

Timeline Over Which the Going Concern Assessment is Made

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IAASB Going Concern Video Series

What key changes are proposed relating to the period to be covered by management's going concern assessment?



What's New

- Change in the **commencement date** of the period of management's assessment, which is used as the basis for the auditor's evaluation
- The auditor is required to request management to extend its assessment to at least twelve months from the *date of approval of the financial statements*

Why is the IAASB proposing changing the commencement date of the period of management's assessment?



Period of Management's Assessment

Enables greater comparability and consistency among jurisdictions globally – some jurisdictions have already adopted a similar commencement date

Period of Management's Assessment

Aligns with evolving practice – a different commencement date is often applied in practice, although not required

Period of Management's Assessment

Reinforces the benefit to users of a management's assessment of going concern that includes more current information

**Do these proposals
remain aligned with the
requirements of
recognized financial
reporting frameworks?**



IFRS Accounting Standards

- Consistent with the requirements of IAS 1:
 - Specify a minimum period for which management is required to take into account all available information
 - IAS 1 does not set a cap, so a longer time frame than the minimum period can be considered
- Visit the IFRS Foundation website at ifrs.org for additional educational materials

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Going concern—a focus on disclosure

This document is intended to support the consistent application of requirements in IFRS® Standards

A fundamental decision management has to make in preparing financial statements applying IFRS Standards is whether to prepare them on a going concern basis. In the current stressed economic environment arising from the covid-19 pandemic, many entities have seen a significant downturn in their revenue, profitability and hence liquidity which may raise questions about their ability to continue as a going concern. For such entities deciding whether financial statements are required to be prepared on a going concern basis may therefore involve a greater degree of judgement than is usual.

Most stakeholders are familiar with the specific discussion of going concern and related requirements in IAS 1 *Presentation of Financial Statements* to disclose material uncertainties relating to an entity's ability to continue as a going concern. However, questions raised about going concern in recent months have highlighted the relevance of other 'overarching' disclosure requirements in IAS 1 that interact with the specific going concern requirements. Considering this interaction is an important step in identifying material disclosures required by IFRS Standards; those disclosures are likely to be relevant for users of financial statements. One aspect of this interaction was highlighted in a [2014 Agenda Decision](#) published by the IFRS Interpretations Committee. This document not only recaps the content of that agenda decision but also highlights other possible interactions that might be relevant.

Assessing going concern

When preparing financial statements, whether annual or interim, IAS 1 requires management to assess the entity's ability to continue as a going concern. The Standard defines going concern by explaining that financial statements are prepared on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so.

Paragraph 26 of IAS 1 states that factors that management may need to consider when assessing whether the going concern basis of preparation is appropriate are those factors that relate to the entity's current and expected profitability, the timing of repayment of existing financing facilities and potential sources of replacement financing. In the current stressed economic environment, an entity may be affected by a wider range of factors than in the past. IAS 1 requires management to take into account all available information about the future. Therefore, management may need to consider this wider range of factors before it can conclude whether preparing financial statements on a going concern basis is appropriate. For instance, among the factors management may need to consider are the effects of any temporary shut-down or curtailment of the entity's activities, possible restrictions on activities that might be imposed by governments in the future, the continuing availability of any government support and the effects of longer-term structural changes in the market (such as changes in customer behaviour).

When assessing whether to prepare financial statements on a going concern basis, IAS 1 requires management to look out at least 12 months from the end of the reporting period—but emphasises that the outlook is not limited to 12 months. Some national regulations require consideration of going concern for 12 months from the date that financial statements are authorised for issue. Considering time periods longer than 12 months is not inconsistent with the requirements in IAS 1, which establishes a minimum period, not a cap.

What are the implications if management is unwilling to extend its assessment?



Management Unwilling to Extend Its Assessment

New requirement to discuss with management, or those charged with governance, when appropriate

Management may be able to provide additional information to support the appropriateness of their use of the going concern basis of accounting which the auditor can confirm
(e.g., the entity has profitable operations and no liquidity concerns)

Auditor documents significant judgments related to the appropriateness of the period used by management in its going concern assessment

Public Consultation Now Open!

- Please share your views by August 24, 2023.
- Visit the IAASB website to read the proposed changes and submit a comment letter:

iaasb.org/consultations-projects

Exposure Draft
April 2023
Comments due: August 24, 2023

International Standard on Auditing

Proposed International Standard
on Auditing 570 (Revised 202X)

Going Concern

and

Proposed Conforming and
Consequential Amendments to
Other ISAs

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