

COVID-19 Resource

Close Call Going Concern Assessments

What you need to know (January 2021)

What's the issue?

1. COVID-19 continues to impact Canada and the world. Some companies may be in a situation where they've had a significant decline in their operations or are closed, which may call into question their long-term viability or their ability to continue as a going concern.
2. Broadly speaking, "going concern" is an accounting term that means a company has the resources it needs to continue operating. These resources may include cash flows from operations and/or access to financing to help fund operations.
3. When preparing interim and annual financial statements in accordance with IFRS® Standards, management will need to assess whether there is material uncertainty about the company's ability to continue as a going concern. After its assessment, management may conclude that there are no material uncertainties that cast significant doubt about the company's ability to continue as a going concern. However, small changes to assumptions may cause management to determine there are material uncertainties that cast significant doubt about the company's ability to continue as a going concern. This set of facts and circumstances is often referred to as a "close call". (IAS 1.25)
4. The topic of going concern is broad. This resource focuses specifically on the accounting and assurance considerations associated with close call going concern assessments as defined above.

What does management need to think about when preparing financial statements?

5. When assessing a company's ability to continue as a going concern, management will need to consider all information about the future, which is at least, but not limited to, 12 months from the end of the reporting period. Furthermore, paragraph 26 of IAS 1 clarifies that the "degree of consideration

depends on the facts in each case.” For some companies, a robust assessment may be required. In these cases, management may need to:

- (a) prepare updated financial forecasts and sensitivity analyses using recent information;
 - (b) consider the company’s expected profitability and how the company will finance its operations;
 - (c) review the company’s debt repayment schedules and potential sources of replacement financing; and
 - (d) consider any other information from after the reporting period up until the statements are authorized for issuance that suggests the company will not continue to operate as a going concern. (IAS 1.25-26)
6. In some situations, management’s assessment will clearly conclude that there either are or are not material uncertainties about the company’s ability to continue as a going concern. Management should consider the guidance in paragraphs 25-26 and 125 of IAS 1, respectively. (IAS1.25-26, 125)
 7. In other situations, although there may be some uncertainties about the company’s ability to continue as a going concern, they are not material uncertainties. However, concluding that there was no material uncertainty involves significant judgment. The disclosure requirements of paragraph 122 of IAS 1 would apply to judgments made in concluding that there are no material uncertainties related to events or conditions that may cast significant doubt upon the company’s ability to continue as a going concern. (IAS 1.122)
 8. The disclosure requirement in paragraph 122 of IAS 1 was also noted in a [July 2014 IFRS® Interpretations Committee agenda decision](#) addressing the disclosure requirements associated with going concern assessments.
 9. Additionally, the disclosure requirements in paragraphs 125-133 of IAS 1 may also be relevant in assessments that are typically close calls, especially in cases where there are significant sources of estimation uncertainty. These paragraphs require a company to disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. (IAS 1.125)
 10. Given the level of judgment inherent in going concern assessments, management should expect in-depth conversations internally, as well as with its board of directors and auditors. These conversations will likely centre around the most significant and judgmental assumptions management used when concluding that the company will continue as a going concern. The next section of this resource focuses on audit considerations associated with close call going concern assessments.

What are the audit considerations associated with close call going concern assessments?

Assessing the adequacy of disclosures

11. In a close call going concern situation, despite concluding that no material uncertainty exists, the auditor is required to evaluate whether, in view of the requirements of the applicable financial reporting framework, the financial statements provide adequate disclosures of events or conditions

that may cast significant doubt on the company's ability to continue as a going concern. This evaluation may need to consider that, as discussed in [paragraphs 7 and 9](#), management is required to disclose judgments made in concluding that there are no material uncertainties relating to the company's ability to continue as a going concern. (CAS 570.20)

Auditor reporting – Adequate disclosures under the applicable financial reporting framework

12. If the disclosures are adequate in view of the requirements of the applicable financial reporting framework, the auditor would issue a report with an unmodified opinion. In addition, depending on the engagement's circumstances, the auditor may consider including either a Key Audit Matter (KAM) paragraph or an Emphasis of Matter paragraph in the auditor's report as discussed below.

KAM

13. KAM reporting is required for audits of financial statements of companies listed on the Toronto Stock Exchange, excluding listed entities required to comply with National Instrument 81-106, *Investment Fund Continuous Disclosure*, for periods ending on or after December 15, 2020. The effective dates for other entities are set out in CAS 701. (CAS 701.C6)

14. When the auditor concludes that there is no material uncertainty but determines that matters relating to the auditor's going concern conclusion represent a KAM, paragraph 11 of CAS 701 requires the KAM to be communicated in the auditor's report. The auditor's description of the KAM could include, for example, aspects of the identified events or conditions disclosed in the financial statements, including disclosures of management's judgments as discussed in [paragraphs 7 and 9](#) (e.g., substantial operating losses, related mitigating factors, etc.). Paragraph 13 of CAS 701 sets out the required content of each KAM, which includes a reference to the related disclosure, if any, in the financial statements and an explanation to address:

- why the matter was considered to be one of most significance in the audit and, therefore, determined to be a KAM; and
- how the matter was addressed in the audit. (CAS 701.11,.13)

15. The auditor may also wish to highlight the relative importance of the KAM relating to close calls. The auditor may do so by presenting the matter more prominently than other matters in the KAM section (e.g., as the first matter) or by including additional information in the description of the KAM to indicate the importance of the matter to users' understanding of the financial statements.

Emphasis of matter

16. If the auditor considers the disclosures of the events or conditions that may cast significant doubt on the company's ability to continue as a going concern, including disclosures of management's judgments as discussed in [paragraphs 7 and 9](#), to be fundamental to the user's understanding of the financial statements, the auditor may consider including an Emphasis of Matter paragraph to refer to such disclosures if:

- CAS 701 is not applicable; or
- CAS 701 applies but the auditor has determined that the matter is not a KAM.

17. CAS 706 sets out requirements and application material on emphasis of matters and other matters. Paragraph 9 of CAS 706 requires including the Emphasis of Matter paragraph in a separate section of the auditor's report, with an appropriate heading that includes the term "Emphasis of Matter". This paragraph is required to:

- reference clearly to the matter being emphasized;
- indicate where relevant disclosures that fully describe the matter can be found in the financial statements; and
- indicate that the auditor's opinion is not modified in respect of the matter emphasized. (CAS 706.09)

Auditor reporting – Inadequate disclosures under the applicable financial reporting framework

18. In the circumstance when:

- in the auditor's view, the disclosures about events or conditions that may cast significant doubt on the company's ability to continue as a going concern, including disclosures of management's judgments as discussed in [paragraphs 7 and 9](#), are inadequate in light of the requirements of the applicable financial reporting framework; and
- management does not amend the disclosures appropriately,

the auditor considers the impact of this misstatement on the form and content of the auditor's report in accordance with CAS 705.

What other resources are available?

19. Do you need more information? The following publications may provide more insight:

Accounting implications

[*Going Concern and Liquidity Risk \(Updated January 2021\)*](#)

[*Going concern – a focus on disclosure*](#)

Auditing and assurance implications

Auditors may encounter other circumstances not addressed in this resource, for example, when auditors conclude that there is material uncertainty relating to the company's ability to continue as a going concern. Auditors may find non-authoritative guidance, such as the ones below, useful when considering going concern implications.

From CPA Canada

Auditor reporting guide: [*Reporting implications of the Canadian Auditing Standards \(CAS\)*](#)

[*COVID-19 and going concern impacts*](#)

From the International Auditing and Assurance Standards Board

[*Auditor Reporting in the Current Evolving Environment Due to COVID-19*](#)

[*Staff Audit Practice Alert: Going Concern*](#)