (Revised). As explained in paragraph’s 48-50, the GC TF is of the view that this approach would promote consistency and comparability of auditor’s reports globally, whereby matters related to going concern would be consistently referred to in a single section of the auditor’s report. This would also help alleviate the confusion cited from stakeholders about the lack of clarity for “close call” situations and the reporting requirements for such situations in the extant standards (see paragraph 78 and paragraph 64 of Appendix 1).
62. In forming its view about the applicability of the requirement, the GC TF considered the matters discussed in paragraphs 45-47 above, and believes that for intended users of audited financial statements of listed entities there is a clear public interest benefit in providing more informational content about the auditor’s work and inclusion of additional commentary about going concern in the auditor’s report.
63. The GC TF notes that IAASB’s project on Listed Entity and PIE<sup>26</sup> includes proposed actions to develop an objective and guidelines to support the IAASB’s judgments in identifying specific matters for which differential requirements are appropriate in the ISQMs<sup>27</sup> or ISAs. In addition, this project will include a case-by-case analysis to determine whether the extant differential requirements in the ISQMs and ISAs for listed entities should be amended to apply to all categories of PIEs. As part of its ongoing activities, the GC TF will follow developments, and coordinate with the PIE Task Force in this regard.
64. However, as such guidelines are yet to be developed, when forming its initial views and proposals, the GC TF is of the view that its proposals need to align with the current approach in the ISAs for establishing differential requirements for listed entities, that consists of the following:
  - (a) Extant differential requirements in the ISAs are focused on enhancing transparency about aspects of the audit to TCWG or to intended users of the auditor’s report through communication with TCWG or including specific statements or information in the auditor’s report, respectively.
  - (b) Related application material in many instances when there are differential requirements for listed entities, draws attention or discusses entities other than listed entities that could have characteristics when it may be appropriate to also apply the requirement to such entities.
65. The GC TF proposes new application material (see paragraphs A27B – A27E of **Agenda Item 5-A**) to support the application of the new requirement that:
  - (a) Draws attention that the requirement also applies for an audit of an entity other than a listed entity, where law or regulation requires, or when the auditor otherwise decides to provide additional transparency for intended users of audited financial statements regarding the identified events or conditions and provides examples.
  - (b) Explains that when the auditor considers it necessary to do so draw attention to aspects of the disclosures or that when certain matters are fundamental to users understanding of the financial statements, this explanation can be provided in the Going Concern section by supplementing the required statements.

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<sup>26</sup> See the Listed Entity and PIE project [page](#) for further information about the project.

<sup>27</sup> International Standards on Quality Management

- (c) Explains that the amount of detail to be provided in the description of how the events or conditions were addressed in the audit is a matter of professional judgment and provide examples of what the auditor may describe (i.e., aspects of the auditor’s response or approach, provide a brief overview of the procedures performed, an indication of the outcome of the auditor’s procedures, or key observations related to the events or conditions, or some combination of these elements).
  - (d) Draws attention that care is necessary for the language used in the description of how the events or conditions were addressed in the audit (i.e., relates the description to the specific circumstances of the entity, takes into account the related descriptions in the notes to the financial statements and does not imply discrete opinions on separate elements of the financial statements).
66. The GC TF also proposes that the explanation included in extant paragraph A1 of ISA 570 (Revised) that matters relating to going concern may be determined to be KAM is removed from the proposed standard. The new proposed requirement in paragraph 21B of **Agenda Item 5-A** would prescribe that for a listed entity, when events or conditions are identified, such matters would be reported in the Going Concern section and not in the KAM section of the auditor’s report, so the reference to ISA 701 would no longer apply.

**Matter for IAASB Consideration:**

5. The Board is asked for its views on the GC TF initial proposals for enhancing transparency in the auditor’s report when events or conditions have been identified (no material uncertainty exists) discussed in paragraphs 55-66 above and as reflected in paragraphs 1, 21B and A1, A27B – A27E of **Agenda Item 5-A**.

**Enhanced Informational Content for MURGC Paragraphs in the Auditor’s Report (Material Uncertainty Exists)**

67. The GC TF noted that there was general support from users in the DP and from the other information gathering sources, including from the Auditor Reporting post-implementation review (PIR), for expanding the informational content in the MURGC paragraph. At the same time, stakeholders cautioned against adding more boilerplate statements, length, and complexity to the auditor’s report. Some suggestions included expanding the informational content in MURGC paragraphs to include how the auditor addressed the events or conditions in the audit.
68. The GC TF notes that paragraph 15 of ISA 701 and paragraph A1 of ISA 570 (Revised) explain that a material uncertainty related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern in accordance with ISA 570 (Revised) is by its nature a KAM. As part of the project to revise the Auditor Reporting Standards it was agreed that when a MURGC exists, the implications for the auditor’s report are in accordance with ISA 570 (Revised) and in the KAM section of the auditor’s report a statement is provided that the KAM are those in addition to the matter described in the MURGC section. The GC TF discussed that some respondents questioned if this is appropriate as it could be perceived disproportionate that the MURGC section provides less information relative to communicating KAM and may therefore be perceived by users as having less relative importance.

69. The GC TF is of the view that it would be important to maintain the prominence of the MURGC section in the auditor’s report because it would not be in the public interest to blur the line between additional commentary in a “close call” situation and a MURGC or to confuse users if there is a MURGC or not. Equally it is important that the MURGC section continues to clearly state that a material uncertainty related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern exists and not to undermine such disclosure (e.g., by excessively listing auditor’s procedures which may inadvertently create a perception of a positive resolution of the matter).
70. The GC TF believes that it is in the public interest and a responsive action in relation to the stakeholder feedback from the DP and other information gathering to enhance the informational content of MURGC paragraphs in the auditor’s report in all circumstances (i.e., for audits of all entities). Accordingly, the GC TF proposes new requirements in paragraph 22 of ISA 570 (Revised), as follows (also see paragraph 22 of **Agenda Item 5-A**):
- (a) **For all entities** – provide a statement that as part of the audit of the financial statements, based on the audit evidence obtained the auditor concluded that management’s use of the going concern assumption in the preparation of the financial statements is appropriate.
- (b) **For listed entities** – provide a description how the auditor addressed the events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern in the audit.
71. In forming its view about the applicability of the new requirements, the GC TF considered the matters discussed in paragraphs 45-47 above, and believes that for intended users of audited financial statements of listed entities there is a clear public interest benefit in providing more informational content about the auditor’s work and inclusion of additional commentary about going concern in the auditor’s report.
72. The following provides an example that illustrates the presentation in the auditor’s report:

For audits of all entities:

**Material Uncertainty Related to Going Concern**

- We draw attention to Note XXX in the financial statements, which indicates [...]
- These events or conditions, along with other matters as set forth in Note XXX indicate that a material uncertainty exists that may cast significant doubt on the Company’s ability to continue as a going concern. Our opinion is not modified in respect of this matter.
- As part of our audit of the financial statements, based on the audit evidence obtained we have concluded that management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

For audits of listed entities (only):

- *[Description of how the events or conditions were addressed in the audit].*

73. The GC TF proposes new application material (see paragraphs A27D – A27E of **Agenda Item 5-A**) to support the application of the new requirement that:
- (a) Explains that the amount of detail to be provided in the description how the matter was addressed in the audit is a matter of professional judgment and provides examples of what the auditor may describe (i.e., aspects of the auditor’s response or approach, provide a brief

- overview of the procedures performed, an indication of the outcome of the auditor's procedures, or key observations related to the matter, or some combination of these elements).
- (b) Draws attention that care is necessary for the language used in the description how the events or conditions were addressed in the audit (i.e., relates the description to the specific circumstances of the entity, takes into account the related descriptions in the notes to the financial statements, does not imply discrete opinions on separate elements of the financial statements, and not to obscure that a material uncertainty exists).
74. The GC TF also proposes that extant paragraph A30 of ISA 570 (Revised) is removed, given it would not be necessary because the new proposed requirements in paragraph 22 of **Agenda Item 5-A** would address providing enhanced informational content in the auditor's report about circumstances when a material uncertainty exists that apply to both listed and non-listed entities. In addition, the GC TF believes this will be helpful to alleviate some of the confusion cited by stakeholders regarding the lack of clarity about the interaction between the requirements and guidance in various standards with respect to KAM, MURGC and EOM paragraphs (see paragraph 78 and paragraph 64 of Appendix 1).

**Matter for IAASB Consideration:**

6. The Board is asked for its views on the GC TF initial proposals for enhancing the informational content for MURGC paragraphs in the auditor's report as discussed in paragraphs 67-74 above and as reflected in paragraphs 22 and A27D – A27E of **Agenda Item 5-A**.

*Other Matters*

75. The GC TF intends to further deliberate whether any other:
- Revisions may be necessary for circumstances when the use of the going concern basis of accounting is appropriate and adequate disclosure of a material uncertainty is not made in the financial statements.
  - Clarifications to the scope of the proposed standard may be necessary.
76. **Agenda Item 5-A** does not address the proposed drafting for the illustrative auditor's reports included in the appendix to ISA 570 (Revised). The GC TF is yet to deliberate on the appropriate approach to update the illustrative auditor's reports and whether this would include developing additional illustrations in the proposed standard.
77. As it progresses its work, the GC TF intends to coordinate with other IAASB task forces considering possible actions related to enhanced transparency that may also result in changes to the auditor's report as well as with the Auditor Reporting Consultation Group (ARCG).

**IV. Development of Non-Authoritative Guidance**

*Paragraphs 63-65 of Appendix 1 provide background information relevant to the issues presented below for the non-authoritative guidance.*

*Going Concern Project Proposal – Key Issue*

78. The project proposal included the following key issue (see paragraph 26 (h)(iv)):

### **Transparency About the Auditor’s Responsibilities and Work Related to Going Concern**

- (iv) There is confusion about the “Material Uncertainty Related to Going Concern” section in the auditor’s report and its relationship with key audit matter (KAM) and emphasis of matter (EOM) paragraphs where there are going concern issues, including with respect to “close calls.”

#### *Going Concern Project Proposal – Proposed Actions*

79. The project proposal included the following action (see paragraph 39):

#### **Non-Authoritative Guidance**

Developing non-authoritative guidance for the various auditor reporting requirements where confusion has been cited (e.g., MURGC, vs. KAM vs. EOM). In doing so, liaise with the ARCG.<sup>28</sup>

80. The preliminary timetable outlined in paragraph 45 of the project proposal, proposes to develop the non-authoritative guidance between Q2 of 2022 and Q1 of 2023.

#### *GC TF Initial Views and Recommendations*

##### Format and Approach to Development of the Non-Authoritative Guidance

81. In considering the format of the guidance, the GC TF believes that developing a Questions and Answers (i.e., Frequently Asked Questions – FAQs) type of non-authoritative support material as contemplated by the [Framework for Activities](#) would present an appropriate response as it would enable a timely, effective and targeted response for the matters raised in the feedback.
82. The GC TF acknowledges that the IAASB has already previously developed comprehensive guidance that is relevant to auditor reporting and going concern. In this regard, IAASB Staff identified the following non-authoritative material as relevant:
- *Auditor Reporting on Going Concern*, ARIWG Publication, January 2015.<sup>29</sup>
  - *Going Concern in the Current Evolving Environment – Audit Considerations for the Impact of COVID-19*, Staff Audit Practice Alert, April 2020.<sup>30</sup>
  - *Auditor Reporting in the Current Evolving Environment Due to COVID-19*, Staff Audit Practice Alert, May 2020.<sup>31</sup>

The GC TF is of the view that it would be helpful to refer to this guidance in the FAQs to draw the attention of stakeholders where further comprehensive IAASB implementation material on these topics can be sought as well as to leverage this guidance while developing the narrower focused and targeted FAQs.

83. The GC TF is of the view, that in the interim period, until the proposed revisions to ISA 570 (Revised) become effective, it is in the public interest to develop and issue the FAQs as they would enhance

<sup>28</sup> Previous to October of 2021, the Auditor Reporting Consultation Group (ARCG) was referred to as the Auditor Reporting Implementation Working Group (ARIWG).

<sup>29</sup> See <https://www.ifac.org/system/files/publications/files/Auditor-Reporting-Toolkit-Going-Concern.pdf>

<sup>30</sup> See <https://www.ifac.org/system/files/publications/files/IAASB-Staff-Alert-Going-Concern-April-2020.pdf>

<sup>31</sup> See <https://www.ifac.org/system/files/publications/files/Staff-Alert-Auditor-Reporting-Final.pdf>



the understandability and consistent implementation of the ISAs.

84. Given the FAQs address proposed actions in the project proposal, the GC TF believes it should be designated to follow the development and clearance for issue process laid out in Channel 3 of the Framework for Activities i.e., the GC TF will be involved in the development work and input will be sought from the ARCG, with the involvement of Board Members in the negative clearance of the non-authoritative guidance by the Board.

#### Proposed Content of the FAQs

85. In developing the FAQs, the GC TF is of the view that it is necessary to stay closely aligned to the text of the ISAs thereby avoiding unnecessary interpretations of the standards. This is consistent with the approach outlined for non-authoritative materials in the Framework for Activities. The GC TF is also of the view that the guidance in the FAQs should be succinct and responsive to the specific points made by respondents in the feedback.
86. **Agenda Item 5-B** sets out the Draft FAQs. The FAQs include six topical areas that respond to the points raised by respondents, particularly explaining:
- The purpose of MURGC and KAM sections and EOM paragraphs in the auditor’s report.
  - The applicability of MURGC, KAM and EOM.
  - The implications for the auditor’s opinion and the auditor’s report of MURGC, KAM and EOM.
  - The interrelationship between MURGC, KAM and EOM in the auditor’s report.
  - Going concern matters that may be communicated as a key audit matter in the auditor’s report, when no MURGC exists.
  - Going concern matters that may be reported as an EOM in the auditor’s report, when no MURGC exists.

The FAQs also provide an example that includes a decision-tree to assist the auditor in deciding the relevant ISAs that are applicable when the auditor is reporting on “close call” situations.

#### *Matters to be Further Considered*

87. The proposed action in paragraph 39 of the project proposal also included consideration of developing other non-authoritative guidance in the course of the project, as appropriate. The GC TF will determine the need for further guidance, that may be necessary in this regard for the targeted revisions being proposed in the course of the project.

#### **Matter for IAASB Consideration:**

7. The Board is asked for their views on whether the FAQs as set out in **Agenda Item 5-B** adequately respond to the key issues raised by respondents from the feedback?



### **Part C: Way Forward**

88. Following the June 2022 IAASB meeting, and based on the Board's feedback, the GC TF will continue to discuss the issues included in this Agenda Item. In addition, in September 2022, the GC TF intends to bring to the Board its initial views and recommendations in relation to certain other proposed actions of the project proposal to address key issues such as risk identification and assessment, terminology, management's assessment of going concern, and professional skepticism.
89. The GC TF will continue to liaise with other IAASB task forces, working groups and consultation groups as needed, as well as engage in dialogue with the IASB and other stakeholders in the financial reporting ecosystem as deemed necessary.

## Background Information

### **Part A: Timeline Over Which the Going Concern Assessment is Made**

#### *Relevant Requirements in ISA 570 (Revised)*

##### Period of Management's Assessment

1. Paragraph 13 of ISA 570 (Revised) addresses the requirement for the auditor, in evaluating management's assessment of going concern, to cover the same period as that used by management to make its assessment as required by the applicable financial reporting framework, or by law or regulation if it specifies a longer period. It is also required, that if management's assessment of going concern covers less than twelve months from the date of the financial statements as defined in ISA 560,<sup>32</sup> for the auditor to request management to extend its assessment period to at least twelve months from that date.
2. Paragraph A11 of ISA 570 (Revised) explains that most financial reporting frameworks requiring an explicit management assessment specify the period for which management is required to take into account all available information. Paragraphs A12–A13 provide considerations specific to smaller entities relevant to evaluating management's assessment of going concern.

##### Management Unwilling to Make or Extend Its Assessment

3. Paragraph 24 of ISA 570 (Revised) establishes a requirement for the auditor to consider the implications to the auditor's report if management is unwilling to make or extend its assessment when requested to do so by the auditor. Paragraph A35 provides further guidance for such circumstance and explains that if management is unwilling to extend its assessment when the auditor believes it is necessary to do so, then the auditor considers whether a qualified opinion or a disclaimer of opinion in the auditor's report may be appropriate.

#### *Relevant Requirements in the International Financial Reporting Framework*

4. The following sets out the relevant requirements in the IFRS and the IPSAS in relation to the time period of management's assessment of going concern:
  - (a) Paragraph 26 of IAS 1, *Presentation of Financial Statements*,<sup>33</sup> requires management in assessing whether the going concern assumption is appropriate to take into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the **reporting period**.
  - (b) Paragraph 3.8 of the *IFRS for SMEs* Standard,<sup>34</sup> requires that when assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the **reporting date**.

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<sup>32</sup> ISA 560, paragraph 5(a) defines the date of the financial statements as the date of the end of the latest period covered by the financial statements.

<sup>33</sup> See [IAS 1](#), paragraph 26

<sup>34</sup> See [IFRS for SMEs](#), paragraph 3.8

- (c) Paragraph 39 of IPSAS 1, *Presentation of Financial Statements*,<sup>35</sup> requires those responsible for the preparation of financial statements in assessing whether the going concern assumption is appropriate to take into account all available information about the future, which is at least, but is not limited to, twelve months from the **approval of the financial statements**.
5. In January 2021, the IFRS foundation issued [education material](#) intended to support the consistent application of the requirements in the IFRS that addresses the going concern disclosures. In this material, the IFRS foundation noted that it was recognized that some national regulations require consideration of going concern for twelve months from the date the financial statements are authorized for issue and noted that considering time periods longer than twelve months is not inconsistent with the requirements in IAS 1, which only established a minimum period and not a cap.

#### *Discussion Paper (DP)*

6. The majority of respondents who commented about the timeline for management's assessment of going concern were not supportive of extending the minimum time period beyond twelve months. Respondents commented that as the time period for assessing going concern increases, the assessment becomes less meaningful due to the higher level of uncertainty and difficulty for the auditor to obtain sufficient appropriate audit evidence. However, respondents were supportive of exploring a change in the commencement date of the period of the auditor's evaluation of the twelve months period to be the date the financial statements are approved by management and TCWG or the date the auditor's report is signed, instead of the financial reporting date.
7. From the responses it was noted that 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). 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.
8. Respondents also commented 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.

#### *IAASB CAG Feedback*

9. In March 2022, IAASB CAG noted that certain of the enhancements relating to the timeline over which the going concern assessment is made can only be undertaken in conjunction with revisions to the applicable financial reporting framework because it would not be possible to require the auditor to consider a different period for the assessment than the period considered by management.
10. Representatives also supported that in light of various ongoing uncertainties, for the project to consider actions to address the impact of subsequent events on management's assessment of going concern.

#### *Information Gathering from National Standard Setters (NSS)*

11. In October 2021, a request for information was initiated from NSS about the time period for management's assessment of going concern and the auditor's evaluation thereof, specific to local

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<sup>35</sup> See [IPSAS 1](#), paragraph 39

jurisdictions. The purpose of the request was in response to inputs provided in the DP where some stakeholders noted differences between the time period required under the international financial reporting frameworks and ISA 570 (Revised), as compared to national accounting and auditing requirements in jurisdictions. This included a questionnaire seeking input from NSS about the following:

- The minimum time period for management’s assessment of going concern and the minimum time period for the auditor’s evaluation of management’s assessment of going concern.
- The start date of the minimum time period for management’s assessment of going concern (e.g., end of reporting period, date of the financial statements, etc.) and the start date for the minimum time period for the auditor’s evaluation of management’s assessment of going concern (e.g., end of reporting period, date of auditor’s report, etc.).
- If there are any differential requirements in jurisdictions in the financial reporting frameworks and auditing requirements for listed and non-listed entities.
- Information about the source of the requirements (e.g., legislation, national accounting standards, professional standards, listing rules, or other sources).
- Any other information relevant to jurisdictions that may be useful for the IAASB to consider regarding the time period for management’s assessment of going concern and the auditor’s evaluation thereof.

12. The key responses received from the NSS included the following:

- (a) Jurisdictions consistently require a minimum time period of twelve months (or one year) for the management’s assessment of going concern and the auditor’s evaluation thereof.
- (b) The financial reporting frameworks within jurisdictions often consist of a multi-sector and multi-tier reporting structure whereby different accounting frameworks apply to different types of entities (e.g., for listed, public interest, issuers, private, public, non-for profit and smaller entities). Depending on the type of entity and sector for which the accounting framework applies, there is a variety within, and across jurisdictions in the start of the period of management’s assessment of going concern (e.g., twelve months from: the end of the reporting period, the approval of the financial statements, the balance sheet date, etc.).
- (c) Jurisdictions did not report differentiation in the requirements between listed entities and non-listed entities, but some did note that because of the variations in the start period based upon the applicable financial reporting framework requirements, there may be differences in the auditor’s evaluation within jurisdictions for different types of entities.
- (d) In most jurisdictions, the auditing requirements are closely linked to the time-period set by the applicable financial reporting framework. For example:
  - (i) In the United Kingdom, the national equivalent ISA 570 (Revised) standard<sup>36</sup> as issued by the Financial Reporting Council (FRC) requires that the auditors’ evaluation considers the same period as that used by management to make its assessment, and requires a minimum period of at least twelve months from the date of approval of the financial statements.

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<sup>36</sup> See [ISA UK 570, \*Going Concern\*](#), paragraphs 13-1 and 14-1

- (ii) In USA, the AICPA equivalent going concern auditing standard<sup>37</sup> is also closely linked to the time period set by the applicable financial reporting framework. In cases when the applicable financial reporting framework does not specify the period, then a reasonable period of time is defined as within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued, when applicable).
- (e) In Australia and New Zealand, the national equivalent ISA 570 (Revised) standards<sup>38</sup> prescribe that the required period for the auditor's evaluation may be the same or may differ from that used by management to make its assessment of going concern as required by the applicable financial reporting framework:
  - (i) In Australia, the auditor is required to consider approximately twelve months from the date of the auditor's current report to the expected date of the auditor's report for the next annual reporting date in the case of an annual financial report; or the corresponding reporting period for the following year in the case of an interim financial reporting period.
  - (ii) In New Zealand, the auditor considers approximately twelve months from the date of the auditor's current report.

## **Part B: Transparency About the Auditor's Responsibilities and Work Related to Going Concern**

13. The DP included a question (Question 31(i))<sup>39</sup> seeking input from respondents if they believe more transparency is needed about the auditor's work in relation to going concern in an audit of financial statements. If the response was affirmative the DP posed a follow-on question, seeking input about what additional information is needed and how should this information be communicated (e.g., in communications with TCWG, in the auditor's report, etc.).
14. As shown in the charts below, the majority of respondents supported that more transparency about the auditors work in relation to going concern is needed. Respondents also supported that an appropriate manner to achieve this is through providing additional transparency about going concern, in one or more of the following: in the auditor's report, enhancing the communication with TCWG, with appropriate external parties or suggested other means how this could be achieved.<sup>40</sup>

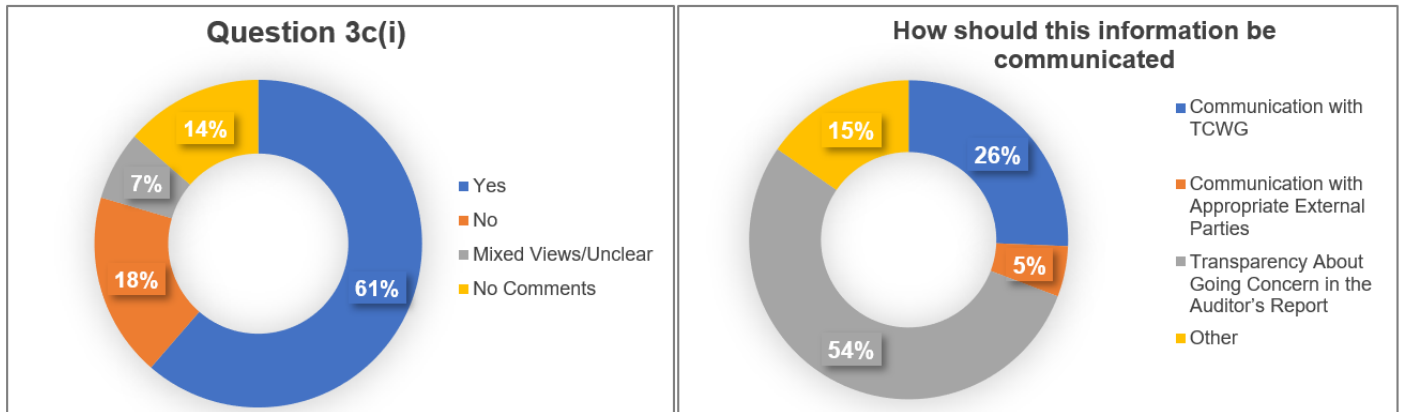
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<sup>37</sup> See AICPA [AU-C Section 570, The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern](#) (for non-issuers).

<sup>38</sup> See the Australian Auditing and Assurance Standards Board (AUASB) [Auditing Standard ASA 570, Going Concern](#) and the External Reporting Board of New Zealand (XRB) [ISA \(NZ\) 570 \(Revised\), Going Concern](#).

<sup>39</sup> See [IAASB May 2021 Agenda Item 5](#) which provide a comprehensive summary of the feedback received in response to the DP and other information gathering and research activities.

<sup>40</sup> Supportive respondents to the question included respondents who were in the following categories: (i) Supportive of enhanced transparency both with TCWG and in the auditor's report, (ii) Supportive of enhanced transparency with TCWG, but not in the auditor's report, (iii) Supportive of enhanced transparency in the auditor's report, but not with TCWG, and (iv) Supportive of enhanced transparency in other areas (e.g., with regulatory authorities).



## I. Communication with Those Charged with Governance (TCWG)

### *Relevant Requirements in ISA 570 (Revised)*

15. Paragraph 25 of ISA 570 (Revised) addresses requirements for the auditor to communicate, unless all of TCWG are involved in managing the entity, events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern. Such communication includes the following:
- Whether the events or conditions constitute a material uncertainty;
  - Whether management's use of the going concern basis of accounting is appropriate in the preparation of the financial statements;
  - The adequacy of related disclosures in the financial statements; and
  - Where applicable, the implications for the auditor's report.

### *Auditor's Communication with TCWG in ISA 260 (Revised)*

16. ISA 260 (Revised) provides an overarching framework for the auditor's communication with TCWG and identifies specific matters to be communicated with them. Additional matters to be communicated, which complement the requirements of ISA 260 (Revised), are identified in other ISAs (see Appendix 1 to ISA 260 (Revised)).
17. Matters to be communicated with TCWG in accordance with ISA 260 (Revised)<sup>41</sup> include:
- The auditor's responsibilities in relation to the financial statement audit;
  - The planned scope and timing of the audit, including significant risks identified by the auditor;
  - Significant findings from the audit; and
  - In the case of listed entities, compliance with relevant ethical requirements regarding auditor independence.
18. The application and other explanatory material include going concern matters that may be communicated to TCWG that are indicative of significant findings from the audit such as:

<sup>41</sup> See ISA 260 (Revised), paragraphs 14-17 and A9-A32.

- A. Management’s unwillingness to make or extend its assessment of the entity’s ability to continue as a going concern when requested to do so by the auditor (paragraph A21 of ISA 260 (Revised)).
  - B. A material uncertainty related to going concern that is reported in accordance with ISA 570 (Revised) (paragraph A24 of ISA 260 (Revised)).
  - C. The issues involved, and related judgments made, in formulating particularly sensitive financial statement disclosures (e.g., disclosures related to going concern). (Appendix 2 of ISA 260 (Revised)).
19. ISA 260 (Revised) also sets out requirements and related application material for the auditor to communicate with TCWG on a timely basis, and for the adequacy of the communication process including to evaluate whether the two-way communication between the auditor and TCWG has been adequate for the purpose of the audit.

*Discussion Paper (DP)*

20. Respondents to the DP commented that the extant communication requirement in ISA 570 (Revised) do not have supporting application material to explain the nature, timing or extent of communication expected and that the requirement is written as a communication of outcomes or conclusions that the auditor has reached after performing audit procedures.
21. Respondents proposed that the requirement should be improved to encourage early transparent dialogue among the auditor, management and TCWG and to enhance two-way communication with TCWG. Suggestions were made to require the auditor to communicate about:
- A. The quality of management’s going concern assessment, including discussion of significant assumptions made in light of the identified events or conditions.
  - B. The procedures the auditor performs to evaluate going concern, and the conclusion reached, including whether the disclosures being made by management are appropriate given the circumstances.
  - C. Discuss with management and, if appropriate, with TCWG if management is reluctant to make or extend its assessment when requested to do so by the auditor.
  - D. When the auditor has determined there is no MURGC, but it was a “close call” and involved significant judgment.
  - E. Indications of potential going concern issues at an “early stage” of the audit.

*IAASB CAG Feedback*

22. In March 2022, IAASB CAG expressed support for strengthening the communications with TCWG about going concern over the course of the project.

**II. Communication with Appropriate External Parties**

*Relevant Requirements in ISA 570 (Revised)*

23. Extant ISA 570 (Revised) does not address requirements for the auditor to communicate with appropriate external parties.

24. Paragraph A34 of ISA 570 (Revised) provides application guidance for communication with regulators. This application guidance explains that when the auditor of a regulated entity considers that it may be necessary to include a reference to going concern matters in the auditor's report, the auditor may have a duty to communicate with the applicable regulatory, enforcement or supervisory authorities.

*Relevant Requirements in Other ISAs*

ISA 250 (Revised)<sup>42</sup>

25. ISA 250 (Revised) sets out requirements and application material for reporting identified or suspected non-compliance with laws and regulations to an appropriate authority outside of the entity.
26. Paragraph 29 of ISA 250 (Revised) prescribes that if the auditor has identified or suspected non-compliance with laws and regulations, it is required for the auditor to determine whether law, regulation or relevant ethical requirements:
- (a) Require the auditor to report to an appropriate authority outside the entity.
  - (b) Establish responsibilities under which reporting to an appropriate authority outside the entity may be appropriate in the circumstances.
27. Paragraphs A28–A34 of ISA 250 (Revised) provide supporting application material that:
- (a) Sets out the reasons why it may be necessary to report to an appropriate authority outside the entity (i.e., as required by law, regulation or relevant ethical requirements, the auditor has determined reporting as an appropriate action to respond to the identified or suspected non-compliance and because law, regulation or relevant ethical requirements provide the auditor with the right to do so).
  - (b) Provides examples, including references to the IESBA Code,<sup>43</sup> and draws attention that in some circumstances, the reporting of identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity may be precluded by the auditor's duty of confidentiality under law, regulation or relevant ethical requirements.
  - (c) Explains that this determination may involve complex considerations and professional judgments and that the auditor may consider consulting internally or on a confidential basis with a regulator or professional body, as well as consider obtaining legal advice.
  - (d) Sets out considerations specific to public sector entities, explaining that a public sector auditor may be obliged to report on identified or suspected non-compliance to the legislature or other governing body or to report them in the auditor's report.

ISA 240<sup>44</sup>

28. ISA 240 sets out requirements and application material for reporting fraud to an appropriate authority outside the entity.

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<sup>42</sup> ISA 250 (Revised), *Considerations of Laws and Regulations in an Audit of Financial Statements*

<sup>43</sup> The International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code)

<sup>44</sup> ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*



29. Paragraph 44 of ISA 240 prescribes that if the auditor has identified or suspects a fraud, it is required for the auditor to determine whether law, regulation or relevant ethical requirements:
- (a) Require the auditor to report to an appropriate authority outside the entity.
  - (b) Establish responsibilities under which reporting to an appropriate authority outside the entity may be appropriate in the circumstances.
30. Paragraphs A6–A69 of ISA 240 provide application material that:
- (a) Draws attention to the guidance in ISA 250 (Revised) for the auditor’s determination whether it is required or appropriate to report to an appropriate authority outside the entity, including consideration of the auditor’s duty of confidentiality.
  - (b) Explains that this determination may involve complex considerations and professional judgments and that the auditor may consider consulting internally or on a confidential basis with a regulator or professional body, as well as consider obtaining legal advice.
  - (c) Sets out considerations specific to public sector entities, explaining that in the public sector auditor requirements for reporting fraud, may be subject to specific provisions of the audit mandate or related law, regulation or other authority.

*Discussion Paper (DP)*

31. Given the increased public expectation regarding the public interest role of the auditor, respondents commented that the auditor should be required to report to an appropriate external authority when the auditor determines it necessary to include either a MURGC paragraph in the auditor’s report or to issue a qualified, adverse or disclaimer of opinion in respect of going concern.

*Initiatives in Other Jurisdictions*

United Kingdom (UK)

32. The UK equivalent ISA 570 (Revised)<sup>45</sup> standard includes a requirement for the auditor to communicate with regulatory and enforcement authorities. The requirement states that when the auditor considers it necessary to include a MURGC paragraph in the auditor’s report, or issue a qualified, adverse or disclaimer of opinion in respect of matters related to going concern, for the auditor to determine whether law, regulation or relevant ethical requirements:
- (a) Require the auditor to report to an appropriate authority outside the entity;
  - (b) Establish responsibilities under which reporting to an appropriate authority outside the entity may be appropriate in the circumstances.
33. The supporting application material to the requirement: <sup>46</sup>
- (a) Draws attention that in those circumstances the auditor may have a duty to communicate with the applicable regulatory, enforcement or supervisory authorities and that in the UK, in such cases the regulatory, enforcement or supervisory authority might specify corrective action to be taken by the entity.

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<sup>45</sup> See [ISA UK 570, Going Concern](#), paragraph 25-1

<sup>46</sup> See [ISA UK 570, Going Concern](#), paragraphs A35-1 – A35-4

- (b) Provides matters that the auditor takes into account in such circumstances (such as views expressed by the regulatory, enforcement or supervisory authority, legal advice obtained by TCWG and actual and planned corrective action).
- (c) Draws attention that the UK equivalent standard of ISA 250 (Revised) Section B<sup>47</sup> requires auditors of public interest entities to report to relevant regulatory, enforcement or supervisory authority any information to alert about a material threat or doubt concerning the continuous functioning of the entity.
- (d) Explains that where the auditor considers that it may be necessary to include MURGC paragraph in the auditor's report or issue a qualified, adverse or disclaimer of opinion in respect of matters related to going concern and which does not give rise to a responsibility under law, regulation or relevant ethical requirements to report to an appropriate authority outside the entity, the auditor still considers whether the matter may be one that ought to be reported in the public interest to an appropriate authority outside the entity and, where this is the case discusses the matter with TCWG.

#### European Union (EU)

34. The EU regulation on specific requirements regarding statutory audit of PIEs<sup>48</sup> includes provisions that require the statutory auditor or the audit firm carrying out the audit of a PIE to report to competent authorities supervising that PIE or to the competent authority responsible for the oversight of the statutory auditor or audit firm, any information that the auditor become aware of while carrying out the audit about:
- Material breaches of laws or regulations;
  - Material threats or doubt concerning the continuous functioning of the PIE; and
  - Refusal to issue an audit opinion on the financial statements or the issuing of an adverse or qualified opinion.

### III. Transparency About Going Concern in the Auditor's Report

#### *Enhancements to ISA 570 (Revised)*

35. When undertaking the project to revise the Auditor Reporting Standards, revisions were made to improve the communications in the auditor's report. This also included revisions to IAASB's going concern standard. The key enhancements made to ISA 570 (Revised) included the following:
- (a) Providing a description of the respective responsibilities of management and the auditor for going concern;
  - (b) Inclusion of a separate section when a material uncertainty exists and is adequately disclosed, under the heading "Material Uncertainty Related to Going Concern"; and
  - (c) Developing a new requirement to evaluate the adequacy of disclosures, in view of the requirements of the applicable financial reporting framework, in situations when events or conditions were identified that may cast significant doubt on the entity's ability to continue as a

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<sup>47</sup> See [ISA UK 250](#), (Revised June 2016), Section B—*The Auditor's Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector*, paragraph 14(a)(ii).

<sup>48</sup> See Article 12 of [EU Regulation No 537/2014](#).

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 (i.e., "close call" situations).

#### *Auditor Reporting Project*

36. In June 2012, as part of the IAASB Auditor Reporting Project, the [Invitation to Comment: Improving the Auditor's Report](#) (ITC) was published. The ITC suggested improvements for making it explicit in the auditor's reports about the auditor's work related to going concern. This included proposing inclusion of two explicit statements relating to:
- The appropriateness of management's use of the going concern assumption in preparing the financial statements, and
  - Whether a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern had been identified.
37. The summary of the responses to the ITC noted the overall support from respondents for enhancing reporting on going concern, however at the same time, there was a diversity of views among various stakeholder constituencies relating to the IAASB's suggested improvements on going concern in the ITC. **Appendix 4** provides a table that was presented to the IAASB in December 2012 depicting the level of support for the proposals for reporting on going concern as included in the ITC focusing on those stakeholders that are primary participants in the financial reporting supply chain.<sup>49</sup>
38. The IAASB agreed to continue to explore enhancements to auditor reporting on going concern as part of the project to revise the Auditor Reporting Standards, however, to further consider the most appropriate way forward and in doing so take into account concerns raised by respondents. With regard to the two explicit statements, the IAASB noted the following:<sup>50</sup>
- Requiring auditors to include an explicit statement about the appropriateness of management's use of the going concern assumption may have little value for many entities, in particular when the entity is in a sound financial position.
  - Regarding the suggestion to include a statement as to whether material uncertainties have been identified, some IAASB members noted that requiring such a statement, without clarification in the accounting standards or disclosure by management, could result in misunderstanding or confusion by users or a widening of the expectation gap.
  - Exception-based reporting may be a more meaningful way to ensure such matters receive the appropriate amount of attention from users. For example, rather than requiring the auditor statement on whether material uncertainties had been identified in all cases, it may be more appropriate to retain the concept of EOM paragraphs to highlight material uncertainties disclosed in the financial statements.
39. As explained further in the Basis for Conclusions: [Reporting On Audited Financial Statements – New and Revised Auditor Reporting Standards and Related Conforming Amendments](#), while the proposed requirements had been subject to extensive consultation by the IAASB, it was ultimately decided not

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<sup>49</sup> The views of other respondents (academics, public sector organizations, member bodies and other professional organizations, and individuals and others) were included in the main paper presented to the IAASB in December 2012.

<sup>50</sup> See the [approved minutes](#) from the IAASB December 2012 meeting.

to include them in ISA 570 (Revised). In reaching this view, the IAASB considered stakeholder views, and decided that:

- Whilst support was expressed by respondents to the proposal, including three members of the Monitoring Group, for inclusion of the explicit statements about going concern in the auditor’s report, many of these respondents were of the view this should only be done as part of a holistic approach to going concern<sup>51</sup>; and
- In many audits, going concern would likely not be an issue; therefore, respondents, including one Monitoring Group member, were in favor of some form of reporting only when an issue related to going concern had been identified (i.e., an “exception-based reporting” approach).

*Public Interest Oversight Board (PIOB)*

40. The PIOB continues to support that it would be in the public interest for auditor’s reports to make explicit reference to going concern. In its April 2022 overview of the [public interest issues](#) related to the IAASB’s projects (as updated on May 6, 2022), the PIOB noted the following related to the transparency in the auditor’s report:

***Explicit reference to Going Concern should be included in the Auditor Report***

...

*The PIOB believes that it would be in the public interest for auditors’ reports to make explicit reference to going concern. The IAASB should explore how this might be implemented. For example, it might require a conclusion as to whether the going concern assumption applied in the preparation of the financial statements under the relevant financial reporting framework was appropriate. The auditor may consider reporting on what work has been done in respect of assessing and concluding about going concern. The IAASB may also consider addressing transparency in the auditor report about “close call” situations.*

...

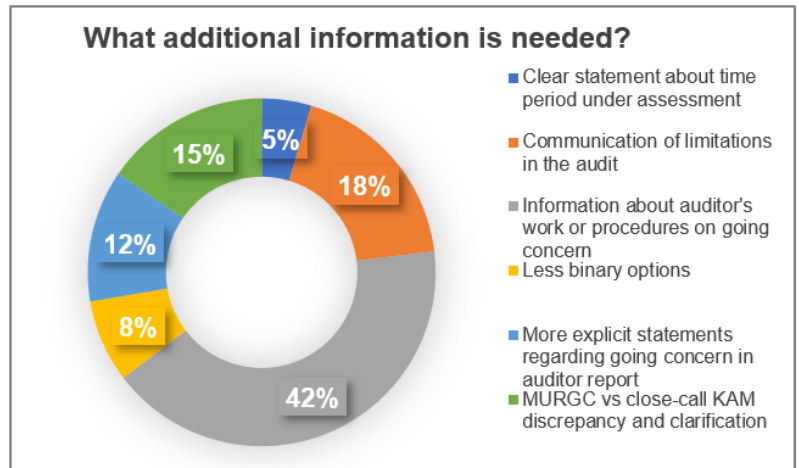
*Discussion Paper (DP)*

41. As discussed in paragraph 14 of this Appendix and depicted in the chart outlining “how should this information be communicated”, 54% of the respondents to the DP (including 3 Monitoring Group respondents) supported enhanced transparency about going concern in the auditor’s report. Notwithstanding the support, upon further analysis, it is noted that there were mixed views among respondents about what additional information is needed to achieve enhanced transparency in the auditor’s report.
42. Respondents, among other suggested that the IAASB should consider:
- Requiring more explicit statements regarding going concern in the auditor’s report.
  - Requiring disclosures in the auditor’s report about management’s going concern assessment that are less binary in nature, for example by providing more information in the auditor’s reports about an entity when its going concern status is in the “no material uncertainty” stage.

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<sup>51</sup> The holistic approach envisaged liaison and coordination with the various accounting standard-setting bodies (including the IASB and other auditing standard-setting bodies) to facilitate consistency in their respective going concern standards as it relates to framework, concepts and definitions.

- 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.
- 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.
- Requiring disclosure of the time period and start date that the going concern assessment covers (see paragraphs 1-12 of this Appendix).
- Including more information in the MURGC paragraphs to align to the extent of reporting with KAM. 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 (Revised) are determined as KAM, the auditor is required to provide more detail around the procedures the auditor performed in the KAM section, than in the MURGC section of the auditor’s report if they had concluded that there was a MURGC.



*IAASB CAG Feedback*

43. In March 2022, IAASB CAG expressed support for enhancing transparency about going concern in the auditor’s report, and specifically highlighted the demands from users for providing more informational content in the MURGC paragraphs as well as to enhance transparency for situations when events or circumstances had been identified but no material uncertainties exist.

*Initiatives in Other Jurisdictions*

United Kingdom (UK)

44. In September 2019, the UK FRC updated their national equivalent standard on going concern which included revisions to improve transparency by inclusion of new reporting requirements for auditors to provide a clear, positive conclusion on whether management’s assessment of going concern is appropriate, and for public interest entities, listed and large private companies to set out the work they have done in this respect.
45. The UK equivalent ISA 570 (Revised)<sup>52</sup> standard prescribes that when the going concern basis of accounting is appropriate and where the auditor concludes that no material uncertainty related to going concern has been identified, auditors are required to include a section in every auditor’s report with the heading "Conclusions Relating to Going Concern" (or other appropriate heading). In this section, the auditor is required to:

<sup>52</sup> See [ISA UK 570, Going Concern](#), paragraph 21-1

- (a) Provide a statement that the auditor has not identified a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorized for issue;
  - (b) Include a conclusion that management's use of the going concern basis of accounting in the preparation of the entity's financial statements is appropriate;
  - (c) Report that the auditor has nothing material to add or draw attention to, in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements (applicable for certain entities that are required or those that choose voluntarily to apply the UK Corporate Governance Code); and
  - (d) Provide an explanation of how the auditor evaluated management's assessment of going concern and, where relevant, provide key observations arising with respect to that evaluation (applicable for public interest entities, listed entities, and other required entities in UK as well as those that choose voluntarily to report on how they have applied the UK Corporate Governance Code).
46. New application material is provided that explains:
- (a) That the amount of detail provided to explain how the auditor evaluated management's assessment of going concern, is a matter of professional judgement and that the auditor may:
    - Describe aspects of the auditor's response or approach that were most relevant to the evaluation of management's assessment.
    - Provide a brief overview of the procedures performed by the auditor.
    - Provide an indication of the outcome of the auditor's procedures.
  - (b) When describing in the auditor's report the auditor's responsibilities relating to management's use of the going concern basis of accounting and the disclosure of material uncertainties, the auditor may choose to include this description either:
    - In the “Conclusions Relating to Going Concern” section of the auditor's report; or
    - In the “Auditor's Responsibilities for the Audit of the Financial Statements” section of the auditor's report,and cross-refer from the respective section as appropriate.

#### Netherlands

47. In December 2021, the Board of the Nederlandse Beroepsorganisatie van Accountants (NBA) approved amendments to the Dutch equivalent ISA 700 (Revised) standard that requires the auditor to report in a separate section titled “Audit Approach to Going Concern” how the auditor has responded to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. Such a section can be integrated and form part of the reporting obligations required by ISA 570 (Revised) or in the KAM section of the auditor's report. Introductory language to the section is required to highlight that the matter was addressed in the context of the audit of the financial statements as a whole, and that the auditor does not provide a separate opinion on the matter.

48. For PIEs, the new requirements are effective for audits of financial statements beginning on or after January 1, 2021 (i.e., 2021 audits). For all other audits in scope, the new requirements will be effective for 2022 audits. The NBA intends to develop implementation guidance and is monitoring the implementation of the new requirements and application material that will be subject to a post implementation assessment following a two-year implementation period.
49. Although not required, the application material to the standard encourages reporting on the outcome of the auditor's procedures or providing key observations. The amount of detail to be provided in the section is considered a matter of professional judgment and may be adapted to the specific circumstances and complexity of the audit.
50. **Agenda Item 5-C** provides examples of sections of the auditor's report related to going concern matters from the United Kingdom and the Netherlands.

#### South Africa

51. In June 2021, the Independent Regulatory Board for Auditors (IRBA) published a consultation document<sup>53</sup> to gather perspectives from stakeholders about the need and options for additional disclosures in the independent auditor's report for an audit of financial statements, including exploring the usefulness, benefits and drawbacks of such additional disclosures.
52. Among other, the consultation document included specific questions for respondents on whether they believe that further disclosures should be provided in the auditor's report in relation to going concern to enhance transparency on:
  - How the auditor evaluated management's assessment of going concern and, where relevant, providing key observations arising with respect to that evaluation.
  - Providing a positive statement on management's use of the going concern basis of accounting in the preparation of the entity's financial statements.
  - Providing information about the auditor's procedures specific to the auditor's response to a MURGC.
  - Inclusion of a statement that the auditor has not identified a material uncertainty related to events or conditions, where the auditor concludes that no material uncertainty exists.
  - Other matters related to going concern that should be disclosed in the auditor's report.
53. The comment period for respondents to the consultation closed in September 2021. The IRBA is currently considering a set of recommendations, subject to approval of the IRBA Board, that could result in new regulations requiring certain recommended disclosures to be provided by auditors in the independent auditor's report for audits of annual financial statements.

#### *"Close Call" Situations*

##### Relevant Disclosure Requirements in IAS 1

54. In 2014, the IASB Interpretations Committee issued an Agenda Decision<sup>54</sup> clarifying the requirements

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<sup>53</sup> See the consultation document "[Enhancing Disclosures in the Auditor's Reports in South Africa: Addressing the Needs of Users of Financial Statements.](#)"

<sup>54</sup> See [IFRIC-Update-July-2014.pdf \(ifrs.org\)](#).



in IAS 1 relating to going concern disclosures in financial statements.

55. The Agenda Decision discusses a situation where management, in considering events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, and after considering all relevant information, including the feasibility and effectiveness of any planned mitigation, concludes that there are no material uncertainties relating to going concern that require disclosure in accordance with paragraph 25 of IAS 1. However, in reaching the conclusion that there was no material uncertainty involved a significant judgement from management (i.e., "close call" situation relevant to management's conclusion).
56. In such a situation, the Agenda Decision highlights that paragraph 122 of IAS 1 would apply to the judgements made in concluding that there remain no material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. In such circumstance, management would be required to disclose along with its significant accounting policies or notes, the judgements (apart from those involving estimations) that have the most significant effect on the amounts recognized in the financial statements.
57. As discussed in paragraph 5 of this Appendix, the IFRS Foundation issued [education material](#) that addresses the going concern disclosures. In this material, it is noted that in cases of "close calls", the requirements in paragraphs 125-133 of IAS 1 relating to sources of estimation uncertainty are another example that is relevant for these situations, especially in cases when there are significant sources of estimation uncertainty. These paragraphs require management to disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in material adjustment to the carrying amounts of assets and liabilities with the next financial year.
58. In its educational material, the IFRS Foundation also noted initiatives in other jurisdictions, such as New Zealand<sup>55</sup> where amendments have been made to their national equivalent IAS 1 accounting standard to specify additional disclosures relating to going concern which draw on the overarching requirements in IAS 1 to explicitly require disclosure of information in the context of the going concern assessment.

#### Relevant Requirements in ISA 570 (Revised) and ISA 701

59. As discussed in paragraph 35 of this Appendix, in the course of the project to revise the Auditor Reporting Standards, the IAASB introduced a new requirement in paragraph 20 of ISA 570 (Revised) for the auditor to evaluate the adequacy of disclosures, in view of the requirements of the applicable financial reporting framework, in 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 (i.e., "close call" situations relevant to the auditor's conclusion).
60. New application material<sup>56</sup> was developed in support of the requirement that also provides guidance on the types of disclosures that may be required by the applicable financial reporting framework for "close call" situations.
61. As explained in the Basis for Conclusions, the IAASB did not propose to require auditor reporting on "close calls" in ISA 570 (Revised). This decision was in response to concerns raised about the auditor

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<sup>55</sup> See [Going Concern Disclosures, \(Amendments To FRS-44\)](#).

<sup>56</sup> See ISA 570 (Revised), paragraphs A24–A25



providing original information about “close calls” related to going concern in the auditor’s report in the absence of related disclosures provided by management in the financial statements.

62. The IAASB agreed that the communication about “close calls” would be included in the KAM section of the auditor’s report for a listed entity only if such matters were determined to be of most significance in the audit that was performed. To respond to concerns about how “close call” KAM may be described in the auditor’s report, the IAASB agreed to include new application material in paragraph A41 of ISA 701 explaining the information to which the auditor may refer in the auditor’s description of the KAM. Paragraph A1 of ISA 570 (Revised) also acknowledged this interaction with ISA 701.

#### **IV. Development of Non-Authoritative Guidance**

##### *Auditor Reporting Post-Implementation Review (PIR)*

63. As part of the information gathering and research activities of the PIR<sup>57</sup> the IAASB published the Auditor Reporting PIR [Stakeholder Survey](#) in July 2020 that focused on the enhancements made to the auditor’s report and, included specific questions related to transparency on going concern in the auditor’s report.
64. There was consistency in the in the messages provided by stakeholders through the information-gathering activities related to going concern and the key findings from the PIR related to the following aspects that were found challenging<sup>58</sup>:
- Lack of clarity with respect to KAM, MURGC and EOM paragraphs in the auditor’s report. Respondents commented that the interaction between the requirements and guidance in various ISAs (e.g., ISA 701, ISA 706 (Revised) and ISA 570 (Revised)), and the interrelationships and differences of the use of KAM, MURGC and EOM, is not always obvious and straightforward.
  - Communication about going concern in “close call” situations. Stakeholder feedback indicated that there is lack of clarity about these situations as well as about the related auditor reporting requirements in the standards.
65. The auditor reporting PIR was concluded in September 2021 when the Board discussed and accepted the final recommendations of the Auditor Reporting Implementation Working Group (ARIWG).<sup>59</sup> The ARIWG was of the view that developing guidance to provide clarity about the challenges outlined above would help further enhance the understanding and consistent implementation of the standards, and concluded that the going concern project is well placed to address these issues and to analyze the root causes of the identified challenges. In its recommendations, the ARIWG (reconstituted as the Auditor Reporting Consultation Group (ARCG)) recommended to provide support and input to the GC TF as it explores further actions related to going concern matters in the auditor’s report as part of its broader focus on enhancing or clarifying ISA 570 (Revised).

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<sup>57</sup> From 2019 to 2021, the IAASB undertook a post-implementation review (PIR), of the new and revised Auditor Reporting Standards to help the IAASB understand whether the revisions made are being consistently understood and implemented, and to help inform considerations of any further possible actions. See the Auditor Reporting Implementation project [page](#) for further information about the PIR.

<sup>58</sup> See [Agenda Item 3](#) that includes the feedback from the Stakeholder Survey and other information gathering activities in relation to the PIR presented to the IAASB at its February 2021 mid-quarter meeting and the Auditor Reporting PIR [Feedback Statement](#).

<sup>59</sup> See [Agenda Item 5](#) that includes the PIR recommendations presented to the IAASB at its September 2021 meeting.

## Extract from the March 2022 IAASB Draft Meeting Minutes for Going Concern

### Going Concern (Agenda Item 2)

#### Decisions

##### *Updates to the Project Proposal for the Revision of ISA 570 (Revised)*<sup>60</sup>

1. The Board agreed to update the Project Proposal for the revision of ISA 570 (Revised) to reflect Board member comments as detailed in [Agenda Item 2-A.2 \(marked\)](#).
2. The following are the substantive comments received and addressed:
  - International Accounting Standards Board (IASB) – Given the importance of the ongoing interaction with the IASB with respect to the financial reporting framework, a number of changes were made to the Project Proposal to elevate and give prominence to the IAASB’s engagement with the IASB.
  - Project Objectives – Changes were made to the lead-in paragraph to the objectives to convey the context in which the project objectives should be considered i.e., the proposed actions, which are focused on the key issues raised by stakeholders, are intended to address the project objectives that support the public interest (see paragraph 18).
  - Transparency About the Auditor’s Responsibilities and Work Related to Going Concern – Changes were made to:
    - The objective in paragraph 19(c) to more closely align with the wording used in the project proposal for the revision of ISA 240<sup>61</sup>, so as not to imply that a definitive outcome has been predetermined in relation to any communication and reporting requirements.
    - The key issues outlined in paragraph 26 (h)(i) and (iii) to reflect that feedback received from the stakeholders, while supportive of enhancing transparency, was mixed in terms of how this would be accomplished.

##### *Approval the Project Proposal for the Revision of ISA 570 (Revised)*

3. After discussing the turn-around version of the Project Proposal and agreeing all necessary further changes, the IAASB voted on and unanimously approved the Project Proposal for the revision of ISA 570 (Revised) with 18 affirmative votes out of the 18 Board members present.

#### Directions

##### *Revision of ISA 570 (Revised)*

4. The Board provided direction for the matters outlined below, to be considered by the Going Concern Task Force as the actions of the project are progressed.

<sup>60</sup> International Standard on Auditing (ISA) 570 (Revised), *Going Concern*

<sup>61</sup> ISA 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*

### *Overarching Matters*

- Not to add additional complexity to the standard that would impact its understandability.
- To focus the attention of practitioners on those areas that are most challenging in practice (e.g., understanding and evaluating management’s assumptions in making their assessment of going concern, including designing and performing effective audit procedures to test those assumptions).

### *Risk Assessment and Identification*

- To build further on the concepts of ISA 315 (Revised 2019),<sup>62</sup> while cautioning that this should not include merely repeating those requirements in the revision of ISA 570 (Revised).
- To consider the need for development of non-authoritative guidance in this area.

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

- To consider educational material issued by the IFRS Foundation in January 2021<sup>63</sup> for addressing going concern disclosures.

### *Information from Sources External to the Entity*

- To consider relevant revisions undertaken by the American Institute of Certified Public Accountants (AICPA) in SAS 132.
- To include examples in application material (e.g., to illustrate good quality external sources of information and how information on sustainability can be useful for the auditor when undertaking work related to going concern).

### *Transparency About the Auditor’s Responsibilities and Work Related to Going Concern*

- To carefully consider how much new information is provided in the auditor’s report to enhance transparency about the auditor’s responsibility and work related to going concern, while cautioning against proposing boilerplate text for the auditor’s report.

### *Other Matters*

- To propose conforming and consequential amendments to the ISA 800-series, as appropriate, or if more substantive changes are needed, to recommend that any proposed revisions to the ISA 800-series be considered as part of the IAASB’s future work plan decisions.

## **Other Substantial Matters**

### *Transparency About the Auditor’s Responsibilities and Work Related to Going Concern*

5. Ms. van Diggelen expressed the PIOB’s view that proposed revisions to communications with those charged with governance (TCWG) and enhanced transparency about going concern in the auditor’s report were necessary. She noted that the insertion of the words “may not be sufficiently” in the key issues in paragraph 26(h) may imply that there was less support for these enhancements from the

<sup>62</sup> ISA 315 (Revised 2019), *Identifying and Assessing the Risk of Material Misstatement*

<sup>63</sup> See [Going concern—a focus on disclosure \(ifrs.org\)](#).

stakeholder feedback.

6. The Going Concern Working Group Chair noted that those changes were made to recognize that there may be robust communications with TCWG that are occurring today, as well as that there are jurisdictions who already have enhanced transparency about going concern in the auditor's report.

*IAASB CAG Chair Remarks*

7. Mr. Dalkin thanked the Board, noting the strong support from Representatives for the project proposal to revise ISA 570 (Revised). He emphasized that in March 2022, Representatives discussed this topic and provided constructive feedback to the IAASB in relation to the going concern project.

*PIOB Observer Remarks*

8. Ms. van Diggelen emphasized the importance of the project to revise ISA 570 (Revised) from the public interest perspective to further drive consistency in auditor behaviors and strengthen robust audit procedures as a basis for enhanced transparency reporting through the auditor report with the aim to narrow the expectation gap. She noted that the auditor should not only be required to assess the reasonableness of management's going concern assessment, but should also develop a clear expectation based on the auditor's own risk identification and assessment of those risks as a basis for the audit procedures. Furthermore there is a need for strengthening the identification of events and conditions, and if these are identified by the auditor, the strengthening of audit procedures to address those, in particular in relation to cash flow forecasts, including scenario testing and the underlying assumptions used by management.
9. Ms. van Diggelen noted the importance of coordination and collaboration with the IASB in the course of the project but encouraged the IAASB to consider actions related to enhancing transparency about going concern irrespective of IASB actions. She encouraged the IAASB to remain open minded with respect to transparency in the auditor's report and questioned whether the principle that the auditor cannot disclose more in the auditor's report than what management has already disclosed in the financial statements in relation to going concern may need to be reconsidered given the existing expectation gap.
10. Ms. van Diggelen also highlighted the importance of the proposed actions with respect to communicating with appropriate external parties, particularly with regulatory authorities, as well as the need for consideration of subsequent events being potential going concern issues in view of the effects of the global pandemic and other ongoing uncertainties which have caused heightened risks.

*Next Steps*

In June 2022, the Going Concern Task Force will discuss and bring to the Board for input certain proposed actions included in the scope of the project proposal.

## Appendix 3

### Going Concern Task Force Members and Update on Activities Since the March 2022 IAASB Meeting

#### GC TF Members

1. The GC TF consists of the following members:
  - Josephine Jackson, Chair
  - Edo Kienhuis
  - Wendy Stevens
  - Isabelle Tracq-Sengeissen
2. Information about the project can be found [here](#).

#### GC TF Activities

3. Since March 2022, the GC TF held 2 virtual meetings and 1 physical meeting over two days.
4. In April 2022, the GC TF Chair met with representatives from the Canadian Public Accountability Board (CPAB) to obtain views and inputs on certain of the proposed actions related to going concern as outlined in the project proposal, and to receive a preliminary update from the second thematic review undertaken by the CPAB to understand how auditors approach their work related to evaluating management's assessment of going concern.
5. In May 2022, a letter was sent by the IAASB Chair to the IASB acknowledging that the IASB had decided not to add to its work plan a project on going concern disclosures.
6. In May 2022, Staff of the IAASB and IPSASB discussed topics of mutual relevance, including receiving an update about the recently added project in the IPSASB 2022 work program to revise IPSAS 1.

#### Coordination with Other Consultation Groups

7. In developing the FAQs with respect to KAM, MURGC and EOM paragraphs in the auditor's report, the GC TF has sought input and views from the ARCG.

**Appendix 4**

**Illustration of Support for Reporting on Going Concern**

1. The IAASB was presented with the table below in December 2012 that intended to depict the level of support for the proposals for reporting on going concern included in the ITC (see [IAASB December 2012 Agenda Item 6B](#)). The table intended to provide a directional steer with regard to the key issues by focusing on those stakeholders that are primary participants in the financial reporting supply chain.
2. In the table below, green indicates support for the concept, yellow indicates mixed views (including balancing support and lack of support from individual respondents within the category), and red indicates an overall lack of support for the concept. Blank boxes indicate that no comments were received.

| Illustration of Support for Reporting on Going Concern                                      | Investors and Analysis | Regulators and Oversight Bodies | National Standard Setters | Accounting Firms – Forum of Firms | Accounting Firms – Regional and Smaller Firms | Those Charged with Governance | Preparers |
|---|------------------------|---------------------------------|---------------------------|-----------------------------------|---|-------------------------------|-----------|
| Support for Reporting on Going Concern <sup>64</sup>  | Green                  | Yellow                          | Yellow                    | Yellow                            | Red   | Yellow                        | Yellow    |
| Reporting on the Appropriateness of Management’s Use of the Going Concern Assumption        | Green                  | Green                           | Yellow                    | Green                             | Red   | Yellow                        | Yellow    |
| Support for Statement on Whether Material Uncertainties Have Been Identified                | Green                  | Yellow                          | Red                       | Yellow                            | Red   | Yellow                        | Red       |
| Support for Audit Commentary <sup>65</sup> on Going Concern                                 | Yellow                 | Red                             | Red                       | Red                               | Red   | Red                           | Red       |
| Need for More Holistic Approach/Improvements to Financial Reporting Framework <sup>66</sup> |                        | Green                           | Green                     | Green                             |   |                               |           |

<sup>64</sup> The “Support for Reporting on Going Concern” category was intended to be an overall summary.

<sup>65</sup> In the ITC, the IAASB proposals for KAM were initially referred to as “Audit Commentary.”

<sup>66</sup> The ITC did not explicitly ask for respondents’ views regarding a more holistic approach to going concern; rather, respondents from these stakeholder groups expressly suggested this as a potential approach that could be undertaken to enable auditor reporting on going concern.