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Contacts:

Helene Kennedy + 1-973-394-9256
(Mobile) + 1-917-254-6706
helenekennedy@ifac.org
Vincent Tophoff + 1-212-471-8733
(Mobile) + 1-347-327-0977
vincenttophoff@ifac.org

IAASB Practice Alert Helps Auditors and Management Assess Impact of Credit Crisis on Going Concern Assumptions

(New York/January 20, 2009) - The unexpected severity, speed and consequences of the credit crisis present unique challenges for management and auditors in meeting their responsibilities in assessing an entity's ability to continue as a going concern. To help auditors and management, as well as those charged with governance, in addressing those challenges, the staff of the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board under the auspices of the International Federation of Accountants (IFAC), has released a new practice alert entitled *[Audit Considerations in Respect of Going Concern in the Current Economic Environment](#)*. The alert was developed following consultation with the IAASB and a review of similar guidance issued by national standard setters.

Management, those charged with governance and auditors alike must consider the effect of the credit crisis and economic downturn on an entity's ability to continue as a going concern and whether these effects ought to be described in the financial statements. The alert highlights areas within International Standard on Auditing (ISA) 570, *Going Concern*, as well as other ISAs, that are particularly relevant in the current economic environment and provides additional guidance for auditors in evaluating management's use of the going concern assumption. It also raises awareness of issues surrounding liquidity and credit risk that may create new uncertainties for entities or exacerbate those already existing.

James Sylph, Executive Director, Professional Standards, emphasizes, "While the alert notes that auditors are always required to evaluate management's use of the going concern assumption, given current economic conditions, the evaluation will take on even more importance and is likely to be more complex. This is particularly the case with regard to the availability of credit and the impact of the current economic environment on budgets and forecasts, factors which are likely to result in additional disclosures in the current period's financial statements. As such, we believe this alert will be useful for auditors as well as management of entities of all sizes in the current audit season."

This new alert is the second alert issued by staff of the IAASB. The first, *[Challenges in Auditing Fair Value Accounting Estimates in the Current Market Environment](#)*, was issued in October 2008 to assist auditors in addressing the challenges of auditing fair value accounting estimates, and highlights areas within the ISAs that are particularly relevant in the audit of fair value accounting estimates in times of market uncertainty. Both alerts may be downloaded free of charge from the IFAC website (www.ifac.org). For more information on IFAC initiatives with regard to the global financial crisis, please visit <http://www.ifac.org/financial-crisis/>.

About the IAASB and IFAC

The objective of the IAASB is to serve the public interest by setting high quality auditing and assurance standards and by facilitating the convergence of international and national standards, thereby enhancing the quality and uniformity of practice throughout the world and strengthening public confidence in the global auditing and assurance profession. The Public Interest Oversight Board oversees the activities of the IAASB and, as one element of that oversight, establishes its due process and working procedures.

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 158 members and associates in 122 countries and jurisdictions, representing more than 2.5 million accountants in public practice, education, government service, industry and commerce. In addition to setting international auditing and assurance standards through the IAASB, IFAC, through its independent standard-setting boards, sets international ethics, education, and public sector accounting standards. It also issues guidance to encourage high quality performance by professional accountants in business.