

## Auditor Reporting—Going Concern

### I. Objective

1. To consider the preferred options identified by the Task Force to enhance the communicative value of the auditor's report in relation to Going Concern (GC).

### II. Options Considered by Task Force

2. The Task Force has considered the following five possible options to enhance auditor reporting in relation to going concern:

Option	Nature of Option
1	To require the inclusion in the auditor's report of a generic description of the responsibilities of the auditor under extant ISA 570 <sup>1</sup> and of management regarding GC.
2	To require a conclusion in the auditor's report regarding the auditor's work under extant ISA 570, in addition to a generic description of the responsibilities of management regarding GC.
3	To require the auditor to provide auditor commentary in the auditor's report regarding important matters relating to the entity's ability to continue as a GC.
4	To require the auditor to express an opinion on the entity's future viability.
5	To develop enhanced guidance in the ISAs regarding the use of Emphasis of Matter paragraphs (EOMs) to highlight material uncertainties regarding the GC assumption.

3. Of these, the Task Force recommends IAASB consideration of **Options 2, 3 and 5** as offering the most promise from a value/impediments perspective. Appendix 1 sets out the Task Force's analysis of these options, which are not mutually exclusive. For purposes of discussion, Section III below provides illustrative wordings for inclusion in the auditor's report under Options 2 and 3.
4. Appendix 2 summarizes the Task Force's consideration of Options 1 and 4, including why the Task Force does not favor them from a value/impediments perspective.

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<sup>1</sup> ISA 570, *Going Concern*

### III. Illustrative Wordings

#### **Option 2: Description of Management's and the Auditor's Responsibilities + Auditor's Conclusion**

5. The Task Force has developed the following suggested wording to illustrate how Option 2 could be operationalized, assuming that the entity is clearly a GC:

##### **Going Concern**

[Under *[the applicable financial reporting framework]*, management is responsible for making an assessment of the Company's ability to continue as a going concern.]<sup>2</sup> / [As the going concern assumption is a fundamental principle in the preparation of financial statements, the preparation of the financial statements involves management making an assessment of the Company's ability to continue as a going concern]].<sup>3</sup>

[Under the going concern assumption, the Company is viewed as continuing in business for *[indicate period specified by the applicable financial reporting framework]*. The Company's financial statements are prepared on a going concern basis, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. When the use of the going concern assumption is appropriate, assets and liabilities are recorded on the basis that the Company will be able to realize its assets and discharge its liabilities in the normal course of business.]

As part of our audit of the financial statements, we have concluded that management's use of the going concern assumption in the preparation of the financial statements is appropriate. However, because future events or conditions cannot be predicted, this statement is not a guarantee as to the Company's future viability, nor do we express an opinion or conclusion on such viability.

#### **Option 3: Option 2 + Auditor Commentary**

6. The Task Force has developed the following suggested wordings to illustrate how Option 3 could be operationalized in two different cases:

##### **A. Borderline GC case but no material uncertainty**

##### **Going Concern**

[Description of management's responsibility – same as Option 2]

[Explanation of the GC assumption – same as Option 2]

[Auditor's conclusion on management's use of the GC assumption – same as Option 2]

In this regard, we have reviewed the Company's Cash Flow Forecast for the following year ending December 31, 20X2, which indicates an anticipated inflow of \$XXX million from bank financing during the year and capital expenditure of \$XXX. At the date of our report, the Company was in the process of negotiating, but had not yet secured, this line of credit with its banks. In view of the Company's forecast profitability and its ability to defer a number of planned capital investment projects, [we do not believe that these conditions indicate the existence of a material uncertainty regarding the Company's ability to continue as a going concern].

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<sup>2</sup> This wording used if management has a responsibility under the applicable financial reporting framework to assess the entity's ability to continue as a GC

<sup>3</sup> This wording used if management has no responsibility under the applicable financial reporting framework to assess the entity's ability to continue as a GC

**B. Material uncertainty / EOM**

**Going Concern**

[Description of management’s responsibility – same as Option 2]

[Explanation of the GC assumption – same as Option 2]

[Auditor’s conclusion on management’s use of the GC assumption – same as Option 2]

Without qualifying our opinion, we draw attention to Note X in the financial statements which describes the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern. This indicates that the Company incurred a net loss of ZZZ during the year ended December 31, 20X1 and, as of that date, the Company’s current liabilities exceeded its total assets by YYY. The Cash Flow Statement for the year ended December 31, 20X1 on page xx indicates an inflow of \$XXX million from bank financing during the year. This amount represents the full draw down from the Company’s remaining line of credit with ABC Bank. At the date of our report, the Company was in the process of negotiating, but had not yet secured, new financing from its banks. In addition, the Company was in the process of negotiating the refinancing of bank loans amounting to \$XX million falling due in November 20X2.

**IV. Scope of Application**

7. The Task Force has tentatively concluded that Option 2 and Option 3, Case B above, should apply to audits of all entities. The Task Force believes that more discussion is needed about the use of auditor commentary before it can form a view on whether Option 3, Case A above, should apply to audits of all entities, or audits of listed entities only.

**Matters for IAASB Consideration**

1. The IAASB is asked:
  - (a) To consider the Task Force’s preferred options and the related analyses presented in Appendix 1;
  - (b) For views as to which option(s) should be further pursued by the Task Force for purposes of developing proposals on which to seek stakeholder input on consultation;
  - (c) Subject to Board deliberation of the merits of Options 2 and 3, whether it agrees that Option 2 and Option 3 should apply to audits of all entities.

**Preferred Task Force Options**

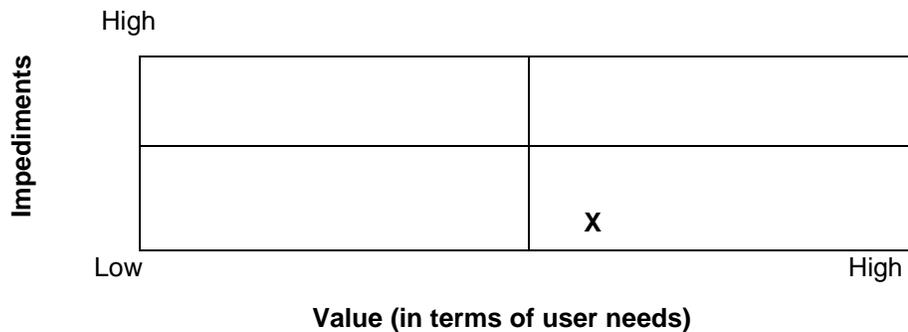
**Option 2**

**A. Nature of Option**

1. This option would require a conclusion in the auditor’s report regarding the auditor’s work under extant ISA 570, in addition to a generic description of the responsibilities management regarding GC.

The considerations below do not address the placement of such a conclusion within the auditor’s report.

**B. Value/Impediments Model**



**Decision-Making Guidelines Scorecard**

#	Guideline	Yes/No	Comments
<b>Value</b>			
1.	Does any proposed additional information to be included in the auditor’s report enhance its communicative value (i.e., does it address the information gap)?	Yes	The value would come from an explicit conclusion about whether management’s use of the GC assumption is appropriate.. However such a conclusion does not go as far as stating that there are no material uncertainties.
2.	Does it enhance transparency about the audit, by better explaining the nature and purpose of an audit, including explaining what an audit is intended to achieve and how it is executed (i.e., does it narrow the expectations gap)?	Yes	Through the description of the respective responsibilities of management and the auditor.
3.	Does the option provide	No	The wording of the conclusion would be

#	Guideline	Yes/No	Comments
	appropriately tailored, rather than additional technical and standardized (i.e., “boilerplate”), language to the extent practicable based on the topic?		prescribed by the ISAs.
<b>Impediments</b>			
4.	Does the proposed action go beyond the current scope of the audit? If so, at what cost and to what extent would changes to other ISAs be needed?	No	It would be a conclusion based on the work effort already required under extant ISA 570.
5.	Can the option be operationalized by auditors?	Yes	<p>Under extant ISA 570 (para 9), there are effectively two conclusions that the auditor has to make:</p> <ul style="list-style-type: none"> <li>• Whether management’s use of the going concern assumption in the preparation of the financial statements is appropriate; and</li> <li>• Based on the audit evidence obtained, whether a material uncertainty exists re GC.</li> </ul> <p>Only the first of these, however, requires the auditor to obtain sufficient appropriate audit evidence and results in positive assurance.</p>
6.	Does the option raise questions about management’s primary responsibility for the financial statements and the auditor’s assurance role?	Perhaps	There may be difficulties in those jurisdictions where management does not have a formal requirement to consider the use of the GC assumption.

**C. Evidence of Demand**

2. The May 2011 IAASB Consultation Paper<sup>4</sup> did not specifically ask for views on the topic of GC. However, a few of the respondents<sup>5</sup> were of the view that there would be benefit in having the auditor express a conclusion along the lines of whether the GC assessment conducted by management was reasonable (i.e., simply articulating the work the auditor is already required to

<sup>4</sup> *Enhancing The Value Of Auditor Reporting: Exploring Options For Change*

<sup>5</sup> ICAS, HEOS (Hermes), CGA Canada (for the detailed names of the respondents, see the list of respondents to the consultation paper in Appendix 1 to the Summary of Significant Consultation Paper Responses for the December 2011 IAASB meeting: [http://www.ifac.org/sites/default/files/meetings/files/20111205-IAASB-Agenda\\_Item\\_5-B-Auditor\\_Reporting\\_Issues\\_Paper-v1-03%20\(3\).pdf](http://www.ifac.org/sites/default/files/meetings/files/20111205-IAASB-Agenda_Item_5-B-Auditor_Reporting_Issues_Paper-v1-03%20(3).pdf))

perform under ISAs), or whether the auditor has anything to report with respect to the auditor's GC assessment.

3. Under the EC proposals, the auditor would be required to provide *“a statement on the situation of the audited entity or, in case of the statutory audit of consolidated financial statements, of the parent undertaking and the group, especially an assessment of the entity's or the parent undertaking's and group's ability to meet its/their obligation in the foreseeable future and therefore continue as a going concern.”*

#### **D. Possible Wording Options for the Auditor's Conclusion**

4. Arguably, ISA 570 requires audit-level, as opposed to limited assurance, work effort with respect to the auditor's GC assessment. Accordingly, such work should support a conclusion expressed in the positive form based on that work. A conclusion expressed in the negative form would incorrectly imply a level of work effort substantially less than that required by ISA 570.

##### *Case A: No Material Uncertainty Exists*

5. Given the premise in paragraph 4 above, possible options for the conclusion might include the following:
  - (a) A conclusion directed at management's use of the GC assumption, based on the first objective under ISA 570 (para 9(a))

As part of our audit of the financial statements, we have concluded that management's use of the going concern assumption in the preparation of the financial statements is appropriate.
  - (b) A conclusion directed at whether there is a material uncertainty, based on the second objective under ISA 570 (para 9(b))

Based on the audit evidence we have obtained, we have identified no *[or “we have not identified any”]* material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern.
  - (c) A combination of (a) and (b), based on the first two objectives under ISA 570 (para 9(a)-(b)), e.g.:
    - (a) As part of our audit of the financial statements, we have concluded that management's use of the going concern assumption in the preparation of the financial statements is appropriate; and
    - (b) Based on the audit evidence we have obtained, we have identified no *[or “we have not identified any”]* material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern.
6. The Task Force has tentatively concluded that Option (a) is the best option as:
  - (a) Management's use of the GC assumption is likely to apply to all financial reporting frameworks (although the words used to describe the responsibility may need to vary);
  - (b) ISA 570 only requires sufficient appropriate audit evidence to be obtained for management's use of the GC assumption; and

- (c) Including both ISA 570 responsibilities (Option (c)) may be difficult for the user to understand.
7. Furthermore, the Task Force believes that there may be merit in trying to explain what use of the GC assumption means.
8. The Task Force also discussed whether a conclusion could be expressed that would be directed at management's process for assessing the entity's ability to continue as a GC, assuming management's assessment would be required by the applicable financial reporting framework or law or regulation. This conclusion would be based on the requirement in ISA 570.12 for the auditor to evaluate management's assessment. Possible wording options include:
- [Based on the audit evidence we have obtained,] management has properly assessed the Company's ability to continue as a going concern.
- Or:
- [Based on the audit evidence we have obtained,] management has properly assessed the Company's ability to continue as a going concern and we have nothing to report in that regard.
- Or:
- [Based on the audit evidence we have obtained,] the process followed by management in assessing the Company's ability to continue as a going concern has been properly applied.
9. However, this option would give rise to a number of non-trivial questions, including:
- Whether there would be a need to describe management's process in the audit report;
  - Whether there would be a need to describe the auditor's work on that process;
  - The criteria to be used when reporting on that process; and
  - Whether work would be required on the relevant controls within that process and, if so, whether that work would be covered by ISA 570.

*Case B: GC Assumption Appropriate but a Material Uncertainty Exists*

10. The Task Force believes that if an EOM paragraph is required, reference to it should be combined with the statement of the auditor's responsibilities and conclusion. Having the EOM in another part of the auditor's report would likely cause confusion.
11. Possible wording options might be as follows:
- (a) Auditor provides full description of the material uncertainty in the auditor's report
- As part of our audit of the financial statements, we have concluded that management's use of the going concern assumption in the preparation of the financial statements, is appropriate. Without qualifying our opinion, however, we draw attention to the existence of the material uncertainty described below that may cast significant doubt about the Company's ability to continue as a going concern.
- [Add description of material uncertainty]*
- (b) Auditor makes reference to management's disclosures in the financial statements regarding the material uncertainty
- As part of our audit of the financial statements, we have concluded that management's use of the going concern assumption in the preparation of the

financial statements, is appropriate. Without qualifying our opinion, however, we draw attention to the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. As disclosed in Note X in the financial statements, the Company incurred a net loss of ZZZ during the year ended December 31, 20X1 and, as of that date, the Company's current liabilities exceeded its total assets by YYY. These conditions, together with the other matters as set forth in Note X, give rise to this material uncertainty.

**E. Going Concern in a Group Context**

12. A further matter that needs to be addressed is the meaning of a conclusion by the auditor on management's use of the GC assumption in an audit of group financial statements. The Task Force anticipates giving this further consideration after the March 2012 IAASB meeting.

### Option 3

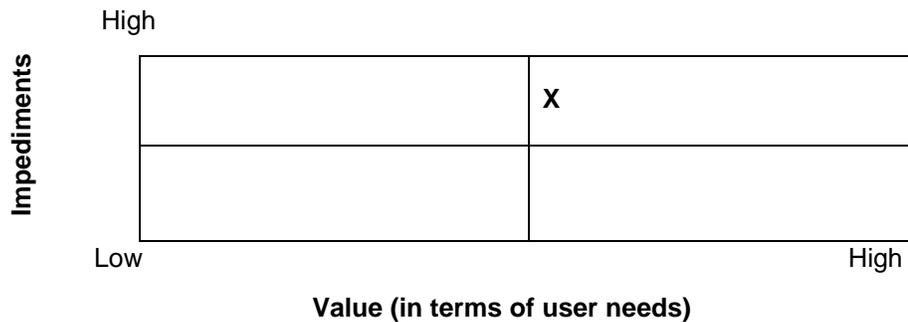
#### A. Nature of Option

13. This option would require the auditor to provide auditor commentary into important matters relating to the entity’s ability to continue as a GC.

This option could be combined with Options 1 or 2.

The considerations below do not address the placement of such auditor commentary within the auditor’s report.

#### B. Value/Impediments Model



14. See discussion under Auditor Commentary (**Agenda Item 4-A**).

#### C. Evidence of Demand

15. The May 2011 IAASB Consultation Paper did not specifically ask for views on the topic of GC. However, some of the respondents<sup>6</sup> were of the view that there would be benefit in having the auditor provide commentary regarding the entity’s ability to continue as a GC. This commentary has been variously described by those respondents as:

- Greater transparency about the audit work and the relevant findings
- Enhanced information on the auditor’s work on the use of the GC assumption
- Considerations in evaluating entities with GC uncertainties, including observations on declining or concentrated cash flows or upcoming material financial obligations
- Information about how risk factors (business risks, strategic risks or operational risks that have a direct bearing on the financial statements, including the entity’s ability to continue as a going concern) were assessed and the overall impact on the financial statements

#### D. Criteria for Auditor Commentary

16. The Task Force has tentatively agreed that having broad criteria for including auditor commentary, linked to areas of audit emphasis, would allow the necessary flexibility for the auditor to tailor the commentary to the engagement-specific risks of material misstatement and the procedures designed to respond to those risks. See **Agenda Item 4-A** for further discussion of these criteria.

<sup>6</sup> ESMA, EBA, Blackrock, CFA

**E. Trigger Point for Auditor Commentary on Going Concern issues**

17. A key consideration for the provision of auditor commentary is determining when the trigger point for such commentary would be reached, having regard to the above criteria. This matter can be considered in the context of four possible GC outcomes:
- (a) The entity has already announced that it is being liquidated.
  - (b) It is abundantly clear that the entity will be a GC for the foreseeable future.
  - (c) A material uncertainty exists regarding the entity's ability to continue as a GC.
  - (d) One or more events or conditions have been identified that may constitute a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern. On the basis of the work performed under ISA 570, however, the auditor concludes that no material uncertainty exists regarding the entity's ability to continue as a GC.
18. In case (a), it is likely that the financial statements will already be prepared on a liquidation basis and all necessary disclosures provided by management. In these circumstances, it is unlikely that there will be any value in the auditor providing commentary on the auditor's work on GC given that the GC basis will no longer be relevant.
19. In case (b), it is unlikely that the auditor will engage in any significant discussion with management regarding management's use of the GC assumption. Accordingly, it is unlikely that there will be a need for auditor commentary on GC.
20. In case (c), the auditor would, under Option 2, express a conclusion that a material uncertainty exists and either describe the material uncertainty in the auditor's report or provide a cross-reference to the notes in the financial statements where management has appropriately disclosed the material uncertainty. While Option 2 would not preclude the provision of further commentary on the material uncertainty by the auditor, the question arises as to whether doing so would add significant communicative value given that the auditor would already have expressed a conclusion that a material uncertainty exists.

In particular, when a material uncertainty exists, ISA 570 already requires the auditor to determine whether the financial statements adequately describe the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans to deal with these events or conditions.<sup>7</sup> Accordingly, it could be argued that requiring the auditor to disclose additional information about the material uncertainty would add to the volume of disclosures without further appreciable benefit. More importantly, requiring the auditor to do so would inappropriately transfer primary responsibility for disclosures from management to the auditor.

Equally, given that the existence of a material uncertainty would be disclosed clearly in both the financial statements and the auditor's report, it could be argued that there would no significant information value in the auditor disclosing *how* the auditor reached a conclusion that such a material uncertainty exists.

Accordingly, in this case, the value of auditor commentary would appear relatively low.

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<sup>7</sup> ISA 570, paragraph 18

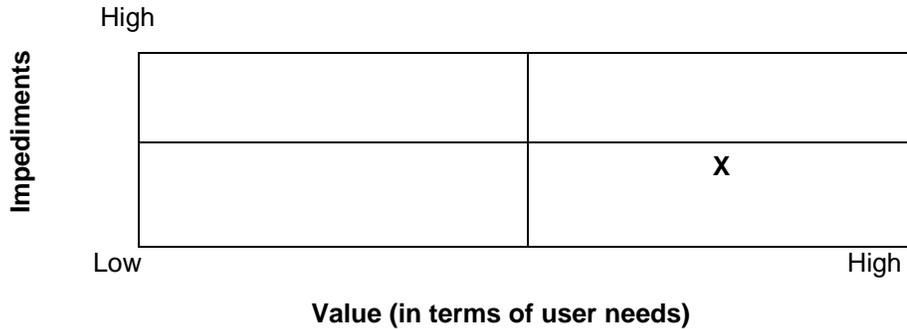
21. In case (d) – the “borderline” case – the auditor will have concluded that there is no material uncertainty regarding the entity as a GC. However, the surrounding circumstances may be of such significance as to trigger, in the auditor’s professional judgment, the need to provide commentary about them in the auditor’s report. Examples of such circumstances, any one of which could be deemed a trigger, could include:
- The evaluation of the available audit evidence was highly judgmental, involving, for example, an assessment of the likelihood of anticipated cash flows materializing in the foreseeable future.
  - The auditor’s conclusion that no material uncertainty exists turned on a critical piece of audit evidence, without which the auditor would have concluded that a material uncertainty exists.
  - Uncertainties relating to upcoming material financial obligations in the near term but beyond the period covered by management’s GC assessment.

### Option 5

**A. Nature of Option**

22. This option would involve developing enhanced guidance in the ISAs regarding the use of EOMs to highlight material uncertainties regarding the GC assumption.

**B. Value/Impediments Model**



**Decision-Making Guidelines Scorecard**

#	Guideline	Yes/No	Comments
<b>Value</b>			
1.	Does any proposed additional information to be included in the auditor's report enhance its communicative value (i.e., does it address the information gap)?	Yes	Through increased use by auditors of EOM paragraphs on GC.
2.	Does it enhance transparency about the audit, by better explaining the nature and purpose of an audit, including explaining what an audit is intended to achieve and how it is executed (i.e., does it narrow the expectations gap)?	No	On its own, this option would provide no explanation of the nature and purpose of an audit.
3.	Does the option provide appropriately tailored, rather than additional technical and standardized (i.e., "boilerplate"), language to the extent practicable based on the topic?	Yes	Although the nature of an EOM paragraph would not change, EOMs do provide entity specific information and under this option there would likely be more of them.

#	Guideline	Yes/No	Comments
<b><i>Impediments</i></b>			
4.	Does the proposed action go beyond the current scope of the audit? If so, at what cost and to what extent would changes to other ISAs be needed?	No	
5.	Can the option be operationalized by auditors?	Perhaps	Developing guidance on this important judgment would be difficult.
6.	Does the option raise questions about management's primary responsibility for the financial statements and the auditor's assurance role?	Perhaps	Management also needs to make this judgment. In order to avoid potential disagreements, it would be desirable if the additional guidance was also issued by IASB. Even then, it would not apply in all jurisdictions.

**C. Evidence of Demand**

23. A few of the respondents<sup>8</sup> to the May 2011 IAASB Consultation Paper were in favor of retaining the current use of EOMs to highlight material uncertainties regarding the entity's ability to continue as a GC. One of the respondents<sup>9</sup> went so far as to suggest that there is no need for amendments to the current requirements in the ISAs. The respondent argued that if there is a perceived need for improvement in current disclosures regarding GC by the entity, then this should be addressed within the financial reporting framework and not through auditing standards.
24. No respondents, however, appear to have suggested that the current requirements and guidance regarding GC EOMs were inadequate.
25. However, some regulators have expressed concern, particularly in the context of the global financial crisis, that auditors have not been sufficiently alerting users to potential GC issues that entities may be facing. In addition, recent academic research that looked at international consistency in auditor reporting behavior based on evidence from the use of going concern EOMs has concluded that there is a degree of inconsistency in the use of EOM paragraphs between countries.<sup>10</sup>
26. The question therefore arises as to whether there is more that could be done to achieve greater use of EOMs around the world and on a more consistent basis.

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<sup>8</sup> FEE and H3C

<sup>9</sup> FEE

<sup>10</sup> *International Consistency in Auditor Reporting Behaviour: Evidence from Going Concern Modifications*, Elizabeth Carson, Roger Simnett and Per Christen Tronnes (not yet published)

**D. Should the Threshold for GC EOMs Be Revisited?**

27. Under ISA 570, the trigger for a GC EOM in the auditor's report is the existence of a material uncertainty relating to an event or condition that may cast significant doubt on the entity's ability to continue as a GC.<sup>11</sup>
28. Paragraph 17 of ISA 570 explains that a material uncertainty exists when the magnitude of its potential impact and likelihood of occurrence is such that, in the auditor's judgment, appropriate disclosure of the nature and implications of the uncertainty is necessary for the fair presentation of the financial statements (under a fair presentation framework), or for the financial statements not to be misleading (under a compliance framework). Under IFRSs and ISA 570, a material uncertainty is linked to events or conditions that may cast *significant doubt* on the entity's ability to continue as a going concern.
29. The question arises as to whether the current threshold of *significant doubt* is being interpreted by auditors as being higher than intended by the ISAs, leading to all but the most critical GC circumstances being filtered out for reporting as EOMs. Consequently, the option exists of exploring whether enhanced guidance could be provided in the ISAs that would result in greater and more consistent use of GC EOMs around the world.
30. Under this option, however, there may be implications regarding consistency with accounting standards, particularly IFRSs, should the guidance in ISAs be amended to achieve the effect of greater and more consistent reporting of GC matters.

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<sup>11</sup> ISA 570, paragraph 19

**Appendix 2**

**Options Considered but Not Favored by the Task Force**

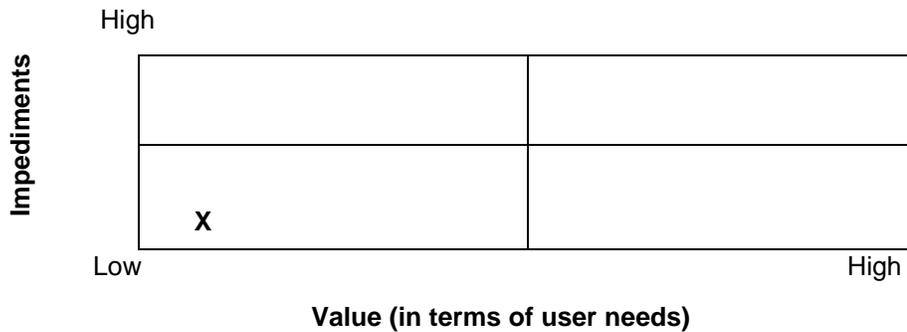
**Option 1**

**A. Nature of Option**

1. This option would require the inclusion in the auditor’s report of a generic description of the responsibilities of the auditor under extant ISA 570 and of management regarding going concern (GC).

The considerations below do not address the location or placement of such wording within or outside of the auditor’s report.

**B. Value/Impediments Model**



**Decision-Making Guidelines Scorecard**

#	Guideline	Yes/No	Comments
<b>Value</b>			
1.	Does any proposed additional information to be included in the auditor’s report enhance its communicative value (i.e., does it address the information gap)?	Yes	But rather limited.
2.	Does it enhance transparency about the audit, by better explaining the nature and purpose of an audit, including explaining what an audit is intended to achieve and how it is executed (i.e., does it narrow the expectations gap)?	Yes	A little.
3.	Does the option provide appropriately tailored, rather than additional technical and standardized (i.e., “boilerplate”), language to the extent practicable	No	A generic description will be boilerplate by definition.

#	Guideline	Yes/No	Comments
	based on the topic?		
<b>Impediments</b>			
4.	Does the proposed action go beyond the current scope of the audit? If so, at what cost and to what extent would changes to other ISAs be needed?	No	
5.	Can the option be operationalized by auditors?	Yes	Wording would be prescribed by the ISAs.
6.	Does the option raise questions about management's primary responsibility for the financial statements and the auditor's assurance role?	Perhaps	Such questions may arise in jurisdictions where management has no obligation under the financial reporting framework, or law or regulation, to assess the entity's ability to continue as a GC.

**C. Evidence of Demand**

2. While the May 2011 IAASB Consultation Paper did not specifically ask for views on the topic of GC, a few of the respondents<sup>12</sup> argued that there may be benefit in expanding the paragraphs addressing the responsibilities of management and the auditor to clarify their respective roles regarding the assessment of the entity's ability to continue as a GC.
3. The Task Force, however, concluded that this option alone would offer little value and should therefore not be pursued on its own.

**D. Possible Wordings – Auditor's Responsibilities**

4. Overall responsibility of the auditor under extant ISA 570:  

As part of our audit of the financial statements, we have performed procedures to obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation of the financial statements.<sup>13</sup>
5. The Task Force did not support outlining the nature and extent of the audit procedures performed.
6. Possible caveat:  

Because future events or conditions cannot be predicted, this statement is not a guarantee as to the Company's future viability, nor do we express an opinion or conclusion on such viability.

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<sup>12</sup> CAASB, IAIS and SAICA

<sup>13</sup> Based on ISA 570, paragraph 6

**E. Possible Wordings – Management’s Responsibilities**

7. Overall responsibility of management:

- (a) Management has an explicit responsibility under the applicable financial reporting framework or law or regulation to make a specific assessment of the entity’s ability to continue as a GC

Under [*the applicable financial reporting framework* or [*specify relevant law or regulation*]], management is responsible for making an assessment of the Company’s ability to continue as a going concern.

- (b) Management has no explicit responsibility under the applicable financial reporting framework or law or regulation to make a specific assessment of the entity’s ability to continue as a GC

As the going concern assumption is a fundamental principle in the preparation of financial statements, the preparation of the financial statements involves management making an assessment of the Company’s ability to continue as a going concern.<sup>14</sup>

**F. Should the GC Assumption and the Term “Material Uncertainty” Be Explained?**

8. A key question is whether an explanation of the GC assumption and the term “material uncertainty” would be needed to accompany more detailed descriptions of the auditor’s and management responsibilities regarding GC.

9. There are no specific definitions in ISA 570. However, paragraph 2 of the standard provides a general explanation of the GC assumption that could be adapted as follows:

Under the going concern assumption, the Company is viewed as continuing in business for [*indicate period specified by the applicable financial reporting framework*]. The Company’s financial statements are prepared on a going concern basis, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. When the use of the going concern assumption is appropriate, assets and liabilities are recorded on the basis that the Company will be able to realize its assets and discharge its liabilities in the normal course of business.

10. Paragraph 17 of the standard also describes when a material uncertainty exists:

A material uncertainty exists when the magnitude of its potential impact and likelihood of occurrence is such that, in the auditor’s judgment, appropriate disclosure of the nature and implications of the uncertainty is necessary for the fair presentation of the financial statements (fair presentation frameworks) or for the financial statements not to be misleading (compliance frameworks).

11. The Task Force, however, recognizes that the GC assumption and the term “material uncertainty” are accounting concepts. Accordingly, there is a question as to whether it would be within the IAASB’s remit to explain to users what these concepts mean.

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<sup>14</sup> Based on ISA 570, paragraph 4

### Option 4

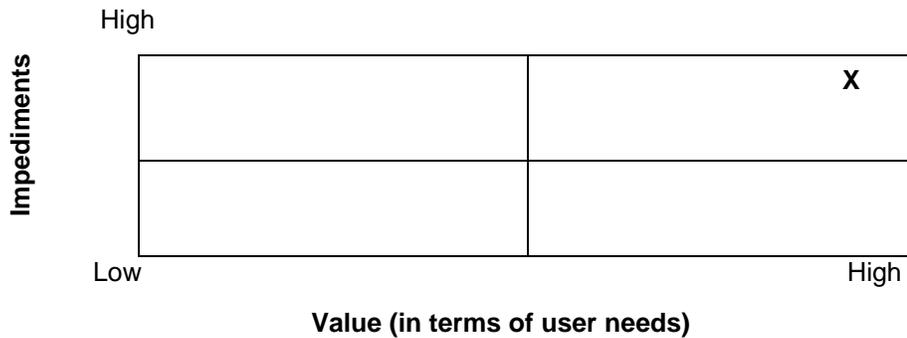
**A. Nature of Option**

12. This option would require the auditor to express an opinion on the entity’s future viability.

This option could be combined with Option 1.

The considerations below do not address the placement of such an opinion within the auditor’s report if it were viable.

**B. Value/Impediments Model**



**Decision-Making Guidelines Scorecard**

#	Guideline	Yes/No	Comments
<i>Value</i>			
1.	Does any proposed additional information to be included in the auditor’s report enhance its communicative value (i.e., does it address the information gap)?	Yes	The value would come from an explicit opinion from the auditor.
2.	Does it enhance transparency about the audit, by better explaining the nature and purpose of an audit, including explaining what an audit is intended to achieve and how it is executed (i.e., does it narrow the expectations gap)?	Yes	This assumes the auditor’s report would include descriptions of the respective responsibilities of management and the auditor.
3.	Does the option provide appropriately tailored, rather than additional technical and standardized (i.e., “boilerplate”), language to the extent practicable based on the	No	The wording of the opinion would be prescribed by professional standards.

#	Guideline	Yes/No	Comments
	topic?		
<b>Impediments</b>			
4.	Does the proposed action go beyond the current scope of the audit? If so, at what cost and to what extent would changes to other ISAs be needed?	Yes	Opining on the future viability of the entity is not currently an objective of the audit.  The work involved to support such an opinion would require work beyond the current scope of the ISAs, as it would involve at the very least reasonable assurance work on forward-looking information extending 12 months from the balance sheet date. Further, such work would likely need to be performed under the ISAE 3000 <sup>15</sup> umbrella.
5.	Can the option be operationalized by auditors?	No	The practicality of forming an opinion on future viability would depend on the wording of the opinion, how viability would be defined, and the criteria against which viability would be measured. However, this option will most likely be difficult to operationalize in practice for a number of reasons, including: <ul style="list-style-type: none"> <li>• The impossibility for the auditor to predict future events or conditions</li> <li>• The difficulty of auditing assumptions, particularly over extended periods of time</li> <li>• The difficulty of evaluating management intent</li> <li>• The liability risk hurdle for firms, notwithstanding any safe harbors that might exist in law or regulation</li> <li>• The fact that management itself may not be required or able to form an opinion on the entity's future viability</li> </ul>
6.	Does the option raise questions about management's primary responsibility for the financial statements and the auditor's	Yes	A responsibility for the auditor to express an opinion on viability would compete with a responsibility for management to assess the appropriateness of the GC assumption under

<sup>15</sup> ISAE 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

#	Guideline	Yes/No	Comments
	assurance role?		the applicable financial reporting framework.

### C. Evidence of Demand

13. Amongst the various responses to the May 2011 IAASB Consultation Paper, none appeared to contain any explicit support or recommendation for an opinion from the auditor on the entity's future viability. One respondent,<sup>16</sup> however, was strongly of the view that the role of the auditor is to address whether the financial statements present a true and fair view of the "financial health" of the entity at the balance sheet date. On the other hand, another respondent<sup>17</sup> was of the view that the aim of the audit is not to provide a guarantee on the financial health of the entity or some form of "early warning system" about the entity's future performance or viability.
14. Therefore, setting aside the question of what "financial health" means, the responses to the consultation paper did not appear to indicate a significant level of demand for an opinion on viability by the auditor.
15. Under the EC proposals, the auditor would be required to provide:
- A statement on the situation of the audited entity or, in case of the statutory audit of consolidated financial statements, of the parent undertaking and the group, especially an assessment of the entity's or the parent undertaking's and group's ability to meet its/their obligation in the foreseeable future and therefore continue as a going concern.
16. The question as to what is truly intended by this proposed requirement is one that would need to be addressed with the EC. Nevertheless, under Article 14.2 of its proposed regulation, the EC does indeed appear to rule out assurance on the future viability of the entity:
- Without prejudice to the reporting requirements as referred to in Articles 22 and 23, the scope of statutory audit shall *not include the assurance on the future viability of the audited entity* nor the efficiency or effectiveness with which the management or administrative body has conducted or will conduct the affairs of the entity. [Emphasis added]

### D. What Might a Reasonable Assurance Opinion on Viability Look Like, and What Type of Work Might It Involve?

17. How an opinion on viability might be worded would largely depend on how the concept of viability would itself be defined and what the underlying subject matter and applicable criteria would be. These are non-trivial issues that would require significant further analysis and consideration.
18. The Task Force is not aware of assurance reports in which practitioners report directly on viability. The Task Force notes that existing standards (e.g. ISAE 3400<sup>18</sup> and UK Standard for Investment Reporting (SIR) 3000<sup>19</sup>) report on financial information and not viability. For information purposes, the ISAE 3400 or SIR 3000 conclusions are noted below.

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<sup>16</sup> ICGN

<sup>17</sup> ESMA

<sup>18</sup> ISAE 3400, *The Examination of Prospective Financial Information*

<sup>19</sup> SIR 3000, *Investment Reporting Standards Applicable to Public Reporting Engagements on Profit Forecasts*

*ISAE 3400*

19. Within the IAASB's suite of standards, ISAE 3400 deals with the examination of, and reporting on, prospective financial information, including the performance of examination procedures for best-estimate and hypothetical assumptions. ISAE 3400 requires in terms of conclusion both of the following:

- (a) A statement of negative assurance as to whether the assumptions provide a reasonable basis for the prospective financial information, e.g.:

Based on our examination of the evidence supporting the assumptions, nothing has come to our attention which causes us to believe that these assumptions do not provide a reasonable basis for the forecast.

- (b) An opinion as to whether the prospective financial information is properly prepared on the basis of the assumptions and is presented in accordance with the relevant financial reporting framework, e.g.:

In our opinion the forecast is properly prepared on the basis of the assumptions and is presented in accordance with *[the applicable financial reporting framework]*.

*SIR 3000*

20. SIR 3000 requires an opinion on the proper compilation of a profit forecast:

... Profit Forecast has been properly compiled on the basis of the assumptions made by the directors and the basis of accounting used is consistent with the accounting policies of ABC Group.