

Auditor Reporting on Going Concern: Public Sector Considerations

Extract, PSA Discussion Group Report on the Public Meeting – June 8, 2023

This submission sought to gather feedback from Group members on the Canadian Auditing and Assurance Standards Board (AASB) Exposure Draft, "[Going Concern](#)," based on the International Auditing and Assurance Standards Board's Exposure Draft, "[Proposed International Standard on Auditing 570 \(Revised 202X\) Going Concern and Proposed Conforming and Consequential Amendments to Other ISAs](#)." ISAs are adopted in Canada as Canadian Auditing Standards. The AASB' [Going Concern](#) project page has up-to-date information.

The Group was asked to consider this session as a public sector accounting roundtable on the AASB's [Exposure Draft](#).

Going concern can be an issue in the public as well as private sectors. The Public Sector Accounting Discussion Group and PSAB Chairs agreed that the Group could discussed the topic for two reasons:

- The topic overlaps with the new going concern text in the [Conceptual Framework for Financial Reporting in the Public Sector](#) and recently approved new reporting model, which the Board will issue as new FINANCIAL STATEMENT PRESENTATION, [Section PS 1202](#), in the PSA Handbook in October 2023.¹ So, this connects with PSAS and is relevant to the Board.
- It is important to include public sector perspectives in (existing and proposed) audit standards that, over and above PSAS requirements, impose requirements on the preparers of public sector financial statements (i.e., the going concern assessment and the period over which it should be done).

New text on the longevity of the public sector and going concern has been added to [Chapters 2](#) and [9](#) of the Conceptual Framework² and to paragraph [PS 1202.25-32](#).³ This text provides context and requirements for going concern assessments in the public sector.

Financial statements are prepared on the assumption that the entity is a going concern. This means the entity **will** continue to operate, **will** realize assets and discharge liabilities, **and will** meet its statutory and other obligations (see [paragraph 9.38](#) of the Conceptual Framework). However, some public sector entities may need to reassess this assumption given the current economic environment.

¹ Material that links to the CPA Canada Handbook is available to subscribers only. However, all information needed to respond is provided in this Exposure Draft.

² PSAB issued the new [Conceptual Framework](#) in the PSA Handbook in December 2022. It is effective for fiscal periods beginning on or after April 1, 2026. Early adoption is allowed but must occur at the same time as adoption of [Section PS 1202](#), given the interrelationships between the two.

³ PSAB will issue new [Section PS 1202](#) in the PSA Handbook in October 2023. Text is included in that standard on the context and requirements for going concern assessments in the public sector. Superseded FINANCIAL STATEMENT CONCEPTS, [Section PS 1000](#), contains the only existing reference to going concern in PSAS; it will remain effective until April 1, 2026, or until the date an entity early adopts both the new [Conceptual Framework](#) and new [Section PS 1202](#). Superseded [paragraph PS 1000.63](#) contains the existing text on the going concern assumption.

Roundtable discussion of the AASB's Exposure Draft

Issue 1

Group members were asked to discuss:

- the requirements proposed in the AASB's [Exposure Draft](#);
- whether there are any concerns with the auditor's report stating that the auditor:
 - has concluded that management's use of the going concern basis of accounting is appropriate; and
 - has not identified a material uncertainty,
- what, if anything, should be mentioned in the audit report in the circumstance when a public sector entity:
 - transfers its assets, liabilities, and responsibilities to a recipient;
 - discontinues its operations; and
 - ceases to exist as part of a restructuring transaction.

Group members were asked to share their views on the above points as to whether there are any concerns with the proposed requirement in proposed paragraph 33 of ISA 570.

33. If the auditor concludes that the going concern basis of accounting is appropriate and no material uncertainty exists, the auditor shall include a separate section in the auditor's report with the heading "Going Concern", and: (Ref: Para. A67–A68)
- (a) State that the auditor: (Ref: Para. A69–A70)
 - (i) Concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
 - (ii) Based on the audit evidence obtained, has not identified a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
 - (b) For an audit of financial statements of a listed entity, if events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained, the auditor concludes that no material uncertainty exists:
 - (i) Include a reference to the related disclosure(s), if any, in the financial statements; and (Ref: Para. A71–A72, A78)
 - (ii) Describe how the auditor evaluated management's assessment of the entity's ability to continue as a going concern. (Ref: Para. A73–A77)

Issue 2

Group members were asked to discuss any concerns with the proposed change in the commencement date of management's 12-month going concern assessment from the financial statement date (i.e., year-end date) to the financial statement approval date given that PSAS do not specify the time period that a going concern assessment must cover.

Existing auditing standards on entities already impose a 12-month going concern assessment. The 12-month projection uses information known before the completion date of financial statements (i.e., the period within which subsequent events are considered for recognition or disclosures in accordance with SUBSEQUENT EVENTS, [Section PS 2400](#)). The AASB's Exposure Draft proposals merely move the start date of that projection and assessment from the financial statement year-end date to the approval date.

The AASB [Exposure Draft](#) proposes extending the timeline over which management should conduct its going concern assessment. Paragraphs 21-23 of IAS 570 state:

21. If management's assessment of the entity's ability to continue as a going concern covers less than twelve months from the date of approval of the financial statements as defined in ISA 560, the auditor shall request management to extend its assessment period to at least twelve months from that date. (Ref: Para. A42)
22. If management is unwilling to make or extend its assessment when requested to do so by the auditor, the auditor shall discuss the matter with management and, where appropriate, those charged with governance. (Ref: Para. A43–A44)
23. In circumstances where the auditor believes it is necessary for management to make or extend its assessment and management is unwilling to do so, the auditor shall determine the implications for the audit. (Ref: Para. A45)

A going concern assessment covering 12 months following the financial statement approval date instead of the financial statement date may create inconsistencies across public sector entities. For example, the approval date can vary widely in the public sector. In the matter of public interest, interested and affected parties may benefit from more current information.

Group discussion

Group members noted that the longevity of public sector entities should be contrasted with that of private sector entities, indicating:

- Many public sector entities can raise and collect taxes. This ability means that public sector entities are less likely than private sector organizations to have going concern issues.
- By definition, government organizations are controlled by a government and form part of that government's reporting entity. Consequently, for government organizations, management may not need to do a going concern assessment. There may exist both explicit and implicit guarantees of support provided by their controlling government. The submitter noted that auditors may need evidence of such guarantees to support their opinion that no material uncertainties exist.
- [Chapter 9](#) of the Conceptual Framework indicates that for governments, the going concern presumption can only be rebutted by persuasive evidence to the contrary. The chapter also notes that the going concern presumption applies to government organizations in the same way it applies to the controlling government. However, government organizations may be discontinued or sold as governments look at alternative mechanisms for delivering services, and therefore, may not operate in perpetuity.

Group members also noted the following conclusions on the proposed requirements:

- Adding specifics to the auditor's report on financial statements on going concern may not be required in the public sector as there have been few such issues in the past.
- Adding more targeted opinions may not be required. Such opinions will require additional work and costs and not add value in the public sector.
- The audit opinion may raise false flags and confuse financial statement readers. Many Group members questioned the relevance of having such a requirement for the public sector.
- RESTRUCTURING TRANSACTIONS, [Section PS 3430](#), is sufficient. Group members found it difficult to identify examples of where a public sector entity would cease to exist outside of restructurings in the public sector.
- The requirement to report on material uncertainties appears to be counterintuitive to what is provided for in [Section PS 3430](#) in instances where it is known that an entity is transferring its assets. The Section already requires such information be disclosed.
- Adding numerous matters in the main part of the audit opinion distracts from the fair presentation audit opinion. The proposal would increase audit costs and raises the risk for auditors of an expectations gap with what might be seen as a going concern guarantee. If there is an issue, it should be addressed in the key audit matters. Does the proposal represent a slippery slope toward more clutter related to specific items in the audit report?

One Group member shared that First Nations may differ from other public sector organizations as they depend on support from other levels of government. They noted that there are presumptions that governmental support continues under legal obligations and treaty rights. PSAB staff noted that new Section PS 1202 will explicitly recognize this aspect of the going concern presumption for Indigenous governments, noting that financial and other arrangements with other levels of government need to be considered.

Group members disagreed on the proposal to extend the timeline over which audit standards would require entities to prepare a going concern assessment. They noted the rarity of going concern issues in the public sector and the added costs from the additional work for both preparers and auditors, indicating the limited added value that would result. Some Group members also reflected on the differing financial statement approval dates in the public sector, noting the disparity in assessment periods that would exist. They acknowledged that having organizations follow the same timeline principles would allow consistency across the audit profession but saw no other benefit for the timeline extension in the public sector.

The Group reached a consensus that proposed requirements in the AASB's Exposure Draft are likely unnecessary for public sector entities, given the rarity of going concern issues in the public sector. The Group concluded that the proposals could add more work and cost with limited value for public sector entities. The additions to the audit report could confuse for readers of public sector financial statements. The Group concluded that existing PSAS are sufficient for addressing going concern questions in the public sector, especially given the guidance in the new [Conceptual Framework](#) and new [Section PS 1202](#).