

## Going Concern Discussion Memorandum

### I. Objective of Agenda Item

The ASB's Going Concern Task Force (the Task Force) seeks to obtain direction from the ASB regarding whether or when to undertake a project to update AU-C 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* (AU-C 570) considering the International Auditing and Assurance Standards Board (IAASB) active project to make targeted performance and reporting changes to ISA 570 (Revised), *Going Concern* (ISA 570) and the PCAOB's planned standard-setting activity regarding Going Concern. The ASB's Task Force also desires to obtain feedback from the ASB on specific tentative decisions reached by the IAASB thus far.

### II. Going Concern Task Force

- Clay Huffman, *Co-chair*
- Laura Schuetze, *Co-chair*
- Patricia Bottomly
- Marie Brilmyer
- Greg Jenkins
- Andrew Prather
- Jeff Rapaglia
- Tania Sergott

Wendy Stevens serves as a member of the IAASB's Going Concern Task Force. Brian Wilson, with the assistance of Jordyn Joseph, serves as AICPA staff on the Task Force.

### III. Relevant Background

Refer to Appendix A for a background discussion of relevant auditing standard activities pertaining to Going Concern.

To inform the ASB's discussion in October 2022, the Task Force has prepared a comparison of the current tentative sectional changes to ISA 570 (as presented in the agenda materials for the September 2022 IAASB meeting) with the current wording in AU-C 570. Refer to Appendix B of this Issues Paper.

As expressed in the ASB's *Operating Policies*<sup>1</sup>, the ASB has a strategic objective to converge its standards with those of the IAASB. The ASB also considers the standard-setting activities of others such as the U.S. Public Company Accounting Oversight Board (PCAOB). Further, the ASB has established *Convergence Drafting Guidelines*<sup>2</sup> reflecting the ASB's commitment to be an "ISA Base" standard-setter.

Specific to Going Concern, the Task Force believes the ASB can also be informed by other factors as to whether to undertake a project to converge AU-C 570 with the IAASB's current going concern project direction and tentative decisions reached. The Task Force has identified the following factors that may be useful and relevant to a potential ASB going concern project:

1. The differences in the accounting and reporting of going concern for financial statement preparers under U.S. GAAP (which the vast majority of nonissuers use as their financial reporting framework) compared to other financial reporting frameworks such as IFRS,

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<sup>1</sup> Refer to ASB [Operating Policies](#) as of December 2021.

<sup>2</sup> Refer to Appendix B in the ASB's Operating Policies.

2. AU-C 570<sup>3</sup> is relatively new, as well as the auditor's reporting<sup>4</sup> model, which includes responsibilities related to going concern,
3. Cost/benefit considerations weighing convergence with the U.S. public interest and the needs of U.S. practitioners to offer high-quality, objective audit services to nonissuers in an effective and efficient manner,
4. The inconsistency of some results obtained from the ASB's 2022 going concern transparency survey<sup>5</sup> and other outreach conducted compared to the outreach conducted by the IAASB prior to the approval of its March 2022 going concern project proposal; and
5. Limited inspection-related findings associated with practitioners auditing non-issuers regarding going concern (refer to Appendix A below).

#### IV. Analysis

If the ASB were to undertake a project to update AU-C 570 for the changes currently or expected to be proposed by the IAASB (based on the March 2022 Project Proposal and September IAASB meeting agenda materials<sup>6</sup>), the resulting changes to AU-C 570 could potentially include the following:

- Incorporating language from AU-C 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment* and AU-C 540, *Auditing Accounting Estimates and Related Disclosures*.
- Potentially shift the focus from requirements in the applicable Financial Reporting Framework (FRF), when applicable, to an auditing standards framework. For example,
  - The auditing standards would specifically require a set timeframe over which management makes its assessment (such as one year after the date of financial statement approval), even if the applicable FRF addresses the requirements for management's assessment.
  - Updating definitions/terminology (e.g., material uncertainty and substantial doubt).
- Mandating additional elements for the auditor's report, including a separate, explicit conclusion on the entity's use of the going concern basis of accounting.
  - ASB will need to consider incremental auditor report disclosures to be required by the IAASB for listed entities (for example, auditor reporting related to "close calls"), similar to how Key Audit Matters were considered/incorporated into U.S. GAAS.
- Reorganizing the overall design of AU-C 570.
- Significantly expanding application material.

The above list represents current potential changes should the ASB choose to fully converge with the tentative decisions made by the IAASB thus far. The ASB also could create a project that is narrower in scope than the IAASB's project.

#### V. Strategic Options

Currently, the Task Force believes the ASB has three options when considering whether and, if so, how, and when to undertake a project to update AU-C 570 based on the proposed changes identified to date that may be included in the IAASB's exposure draft expected in March 2023 (with final approval expected in June 2024). The Task Force does not have consensus at this time on these options but would like directional input from the ASB. These options are as follows:

<sup>3</sup> Effective for periods ending on or after December 15, 2017.

<sup>4</sup> Effective for periods ending on or after December 15, 2021.

<sup>5</sup> Refer to the October 2022 [Agenda Item 9](#) materials.

<sup>6</sup> IAASB Going Concern [Project Proposal](#) and September 2022 [Issues Discussion](#). Note: The IAASB will be deliberating elements within their project proposal, not yet discussed, through their March 2023 plenary discussion and anticipated exposure draft vote.

*Option 1* – defer undertaking a project to align with ISA 570. Reevaluate when PCAOB issues their proposed standard (per the PCAOB's Standard Setting Agenda, proposal anticipated in 2023).

*Option 2* – undertake a project immediately, issue an exposure draft in May 2023 (1<sup>st</sup> ASB meeting following the IAASB's anticipated ED issuance at its March 2023 meeting). To achieve this timing would require accelerated development of project proposal and review of draft documents at the December 2022 and January 2023 meetings. Depending on PCAOB timing, may not allow for consideration of PCAOB direction prior to issuing ED.

*Option 3* – Wait until IAASB's project is voted as final to undertake a project (IAASB anticipates final issuance in June 2024). Enables consideration of PCAOB direction via their proposal.

Note: these options may have varied amounts of initial-to-ongoing time and effort required of the Task Force and the ASB to achieve outcomes with each option.

#### **Questions for the Board**

1. In considering the background and discussion, including Appendices A and B, what is the Board's *directional* approach (refer to three options above) about a project to update AU-C 570?

*Assuming the ASB chooses to undertake a project in the short or longer term:*

2. How does the ASB's outreach thus far regarding going concern affect the project direction and timeline?
3. What are the ASB's views regarding post-implementation review of extant AU-C 570 or other outreach initiatives that the ASB believe would inform the scope of the project?

*Although not expected to be discussed in detail during the October 2022 ASB meeting, the following are the type of matters the Task Force expects to raise for more detailed discussion and specific ASB input, potentially as early as January 2023. The Task Force may present these and other questions to the ASB in the form of survey questions and/or discussion memorandum items.*

4. The ASB is asked to provide directional feedback on the following topics to assist the Task Force in identifying areas to evaluate for purposes of a project proposal:
  - a. Does the ASB believe it would be beneficial to include more risk assessment procedures/concepts from SAS 145 into AU-C 570?
  - b. Does the ASB believe it would be more appropriate to shift the focus from requirements (e.g., time period for assessment and definitions) in the FRF to requirements in the auditing standard?
  - c. Does the ASB agree with mandating additional elements for the auditor's report, including a separate, explicit conclusion of the entity's use of the going concern basis of accounting?
  - d. Does the ASB agree with requiring auditor reporting when there is a "close call" where management's plans alleviate the substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time?

## Appendix A

### Background

#### ASB activity

In 2015, the ASB undertook a comprehensive project to amend AU-C 570 and align it with the accounting<sup>7</sup> and various auditing standards. In February 2017, the ASB issued SAS No. 132, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*. The resulting SAS 132<sup>8</sup> became effective for audits of financial statements for periods ending on or after December 15, 2017.

SAS 132 was organized in a manner that discussed the auditor's responsibilities when management is required to make a specific evaluation under the applicable financial reporting framework (FRF) and when management is not required to make such an evaluation. The current objectives of AU-C 570 are:

- a. To obtain sufficient appropriate audit evidence regarding, and to conclude on, the appropriateness of management's use of the going concern basis of accounting, when relevant, in the preparation of the financial statements
- b. To conclude, based on the audit evidence obtained, whether substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time exists
- c. To evaluate the possible financial statement effects, including the adequacy of disclosure regarding the entity's ability to continue as a going concern for a reasonable period of time
- d. To report in accordance with this section.

The resulting framework of AU-C 570 begins with the applicable FRF, and the auditor considers management's conclusion in the context of the FRF. If the FRF does not address going concern specifically, AU-C 570 provides certain requirements for the auditor to make their own conclusion regarding the entity's ability to continue as a going concern.

#### Recent ASB and AICPA staff activity

The ASB conducted outreach regarding users' views on going concern and the auditor's responsibility therefor, as well as views on transparency. Refer to October 2022 ASB Agenda Item 9 items for specific discussion. In addition, AICPA staff performed a preliminary analysis of data received from Peer Review, primarily between 2020 and 2021, regarding matters associated with going concern. That analysis revealed limited inspection findings with going concern; however, of the findings identified the two primary matters were (a) the auditor's failure to consider going concern or (b) a lack of documentation to support the auditor's conclusion of going concern. No matters were identified related to auditor's reporting of going concern.

The ASB has not conducted a post-implementation review of AU-C 570 to evaluate the outcomes of the revised requirements.

#### PCAOB activity

At the time the FASB standard became effective, PCAOB issued [Staff Audit Practice Alert](#) (SPA) No. 13, "Matters Related to the Auditor's Consideration of a Company's Ability to Continue as a Going Concern" in September 2014. Currently, the topic of going concern is on the PCAOB's standard-setting schedule with a proposal expected sometime in 2023.

#### IAASB project

This is not the first time the IAASB has addressed going concern in its standards over the years. Historically, the challenge was (and continues to be) the framework under which they establish standards. While the ISAs are generally framework neutral, the IAASB often looks to IFRS as adopted by the IASB, and IFRS is not, in the view of the Task Force, as robust regarding management's accounting, reporting, and disclosure for going concern as U.S. GAAP. Going concern is not currently

<sup>7</sup> FASB Accounting Standards Update (ASU) No. 2014-15, Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern and GASB Statement No. 56, Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards (GASB No. 56).

<sup>8</sup> AU-C section 570 was subsequently amended by SAS No. 134 and No. 136.

on the IASB's standard-setting schedule despite the IAASB strongly urging the IASB to take up such a project and the IASB's own feedback received that going concern was among the higher priority projects the IASB should take up.

The GC task force has been following the IAASB's project and updating the IASTF and ASB accordingly. The IAASB is expected to approve an exposure draft in March 2023. As a result, the Task Force is prepared to obtain specific direction from the ASB regarding whether, and if so, how, and when, the ASB should take up a project to update AU-C 570.

## Appendix B

Comparison of major sections of extant AU-C 570 and proposed ISA 570 (based on September IAASB agenda materials)

### Risk assessment procedures

U.S. GAAS	IAASB September agenda materials
<p><b>.12 When performing risk assessment procedures as required by section 315A, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement, the auditor should consider whether there are conditions or events, considered in the aggregate, that raise substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time. In doing so, the auditor should determine whether management has performed a preliminary evaluation of whether such conditions or events exist:</b></p> <p><b>a. If such an evaluation has been performed, the auditor should discuss the evaluation with management and determine whether management has identified conditions or events that raise substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time and, if so, understand management's plans to address them.</b></p> <p><b>b. If such an evaluation has not yet been performed, the auditor should discuss with management the basis for the intended use of the going concern basis of accounting and inquire of management whether conditions or events exist that raise substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time.</b></p> <p><b>Remaining Alert Throughout the Audit for Audit Evidence About Conditions or Events</b></p> <p><b>.13 The auditor should remain alert throughout the audit for audit evidence of conditions or events that raise substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time.</b></p>	<p>10. In applying ISA 315 (Revised 2019), <i>Identifying and Assessing the Risks of Material Misstatement</i>, the auditor shall design and perform risk assessment procedures to obtain audit evidence that provides an appropriate basis for the identification of events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern.</p> <p><b><i>Obtaining an Understanding of the Entity and Its Environment, the Applicable Financial Reporting Framework and the Entity's System of Internal Control</i><sup>9</sup></b></p> <p>10A. In applying ISA 315 (Revised 2019), the auditor shall perform risk assessment procedures to obtain an understanding of:</p> <p><b>The Entity and Its Environment</b></p> <p>(a) The entity's business model, objectives, strategies and related business risks relevant to identifying events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern.</p> <p>(b) Industry conditions, including the competitive environment, technological developments, and other external factors affecting the entity's financing.</p> <p>(c) The measures used, internally and externally, to assess the entity's financial performance, including forecasts, future cash flows, and management's budgeting processes. (Ref: Para. A6B)</p> <p><b>The Applicable Financial Reporting Framework</b></p> <p>(d) The requirements of the applicable financial reporting framework relating to the going concern basis of accounting, and the related disclosures that are required to be included in the entity's financial statements.</p> <p>(e) The basis for management's intended use of the going concern basis of accounting.</p>

<sup>9</sup> Paragraphs 10A, 11A, and 11B are repetitive to ISA 315(R) with slight tweaks to be specifically related to going concern – a drafting convention recently adopted by the IAASB for other projects, such as estimates and group audits.

U.S. GAAS	IAASB September agenda materials
	<p><b>The Entity's System of Internal Control</b></p> <p>(f) Unless all of those charged with governance are involved in managing the entity, how those charged with governance exercise oversight over management's assessment of the entity's ability to continue as a going concern.</p> <p>(g) The entity's risk assessment process to identify, assess and address business risks relating to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern.</p> <p>(h) How events or conditions that may cast significant doubt on the entity's ability to continue as a going concern are captured, processed and reflected in the entity's information system.</p> <p><b>Remaining Alert Throughout the Audit for New Information about Events or Conditions</b></p> <p>11. The auditor shall remain alert throughout the audit for new information of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.</p> <p><b>Identification and Assessment of the Risks of Material Misstatement Associated with Going Concern</b></p> <p>11A. In applying ISA 315 (Revised 2019), the auditor shall determine whether the audit evidence obtained from risk assessment procedures and related activities indicates the existence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern that management has not previously identified or disclosed to the auditor. (Ref: Para. A7A–A7B)</p> <p><b>Control Deficiencies Within the Entity's System of Internal Control</b></p> <p>11B. In applying ISA 315 (Revised 2019), based on the auditor's evaluation of each of the components of the entity's system of internal control, the auditor shall determine whether one or more control deficiencies in respect of management's assessment of going concern have been identified.</p>

**Management's assessment**

U.S. GAAS	IAASB September agenda materials
<p><b>.14 The auditor's evaluation should</b></p> <p><b>a. address management's evaluation of whether there are conditions or events, considered in the aggregate, that raise substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time.</b></p> <p><b>b. cover the same period as that used by management in its evaluation as required by the applicable financial reporting framework.</b></p> <p><b>c. include consideration of whether management's evaluation includes all relevant information of which the auditor is aware as a result of the audit.</b></p>	<p>12. The auditor shall design and perform audit procedures to evaluate management's assessment of the entity's ability to continue as a going concern, to obtain sufficient appropriate audit evidence:</p> <p>(a) To conclude on the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements; and</p> <p>(b) To determine whether or not 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.</p> <p>12A. The auditor shall design and perform audit procedures to evaluate management's assessment of the entity's ability to continue as a going concern in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory.</p> <p><b>Requesting Management to Make Its Assessment</b></p> <p>12B. Where management has not yet performed an assessment of the entity's ability to continue as a going concern, the auditor shall request management to make its assessment.</p> <p><b>Period of Management's Assessment</b></p> <p>13A. The auditor shall evaluate whether the period used by management to make its assessment is reasonable, based on the nature and circumstances of the entity.</p> <p>13B. The auditor shall request management to extend its assessment period to at least twelve months from the date of approval of the financial statements as defined in ISA 560, <i>Summary Subsequent Events</i> if:</p> <p>(a) Management's assessment of the entity's ability to continue as a going concern covers less than twelve months from that date, or</p> <p>(b) The applicable financial reporting framework does not specify the period to be covered by management's assessment of the entity's ability to continue as a going concern.</p>



**Period beyond management's assessment**

U.S. GAAS	IAASB September agenda materials
<p><b>.15 The auditor should inquire of management regarding its knowledge of conditions or events beyond the period of management's evaluation that may have an effect on the entity's ability to continue as a going concern.</b></p> <p><b>Management Unwilling to Perform or Extend Its Evaluation</b></p> <p><b>.27 If management is unwilling to perform or extend its evaluation to meet the period of time required by the applicable financial reporting framework when requested to do so by the auditor, the auditor should consider the implications for the auditor's report.</b></p>	<p>13C. The auditor shall inquire of management as to its knowledge of events or conditions beyond the period of management's assessment that may cast significant doubt on the entity's ability to continue as a going concern.</p> <p><b>Management Unwilling to Make or Extend Its Assessment</b></p> <p>14A. If management is unwilling to make or extend its assessment when requested to do so by the auditor, the auditor shall:</p> <p>(a) Discuss the matter with management, and if appropriate, with those charged with governance.</p> <p>(b) Determine the implications for the audit or the auditor's opinion in accordance with ISA 705 (Revised), <i>Modifications to the Opinion in the Auditor's Report</i>.</p>

**Communications with TCWG and other parties**

U.S. GAAS	IAASB September agenda materials
<p><b>.28 Unless all those charged with governance are involved in managing the entity, 7 the auditor should communicate with those charged with governance regarding conditions and events, considered in the aggregate, that raise substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time. Such communication with those charged with governance should include the following:</b></p> <p><b>a. Whether the conditions or events, considered in the aggregate, that raise substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time constitute substantial doubt</b></p> <p><b>b. The auditor's consideration of management's plans</b></p> <p><b>c. Whether management's use of the going concern basis of accounting, when relevant, is appropriate in the preparation of the financial statements</b></p> <p><b>d. The adequacy of related disclosures in the financial statements</b></p> <p><b>e. The implications for the auditor's report</b></p>	<p>25. Unless all those charged with governance are involved in managing the entity, the auditor shall communicate with those charged with governance events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern. Such communication with those charged with governance shall include the following: (Ref: Para. A36A–A36C)</p> <p>(a) Whether the events or conditions constitute a material uncertainty;</p> <p>(b) Whether management's use of the going concern basis of accounting is appropriate in the preparation of the financial statements;</p> <p>(c) An overview of the audit procedures performed and the basis for the auditor's conclusions, including the consideration of management's plans for future actions;</p> <p>(d) The adequacy of related disclosures in the financial statements, including disclosures that describe the significant judgments made by management and the adequacy of the mitigating factors in management's plans that are of significance to overcoming the adverse effects of the events or conditions;</p>

U.S. GAAS	IAASB September agenda materials
	<p>(e) When applicable, management's unwillingness to make or extend its assessment of the entity's ability to continue as a going concern when requested; and</p> <p>(f) When applicable, the implications for the audit or the auditor's report.</p> <p>25A. When the auditor considers it necessary to include a "Material Uncertainty Related to Going Concern" paragraph in the auditor's report, or issue a modified opinion in respect of matters related to going concern, the auditor shall determine whether law, regulation or relevant ethical requirements: (Ref: Para. A37A–A37D)</p> <p>(a) Require the auditor to report to an appropriate authority outside the entity.</p> <p>(b) Establish responsibilities under which reporting to an appropriate authority outside the entity may be appropriate in the circumstances.</p>

**Auditor reporting / implications on audit report**

Circumstance(s)	U.S. GAAS	September IAASB materials
<b>Use of GC basis is inappropriate</b>	Adverse opinion	Adverse opinion
<b>Use of GC basis appropriate – no events/conditions identified</b>	No specific required report element regarding the auditor's conclusion	Separate report section called "Going Concern" that explicitly gives conclusion that GC basis of accounting is appropriate, and no material uncertainties were identified
<b>Use of GC basis appropriate – conditions/events identified and substantial doubt alleviated by management's plans ("close call")</b>	No required report element regarding the auditor's conclusion (EOM paragraph could be added at auditor's discretion)	<p><i>For audits of listed entities:</i> separate section called "Going Concern" that refers to footnote and describes how events/conditions cast significant doubt</p> <p><i>For audits of nonlisted entities:</i> No incremental required report element</p>
<b>Use of GC basis appropriate – conditions/events (material uncertainty) identified; substantial doubt not alleviated</b>	<p><i>Adequate disclosure:</i> separate section entitled "Substantial Doubt About the Entity's Ability to Continue as a Going Concern"</p> <p><i>Disclosure not adequate:</i> qualified or adverse opinion; basis</p>	<p><i>Adequate disclosure:</i> separate section called "Material Uncertainty Related to Going Concern." <i>For listed entities,</i> describe how events/conditions were addressed in the audit</p> <p><i>Disclosure not adequate:</i> qualified or adverse opinion; basis section states material uncertainty exists</p>

Circumstance(s)	U.S. GAAS	September IAASB materials
	section states substantial doubt exists	