

ISA 570 – Updates to Paragraph 20 in Agenda Item 3-C and Related Application Material

[Marked from September 15, 2014]

Requirements

Auditor Conclusions

17. The auditor shall evaluate whether sufficient appropriate audit evidence has been obtained regarding, and conclude on the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.
18. Based on the audit evidence obtained, the auditor shall conclude whether, in the auditor's judgment, a material uncertainty exists related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern. A material uncertainty exists when the magnitude of its potential impact and likelihood of occurrence is such that, in the auditor's judgment, appropriate disclosure of the nature and implications of the uncertainty is necessary for: (Ref: Para. A21~~9~~)
 - (a) In the case of a fair presentation financial reporting framework, the fair presentation of the financial statements, or
 - (b) In the case of a compliance framework, the financial statements not to be misleading.

Adequacy of Disclosures When Events or Conditions Have Been Identified and a Material Uncertainty Exists

19. If the auditor concludes that management's use of the going concern basis of accounting is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether the financial statements: (Ref Para. A22~~1~~–A23~~2~~)
 - (c) Adequately disclose the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans to deal with these events or conditions; and
 - (d) Disclose clearly that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business.

Adequacy of Disclosures When Events or Conditions Have Been Identified but No Material Uncertainty Exists

20. If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained, the auditor concludes that no material uncertainty exists, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework, the financial statements provide adequate disclosures about these events or conditions. (Ref: Para. A2~~4~~3–A2~~5~~4)

Application Material

Adequacy of Disclosures of a Material Uncertainty

A224. Paragraph 18 of this ISA requires the auditor to conclude that a material uncertainty exists when the magnitude of the potential impact of the events ~~and or~~ conditions and the likelihood of occurrence is such that appropriate disclosure is necessary to achieve fair presentation (for fair presentation frameworks) or for the financial statements not to be misleading (for compliance frameworks). This conclusion is required regardless of whether or how the applicable financial reporting framework defines a material uncertainty.

A23. Paragraph 19 requires the auditor to determine whether the financial statement disclosures address the matters set forth in that paragraph. This determination is required regardless of disclosure requirements in the applicable financial reporting framework. Some financial reporting frameworks may require disclosures about material uncertainties in addition to the matters set forth in paragraph 19, such as management's evaluation of the significance of the conditions or events in relation to the entity's ability to meet its obligations. In addition, some financial reporting frameworks may provide additional guidance regarding considerations relating to the disclosures about the magnitude of the potential impact of the principal events or conditions, and the likelihood and timing of their occurrence.

~~A22. When determining the adequacy of disclosures relating to a material uncertainty, the auditor may consider whether the disclosures include the following:~~

- ~~• The principal event(s) or condition(s) to which the assessment of the entity's ability to continue as a going concern relates.~~
 - ~~○ The magnitude of their effect;~~
 - ~~○ The likelihood of their occurrence; and~~
 - ~~○ The potential timing of their occurrence.~~
- ~~• The significant judgments made by management as part of its assessment, including management's plans that mitigate the event(s) or condition(s) that may cast significant doubt on the entity's ability to continue as a going concern.~~

Adequacy of Disclosures When Events or Conditions Have Been Identified but No Material Uncertainty Exists (Ref: Para. 20)

A243. Even when no material uncertainty exists, some financial reporting frameworks may specify explicit disclosure requirements about events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, and management's plans to mitigate them, while others may more generally require disclosures about significant management judgments made in preparing the financial statements. ~~Such~~ Some financial reporting frameworks may require disclosures about ~~may also include information about the extent to which the expected effects of these events or conditions and management's plans for future actions may be impacted by changes to the methods, assumptions that management makes about the future and other major sources of~~ and estimations underlying the determination of those effects ~~uncertainty.~~

A254. When the financial statements are prepared in accordance with a fair presentation framework, the auditor is required to evaluate whether disclosures in the financial statements achieve fair

presentation.¹ This responsibility applies even in circumstances where the auditor concludes that no material uncertainty exists. Depending upon the facts and circumstances, disclosures to achieve fair presentation in these circumstances may include. For example, management's plans intended to mitigate specific events and conditions, such as disposing of major assets outside the ordinary course of business in order to discharge liabilities as they become due, ~~may need to be disclosed to achieve fair presentation even when no material uncertainty exists.~~

¹ Proposed ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraph 14