

Meeting: IAASB Consultative Advisory Group (CAG)
Meeting Location: New York, United States of America
Meeting Date: March 7–8, 2023

Agenda Item B

Going Concern – Cover and Report Back

Objectives of Agenda Item

1. The objectives of this Agenda Item are to:
 - (a) Report back on Representatives' comments made at the September 2022 IAASB CAG meeting.
 - (b) Obtain the Representatives' views on the Exposure Draft (ED), Proposed ISA 570 (Revised 202X), *Going Concern*.

Project Status

2. In December 2022, the Going Concern Task Force presented to the Board its initial views and recommendations for the remaining key issues and the related proposed actions identified in the [project proposal](#) for information from sources external to the entity and audit techniques – use of technology. In addition, the IAASB was presented with a first full draft standard and the conforming and consequential amendments to other standards arising from the revision (see [Agenda Item 4](#) presented to the IAASB at its December 2022 quarterly meeting).
3. The **Appendix** to this paper provides a history of previous discussions with the IAASB CAG and the IAASB on this topic, including links to the relevant IAASB CAG documentation.

Way Forward

4. At the IAASB meeting in March 2023, the IAASB will be asked to approve the ED for proposed ISA 570 (Revised 202X), included in **Agenda Item B.2**.

IAASB CAG Discussion in March 2023

5. For purposes of the IAASB CAG discussion in March 2023, the Going Concern Task Force has prepared a presentation (see **Agenda Item B.1**) highlighting the key matters from the ED (see **Agenda Item B.2**).

Matters for IAASB CAG Consideration:

1. Representatives are asked for views on the draft ED presented in **Agenda Item B.2** that will be presented to the IAASB for approval at the March 2023 meeting.
2. Representatives are asked whether there are any other matters the Going Concern Task Force should consider in finalizing the exposure draft of proposed ISA 570 (Revised 202X)?

Report Back

6. Extracts from the September 2022 IAASB CAG meeting minutes relevant to going concern, as well as an indication of how the Going Concern Task Force or the IAASB has responded to the Representatives’ comments, are included in the table below.

Report Back on the September 2022 IAASB CAG Meeting	
Representatives’ Comments	Going Concern Task Force / IAASB Response
OVERALL RESPONSES	
Mses. Vanich, Wei, Blomme, Dr. Cela, Messrs. Hansen, Yoshii and Thompson noted support for the key proposals to date to revise ISA 570 (Revised).	Support noted.
RISK IDENTIFICATION AND ASSESSMENT	
Dr. Cela supported the approach to align the structure of ISA 570 (Revised) with ISA 315 (Revised 2019). ¹	Support noted.
TERMINOLOGY	
Dr. Cela and Ms. McGeachy expressed their support for the proposed enhancements for terminology in proposed ISA 570 (Revised) and for providing a definition of Material Uncertainty (related to going concern).	Support noted.
Mr. Ishiwata and Dr. Cela noted the importance for consistency and alignment of the terminology used in proposed ISA 570 (Revised) with the International Financial Reporting Standards in order to avoid possible confusion should terminology differ. Mr. Ishiwata encouraged the continued dialogue and liaison between the IAASB and the International Accounting Standard Board (IASB) in this regard.	Points noted. Ms. Jackson noted the importance of alignment between terminology used in the financial reporting framework and the auditing standards and acknowledged that these matters will be considered through the continued liaison and engagement with the IASB. In February 2023, the IASB provided the IAASB an update on its ongoing activities and projects. It was noted that, notwithstanding that the IASB did not add a project on going concern as part of its work plan, there has been ongoing engagement and discussion on the topic of going concern.

¹ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

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TIMELINE OVER WHICH THE GOING CONCERN ASSESSMENT IS MADE	
<p>Dr. Cela, Ms. Landell-Mills and Mr. Hansen expressed their support for the proposals for the timeline over which the going concern assessment is made. Ms. Landell-Mills emphasized the importance for the auditor to be able to challenge the reasonableness of the period used by management to make its assessment and to request management to prepare its assessment for a period longer than twelve months. She also noted the importance of management and the auditor engaging in discussions about events or conditions that may adversely affect the entity for periods longer than twelve months in the future, as for example engaging in discussions about climate risks. Mr. Hansen commented that because the date of approval of the financial statements is in most cases closer to the date of the issuance of the financial statements this may also be helpful to reduce the ability of management to manipulate the time periods to suit their own purposes.</p>	<p>Support noted.</p>
<p>Dr. Norberg acknowledged that the proposed change in the commencement date would provide more up-to-date information about going concern and reinforce the period of reliance users have on the entity’s ability to continue as a going concern. However, he questioned whether extending the commencement date of the assessment, would prolong the dating of the auditor’s report. Dr. Norberg encouraged that further consideration is provided about this aspect so that the appropriate balance is achieved.</p>	<p>Point noted.</p> <p>Ms. Jackson noted that the change in the commencement date of management’s assessment is not intended to extend the period which management takes in preparing the financial statements, nor the audit reporting date. It means that when management prepares their assessment, they take into account all available information about the future when preparing the financial, which is at least, but is not limited to, twelve months from the end of the date of approval of the financial statements.</p>
<p>Ms. McGeachy expressed concerns about the proposals for the timeline over which the going concern assessment is made, noting that there should be alignment between the auditor’s and management’s responsibilities in this regard. She</p>	<p>Point noted.</p> <p>Ms. Jackson highlighted that the International Financial Reporting Standards establish a minimum (“at least, but not limited to”) twelve-month period for management’s assessment of</p>

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<p>questioned whether any proposals should be pursued by the IAASB for the timeline, given IASB's decision not to pursue a project on going concern in its work plan.</p>	<p>going concern and therefore provide flexibility for management to extend its period of assessment when considered necessary.</p>
<p>Mr. Ishiwata commented that the period over which management's assessment of going concern is performed should be extended in circumstances when the auditor considers that the period of management's assessment is not reasonable. Mr. Yoshii commented that it would be difficult to change the commencement date of the assessment to the date of approval of financial statement because management plans and strategies are made on a fiscal year basis. They noted that it may be difficult for the auditor to impose such extension on management in practice if not supported by the International Financial Reporting Standards.</p> <p>Ms. Blomme noted that there were mixed views among members of Accountancy Europe regarding the proposed change in the commencement date of the auditor's evaluation of management's assessment from the date of the financial statements to the date of approval of the financial statements. She explained that in some jurisdictions there is support for the proposed change, especially in those jurisdictions that have already adopted a different commencement date of the period of the auditor's evaluation in their national equivalent auditing standards or in law or regulation. Ms. Blomme noted that in other jurisdictions, where there is no legislative requirement, there was concern among members whether the proposals would be practical or enforceable given that management may be unwilling to extend its assessment beyond the minimum twelve months period required by the International Financial Reporting Standards. Ms. Blomme noted that there were concerns expressed about the potential consequences if management did not extend the assessment period. She noted</p>	<p>Points noted.</p> <p>Ms. Jackson emphasized that in those circumstances when management is unwilling to extend its assessment period when requested to do so by the auditor, the proposals include a new requirement to first discuss the matter with management and, where appropriate, those charged with governance (TCWG), before determining the implications for the audit or the auditor's report.</p> <p>This is an important part of the auditor's application of professional skepticism.</p> <p>In addition, the new requirements, and the guidance provided in the supporting application material, enable the auditor to consider whether sufficient appropriate audit evidence has been obtained and issue an unmodified opinion when the circumstances are such that management is able to provide additional information to support the appropriateness of their use of the going concern basis of accounting, even when the period used in their assessment is less than twelve-months from the date of approval of the financial statements.</p>

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Representatives' Comments	Going Concern Task Force / IAASB Response
that members also had mixed views on whether the change in the commencement date should apply only to audits of listed entities or the approach should remain the same for audits of all entities.	
Mses. Blomme and Landell-Mills reflected on the relevance of ongoing uncertainties in the broader political and economic environment giving rise to events or conditions that may heighten going concern risks. Ms. Blomme highlighted rising concerns among practitioners in this regard given the increasing difficulty of using historical (and current) information to predict future events or conditions. Ms. Landell-Mills noted that given these uncertainties in the broader environment, the project on going concern is becoming very relevant and urgent.	Support noted.
COMMUNICATION WITH TCWG	
Mr. Yoshii supported the enhancements proposed for communication with TCWG and noted that it may be useful to also consider emphasizing the responsibility of TCWG for the establishment of the entity's system of internal control over management's assessment of the entity's ability to continue as a going concern.	Point accepted. As part of the proposed revisions, the Going Concern Task Force included strengthened risk assessment and related activities that support the auditor's understanding of how TCWG exercise oversight over management's assessment of the entity's ability to continue as a going concern.
COMMUNICATION WITH APPROPRIATE EXTERNAL PARTIES	
Mr. Yoshii noted his support for the new requirements to communicate with appropriate external parties about going concern but only as a last resort for auditors and in those circumstances when the auditor has a responsibility to report established by jurisdictional law or regulation	Point noted. The new requirement to report going concern matters to an appropriate authority outside of the entity are already conditional on whether law, regulation or relevant ethical requirements require the auditor to report, or establish responsibilities under which reporting to an appropriate authority outside the entity may be appropriate in the circumstances.

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TRANSPARENCY ABOUT GOING CONCERN IN THE AUDITOR'S REPORT	
<p>Ms. Vanich commented that there is a spectrum of circumstances that may occur in practice when no material uncertainty exists that could range from when there is no “close call” to when a “close call” is present. She inquired whether there is an expectation for more information to be provided in the auditor’s report to enhance transparency about going concern in those circumstances when there is a “close call” versus those circumstances when events or conditions were identified but there has been no “close call.”</p>	<p>Point accepted.</p> <p>The Going Concern Task Force revised the requirements that set out the implications to the auditor’s report when the going concern basis of accounting is appropriate and no material uncertainty exists to clarify the applicability of the requirement and not to imply that for an entity other than a listed entity, events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern would not exist. In addition, new application material was included to provide guidance, based on the requirements of the International Financial Reporting Standards, for those circumstances when the auditor would expect management to provide disclosures in the financial statements (e.g., for a “close call” situation) rather than for all circumstances where events or conditions exist that may cast significant doubt on the entity’s ability to continue as a going concern.</p>
<p>Dr. Cela and Ms. Wei supported the proposals to enhance transparency about going concern in the auditor’s report. Ms. Wei emphasized the importance for providing entity specific information thereby avoiding providing boilerplate descriptions in the auditor’s report.</p>	<p>Point accepted.</p> <p>Ms. Jackson explained that application material is provided in the proposed standard that includes guidance to help avoid boilerplate in the descriptions provided as well as to emphasize, for an audit of financial statements of a listed entity, the need to provide entity specific descriptions of how the auditor evaluated management’s assessment in the audit.</p>
<p>Dr. Norberg noted that the information provided by the auditor in the auditor’s report should be mirrored in the disclosures provided by management in the financial statements. A key difficulty for the auditor would be to provide new information to enhance transparency in the auditor’s report that is not already disclosed in the financial statements. He noted that the information</p>	<p>Point accepted.</p> <p>Ms. Jackson acknowledged these aspects noting that they would be further considered while developing proposals for the revision of ISA 570 (Revised).</p> <p>The Going Concern Task Force proposed several changes to the requirements and application</p>

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<p>provided in the auditor's report could become boilerplate, even where there is good intent to be entity specific.</p>	<p>material of the proposed standard to address concerns in this regard, including:</p> <ul style="list-style-type: none"> • Adding new application material setting out guidance in relation to providing original information in the auditor's report; and • Revising the requirement for the auditor to provide a description of how the auditor evaluated management's assessment of going concern, instead of describing how the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern were addressed in the audit. In doing so, the requirement has been refocused on providing a description of matters in the context of the audit to alleviate the risk for the auditor providing original information about events or conditions that are not otherwise required to be disclosed by certain financial reporting frameworks.
<p>Ms. Landell-Mills noted that from an investor's perspective, more information needs to be provided for listed entities in the auditor's report to enhance transparency about going concern. She explained that this should extend beyond the procedures performed by the auditor and should also include the auditor's key observations.</p>	<p>Point noted.</p> <p>The proposed revisions include application guidance encouraging the auditor to provide a description of the key observations with respect to the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.</p>
<p>Mr. Ishiwata commented that the proposed statement that the auditor has not identified any material uncertainties related to events or conditions should be reworded given it may be interpreted by users as the auditor providing absolute assurance, instead of reasonable assurance, over going concern in the auditor's report.</p>	<p>Point noted.</p> <p>This statement is already aligned with the wording used in the Auditor's Responsibilities for the Audit of Financial Statements section of the auditor's report as required by paragraph 39(b)(iv) of ISA 700 (Revised).²</p>
<p>Mr. Yoshii expressed support for the proposed requirements to enhance transparency in the</p>	<p>Point noted</p>

² ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

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<p>auditor's report about going concern and noted that corresponding revisions should also be required by the International Financial Reporting Standards to enhance management's disclosures.</p>	<p>In developing the proposed revisions, the Going Concern Task Force considered the need to remain aligned with the requirements in the International Financial Reporting Standards. In this regard, the Going Concern Task Force considered the IASB Interpretations Committee Agenda Decision³ and the IFRS Foundation education material that clarify and addresses the going concern disclosures in IAS 1, <i>Presentation of Financial Statements</i>.</p>
<p>Ms. McGeachy expressed concern for the proposals for enhanced transparency in the auditor's report as they may cause increased costs that may need to be passed on to audit clients (e.g., for obtaining legal advice in certain circumstances) as well as that the proposals may lead to widening the expectation gap.</p>	<p>Point noted.</p>
<p>INFORMATION FROM SOURCES EXTERNAL TO THE ENTITY</p>	
<p>Mses. Vanich and Landell-Mills and Mr. Hansen noted the importance for the auditor to consider information from sources external to the entity (external information) when evaluating management's assessment of going concern, given the inherent risk of management bias. Ms. Landell-Mills commented that because management is an interested party, there needs to be a presumption of management bias by the auditor when evaluating management's assessment of going concern. Consequently, the auditor needs to demonstrate a robust exercise of professional skepticism.</p>	<p>Points accepted.</p> <p>Ms. Jackson acknowledged these aspects noting that they would be further considered while developing proposals for the revision of ISA 570 (Revised).</p> <p>In this regard, the Going Concern Task Force added new application material to:</p> <ul style="list-style-type: none"> • Recognize that some degree of management bias is inherent in the judgments and assumptions management makes about the future used in its assessment of going concern; and • Emphasize the importance to the auditor of considering information from sources external to the entity when evaluating management's assessment of going concern.

³ See [IFRIC-Update-July-2014.pdf \(ifrs.org\)](#).

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<p>Ms. Vanich commented that when the auditor is evaluating management’s plan for future actions to address identified events or conditions that may cast significant doubt, and management has solely based the plans on information from sources internal to the entity (internal information), obtaining external information is especially important to counterbalance i.e., support or refute, the internal information used in management’s plan.</p>	<p>Point accepted.</p> <p>The Going Concern Task Force has proposed enhancements to the application material to recognize this circumstance by supplementing the examples of auditor’s procedures to evaluate management’s plans for future actions.</p>
<p>Mr. Hansen commented that further clarity would be helpful in the standard when it becomes necessary for the auditor to consider external information (e.g., would this be necessary in all cases or when a “close call” situation is present) and when it is appropriate for the auditor to develop its own expectation (e.g., a comparative to determine whether there is a “close call” situation).</p>	<p>Point accepted.</p> <p>The Going Concern Task Force has proposed enhancements to the standard to address matters relevant to the auditor’s consideration of external information. In addition, new requirements are proposed for the auditor to first discuss with management to understand the effects of events or conditions on management’s assessment that have not been previously identified or disclosed to the auditor, and to determine on this basis whether it is necessary to request management to revise its assessment as well as to design and perform further audit procedures on management’s revised assessment of going concern.</p>
<p>SCALABILITY</p>	
<p>Mr. Ruthman noted that although the going concern basis of accounting is also applicable in the public sector context, the proposals for enhanced transparency in the auditor’s report may not always be relevant for users of public sector auditor’s reports. He explained that in the public sector there may be circumstances when the going concern risk is heightened, while in many other circumstances going concern matters may be straightforward and therefore the public sector perspectives should be more appropriately reflected in the proposed standard. Mr. Ruthman suggested that in the public sector context a</p>	<p>Point noted.</p> <p>Given that listed entities, as defined by the IAASB standards, are not common in the public sector, the differential requirements for the auditor to describe in the auditor’s report how management’s assessment of going concern was evaluated are unlikely to apply to entities that operate in the public sector.</p> <p>Acknowledging the need to address scalability matters in proposed ISA 570 (Revised 202X), including for public sector considerations, the Going Concern Task Force proposed new application material to address that there may be</p>

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possible approach may be to provide enhanced transparency about the auditor's responsibilities related to going concern in the auditor's report instead of providing explicit statements.	additional financial reporting disclosure requirements for public sector entities that may be relevant, for example in certain jurisdictions public sector entities may be required to report on the long-term fiscal sustainability of a public sector entity's finances.
Mr. Thompson expressed his appreciation for the inclusion of scalability considerations in the application material of proposed ISA 570 (Revised) to address both less and more complex circumstances, commensurate to the nature and circumstances of the entity.	Support noted.
OTHER MATTERS	
Ms. Blomme noted the importance of a holistic approach to address going concern matters which would involve liaison and coordination between the auditing and accounting international standard setting bodies. In this context, she noted her disappointment that the IASB had decided not to add to its work plan a project on going concern disclosures.	Point noted. As part of its ongoing engagement with others, the Going Concern Task Force continued to liaise with the IASB and engaged in dialogue with other relevant stakeholders on topics related to going concern that are of mutual relevance.
Mr. Thompson expressed his support for applying the Complexity, Understandability, Scalability and Proportionality (CUSP) Drafting Principles and Guidelines while developing proposed ISA 570 (Revised) and encouraged they be consistently applied across IAASB projects.	Point accepted. Ms. Jackson noted that the CUSP Working Group Chair is also a member of the Going Concern Task Force and acknowledged the member's contributions when drafting revisions to proposed ISA 570 (Revised 202X). In addition, in October and November 2022, an independent review was undertaken to ensure that the CUSP Drafting Principles and Guidelines have been consistently applied in the development of proposed ISA 570 (Revised 202X).

Material Presented – IAASB CAG Papers

Agenda Item B.1

Presentation

Agenda Item B.2

Draft ED, Proposed ISA 570 (Revised 202X)

Material Presented – IAASB CAG Reference Papers

Agenda Item B.3	IAASB Going Concern Issues Paper (December 2022)
Agenda Item B.4	IAASB Going Concern Issues Paper (March 2023)
Agenda Item B.5	Draft Proposed Conforming and Conforming Amendments Arising from the Revision of Proposed ISA 570 (Revised 202X) (March 2023)

Project Details and History

Project: Going Concern

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

Task Force Group Members

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

Summary

	IAASB CAG Meeting	IAASB Meeting
Information Gathering	September 2020 March 2021	August 2020 May 2021
Project Proposal	March 2022	March 2022
Exposure Draft	September 2022	June 2022 September 2022 December 2022

IAASB CAG Discussions: Detailed References

Information Gathering	<u>September 2020</u> See IAASB CAG meeting material (Agenda Item F)
	<u>March 2021</u> See IAASB CAG meeting material (Agenda Item C)
Project Proposal	<u>March 2022</u> See IAASB CAG meeting material (Agenda Item C)
Exposure Draft	<u>September 2022</u> See IAASB CAG meeting material (Agenda Item D)