

## Economic Conditions Continue to Challenge Preparers and Auditors Alike; Focus Must Include Going Concern Assumption and Adequacy of Disclosures

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#### Economic Conditions Continue to Challenge Preparers and Auditors Alike; Focus Must Include Going Concern Assumption and Adequacy of Disclosures

(New York, December 28, 2011)—The global economy continues to experience difficult conditions as the effects of the financial crisis—for example, on corporate cash flows and access to credit—persist. Volatility in capital markets, and issues including measurement and disclosure of exposures to sovereign debt of distressed countries, continue to create uncertainty. The impact of these issues and uncertainty has wide-ranging financial reporting implications that often extend beyond national borders.

These and other current economic conditions present unique challenges for management of entities, those charged with governance, and auditors in meeting their responsibilities, including assessing an entity's ability to continue as a going concern and making relevant disclosures in the financial statements and, as appropriate, the auditor's report.

In light of the current environment, the International Auditing and Assurance Standards Board (IAASB) reminds auditors of their important responsibilities under the International Standards on Auditing (ISAs) and that the appropriateness of management's use of the going concern assumption is a matter to be considered on every audit engagement.

Prof. Arnold Schilder, Chairman of the IAASB, commented, "Difficult economic conditions give rise to many important audit considerations, but none more important—or more difficult—than evaluating management's assessment of an entity's ability to continue as a going concern and determining the appropriate auditor reporting in the circumstances."

"Auditors must remain alert throughout the audit for evidence of events or conditions that may cast significant doubt on an entity's ability to continue as a going concern. We cannot stress enough the importance of professional skepticism and judgment in evaluating financial statement disclosures and the implications for the auditor's report when a material uncertainty exists relating to events or conditions that, individually or collectively, may cast doubt on the entity's ability to continue as a going concern."

The 2009 IAASB Staff Audit Practice Alert, "Audit Considerations in Respect of Going Concern in the Current Economic Environment," highlights matters relevant to the consideration of the going concern assumption in the preparation of financial statements. Among other matters, it addresses factors relevant to the assessment of going concern; the period of time considered in making a going concern assessment; financial statement disclosures; forming an opinion on the financial statements and the implications for the auditor's report.

"While this Audit Practice Alert was released in context of the 2008-2009 credit crisis, many of the matters addressed in it are equally relevant today. For example, an entity may be experiencing a decline in its financial health, or may have material uncertainties arising from direct or indirect exposures to sovereign debt of distressed countries. Auditors are therefore encouraged to review the Alert and, importantly, the relevant requirements in the ISAs," emphasized Prof. Schilder.

#### About the IAASB

The IAASB develops auditing and assurance standards and guidance for use by all professional accountants under a shared standard-setting process involving the Public Interest Oversight Board, which oversees the activities of the IAASB, and the IAASB Consultative Advisory Group, which provides public interest input into the development of the standards and guidance. The structures and processes that support the operations of the IAASB are facilitated by IFAC.

#### About IFAC

IFAC is the global organization for the accountancy profession dedicated to serving the public interest by strengthening the profession and contributing to the development of strong international economies. IFAC is comprised of 167 members and associates in 127 countries and jurisdictions, representing approximately 2.5 million accountants in public practice, education, government service, industry, and commerce.

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