

## Going concern main recommendations from Accountancy Europe: ECIIA reaction

Accountancy Europe	ECIIA
<p><b>Broaden companies' work effort</b> Standards and/or relevant legislation need to broaden companies' work effort on going concern assessments. Companies should implement integrated systems and have adequate procedures to prepare reliable cashflow forecasts. They should also stress test and reverse stress test the validity of their going concern analysis. Management should have the necessary education, competences and skills to prepare such forecasts and analyses.</p>	<p>Internal audit has an important role to provide reasonable assurance, and advise senior management and the Board on the shifting risks and controls landscape and help anticipating emerging risks. They review all the processes, including the ones related to the strategy control cycle, reporting and management information. As part of these, also processes to calculate, review and approve budgets/forecasts for revenues, costs and cashflows are assessed, assessing the sufficiency, completeness, correctness and reasonableness of the assumptions and calculations.</p>
<p><b>Mandate disclosure on companies' risk management systems on going concern and expand the auditor's involvement</b> Standard setters and/or legislators should require companies to provide disclosure on the functioning of their risk management systems on going concern. The auditor's role should evolve to either provide assurance on these parts of the risk management systems, or these should be audited within the financial statements audit. For this to work in practice, auditors might need to consider internal controls over financial reporting as a whole.</p>	<p>Companies should have robust governance, risk management and internal control (procedures), to limit the risk of fraud. It is internal audit's role is to assess these controls, both in design and operating effectiveness. The role of internal audit may vary across industries, jurisdictions and organizations, nevertheless, the role of internal auditors (based on IPPF) generally is to provide independent, objective reasonable assurance on the risk management systems. In many cases, Internal Audit also assesses and reviews the disclosure texts as provided in the annual report. In case the external auditor is asked for an additional opinion, redundancy should be avoided by cooperating and aligning efforts.</p>
<p><b>Mandate going concern disclosure even if no uncertainties</b> We propose introducing mandatory management disclosure on the basis of its going concern assumption. This should focus on the relevant key judgements of the going concern assessment. Such disclosure should be required even when no material uncertainty is identified. This will require a change in relevant standards.  Subsequently, standards should require auditors to always provide a statement on their consideration of management's going concern assumption, even in case of no material</p>	<p>The work of internal auditors on the internal controls system and risk management may be useful for the external auditors when assessing the going concern of the activities. Internal audit should seek opportunities to reduce overlap with other assurance providers (2d line or external) and where possible, engage with such assurance providers to understand their scope of work, coverage and depth of testing to be performed to identify and progress opportunities to collaborate and assist.</p>

<p>uncertainty or issues identified with management's assessment; a conclusion on management's statement that no material uncertainty has been identified.</p> <p>Some countries are considering the idea of 'gradual' reporting on going concern for both management and auditors. International standard setters and/or EU legislators could also explore whether this could replace the current 'pass/fail' outcome of the going concern assessment.</p>	
<p><b>Change in mindset, transparency and communication</b></p> <p>Companies' and auditors' mindsets need to move away from fears about negative implications of going concern disclosures. Both should rather demonstrate their knowledge and competency in this area through disclosing additional information. Management's disclosures and related auditor's communication should not be boilerplate but should instead provide useful information understandable to stakeholders.</p>	<p>The internal and external auditor should be asked (mandated) to assess the sufficiency of going concern information in the annual report, for the stakeholders to form an opinion on. The internal auditor should report any gaps to the board/Audit Committee, and collaborate with the external auditors on this topic to avoid duplication of work and conflicting messages.</p>
<p><b>Mandate an audit committee in each public interest entity</b></p> <p>It should be mandatory for all PIEs to have a separate audit committee that is independent from company's management. This committee should have a sufficient number of members with competence in accounting and/or auditing. Legislators should abolish provisions that allow EU Member States to derogate from these requirements.</p>	<p>Internal auditors report to Audit Committees and we fully support the setup of audit committees as independent committee, with specific competences (risk management, audit,..).</p>
<p><b>Clarify and harmonise the period for going concern assessment</b></p> <p>Standard setters and/or legislators should mandate a disclosure specifying what period managements going concern assessment covers. We believe that they should also ensure harmonisation of the starting date and length of the period for the assessment across European countries.</p>	<p>It is or should be current practice for the external auditor to focus on the going concern, because of the importance of it for valuation of assets and liabilities. Making sure that all auditors speak the same language is beneficial, and communicating their findings as well.</p> <p>Internal Audit's reports and changes to the planned internal audit coverage may be used by the external auditor to flag potential risks related to going</p>

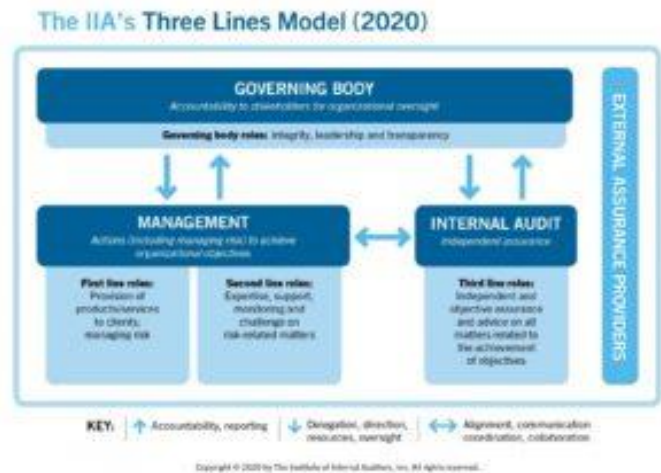
**Broaden auditors' area of consideration and work effort**

Audit legislation and/or auditing standards should proactively support the widening role of auditors on going concern. This should enhance auditors':

Risk assessment adaptability and agility; work effort in terms of considering wider context in evaluating companies' assessment of going concern, including relevant contradictory evidence that challenges management's assessments, external red flags and analyst reports; communication in the auditor's report on why they agreed with management's assessment of going concern and what they did to satisfy themselves with it.

concern. The external auditor should be aware of these.

The 3 lines model is recommended as a strong governance model that define clearly the responsibilities and the collaboration internally and externally.



Management's responsibility to achieve organizational objectives comprises both first- and second-line roles.

First-line roles are most directly aligned with the delivery of products and/or services to clients of the organization, and include the roles of support functions.

Second-line roles provide assistance with managing risk.

In its third-line role, internal audit provides an independent and objective assurance and advice on the adequacy and effectiveness of governance and risk management. It achieves this through the competent application of systematic and disciplined processes, expertise, and insight. It may consider assurance from other internal and external providers.

**Make early warning mechanisms for auditors effective**

Alert procedures for auditors should be more effective to help prevent corporate failures

The standardisation of audit procedures to detect and report on early warnings will be beneficial to all auditors. Nowadays, auditors must be agile and



and enable timely restructuring when insolvency is looming. Legislators and dedicated competent authorities need to ensure more clarity and harmonization across Member States. National legislation should specify the competent authority for each type of PIE and the related procedures for PIE auditors to report such issues.

adapt their plans regularly based on the risks evolution.

**Beyond going concern: Ideas to be explored-**  
Assessing companies' longer-term viability and resilience

The current work of companies and auditors on going concern focuses on the next 12 months. Some stakeholders suggest that on top of this, legislators could consider introducing a longer-term assessment of PIEs' viability and resilience. This would concern a company's ability to adapt to changes to survive and thrive in the long run. Viability and resilience statements would be prepared by management and the auditor's involvement could follow a staggered approach, ie, with more involvement in the short-term assessments.

For risks with extremely low likelihood but catastrophic impact, only contingency measures can be taken as a risk response. The Covid-19 pandemic has shown the importance of business and IT resilience, not only within the company itself, but also with its suppliers and outsourcing service providers. Being prepared and in control, calls for additional measures and regular testing. We see the value of a longer-term assessment than for 12 months only. Having said that, a pandemic or such is a black swan, not very likely to be fully prepared for.

**Interconnecting financial and non-financial information**

Understanding a company's resilience requires looking at both financial information and non-financial information (NFI). Legislators could consider requiring all PIEs' management to consider financial information and NFI to have a complete picture about the company. Legislators could also consider mandating assurance on certain parts of NFI reporting for all PIEs.

Internal auditors promote the integrated thinking, and the integration of financial and non-financial information. Both are part of the Enterprise Risk management and the internal control framework.

In many companies, but still depending in the maturity level of the function, Internal Audit provides reasonable assurance on the sufficiency of the NFI including going concern statements and resilience statements.