



NZ ACCOUNTING  
STANDARDS  
BOARD

## **GOING CONCERN DISCLOSURES (AMENDMENTS TO PBE IPSAS 1)**

### **Issued August 2020**

This Standard was issued on 20 August 2020 by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on 17 September 2020.

Reporting entities that are subject to this Standard are required to apply the Standard in accordance with the effective date set out in Part D.

In finalising this Standard, the New Zealand Accounting Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Tier 1 and Tier 2 PBE Standard has been issued to establish more specific going concern disclosure requirements when material uncertainties exist or significant judgements were required when assessing the appropriateness of applying the going concern basis of preparation. The more specific disclosure requirements will assist preparers of financial reports to provide relevant and transparent information to users of financial reports in these circumstances, which is particularly relevant as a result of the COVID-19 pandemic in 2020.

## GOING CONCERN DISCLOSURES

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## GOING CONCERN DISCLOSURES

### CONTENTS

	<i>from page</i>
<b>PART A: INTRODUCTION</b>	4
<b>PART B: SCOPE</b>	4
<b>PART C: AMENDMENTS TO PBE IPSAS 1</b>	4
<b>PART D: EFFECTIVE DATE</b>	5

## Part A – Introduction

This Standard sets out amendments to PBE IPSAS 1 *Presentation of Financial Reports*.

The amendments introduce more specific disclosures about going concern assessments to help preparers of financial reports to provide relevant and transparent information to users of those financial reports about the matters considered when making such assessments.

Tier 2 public benefit entities are required to comply with all the requirements in this Standard.

## Part B – Scope

This Standard applies to Tier 1 and Tier 2 public benefit entities.

## Part C – Amendments to PBE IPSAS 1 *Presentation of Financial Reports*

Paragraphs 41.1 and 41.2, and a section heading, are added. Paragraphs 38 to 41 are shown for context. Paragraph 154.13 is added. New text is underlined.

### Going Concern

38. **When preparing a financial report, an assessment of an entity’s ability to continue as a going concern shall be made. This assessment shall be made by those responsible for the preparation of the financial report. Financial reports shall be prepared on a going concern basis unless intends to liquidate the entity or to cease operating, or if there is no realistic alternative but to do so. When those responsible for the preparation of the financial report are aware, in making their 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, those uncertainties shall be disclosed. When financial reports are not prepared on a going concern basis, that fact shall be disclosed, together with the basis on which the financial report is prepared and the reason why the entity is not regarded as a going concern.**
39. Financial reports are normally prepared on the assumption that the entity is a going concern and will continue in operation and meet its statutory obligations for the foreseeable future. In assessing whether the going concern assumption is appropriate, those responsible for the preparation of financial reports take into account all available information about the future, which is at least, but is not limited to, twelve months from the approval of the financial report.
40. The degree of consideration depends on the facts in each case, and assessments of the going concern assumption are not predicated on the solvency test usually applied to business enterprises. There may be circumstances where the usual going concern tests of liquidity and solvency appear unfavourable, but other factors suggest that the entity is nonetheless a going concern. For example:
- (a) In assessing whether a government is a going concern, the power to levy rates or taxes may enable some entities to be considered as a going concern, even though they may operate for extended periods with negative net assets/equity; and
  - (b) For an individual entity, an assessment of its statement of financial position at the reporting date may suggest that the going concern assumption is not appropriate. However, there may be multi-year funding agreements or other arrangements in place that will ensure the continued operation of the entity.
41. The determination of whether the going concern assumption is appropriate is primarily relevant for individual entities rather than for a government as a whole. For individual entities, in assessing whether the going concern basis is appropriate, those responsible for the preparation of the financial report may need to consider a wide range of factors relating to (a) current and expected performance, (b) potential and announced restructurings of organisational units, (c) estimates of revenue or the likelihood of continued revenue streams, including government funding and the donation base, and (d) potential sources of replacement financing before it is appropriate to conclude that the going concern assumption is appropriate.

## GOING CONCERN DISCLOSURES

### Going Concern Disclosures

41.1 Paragraph 38 of this Standard requires disclosure of material uncertainties related to events or conditions that may cast significant doubt upon an entity's ability to continue as a going concern. When such material uncertainties exist, to the extent not already disclosed in accordance with paragraph 38 of this Standard, an entity that prepares its financial report 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 the plans of those responsible for governance 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 in the normal course of business.

41.2 Paragraph 137 of this Standard requires an entity to disclose the judgements, apart from those involving estimations (see paragraph 140), 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 reports. Paragraph 140 of this Standard requires an entity to disclose information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing 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 137 and 140 of this Standard, where an entity prepares its financial report on a going concern basis, and those responsible for the preparation of financial reports are 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.

\* In this context, management is the person/committee responsible for the financial report.

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### **Effective Date**

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154.13 *Going Concern Disclosures* (Amendments to PBE IPSAS 1), issued in August 2020, added paragraphs 41.1–41.2 and the related heading. An entity shall apply those amendments for annual periods ending on or after 30 September 2020. Earlier application is permitted.

In the Basis for Conclusions, paragraphs BC13 and BC14 are added.
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### **Going Concern Disclosures**

BC13 In June 2020 the NZASB issued ED 2020-3 *Going Concern Disclosures* (Proposed amendments to PBE IPSAS 1). The NZASB noted that the COVID-19 pandemic in 2020 resulted in significant disruption and uncertainties for many entities and led to an increased interest in going concern disclosures. The NZASB was of the view that more specific going concern disclosure requirements would help preparers of financial reports when applying existing disclosure requirements to provide relevant and transparent information to resource providers and other users of financial reports in these circumstances, both in the current environment and in the future. The NZASB considered that users had an increased need for information about going concern assessments at this time. The NZASB also noted that there was diversity in practice in the level of information provided by entities and was of the view that users would benefit from more consistent disclosure.

BC 14 The NZASB considered that the matter was of sufficient importance, and users' need for information sufficiently urgent, to propose New Zealand-specific disclosures. Constituents were broadly supportive of the proposals, although some would have preferred that the matter be addressed by international bodies. The NZASB finalised these amendments in August 2020.

## **Part D – Effective Date**

This Standard shall be applied for annual periods ending on or after 30 September 2020. Earlier application is permitted.