



Smart decisions. Lasting value.

2020 EMEA International Accounting & Audit Update

Day 2 – Auditing Standards
8 July 2020

Going Concern

Speakers



Anton Schmid

Partner
Austria



David Chitty

International
A&A Director
UK



Smart decisions. Lasting value.

ISA 570 (revised)

Guidance in face of COVID - 19

Dr. Anton Schmidl
8 July 2020

ISA 570

- Factors like the geographic area of operations, the financial health of customers and suppliers, the financial liquidity and solvency of the entity etc. have impact on the ability of an entity to continue as a going concern.
- The uncertainty and economic disruption arising from the COVID-19 situation has significantly increased the risk of business failure and going concern becomes a critical issue also in businesses where it might never previously have been an issue.
- This presentation is intended to clearly present the logic of ISA 570 in face of COVID-19.



Risk Assessment



Risk response



Audit conclusion

Instruction



- ISA 570.1 Scope of this ISA



- ISA 570.2 Going Concern Basis of Accounting



- ISA 570.3-5 Responsibility for Assessment of the Entity's Ability to Continue as a Going Concern



- ISA 570.6-7 Responsibility of the Auditor



- ISA 570.8 Effective Date



- ISA 570.9 Objectives

Structure and process of ISA 570

- **ISA 570.2 and .A2: Going Concern Basis of Accounting**
 - Foreseeable future, ordinary business (unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so)

Structure and process of ISA 570

- **ISA 570.3-5: Responsibility for Assessment of the Entity's Ability to Continue as a Going Concern**
 - Requirement for management to make a specific assessment of the entity's ability to continue as a going concern
 - Assessment involves making a judgment at a particular point in time, about inherently uncertain future outcomes, events or conditions
 - Period (uncertainty increases significantly the further into the future, requirement of the financial reporting framework)
 - Proportionality (size, complexity – crisis orientation)

Structure and process of ISA 570

- **ISA 570.6-7: Responsibilities of the Auditor**
 - Obtain sufficient appropriate audit evidence
 - Conclude whether a material uncertainty exists
 - The audit cannot be seen as a guarantee for going concern
- **ISA 570.8: Effective Date**
 - Audits of financial statements for periods ending on or after December 15, 2016

Structure and process of ISA 570

- **ISA 570.9. Objectives**

- To obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements,
- To conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; and
- To report in accordance with this ISA.

Requirements



- ISA 570.10-15 Risk Assessment



- ISA 570.16 Risk Response



- ISA 570.17-18 Auditor Conclusions



- ISA 570.19-20 Adequacy of Disclosures in Financial Statements



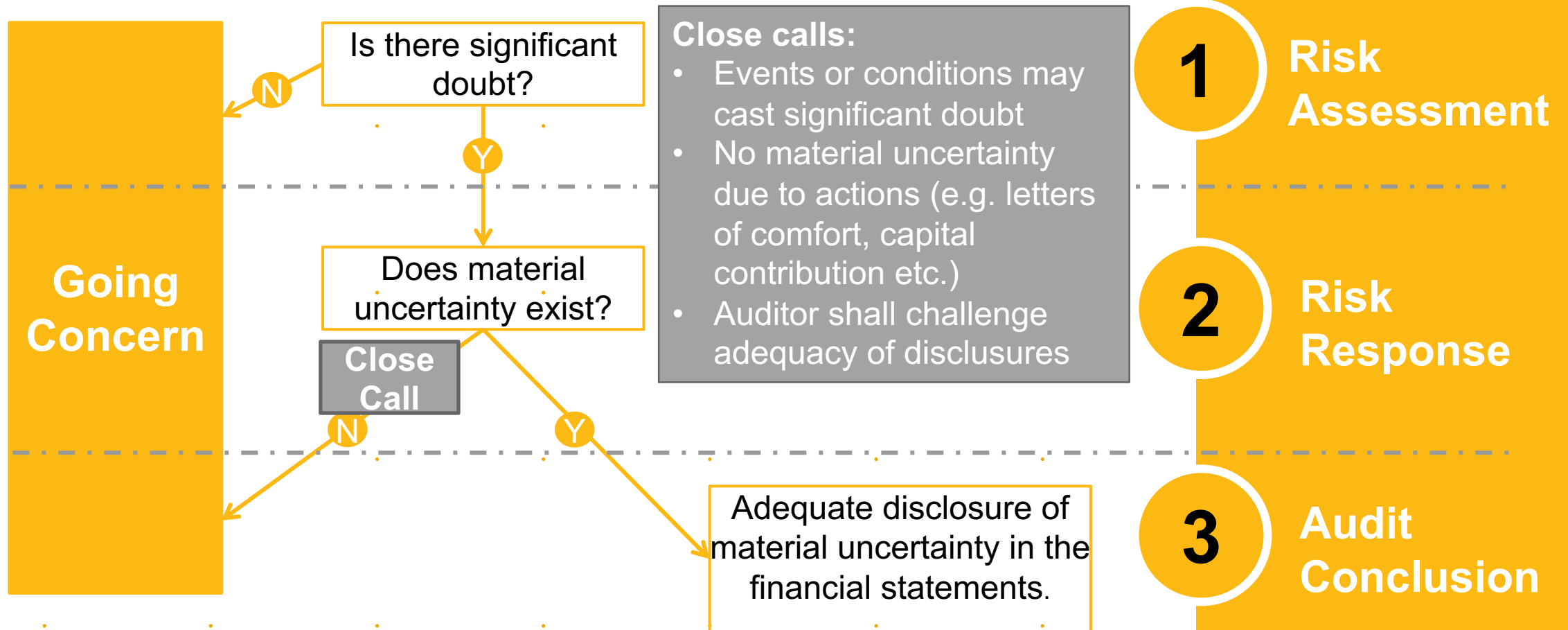
- ISA 570.21-24 Implications for the Auditor's Report



- ISA 570.25 Communication

Structure and process ISA 570

Risk response



Structure and process ISA 570: *Risk assessment*

- **ISA 570.10-11 and .A3-A7: Risk Assessment Procedures and Related Activities**
 - Has management already performed a preliminary assessment?
 - Yes: Is there significant doubt? How to address it?
 - No: Discuss with management the basis for the intended use of the going concern principle of accounting
 - Professional skepticism



Structure and process ISA 570: *Risk assessment*

- COVID-19 might result in significant increase in both volume and severity of events and conditions that may cast significant doubt on the entity's ability to continue as a going concern.
- Change in audit planning taking into account new risks arising from COVID-19 situation
- **This does not necessarily mean that a material uncertainty automatically exists – it will rather depend on the nature and circumstances of the entity.**



Structure and process ISA 570: *Risk assessment*

- Examples of events or conditions that may exist as a result of COVID-19:
 - Loss of major market, key customers, revenues, labour shortages
 - Significant deterioration in the value of assets used to generate cash flows of current assets (inventory)
 - Delay in the launch of new products or services
 - Foreign exchange fluctuations
 - Measurements affected by increased uncertainty
 - Counterparty credit risk
 - The entity's solvency



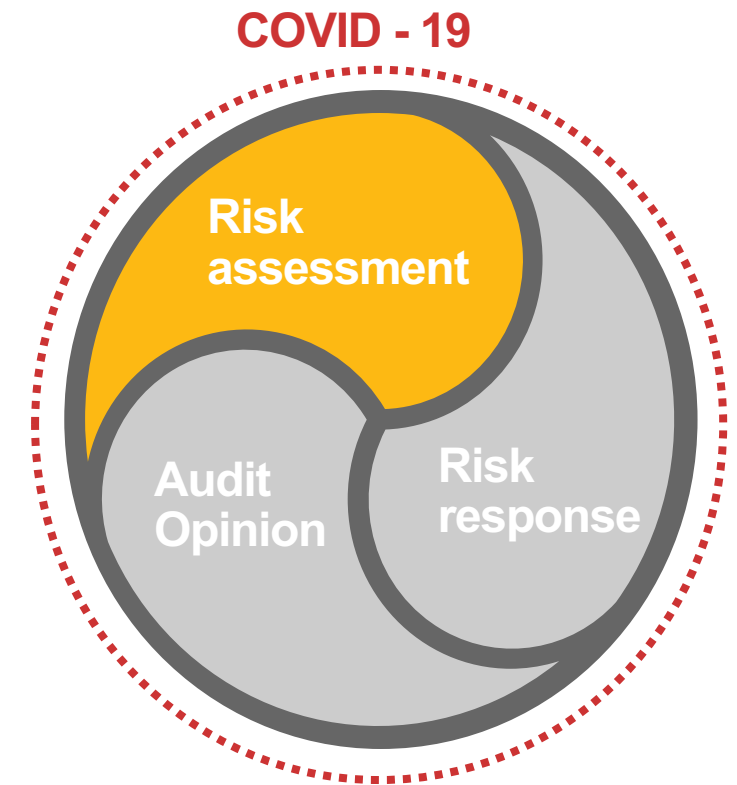
Structure and process ISA 570: *Risk assessment*

- Management's going concern assessment involves making a judgment, at a particular point in time, about inherently uncertain future outcomes of events or conditions.
- Related to COVID-19 an update of the budget or a new budget including liquidity planning will be necessary.
- Internal measures (such as short-time work, deferral of repayments, bridging loans, etc) or external measures (such as grants, guarantees, etc) will also have to be taken into account, or their necessity could be derived from this.



Structure and process ISA 570: *Risk assessment*

- **ISA 570.12-14 and .A8-A13: Evaluating Management's Assessment**
 - Cover the same period as used by management to make its assessment, but at least 12 months
 - Is all relevant information of which the auditor is aware included?
- **ISA 570.15 and .A14-A15: Period beyond Management's Assessment**
 - Inquiry of management about significant doubt



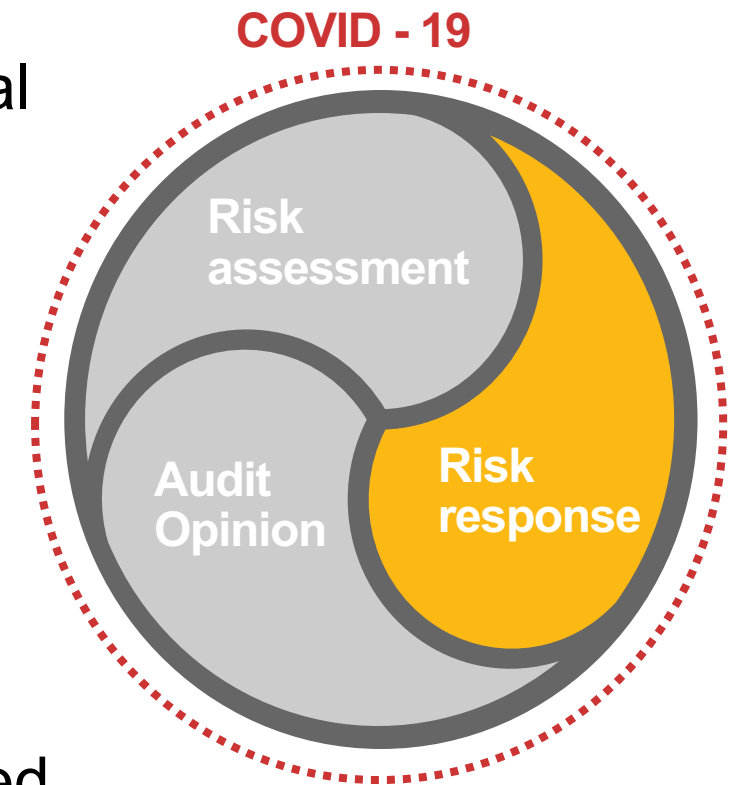
Structure and process ISA 570: *Risk assessment*

- Auditor shall evaluate management's going concern assessment
- Submitted documents (revised budget, liquidity planning) have to be considered, taking into account the requirements of ISA 540 for the examination of estimates.
- Planning period has to cover the current fiscal year, but should sensibly cover the current and the following fiscal year.
- In the current circumstances it may be more challenging to identify longer-term events or conditions beyond the period of management's assessment.



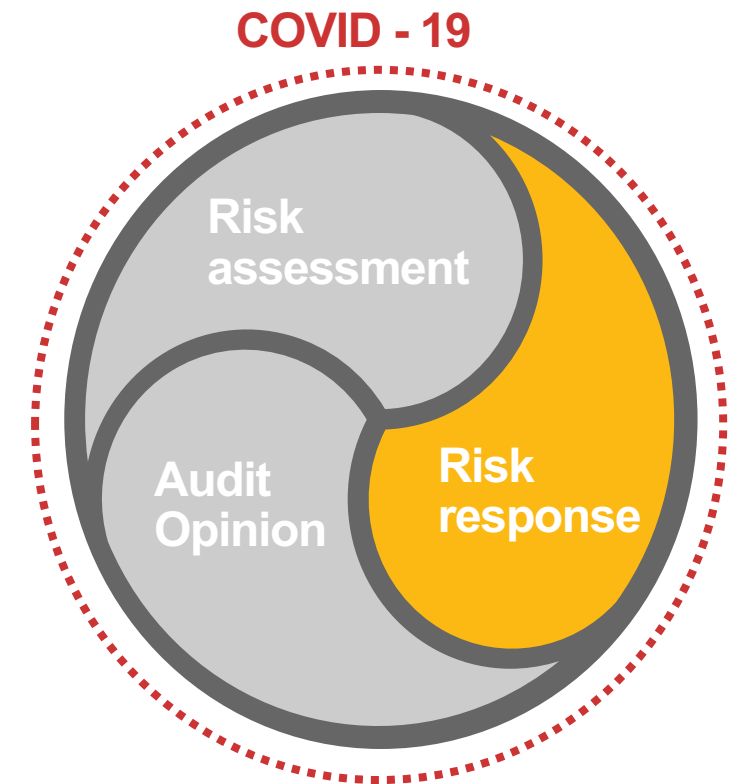
Structure and process ISA 570: *Risk response*

- **ISA 570.16 and .A16-A20: Additional Audit Procedures When Events or Conditions Are Identified**
 - If significant doubt has been identified – does material uncertainty exist?
 - Requesting management to make its assessment
 - Evaluating management’s plans
 - Requirements for forecasts: reliability, adequate support for the assumptions underlying the forecast?
 - Additional facts or information available since management’s assessment?
 - Written representations from management, e.g. signed business plan



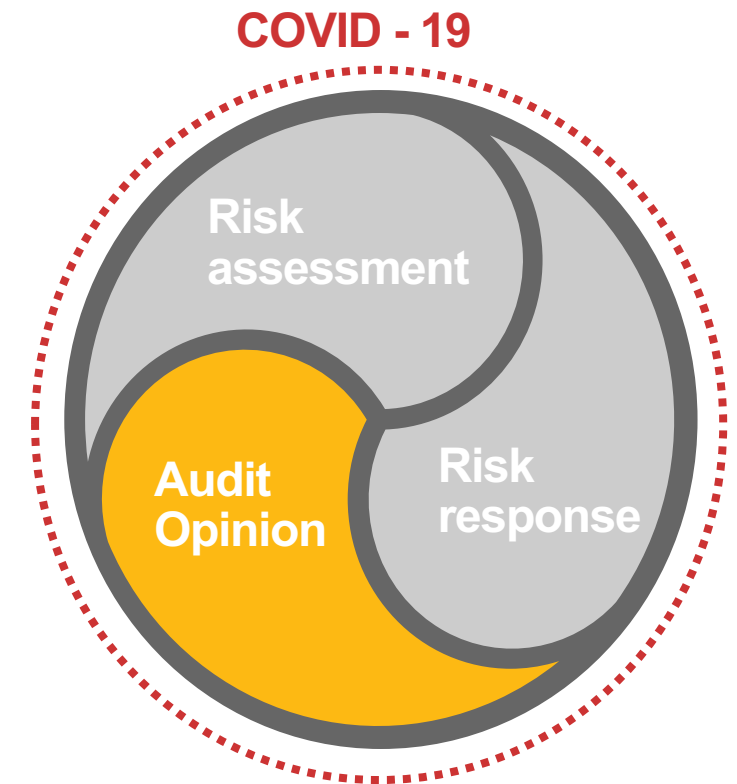
Structure and process ISA 570: *Risk response*

- Taken measures might not yet be sufficiently substantiated
- Additional audit procedures could be obtaining an understanding whether management has:
 - developed and implemented actions and processes so that they can continue to operate an effective control environment
 - considered how they will secure reliable and relevant information, on a continuing basis, in order to manage the future operations
- A disclosure of these measures in the financial statements could be needed.



Structure and process ISA 570: Auditor conclusions

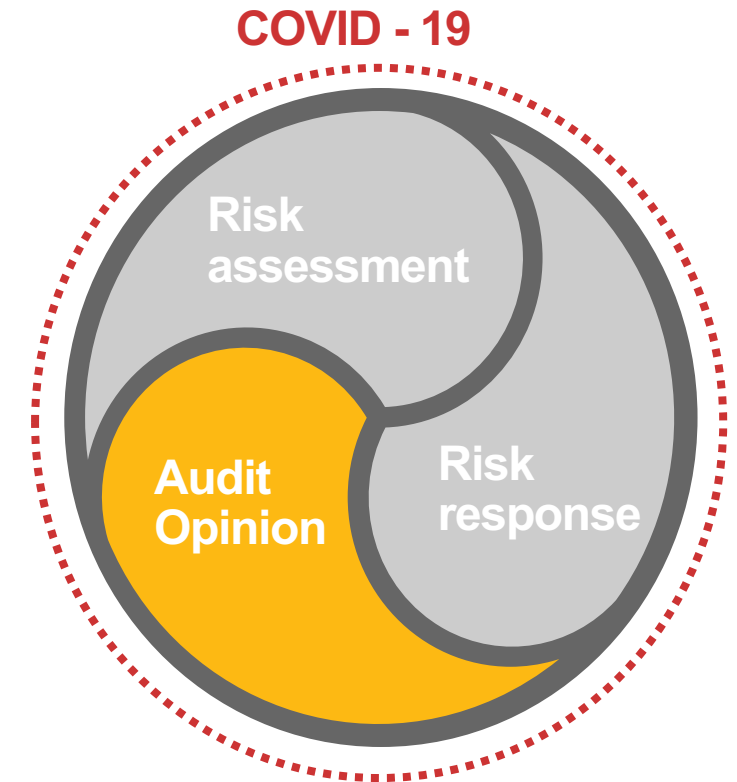
- **ISA 570.17-20 and .A21-A25: Auditor Conclusions**
 - Evaluation of the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements
 - Evaluation whether a material uncertainty exists related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern
 - Evaluation whether the disclosures are adequate



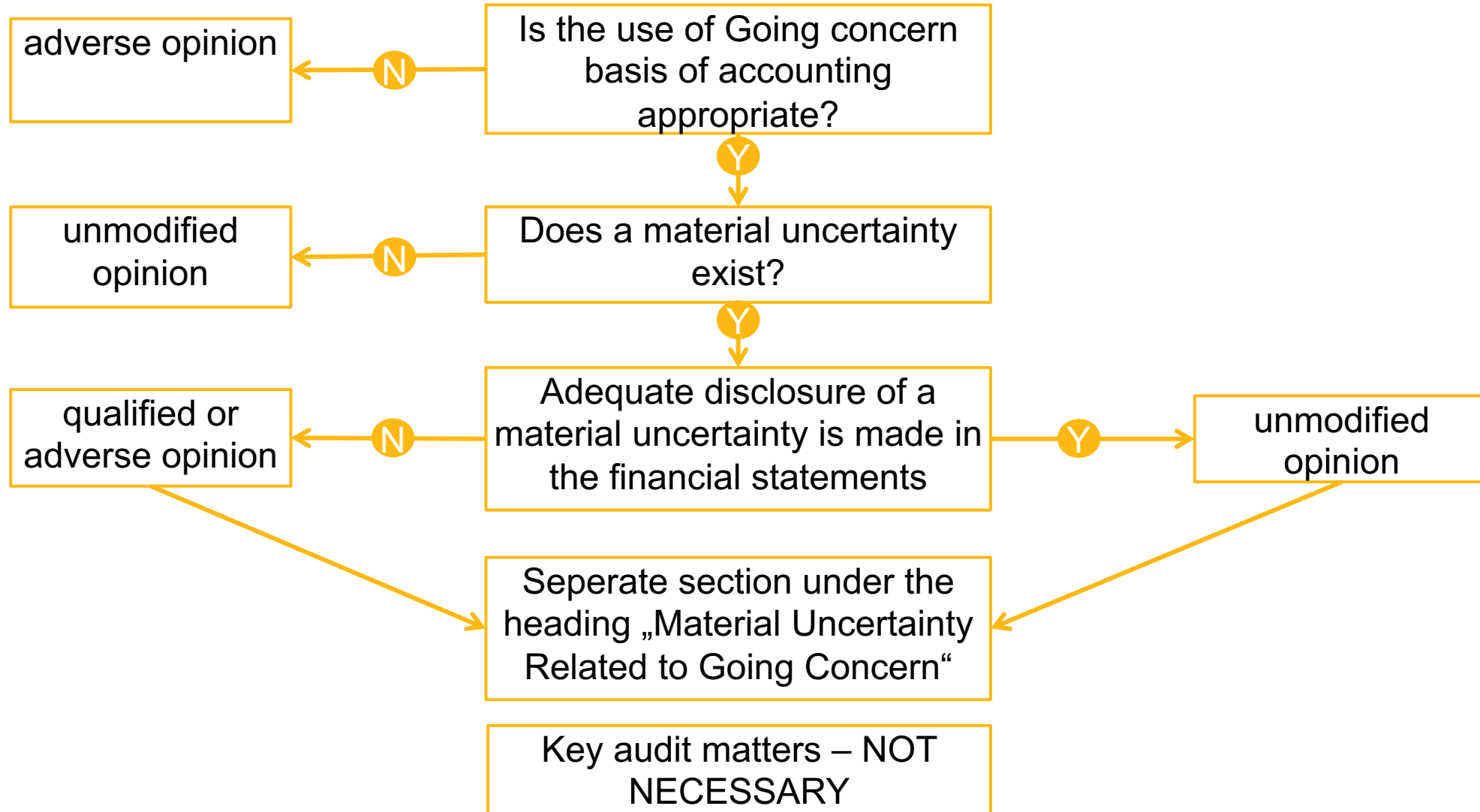
Structure and process ISA 570: Auditor's Report

- **ISA 570.21-24 and .A26-A35: Implications for the Auditor's Report**

- While the impact of COVID-19 may amplify events or conditions giving rise to modifications to the auditor's report or opinion, it does not itself mean a modification is inevitable – it will depend on the facts and circumstances of each entity.



Implications for the Auditor's Report ISA 570.21-24 and .A26-A35



Implications for the Auditor's Report

ISA 570.21-24 and .A26-A35

Management unwilling to make
or extend its assessment

qualified opinion or adverse
opinion or disclaimer of opinion

Seperate section under the
heading „Material Uncertainty
Related to Going Concern“

Key audit matters – NOT
NECESSARY

Structure and process ISA 570: *Communication*

- **ISA 570.25: Communication with Those Charged with Governance**
 - material uncertainty, management's approach, adequacy of related disclosures, implications for the auditor's report



Structure and process ISA 570: *Communication*

- The impact of COVID-19 on entities is rapidly changing so that considerations made may no longer be valid even a short time after they have been factored into either management's or the auditor's assessments.
- The auditor should consider how to communicate with those charged with governance in a timely manner.



Structure and process ISA 570: *Communication*

- **ISA 570.26: Significant Delay in the Approval of Financial Statements**
 - inquire at the reason for the delay, if the delay could be related to events or conditions relating to the going concern assessment – additional audit procedures



Takeaways and Actions:

- Adopt structure and process of existing standard ISA 570 in special circumstances of COVID-19 situation
- Be aware of possible impact of COVID-19 on going concern, but do not draw automatic standard conclusions
- COVID-19 situation does not necessarily mean that a material uncertainty automatically exists – it will rather depend on the nature and circumstances of the entity
- Focus on management's assessment and adequate disclosures in financial statements
- Timely communication in rapidly changing circumstances

Further reading

This presentation summarizes the points of the IAASB paper.

Details can be found under:

<https://www.iaasb.org/publications/staff-audit-practice-alert-going-concern>





Thank You