



*Te Kāwai Ārahi Pūrongo Mōwaho*  
EXTERNAL REPORTING BOARD

# Going Concern Disclosures: Learnings from requiring additional disclosures in New Zealand

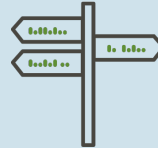


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# Presentation Overview

- Why did we introduce additional disclosures?
- Additional going concern disclosures
- Greater alignment with auditing standards
- Learnings since adoption
- Recent IAASB proposals on going concern
- Closing comments



## Why did we introduce additional disclosures?



- NZ IFRS had limited disclosure requirements on management's assessment of whether the entity is a going concern.

COVID-19 heightened concerns about going concern disclosures:

- There was **diversity in practice**
- Investors, auditors and regulators **wanted more disclosure**
- There was a **disconnect** between accounting and auditing standards



## Additional disclosures

### Amendment to NZ standard FRS-44 *New Zealand Additional Disclosures*

(Effective for periods ending on/after 30 September 2020)

Introduced **more specific disclosure requirements** for situations when the going concern assessment involved:

- The application of **significant judgement**
- The consideration of **material uncertainties**



The specific disclosure requirements are shown in [Appendix A](#) of these slides

# Additional disclosures

## Going concern assessment outcome

Events or conditions identified that may cast **significant doubt** on the company's ability to continue as a going concern?

No

Yes

**Material uncertainty** regarding the company's ability to continue as a going concern?

No

Yes

Intention to liquidate, or cease trading or no other realistic alternative but to do so?

No

Yes

Going concern basis for financial statement preparation no longer appropriate.

## Going concern disclosures

No specific going concern disclosures required, unless material to users

Information about **significant judgements and assumptions**

- Information about **events or conditions** giving rise to material uncertainties
- Information about how **management plan** to mitigate the effects of any material uncertainties
- Information about how assets and liabilities **may not be realised/discharged** in the normal course of business

Information that the going concern basis was not used, alternative basis of preparation, reason why the company is not regarded as a going concern

# Greater alignment with Auditing Standards



## Alignment with Auditing Standards

- The additional disclosures in FRS 44 aligned requirements with the NZ auditing standard on going concern



## ISA (NZ) 570, para 19

- When there is material uncertainty over going concern, adequate disclosure is required on:
  - Events or conditions that may cast significant doubt on ability to continue as going concern;
  - Managements plans to deal with these events or conditions;
  - That the material uncertainty relating to these events and conditions may mean the entity is unable to realise its assets and discharge its liabilities in the normal course of business.

## What we heard during consultation

The proposed specific going concern disclosures were **broadly supported by NZ stakeholders**, who noted that the disclosures will:

- Improve the financial information provided when the going concern assessment has involved significant judgements and/or consideration of material uncertainties
- Reduce the difficult conversations between preparers and auditors

The proposals were **supported** by:

- Regulators
- Auditors
- Major accounting firms
- Professional accountancy bodies



## Learnings since adoption



### What we have heard and observed so far...

- COVID-19, economic uncertainty → more going concern judgement and disclosures
- FRS-44 amendments encourage management to consider appropriate going concern disclosures in the financial statements
- Some improvement in going concern disclosures – see the next few slides (more detail on material uncertainty, judgements/assumptions, mitigation plans...)

### Benefits expected to endure in the long term, beyond COVID-19...



# Learnings since adoption



## Academic research

### **Aligning disclosure requirements for managerial assessments of going concern risk: Initial evidence from New Zealand (Grosse, Scott & Zang, 2023) [\[link\]](#)**

- Reduced tension between preparers and auditors during going concern discussions.
- Lower audit fees and shorter audit lags.



## Example disclosures (Pre-amendments)

Material uncertainty exists

### ‘Company A’ – 31 March 2020

The Group **made a net loss before tax** of \$2,363,002 for the year ended 31 March 2020 (2019: \$4,376,500), has equity at 31 March 2020 of [...]. **The Group does not currently generate sufficient revenues to meet operating costs and the Group does not operate a facility of debt to draw upon.**

The Directors consider that the Group has **sufficient cash on hand combined with cash flows from operations and funds received from capital raised during the year** (note 11) and subsequent to year end (note 28) to continue operating for the foreseeable future, which is not less than 12 months [...]. As a result, the Group does not intend to raise further capital.

The **uncertainty of meeting forecasted financial performance creates a material uncertainty that may cast doubt on [Company A’s] ability to continue as a going concern** and therefore [Company A] **may be unable to realise its assets and discharge its liabilities in the normal course of business.** Notwithstanding the uncertainty to meet forecasted financial performance the Directors are confident that [Company A] remains a going concern.

Limited information on judgements and assumptions in assessing going concern

Material uncertainty mentioned – but limited information on the conditions leading to uncertainty and management’s mitigation plans

## Example disclosures (Post-amendments)

Material uncertainty exists

### ‘Company A’ – 31 March 2021

The Group made a **net loss before tax** of \$1.688 million for the year ended 31 March 2021 [...]. **The Group does not currently generate sufficient revenues to meet operating costs and the Group does not operate a facility of debt to draw upon.**

At each reporting date, **estimates and judgements** are made around the ability of the Group to continue operating for the foreseeable future[...]. These estimates and judgements are formed **with reference to the current cash on hand and forecast future cash flows from operations**, using information available to the Directors at the time of signing the financial statements. The Group’s ability to continue as a going concern is **dependent upon meeting forecasted growth in revenue primarily through customer acquisition. The uncertainty of meeting forecast growth**, and in turn forecast future cash flows from operations, creates a **material uncertainty that may cast doubt on the Group’s ability to continue as a going concern.**

**In the event that forecasted cash flows from operations are not met, plans to mitigate the effects of this on the Group’s ability to continue as a going concern include:** Hiring freeze; Reducing operating expense; [...]. The Directors consider after making due enquiry and having regard to the circumstances which they consider reasonably likely to affect the Group that the Group has sufficient cash [...] for the foreseeable future, which is not less than 12 months from the date these financial statements are approved for issue, that the going concern assumption is valid. **If [Company A] is unable to continue as a going concern the company may be unable to realise its assets and discharge its liabilities in the normal course of business.**

More detail on judgements and assumptions, nature of material uncertainty, mitigation plans, etc.

## Example disclosures (Pre-amendments)

### ‘Company B’ – 31 December 2019

[...] In assessing the adoption of the going concern principle [...], the directors have reviewed and adopted the group future cash flow forecast (forecast) to 31 March 2021. [...] The group is **forecasting for 2020 to be a year of further profit expansion** with EBITDA higher than for 2019 and cash flows from operations that will support investing activities.

This forecast includes **judgments and estimates over key assumptions relating to future revenue, gross margins, operating costs and capital expenditure and the ability to manage those costs** to respond to changes that might arise between actual and forecast cash flows over the forecast period.

**Management have considered several risk scenarios, including the potential impact of Novel Coronavirus [...] and mitigating actions** that would be undertaken in the event actual cash flows vary adversely from forecast. Given the nature of the judgments and estimates noted above and the **management’s ability to take mitigating actions**, it is the considered view of the Directors that the group will have **access to adequate resources to meet its ongoing obligations for at least a period of 12 months** from the date of signing these consolidated financial statements. On this basis, the Directors have assessed it is appropriate to adopt the going concern basis in preparing its financial statements.

No material uncertainty, but going concern is a ‘key audit matter’

Only general information about judgements and assumptions – naming areas of estimation in the forecast and reference to mitigating action, but no further detail

Other than general reference to COVID, limited information on conditions that could cast significant doubt re: going concern

## Example disclosures (Post-amendments)

### ‘Company B’ – 31 December 2020

No material uncertainty, but going concern is a ‘key audit matter’

[...] **Trading results from April 2020 were impacted by COVID-19**[...] In assessing the adoption of the going concern principle in the preparation of the financial statements, the Directors have reviewed a future cash flow forecast to 31 March 2022. [...] [T]he forecast for existing products **assumed 2021 volumes at around 80% of 2019 volume and then returning to 100% in 2022. New products** scheduled to be launched in 2021 were **forecast to generate additional revenue of \$4.1m in the 2021 year.**

Directors considered **two downside risk scenarios – a 10% revenue decline through to 31 March 2022 compared to forecast and a greater 20% decline.** The **mitigating actions** that the Group would implement [...] include, **extension of supplier terms by agreement; deferral of capital expenditure; and operating cost reductions.**[...]

The forecast and downside scenarios include **judgments and estimates over key assumptions relating to customer demand, future revenue, gross margins, operating costs, cash flows, exchange rates and capital expenditure and the ability to manage those costs and cash flows** to respond to changes [...]. It is possible, given the **uncertain nature of customer and government responses to COVID-19** outbreaks, that the economic environment might change rapidly [...]. The Group’s forecast scenarios **are most sensitive to further revenue declines relating to customer demand**, but downside scenarios indicate that this would **need to decline to a level below the Board’s reasonable expectation** [...]. [T]he Board believes that, given the **support it has seen during its last two rights issues, [...] it could rely on sourcing additional financing** [...].

More detail on conditions that could cast doubt on going concern, and judgements and assumptions, including mitigation plans

## Example disclosures (Pre-amendments)

### 'Company C' – 31 March 2019

The directors have carefully considered the ability of the group to continue to operate as a going concern for at least the next 12 months from the date the financial statements are authorised for issue. It is the conclusion of the directors that the group will continue to operate as a going concern and the financial statements have been prepared on that basis. In reaching their conclusion the directors have considered the following factors:

- **Cash reserves at 31 March 2019 of \$15.7 million provides a sufficient level of headroom** to help support the business for at least the next twelve months; and
- The directors have made due enquiry into the **appropriateness of the assumptions underlying the budgetary forecasts.**

No material uncertainty, but  
company making losses

Minimal disclosure on the conditions that cast significant doubt on the ability to continue as going concern – relies on the financial statements to provide context

Minimal disclosure on significant judgements and assumptions in going concern assessment

# Example disclosures (Post-amendments)

## 'Company C' – 31 March 2021

No material uncertainty, but  
company making losses

The Board has carefully considered the ability of the Group to continue to operate as a Going Concern for at least the next 12 months from the date the financial statements are authorised for issue. It is the conclusion of the Board that the Group will continue to operate as a going concern and the financial statements have been prepared on that basis. In reaching their conclusion the Board has considered the following factors:

- **Cash reserves [...] at 31 March 2021 of \$79.9 million provides a sufficient level of headroom** to help support the business for at least the next 12 months;
- [...] **completed an oversubscribed capital raise in October 2020 of \$67.5 million [...]** to continue to invest for future growth opportunities and is **targeting an average cash burn between \$2million and \$4 million per month for FY22;**
- [...] has **identified cost saving initiatives to manage its cash burn** should revenue be less than forecast for FY22;
- Four-year forecasts have been prepared that **forecast a return to profitability within its cash reserves for the current planned and approved investments;** and
- The Board has made due enquiry into the **appropriateness of the assumptions underlying the budgetary forecasts.**

Still limited information on conditions that may cast significant doubt on ability to continue as a going concern

But: More detail on significant judgements and assumptions in assessment of going concern

## Recent IAASB proposals

### **In April 2023, IAASB proposed amendments to auditing standard ISA 570 *Going Concern including:***

- Define 'material uncertainty'
- Clarify 'may cast significant doubt'
- Period of going concern assessment: at least 12 months from ~~end of reporting period~~ *financial statements approval date*
- Explicit statement on appropriateness of going concern assumption in audit report

### **What we've been hearing in NZ:**

- Accounting standards should (also) provide definition and guidance for 'material uncertainty' re: going concern
- Going concern assessment period in accounting standards should align with auditing standards
- Important in general for accounting and auditing standards to align re: going concern



## Closing comments

We continue to consider that it would be useful and important to add an IASB project on going concern disclosures

More specific disclosure requirements within IAS 1 would improve the provision of relevant and transparent information to users on going concern – and will also benefit preparers and auditors

### When?

Once the IAASB amendments are finalised, this would be a good opportunity for the IASB to enhance the going concern disclosure requirements in IFRS Accounting Standards



# Questions?

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**Appendix A:**  
**Additional specific going concern  
disclosures in FRS-44 *New Zealand  
Additional Disclosures***



## Additional disclosures

Specific disclosures about **significant judgements** management has applied in forming its conclusions on the entity's ability to continue as a going concern

Paragraph 122 of NZ IAS 1 requires an entity to disclose the judgements, apart from those involving estimations (see paragraph 125 of NZ IAS 1), that management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements. Paragraph 125 of NZ IAS 1 requires an entity 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. **To the extent not already disclosed in accordance with paragraphs 122 and 125 of NZ IAS 1, where an entity prepares its financial statements on a going concern basis, and management is aware of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, it shall disclose information about the significant judgements and assumptions made as part of its assessment of whether the going concern assumption is appropriate.**

## Additional disclosures

Disclosures about **material uncertainties** management is aware of in forming its conclusions on the entity's ability to continue as a going concern

When preparing financial statements, paragraph 25 of NZ IAS 1 *Presentation of Financial Statements* requires management to make an assessment of an entity's ability to continue as a going concern. It requires an entity to prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. Furthermore, when management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, paragraph 25 of NZ IAS 1 requires disclosure of those uncertainties. **When such material uncertainties exist, to the extent not already disclosed in accordance with paragraph 25 of NZ IAS 1, an entity that prepares its financial statements on a going concern basis shall disclose:**

- (a) that there are one or more material uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern;**
- (b) information about the principal events or conditions giving rise to those material uncertainties;**
- (c) information about management's plans to mitigate the effect of those events or conditions; and**
- (d) that, as a result of those material uncertainties, it may be unable to realise its assets and discharge its liabilities.**