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of IFRS*
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RESEARCH ON GOING CONCERN DISCLOSURE: EVIDENCE FROM INDONESIA

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This presentation was prepared as material for discussing “going concern” issues and does not represent The Indonesian Financial Accounting Standards Board - Institute of Indonesia Chartered Accountants (DSAK-IAI) position on these issues.

INDONESIA'S Views on Going Concern Disclosures

Conflict between accounting and auditing standards

Adequacy of Going Concern Disclosures

Covid-19 highlighted questions among preparers and users

DSAK IAI current position to Going concern disclosures during COVID-19

- Going concern was addressed when DSAK IAI published pers-release the impact of COVID-19 on (1 April 2020)
 - **PSAK 8 (IAS 10): Event after the Reporting Period**
 - **PSAK 71 (IFRS 9): Financial Instruments**
- **PSAK 8 paragraph 14** requires that an entity **shall not** prepare its financial statements on a going concern basis if management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so.
- Entities shall use their judgement whether COVID-19 pandemic **affect entities' going concern** based on all relevance facts and information, including government COVID-19 relief programs .

Basis for Considerations when an entity is no longer Going Concern

PSAK 8 (IAS 10):

- **Paragraph 15:** Deterioration in operating results and financial position after the reporting period may indicate a need to consider whether the going concern assumption is still appropriate. If the going concern assumption is no longer appropriate, the effect is so pervasive that this Standard requires a fundamental change in the basis of accounting, rather than an adjustment to the amounts recognized within the original basis of accounting.
- **Paragraph 16:** IAS 1 specifies required disclosures if: (a) the financial statements are not prepared on a going concern basis; or (b) management is aware of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. The events or conditions requiring disclosure may arise after the reporting period.

What are the Issues related to Going Concern in Indonesia?

1. Uncertainty of economic growth and financial stability;
2. Government effort on obtaining corona virus' vaccine;
3. Business and industries are affected but until now they are survived; and
4. Indonesia has more than 56 millions small medium entities. They were relatively more persistence and quicker in recovery during Indonesia 1998's crisis relative to publicly listed firms. Indonesia has only about 600 publicly listed firms.

Questionnaire

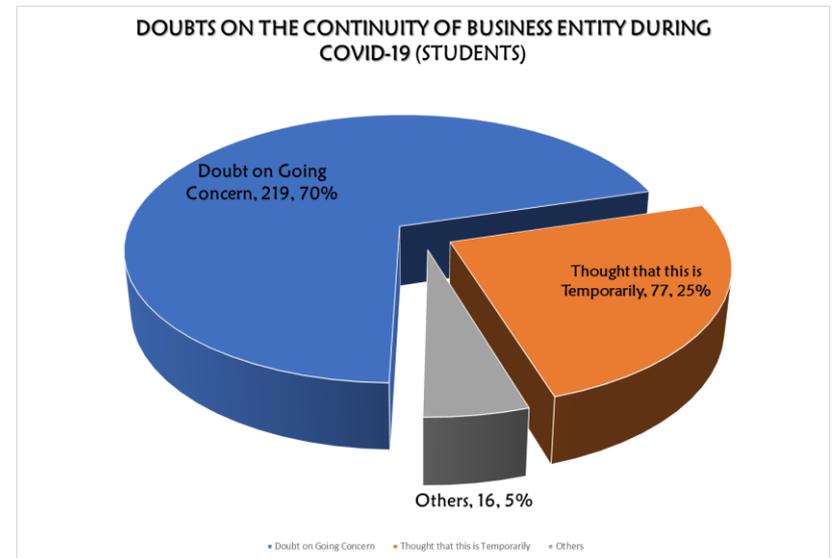
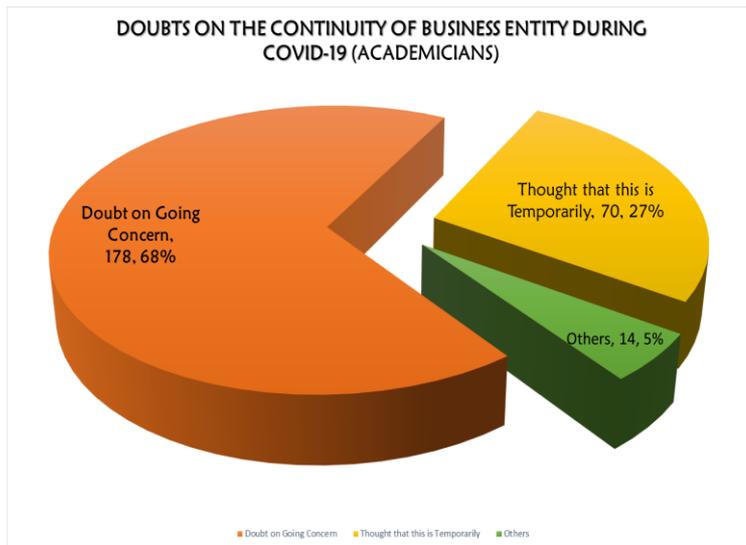
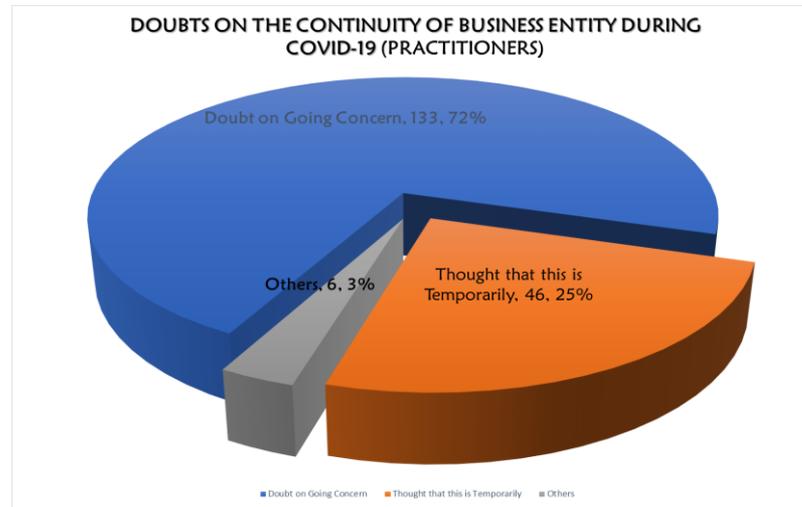
1. Have you ever had any **doubts** about your entity's going concern during the COVID-19 pandemic? Please explain.
2. Do you agree if the concept of going concern is **further defined** in terms of financial reporting during the COVID-19 period? Please explain.
3. Is it the time for DSAK-IAI **to revise** financial accounting standards by adding more specific disclosure requirements when assessing the going concern of an entity there is a consideration of material uncertainty due to the COVID-19 pandemic?
4. Is it the time for DSAK-IAI **to revise** financial accounting standards by adding more specific disclosure requirements when the entity's business going concern assessment concludes that there is **NO** consideration of **material uncertainty** due to the COVID-19 pandemic but there are **significant** considerations used **to arrive at this conclusion**?
5. Is it now the time for DSAK-IAI **to revise** financial accounting standards by **adding requirements related to recognition, measurement and presentation** for accounts affected by the non-compliance of the entity's going concern assumption due to COVID-19?

The Respondents

Demographic of the Respondents	Number	%	Sub-Total
Academicians	209	27.54	
Academicians - Undergraduate	2	0.26	
Academicians - Master Students	2	0.26	
Academicians - PhD Students	19	2.50	
Academicians - Practitioners	28	3.69	
Academicians - Practitioners - Master Students	1	0.13	
Academicians - Practitioners - PhD Students	1	0.13	262
Undergraduate Students	234	30.83	
Master Students	48	6.32	
PhD Students	30	3.95	312
Practitioners	162	21.34	
Practitioners - Undergraduate Students	6	0.79	
Practitioners - Master Students	15	1.98	
Practitioners - PhD Students	2	0.26	185
Total	759	100.00	759

- Questionnaire was distributed online as a **pilot project** to the attendees of the Institute Webinars Session;
- 759 respondents responded to the survey;
- There were 8 (eight) questions asked, 4 (four) questions with open-ended, and another 4 (four) questions with close-ended type of questions;
- Period of survey distribution: 17 October 2020 - 31 October 2020.

Q1. Have you ever had doubts about the going concern of your entity's business during the COVID-19 pandemic? Please explain.



Q1. Have you ever had doubts about the going concern of your entity's business during the COVID-19 pandemic? **Those who agree ...**

Practitioners:

- Agree, in evaluating **management's assessment of the entity's ability to maintain its going concern**, the audience must cover the same period as that used by management to make its judgment as required by the applicable financial reporting framework, or by law or regulation if the period covered is a longer period.
- If management's assessment of the entity's ability to maintain as a going concern covers a period of less than 12 (twelve) months from the date of the financial statements as defined in ISA 560, the auditor shall ask management to expand the period of assessment to at least 12 (twelve) month from that date. And communicate to those charged with governance if there are significant doubts;
- Some audit firms struggle as not all clients have **strong base in technology**;
- **Reduction** in the number of clients who use the services significantly;
- Significant increase with problems related to **late payments** from client;
- **Physical distancing in large scale** have had a devastating effect on the businesses;

Academicians:

- Yes, as University income is highly dependent on student **tuitions**;
- Yes, it is related to the uncertainty of economic growth as the impact of the pandemic, which until now cannot be ascertained **for how long**.
- E-business might be the answer, as well as a policy of easy financing settlement that really helps reducing the going concern doubts. However, business might be innovative and was all conducted online, but we are facing a huge decline in consumers' **purchasing powers**.

Students:

- For businesses that need to have **physical presence**, purchasing power decreased tremendously; and
- People are more concerned with **survival** (basic needs / groceries).

Q1. Have you ever had doubts about the going concern of your entity's business during the COVID-19 pandemic? **Those who disagree**

Practitioners:

- Not every client hits by the crisis, this depends on **the types of businesses** they have
- **Government related business** was not affected;
- We are in **health care** services;
- We survive during the pandemic;
- Soon, the pandemic will be over;
- We are in **the agriculture business**; we are not affected as the business has increased;
- I am in **the education business** and we deliver our services through webinars; and
- My main clients are **government bodies**, so we have no problems.

Academicians:

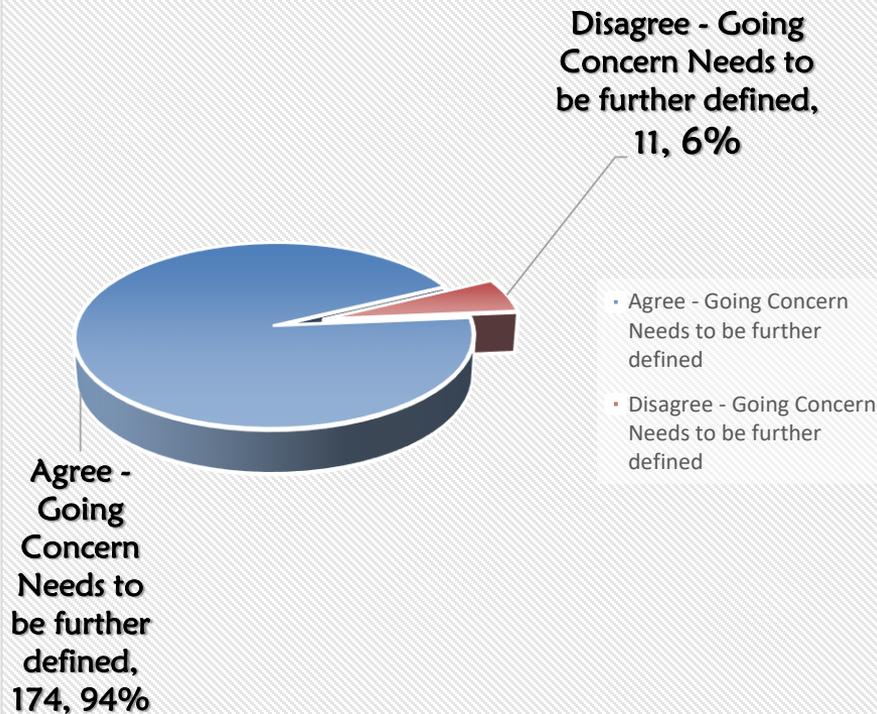
- At the initial stage there were **doubts**, but after 2-3 months, there were **adjustments**.
- Higher education will still be needed, it just must be **adaptive and innovative** regarding online-based learning methods.
- Pandemic creates **opportunities and creativity**;
- Activities at the universities can still take place even though it is a little constrained because of the change in face-to-face lectures to online lectures, **universities will survive** the COVID 19 pandemic.

Students:

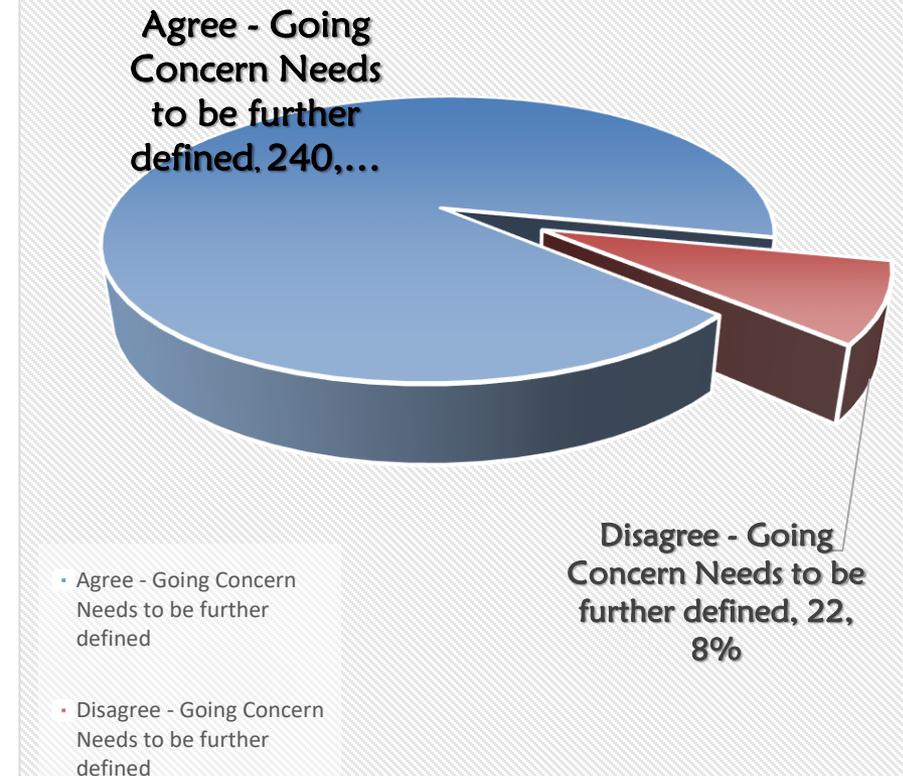
- It really depends on **the type of industry** that we are dealing with, to those who are innovative, highly e-tech type of business could handle the business well;
- However, companies must be vigilant for some potential threads: i.e., **bad loans, liquidity concerns, further increase in government intervention, lower levels of consumer consumption, declining production due to reduced demand and limited supply of raw materials, layoffs and restructuring of other activities**. This situation causes a prolonged negative impact on the condition and might result in company's performance.

Q2. Do you agree if the concept of going concern needs to be further defined in the context of financial reporting during the COVID-19 period?

Further defined in the context of financial reporting (Practitioners)



Further defined in the context of financial reporting (Academics)



Q2. Do you agree if the concept of business going concern is further defined in the context of financial reporting during the COVID-19 period? **Those who agree..**

Practitioners:

- Yes. The concept of going concern during a pandemic can be categorized as force majeure.
- The financial impact of a business entity caused by this pandemic is quite significant and material, so it needs to be presented in financial reporting as a business sustainability consideration;
- Agree if the concept of going concern is further defined in the context of financial reporting during the COVID-19 period to provide certainty for the users of financial report;
- Agree, the next 2 to 3 years (after the end of the pandemic) is a period of recovery for many businesses, so it is important to have a concept that regulates better financial reporting.

Academicians:

- I agree because there will definitely be many changes and adjustments that must be made due to the prolonged pandemic that has occurred.
- Agree if the concept of going concern is further defined in the context of financial reporting during the COVID-19 period to provide certainty for [users of financial reports;
- Focus on the Cash Flow;
- Agree, by fulfilling the principles of disclosure / transparency;
- Yes, because the report is an evaluation material and as a consideration for making policies;
- Totally agree with providing disclosures and further assumptions regarding the pandemic;
- Strongly agree. The concept of going concern must be adapted to the "global problem / disaster" that (may) occur, either now or in the future;
- Yes, with this explanation, the entity has reasons to continue running its business.
- Yes, but it is a special or extraordinary event so that it is sufficient to provide an explanation in the notes to the financial statements.
- Agree. Because there are events / transactions that occur due to a pandemic and may disappear when the pandemic ends. Rather than changing the standard, it is simpler to redefine it.

Q2. Do you agree if the concept of going concern is further defined in the context of financial reporting during the COVID-19 period?

Those who disagree

Practitioners:

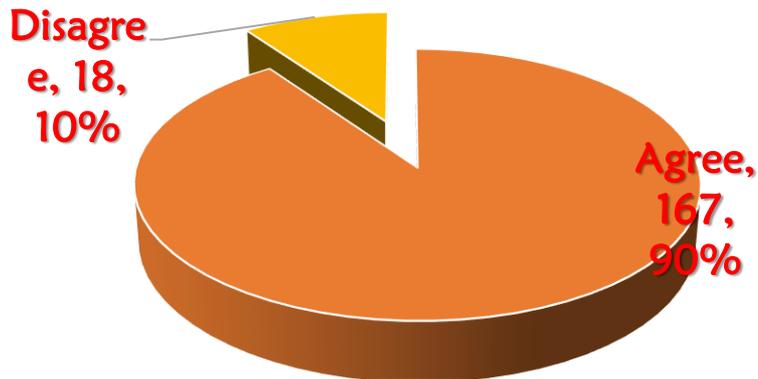
- The definition of going concern in PSAK is still quite **relevant**;
- As it has been represented by the extraordinary events;
- I think the definition of going concern is adequate and provides room for interpretation, in accordance with the logic of PSAK;
- No need. Because this concept is only an assumption or postulate. If there was an influence during the COVID-19 period on financial reporting, then the impact

Academicians:

- Disagree, because the definition of going concern is clear;
- There is no need for an existing going concern concept;
- Disagree because the concept is in Auditing Standard 570;
- Going concern concept is only an assumption or postulate. If there was an influence during the COVID-19 on financial reporting, the effect could be disclosed in Notes to FS.
- Disagree, the concept of going concern is not due to the Covid-19 period but how strong the Bank's cash can pay off total debt, so the entity's performance benchmark is not earnings / profit but how much bank cash and covers total debt. If the bank's cash results are negative, it means that the entity / management's performance is not good for shareholders, a fatal mistake if this performance appraisal is based on profit / profit.
- I don't think so. I believe the definition of going concern is adequate and provides room for interpretation, in accordance with the logic of PSAK which is based on principles, not rules.

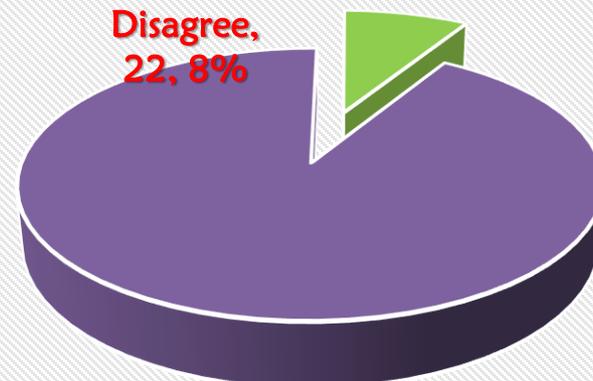
Qs 3 and Q4. Is it now the time for DSAK-IAI to revise financial accounting standards by adding more specific disclosure requirements when **assessing the going concern** of an entity there is **a consideration of material uncertainty due to the COVID-19 pandemic**?

Is it now the time to add more specific disclosure requirements when assessing the going concern (Practitioners)



- Agree – Is it now the time for DSAK-IAI to revise financial accounting standards by adding more specific disclosure requirements when assessing the going concern
- Disagree – Is it now the time for DSAK-IAI to revise financial accounting standards by adding more specific disclosure requirements when assessing the going concern

Is it now the time to add more specific disclosure requirements when assessing the going concern (Academicians)



Agree, 240, 92%

- Agree – Is it now the time for DSAK-IAI to revise financial accounting standards by adding more specific disclosure requirements when assessing the going concern

Qs 3 and Q4. It is now the time for DSAK-IAI to revise financial accounting standards by adding more specific disclosure requirements when **assessing the going concern of an entity there is **a consideration of material uncertainty due to the COVID-19 pandemic? Those who agree ...****

Practitioners:

- The problem of going concern occurs on a large scale;
- The pandemic has almost weakened all business sectors, both trade and services. Many of the losses experienced by the company were completely unexpected. For this reason, the IAI DSAK needs to revise the SAK by adding more specific disclosure requirements due to material uncertainty due to the COVID-19 pandemic;
- The existence of clear directions and guidelines makes it easier for the entity to carry out going concern in the future; and
- It is necessary to revise financial accounting standards by adding more specific disclosure requirements so that the entity can have a picture of its going concern and can perform quality financial reporting, namely reports that can assist in decision making.

Academics:

- The problem of going concern occurs on a large scale;
- There should be a consideration of material uncertainty due to the COVID-19 pandemic, this must be reported;
- It is the time for DSAK-IAI to revise financial accounting standards by adding more specific disclosure requirements when in assessing the going concern of an entity as there is a consideration of material uncertainty due to the COVID-19 pandemic; and
- It is time for DSAK-IAI to revise financial accounting standards by adding more specific disclosure requirements when assessing the going concern of an entity when considering material uncertainty due to the COVID-19 pandemic.

Qs 3 and Q4. It is now the time for DSAK-IAI to revise financial accounting standards by adding more specific disclosure requirements when assessing the going concern of an entity there is a consideration of material uncertainty due to the COVID-19 pandemic? Those who disagree ...

Practitioners:

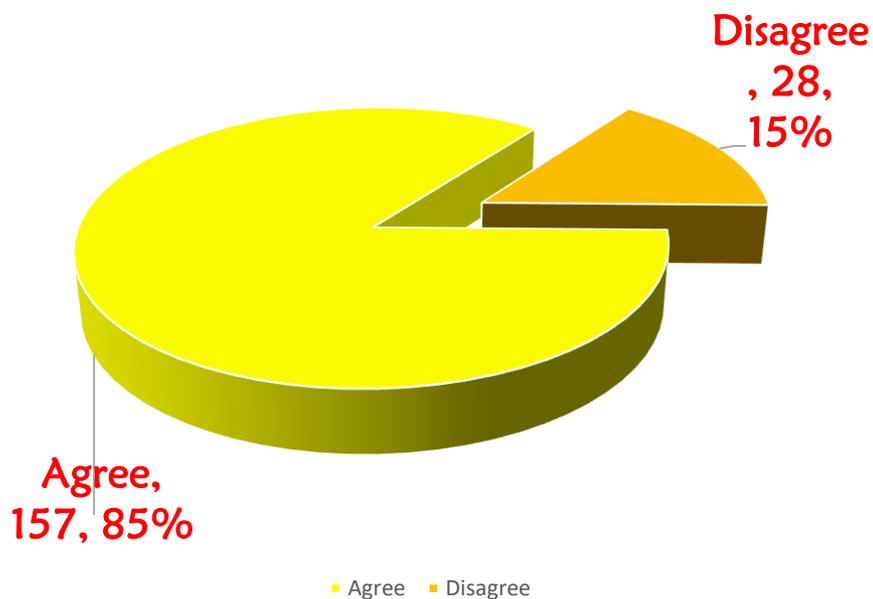
- It does not need to be revised because it has been explained in paragraph 14 of PSAK 8, but it is more socialized for its application. As referred to, events after the reporting date that occurred were very significant, causing going concern to be threatened by considering all relevant and accountable evidence and facts;
- This should have been covered by accounting standards so far; and
- Pandemics are only temporary.

Academics:

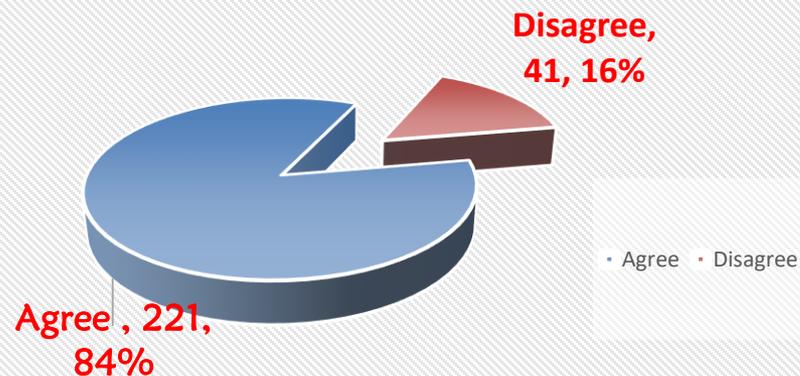
- The disclosure related to materiality that have a direct influence on financial reporting is sufficiently displayed in the Notes to Financial Statement;
- It is forward looking;
- It is quite clear with the current explanation;
- COVID-19 is a business risk that is relatively the same as other business risks, so there is no need for special treatment;
- I believe all of this is temporary. It won't be more than 3 years; and
- COVID-19 is not an adjusting event and does not have a significant impact on the financial statements so that the numbers on the financial statements including reserves do not need to be adjusted.

Qs 5 and 6: It is now the time for DSAK-IAI to revise financial accounting standards by adding more specific disclosure requirements when the entity's business going concern assessment concludes that there is **NO consideration of material uncertainty due to the COVID-19 pandemic **but there are significant considerations** used to arrive at this conclusion?**

To revise financial accounting standards if there is **NO** consideration of material uncertainty due to the COVID-19 pandemic but there are significant considerations used to arrive at this conclusion? (**Practitioners**)



To revise financial accounting standards if there is **NO** consideration of material uncertainty due to the COVID-19 pandemic but there are significant considerations used to arrive at this conclusion? (**Academicians**)



Qs 5 and 6: It is now the time for DSAK-IAI to revise financial accounting standards by adding more specific disclosure requirements when the entity's business going concern assessment concludes that there is **NO consideration of material uncertainty due to the COVID-19 pandemic **but there are significant considerations** used to arrive at this conclusion? **Those who agree ...****

Practitioners:

- More specific disclosure requirements when in an entity's going concern assessment concludes that there is no consideration of material uncertainty due to the COVID-19 pandemic will be of great benefit to company's stakeholders; and
- It is the time for DSAK-IAI to revise financial accounting standards by adding more specific disclosure requirements when the entity's business going concern assessment concludes that there is **NO** consideration of material uncertainty due to the COVID-19 pandemic but there are significant considerations used to arrive at this conclusion.

Academics:

- Disclosures about events experienced by the entity, both normal and extra ordinary events, should be adequately disclosed if it supports the presentation of figures;
- More specific disclosure requirements regarding the effect of the outbreak on financial statements;
- I agree, DSAK-IAI revised financial accounting standards by adding more specific disclosure requirements when the entity's going concern assessment concluded that there was **NO** consideration of material uncertainty due to the COVID-19 pandemic but there were significant considerations used to arrive at that conclusion. This is because to clarify the assessment of the going concern of the entity, where there are no results that state that there is no consideration of material uncertainty due to the COVID-19 pandemic. However, the process of concluding / determining this statement requires further explanation and significant consideration.

Qs 5 and 6: It is now the time for DSAK-IAI to revise financial accounting standards by adding more specific disclosure requirements when the entity's business going concern assessment concludes that there is **NO consideration of material uncertainty due to the COVID-19 pandemic **but there are significant considerations** used to arrive at this conclusion? **Those who disagree ...****

Practitioners:

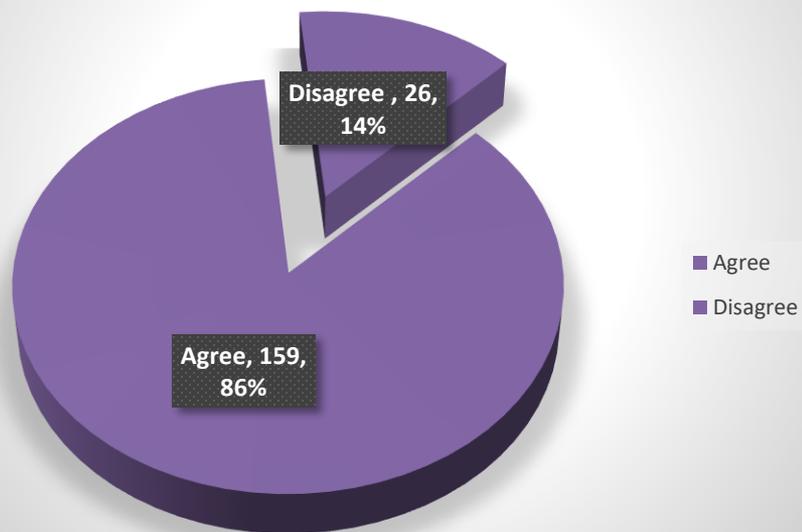
- It does not need to be revised because it has been explained in paragraph 03 of PSAK 8, but it needs to be more socialized for its application;
- As referred to the adjustment event after the reporting date is an event that provides evidence of the existence of conditions at the end of the period and non-adjustment indicating conditions that arise after the reporting date.

Academicians:

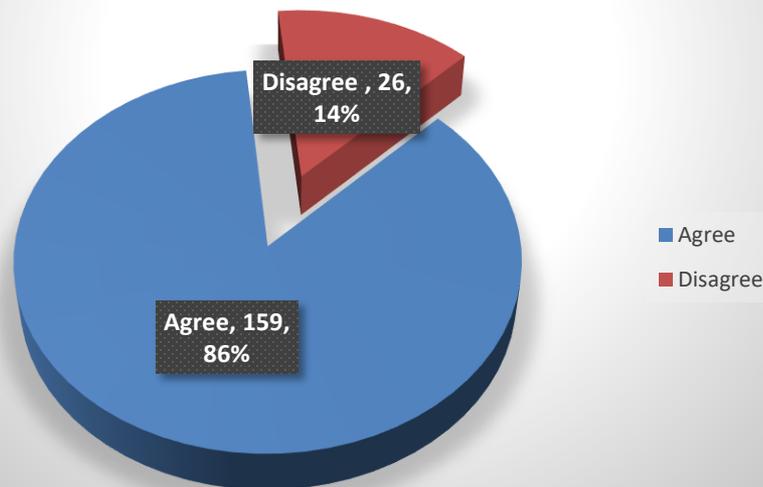
- It needs in-depth research into all sectors and input / FGD from all affected sectors;
- More specific disclosure requirements regarding the effect of the outbreak on financial statements;
- Currently, there is significant uncertainty regarding the impact of Covid-19, however, it is necessary to realize that this condition is not expected to be permanent. Even if it is difficult, the entity still must estimate the KKE. At this time, it may still be difficult to predict the specific impact of both Covid-19.

Qs 7 and 8: Is it now the time for DSAK-IAI to revise financial accounting standards by adding requirements for recognition, measurement and presentation for accounts affected by the non-compliance of the entity's going concern assumption due to COVID-19?

It is now the time for DSAK-IAI to revise financial accounting standards by adding requirements for recognition, measurement and presentation for accounts (**Practitioners**)



Is it now the time for DSAK-IAI to revise financial accounting standards by adding requirements for recognition, measurement and presentation for accounts



Qs 7 and 8: Is it now the time for DSAK-IAI to revise financial accounting standards by adding requirements for recognition, measurement and presentation for accounts affected by the non-compliance of the entity's going concern assumption due to COVID-19? Those who agree ...

Practitioners:

- I agree with the addition of the requirements for recognition, measurement and presentation for accounts that are affected by the failure to fulfill the assumption of the entity's going concern due to the COVID-19 because the effect or impact of this pandemic is indeed extraordinary. With this requirement, at least it can help business entities;
- The requirements for recognition, measurement and presentation for accounts affected by the non-fulfillment of the entity's going concern assumptions due to COVID-19 will make it easier for stakeholders to further analyse these accounts; and
- Strongly agree, disclosure is not only in the form of qualitative / narrative in nature only eliminates the prerequisites for financial statement disclosure, but this aspect specifically must be able to be quantitatively reflected in the accounts of financial statements.

Academicians:

- Additional requirements for recognition, measurement and presentation need to be regulated for accounts affected by the non-fulfillment of the entity's going concern assumptions due to COVID-19; and
- As a business actor may really expect certain items to be made a standard in measuring or recognizing the presentation in the financial statements.

Qs 7 and 8: Is it now the time for DSAK-IAI to revise financial accounting standards by adding requirements related to recognition, measurement, and presentation for accounts affected by the non-compliance of the entity's going concern assumption due to COVID-19?

Those who disagree ..

Practitioners:

- There is no need for revision because it is stated in PSAK 71 concerning Financial Instruments which describes the framework with certain approaches in assessing future conditions from various available information including the impact of COVID-19 and the policies taken;
- The going concern assessment should be straight forward so that it does not require more specific disclosures; and
- This has been covered in existing standards.

Academics:

- The requirements for recognition, measurement and presentation are clear;
- The going concern assumption will affect the presentation of the financial statement accounts. Sufficient explanation is needed in the conditions of the Covid-19 pandemic, which are conditional. No revisions to accounting standards.

What do we recommend at this stage?

1. This was a preliminary study;
2. We filed the study for further purposes;
3. Presentation to the other board members will be done shortly; and
4. Proper process still needs to be conducted.

Thank you...