

Agenda Item

9-D

MAPPING DOCUMENT

This mapping document demonstrates how the material in the extant ISA 570 has been reflected in the proposed redrafted ISA. Highlight material identifies material that is proposed to be eliminated or repositioned to another ISA (as needed) as a result of redrafting. An explanation of the proposed deletion and other comments are provided, where appropriate.

Extant ISA 570	New Para. Ref.	Comment on proposed deletion of highlighted material, significant edits, and other notes.
Introduction		
<p>1. The purpose of this International Standard on Auditing (ISA) is to establish standards and provide guidance on the auditor's responsibility in the audit of financial statements with respect to the going concern assumption used in the preparation of the financial statements, including considering management's assessment of the entity's ability to continue as a going concern.</p>	1	Introduction. The last part of the sentence has been deleted, as it is not necessary to include this level of detail in the introduction. Subsequent text has been added to make it clear that this ISA does not apply in the audit of financial statements not prepared on a going concern basis.
<p>2. When planning and performing audit procedures and in evaluating the results thereof, the auditor should consider the appropriateness of management's use of the going concern assumption in the preparation of the financial statements.</p>	9	Reworded to become the objective.
Management's Responsibility		

Note: Highlighting indicates material that has been deleted, unless otherwise noted.

<p>3. The going concern assumption is a fundamental principle in the preparation of financial statements. Under the going concern assumption, an entity is ordinarily viewed as continuing in business for the foreseeable future with neither the intention nor the necessity of liquidation, ceasing trading or seeking protection from creditors pursuant to laws or regulations. Accordingly, assets and liabilities are recorded on the basis that the entity will be able to realize its assets and discharge its liabilities in the normal course of business.</p>	2	Placed in the introduction (as essential background information; analogous to essential background material in introduction of ISA 240). The second half of the second sentence has been replaced by an explanation as to when financial statements are prepared on a going concern basis. (This text is based on IAS 1.23, however, the word “cease trading” has been replaced with “cease operations” so that the term is neutral, since not all entities trade.)
<p>4. Some financial reporting frameworks contain an explicit requirement¹ for management to make a specific assessment of the entity’s ability to continue as a going concern, and standards regarding matters to be considered and disclosures to be made in connection with going concern. For example, International Accounting Standard (IAS) 1 (Revised 2003), “Presentation of Financial Statements” requires management</p>	3	Placed in the introduction (as essential background information; analogous to essential background

¹ The detailed requirements regarding management’s responsibility to assess the entity’s ability to continue as a going concern and related financial statement disclosures may be set out in accounting standards, legislation or regulation.

² International Accounting Standard (IAS) 1 (Revised 2003), “Presentation of Financial Statements,” paragraphs 23 and 24 state: “When preparing financial statements, management shall make an assessment of an entity’s ability to continue as a going concern. Financial statements shall be prepared 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. 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, those uncertainties shall be disclosed. When financial statements are not prepared on a going concern basis, that fact shall be disclosed, together with the basis on which the financial statements are prepared and the reasons why the entity is not regarded as a going concern.

to make an assessment of an enterprise's ability to continue as a going concern. ²		material in introduction of ISA 240).
5. In other financial reporting frameworks, there may be no explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern. Nevertheless, since the going concern assumption is a fundamental principle in the preparation of the financial statements, management has a responsibility to assess the entity's ability to continue as a going concern even if the financial reporting framework does not include an explicit responsibility to do so.	4	Placed in the introduction (as essential background information; analogous to essential background material in introduction of ISA 240).
6. When there is a history of profitable operations and a ready access to financial resources, management may make its assessment without detailed analysis.	-	Deleted because it is repeated by extant paragraph 21.1 which has been moved to A10.1.
7. Management's assessment of the going concern assumption involves making a judgment, at a particular point in time, about the future outcome of events or conditions which are inherently uncertain. The following factors are relevant: • In general terms, the degree of uncertainty associated with the outcome of an event or condition increases significantly the further into the future a judgment is being made about the outcome of an event or condition. For that reason, most financial reporting frameworks that require an explicit management assessment specify the period for which management is required to take into account all available information.	5.1 5.2 5.2b1	This sets forth inherent limitations specific to going concern and is therefore important for an understanding of this ISA. Accordingly, it has been included in the introductory section.

In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the balance sheet date. The degree of consideration depends on the facts in each case. When an entity has a history of profitable operations and ready access to financial resources, a conclusion that the going concern basis of accounting is appropriate may be reached without detailed analysis. In other cases, management may need to consider a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate.”

<ul style="list-style-type: none"> • Any judgment about the future is based on information available at the time at which the judgment is made. Subsequent events can contradict a judgment which was reasonable at the time it was made. 	5.2b3	
<ul style="list-style-type: none"> • The size and complexity of the entity, the nature and condition of its business and the degree to which it is affected by external factors all affect the judgment regarding the outcome of events or conditions. 	5.2b2	

<p>8. Examples of events or conditions, which may give rise to business risks, that individually or collectively may cast significant doubt about the going concern assumption are set out below. This listing is not all-inclusive nor does the existence of one or more of the items always signify that a material uncertainty³ exists.</p> <p><i>Financial</i></p> <ul style="list-style-type: none"> • Net liability or net current liability position. • Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment; or excessive reliance on short-term borrowings to finance long-term assets. • Indications of withdrawal of financial support by debtors and other creditors. • Negative operating cash flows indicated by historical or prospective financial statements. • Adverse key financial ratios. • Substantial operating losses or significant deterioration in the value of assets used to generate cash flows. • Arrears or discontinuance of dividends. • Inability to pay creditors on due dates. • Inability to comply with the terms of loan agreements. • Change from credit to cash-on-delivery transactions with suppliers. • Inability to obtain financing for essential new product development or other essential investments. <p><i>Operating</i></p>	A4	Application material listing examples.
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³ The phrase “material uncertainty” is used in IAS 1 (Revised 2003) in discussing the uncertainties related to events or conditions which may cast significant doubt on the enterprise’s ability to continue as a going concern that should be disclosed in the financial statements. In other financial reporting frameworks, and elsewhere in the ISA’s, the phrase “significant uncertainties” is used in similar circumstances.

<ul style="list-style-type: none"> • Loss of key management without replacement. • Loss of a major market, franchise, license, or principal supplier. • Labor difficulties or shortages of important supplies. <p><i>Other</i></p> <ul style="list-style-type: none"> • Non-compliance with capital or other statutory requirements. • Pending legal or regulatory proceedings against the entity that may, if successful, result in claims that are unlikely to be satisfied. • Changes in legislation or government policy expected to adversely affect the entity. <p>The significance of such events or conditions often can be mitigated by other factors. For example, the effect of an entity being unable to make its normal debt repayments may be counter-balanced by management's plans to maintain adequate cash flows by alternative means, such as by disposal of assets, rescheduling of loan repayments, or obtaining additional capital. Similarly, the loss of a principal supplier may be mitigated by the availability of a suitable alternative source of supply.</p>		
Auditor's Responsibility		
<p>9.1 The auditor's responsibility is to consider the appropriateness of management's use of the going concern assumption in the preparation of the financial statements, and consider whether there are material uncertainties about the entity's ability to continue as a going concern that need to be disclosed in the financial statements.</p> <p>9.2 The auditor considers the appropriateness of management's use of the going concern assumption even if the financial reporting framework used in the preparation of the financial statements does not include an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern.</p>	<p>6.1</p> <p>6.2</p>	<p>Included within the introduction as this sets the context for the auditing standard (as essential background information on the auditor's role).</p> <p>This is a fundamental principle, under-pinning the audit and accounting functions and is therefore</p>

		<p>included within the introduction, as this sets the context for the auditing standard. Additional text has been added to clarify that this applies when the going concern assumption is relevant to the applicable financial reporting frame-work .</p> <p>Refer to issue no. 5 noted in the cover note for Board consideration</p>
10.1	The auditor cannot predict future events or conditions that may cause an entity to cease to continue as a going concern.	7.1
10.2	Accordingly, the absence of any reference to going concern uncertainty in an auditor's report cannot be viewed as a guarantee as to the entity's ability to continue as a going concern.	7.2
Planning the Audit and Performing Risk Assessment Procedures		
11.	In obtaining an understanding of the entity, the auditor should consider whether there are events or conditions and related business risks which may cast significant doubt on the entity's ability to continue as a going concern.	10
		<p>Requirement. The sentence has been expanded, on the basis of extant paragraph 13/c1 to require this be carried out when performing risk assessment procedures. The term "and related business risks" has</p>

		been deleted (throughout the text), as the related business risks are already covered by events or conditions.
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<p>12.1 The auditor should remain alert for audit evidence of events or conditions and related business risks which may cast significant doubt on the entity's ability to continue as a going concern in performing audit procedures throughout the audit.</p>	12	Requirement. Shaded text deleted, as explained above.
<p>12.2 If such events or conditions are identified, the auditor should, in addition to performing the procedures in paragraph 26, consider whether they affect the auditor's assessment of the risks of material misstatement.</p>	A7	Included within the application material and cross-referenced to ISA 315, where this is already a requirement, so as to minimize duplication within the ISAs. (see cover sheet no. 18)
<p>13/c0 The auditor considers events and conditions relating to the going concern assumption when performing risk assessment procedures,...</p>	10	This is a requirement, as the auditor needs to consider going concern issues at this "early" stage of the audit, since the applicability of the going concern assumption is fundamental to the audit and the auditor needs to have an understanding of entity-specific going concern issues as part of the auditor's risk assessment required by ISA 315. This has been amalgamated with extant

<p>13/c1 ...because this allows for more timely discussions with management, review of management's plans and resolution of any identified going concern issues.</p>	<p>A5</p>	<p>para. 11.</p> <p>This is application material supporting the overall requirement of extant paragraph 11, as it explains certain benefits to the auditor in considering going concern issues during the risk assessment stage of the audit.</p>
<p>14.1 In some cases, management may have already made a preliminary assessment when the auditor is performing risk assessment procedures.</p> <p>14.2 If so, the auditor reviews that assessment to determine whether management has identified events or conditions, such as those discussed in paragraph 8, and management's plans to address them.</p>	<p>11.1</p> <p>11.2</p>	<p>These are conditional requirements that support the requirements in extant paragraphs 11 and 17. As a part of the auditor's risk assessment procedures, the auditor cannot ignore management's preliminary assessment, where such preliminary assessment has been performed. Wording has been amended to refer to the case where management has performed a preliminary assessment.</p>
<p>15.1 If management has not yet made a preliminary assessment, the auditor discusses with management the basis for their intended use of the going concern assumption, and inquires of management whether events or conditions, such as those discussed in paragraph 8, exist.</p>	<p>11.3</p>	<p>Where management has not performed a preliminary assessment, as</p>

		<p>part of the auditor's risk assessment procedures, the auditor needs to obtain an understanding of management's reasons for preparing the financial statements on a going concern basis. This is a conditional requirement. The latter part of the sentence constitutes a separate requirement for the auditor to inquire as to any <u>additional</u> events or conditions exist, irrespective of whether management has performed its assessment. This has been reworded accordingly.</p> <p>Application material, as this is not applicable in every case.</p>
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15.2	The auditor may request management to begin making its assessment, particularly when the auditor has already identified events or conditions relating to the going concern assumption.	A6	
16.1/c0	The auditor considers the effect of identified events or conditions when assessing the risks of material misstatement and,	A7.2	Although this is a requirement, it repeats the requirement of extant paragraph 12.2. To keep the ISA as concise as possible, this has been placed in application material and reworded so as to include a cross-reference to ISA 315 to prevent duplication of requirements.
16.1/c1	... therefore, their existence may affect the nature, timing and extent of the auditor's further procedures in response to the assessed risks.	A7.2	Although consideration of this is a conditional requirement, it repeats an existing ISA 330 requirement and so has been included as application material cross-referenced to ISA 330.
Evaluating Management's Assessment			
17.	The auditor should evaluate management's assessment of the entity's ability to continue as a going concern.	13	Requirement.
18.	The auditor should consider the same period as that used by management in making its	14	Requirement. Wording

	assessment under the applicable financial reporting framework. If management's assessment of the entity's ability to continue as a going concern covers less than twelve months from the balance sheet date, the auditor should ask management to extend its assessment period to twelve months from the balance sheet date.		amended slightly to make it clear that the auditor's evaluation is meant.
19.1	Management's assessment of the entity's ability to continue as a going concern is a key part of the auditor's consideration of the going concern assumption.	A8	Treated as application material, but noted as an issue for Board consideration (see cover sheet no. 11). This sets the context for the auditor's work.
19.2	As noted in paragraph 7, most financial reporting frameworks requiring an explicit management assessment specify the period for which management is required to take into account all available information. ⁴	A10	Application material providing background to the requirement in extant paragraph 18.2. Shaded text has been deleted, since requirements and application material will be cross-referenced.
20	In evaluating management's assessment, the auditor considers the process management followed to make its assessment, the assumptions on which the assessment is based and management's plans for future action. The auditor considers whether the assessment has taken into account all relevant information of which the auditor is aware as a result of the audit procedures.	15	All three procedures are necessary in virtually all cases, because extant black-lettered paragraph 17 requires the auditor to evaluate management's assessment and none can be disregarded. They sup-

⁴ For example, IAS 1 (Revised 2003) defines this as a period that should be at least, but is not limited to, twelve months from the balance sheet date.

		plement the overall requirement by stipulating specific aspects that need to be considered. However, the word “considers” has been replaced with more precise individual terms in line with those used in ISA 545, and bullet points have been used to enhance the clarity of presentation.
21.1	As noted in paragraph 6, when there is a history of profitable operations and a ready access to financial resources, management may make its assessment without detailed analysis.	A9.1
21.2	In such circumstances, the auditor’s conclusion about the appropriateness of this assessment normally is also made without the need for performing detailed procedures.	A9.2
21.3	When events or conditions have been identified which may cast significant doubt about the entity’s ability to continue as a going concern, however, the auditor performs additional audit procedures, as described in paragraph 26.	-
Period Beyond Management’s Assessment		
22.	The auditor should inquire of management as to its knowledge of events or conditions and related business risks beyond the period of assessment used by management that may cast significant doubt on the entity’s ability to continue as a going concern.	16

plement the overall requirement by stipulating specific aspects that need to be considered. However, the word “considers” has been replaced with more precise individual terms in line with those used in ISA 545, and bullet points have been used to enhance the clarity of presentation.

Application material as to the degree of detail appropriate in the circumstances. These sentences explain how the requirement of extant paragraph 17 may be fulfilled.

Deleted as it is redundant text. Repeats the requirement of extant paragraph 12.

Requirement. Shaded text has been deleted as explained above.

<p>23.1 The auditor is alert to the possibility that there may be known events, scheduled or otherwise, or conditions that will occur beyond the period of assessment used by management that may bring into question the appropriateness of management's use of the going concern assumption in preparing the financial statements.</p>	A12	<p>This is application material supporting the requirement of extant paragraph 22, by explaining the context. Extant paragraph 12 already requires the auditor to remain alert throughout the audit for evidence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.</p>
<p>23.2 The auditor may become aware of such known events or conditions during the planning and performance of the audit, including subsequent events procedures.</p>		<p>This text has been deleted as it states the obvious. The requirements of extant paragraphs 2 and 12 already cover this. Subsequent events' procedures are audit procedures and so need not be specifically referred to.</p>
<p>24. Since the degree of uncertainty associated with the outcome of an event or condition increases as the event or condition is further into the future, in considering such events or conditions, the indications of going concern issues will need to be significant before the auditor considers taking further action. The auditor may need to ask management to determine the potential significance of the event or condition on their going concern assessment.</p>	A15	<p>Application material dealing with the issue of significance of future events or conditions. The word "determine" has been changed to "evaluate", since it is not possible for either management or the auditor to determine this.</p>

		This issue has been noted for consideration by the Board (see cover sheet no. 8).
25.	The auditor does not have a responsibility to design audit procedures other than inquiry of management to test for indications of events or conditions which cast significant doubt on the entity's ability to continue as a going concern beyond the period assessed by management which, as discussed in paragraph 18, would be at least twelve months from the balance sheet date.	A11 A limitation on the auditor's responsibilities. This has been, treated as application material to explain the auditor's responsibility regarding the requirement of extant paragraph 22.

Further Audit Procedures when Events or Conditions are Identified		
26	<p>When events or conditions have been identified which may cast significant doubt on the entity's ability to continue as a going concern, the auditor should:</p> <p>Review management's plans for future actions based on its going concern assessment;</p> <p>Gather sufficient appropriate audit evidence to confirm or dispel whether or not a material uncertainty exists through carrying out audit procedures considered necessary, including considering the effect of any plans of management and other mitigating factors; and</p> <p>Seek written representations from management regarding its plans for future action.</p>	17.1 17(b).1 17(a).1 17(d)
27.1.	Events or conditions which may cast significant doubt on the entity's ability to continue as a going concern may be identified in performing risk assessment procedures or in the course of performing further audit procedures.	- Guidance as to when the auditor may become aware of such events – in part repetitive of extant para-

		graph 23. Therefore this is redundant text and has been deleted to prevent repetition.
<p>27.2 The process of considering events or conditions continues as the audit progresses.</p>	-	Guidance as to timing, but already covered in the requirements section; therefore paragraph not repeated in application material. Consequently, this is redundant text and has been deleted.
<p>27.3 When the auditor believes such events or conditions may cast significant doubt on the entity's ability to continue as a going concern, certain audit procedures may take on added significance.</p>	A16	The further procedures to be performed are required by extant paragraph 26, and extant paragraph 28 gives examples of some audit procedures that may be relevant.
<p>27.4 The auditor inquires of management as to its plans for future action, including its plans to liquidate assets, borrow money or restructure debt, reduce or delay expenditures, or increase capital.</p>	A17	This is application material as it provides examples rather than constituting an explicit list. Also, there may be other aspects of

<p>27.5 The auditor also considers whether any additional facts or information are available since the date on which management made its assessment.</p> <p>27.6 The auditor obtains sufficient appropriate audit evidence that management’s plans are feasible and that the outcome of these plans will improve the situation.</p>	<p>17(c)</p> <p>17(b).2</p>	<p>future plans that the auditor will inquire about as part of the review required in extant paragraph 26(a). Reworded to clarify that this is exemplary and not a definitive list.</p> <p>These are requirements relating to identified significant doubt. These requirements supplement the “review” foreseen in extant paragraph 26 (a) and so have been included with that requirement.</p>
<p>28 Audit procedures that are relevant in this regard may include the following:</p> <ul style="list-style-type: none"> • Analyzing and discussing cash flow, profit and other relevant forecasts with management. • Analyzing and discussing the entity’s latest available interim financial statements. • Reviewing the terms of debentures and loan agreements and determining whether any have been breached. • Reading minutes of the meetings of shareholders, those charged with governance and relevant committees for reference to financing difficulties. • Inquiring of the entity’s lawyer regarding the existence of litigation and claims and the reasonableness of management’s assessments of their outcome and the estimate of their financial implications. • Confirming the existence, legality and enforceability of arrangements to provide or maintain financial 	<p>A18</p>	<p>Application material, as this lists procedures that may be appropriate depending on the individual circumstances.</p>

<p>support with related and third parties and assessing the financial ability of such parties to provide additional funds.</p> <ul style="list-style-type: none"> • Considering the entity's plans to deal with unfilled customer orders. • Reviewing events after period end to identify those that either mitigate or otherwise affect the entity's ability to continue as a going concern. 		
<p>29.1 When analysis of cash flow is a significant factor in considering the future outcome of events or conditions the auditor considers:</p> <p>(a) The reliability of the entity's information system for generating such information; and Whether there is adequate support for the assumptions underlying the forecast.</p> <p>29.2 In addition the auditor compares:</p> <p>(a) The prospective financial information for recent prior periods with historical results; and (b) The prospective financial information for the current period with results achieved to date.</p>	<p>17(a).2</p> <p>17(a).2b1 17(a).2b2</p> <p>A19</p>	<p>Conditional requirements. The auditor is required to perform the procedures in this situation. This is a part of the requirement in extant paragraph 26 (b) and so has been placed with this requirement.</p> <p>Application material, as this is not necessarily appropriate in every case, and there may be other ways for the auditor to gain a degree of comfort on prospective financial information.</p>
<p>Audit Conclusions and Reporting</p>		
<p>30 Based on the audit evidence obtained, the auditor should determine if, in the auditor's judgment, a material uncertainty exists related to events or conditions that alone or in aggregate, may cast</p>	<p>18.1</p>	<p>Requirement.</p>

significant doubt on the entity's ability to continue as a going concern.		
31	A material uncertainty exists when the magnitude of its potential impact is such that, in the auditor's judgment, clear disclosure of the nature and implications of the uncertainty is necessary for the presentation of the financial statements not to be misleading.	18.2 Essential guidance needed to understand the preceding requirement. In line with (draft) ISA 200, this has been expanded to refer to fair presentation in accordance with a fair presentation financial reporting framework or, in the case of a compliance framework for the financial statements not to be misleading.
Going Concern Assumption Appropriate but a Material Uncertainty Exists		
32	<p>If the use of the going concern assumption is appropriate but a material uncertainty exists, the auditor considers whether the financial statements:</p> <p>(a) Adequately describe the principal events or conditions that give rise to the significant doubt on the entity's ability to continue in operation and management's plans to deal with these events or conditions; and</p> <p>State clearly that there is a material uncertainty related to events or conditions which 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.</p>	19 These are conditional requirements. Financial statement presentation needs to be considered in all cases. The word "consider" has been replaced with "determine" as the auditor is faced with a "yes/ no" decision.
33.1	If adequate disclosure is made in the financial statements, the auditor should express an unqualified opinion but modify the auditor's report by adding an emphasis of matter paragraph	20 Requirement. Conforming amendments

	that highlights the existence of a material uncertainty relating to the event or condition that may cast significant doubt on the entity's ability to continue as a going concern and draws attention to the note in the financial statements that discloses the matters set out in paragraph 32.		from ISA 706 have been made.
33.2	In evaluating the adequacy of the financial statement disclosure, the auditor considers whether the information explicitly draws the reader's attention to the possibility that the entity may be unable to continue realizing its assets and discharging its liabilities in the normal course of business.	A20	This repeats the requirement of extant paragraph 32 and explains the meaning of "state clearly", and gives slightly more detail; therefore reworded as application material.
33.3	The following is an example of such a paragraph when the auditor is satisfied as to the adequacy of the note disclosure: "Without qualifying our opinion, we draw attention to Note X in the financial statements which indicates that the Company incurred a net loss of ZZZ during the year ended December 31, 20X1 and, as of that date, the Company's current liabilities exceeded its total assets by ZZZ. These conditions, along with other matters as set forth in Note X, indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern."	A21	The example reports are application material and the word "example" has been amended to read "illustration".
33.4	In extreme cases, such as situations involving multiple material uncertainties that are significant to the financial statements, the auditor may consider it appropriate to express a disclaimer of opinion instead of adding an emphasis of matter paragraph.	A22	This is application material referencing the possibility allowed by ISA 705.12, accordingly, a reference to ISA 705 has been added.

34.1 If adequate disclosure is not made in the financial statements, the auditor should express a qualified or adverse opinion, as appropriate (ISA 700, “The Auditor’s Report on Financial Statements,”⁵ paragraphs 45-46).	21.1	Requirement.
34.2 The report should include specific reference to the fact that there is a material uncertainty that may cast significant doubt about the entity’s ability to continue as a going concern.	21.2	Requirement.
<p>34.3 The following is an example of the relevant paragraphs when a qualified opinion is to be expressed:</p> <p>“The Company’s financing arrangements expire and amounts outstanding are payable on March 19, 20X1. The Company has been unable to re-negotiate or obtain replacement financing. This situation indicates the existence of a material uncertainty which may cast significant doubt on the Company’s ability to continue as a going concern and therefore it may be unable to realize its assets and discharge its liabilities in the normal course of business. The financial statements (and notes thereto) do not disclose this fact.</p> <p>In our opinion, except for the omission of the information included in the preceding paragraph, the financial statements give a true and fair view of (present fairly, in all material respects) the financial position of the Company at December 31, 20X0 and of its financial performance and its cash flows for the year then ended in accordance with ...”</p>	A23	Application material, as these are examples, not mandatory text. The word “example” has been amended to read “illustration”.
<p>34.4 The following is an example of the relevant paragraphs when an adverse opinion is to be expressed:</p> <p>“The Company’s financing arrangements expired and the amount outstanding was payable on December 31, 20X0. The Company has been unable to re-negotiate or obtain replacement</p>	A24	Application material, as these are examples, not mandatory text. The term “example” has been amen-

⁵ ISA 700, “The Auditor’s Report on Financial Statements” will be withdrawn when ISA 700 (Revised), “The Independent Auditor’s Report on a Complete Set of General Purpose Financial Statements” and ISA 701, “Modifications to the Independent Auditor’s Report” become effective. ISA 700 (Revised) and ISA 701 are effective for auditor’s reports dated on or after December 31, 2006.

<p>financing and is considering filing for bankruptcy. These events indicate a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern and therefore it may be unable to realize its assets and discharge its liabilities in the normal course of business. The financial statements (and notes thereto) do not disclose this fact.</p> <p>In our opinion, because of the omission of the information mentioned in the preceding paragraph, the financial statements do not give a true and fair view of (or do not present fairly) the financial position of the Company as at December 31, 20X0, and of its financial performance and its cash flows for the year then ended in accordance with... (and do not comply with...) ..."</p>		ded to read "illustration".
Going Concern Assumption Inappropriate		
<p>35.1 If, in the auditor's judgment, the entity will not be able to continue as a going concern, the auditor should express an adverse opinion if the financial statements have been prepared on a going concern basis.</p> <p>35.2 (1st half) If, on the basis of the additional audit procedures carried out and the information obtained, including the effect of management's plans, the auditor's judgment is that the entity will not be able to continue as a going concern,</p> <p>35.2 (2nd half) the auditor concludes, regardless of whether or not disclosure has been made, that the going concern assumption used in the preparation of the financial statements is inappropriate and expresses an adverse opinion.</p>	<p>22.1</p> <p>-</p> <p>22.2</p>	<p>Requirement.</p> <p>This largely repeats the black-lettered section of this paragraph (35.1), and as extant paragraph 30 refers to the auditor using audit evidence obtained as a basis for the auditor's consideration the level of detail given in this half sentence is not needed. Text has been deleted.</p> <p>This is part of the requirement, as the auditor must express an adverse opinion even if the disclosure has</p>

		been made. The phrase “regardless of whether or not disclosure has been made” has been added to the preceding black-lettered sentence to become part of the requirement, and the remainder of the sentence has been deleted as it repeats extant paragraph 35.1.
36	When the entity’s management has concluded that the going concern assumption used in the preparation of the financial statements is not appropriate, the financial statements need to be prepared on an alternative authoritative basis. If on the basis of the additional audit procedures carried out and the information obtained the auditor determines the alternative basis is appropriate, the auditor can issue an unqualified opinion if there is adequate disclosure but may require an emphasis of matter in the auditor’s report to draw the user’s attention to that basis.	A25 Application material, as this paragraph provides useful guidance as to how the auditor might be able to perform an audit of financial statements prepared on an alternative authoritative basis, despite the fact that this ISA does not deal with the auditor’s consideration of financial statements prepared on a basis other than a going concern basis. The paragraph also clarifies that the financial statements need to be prepared on an alternative basis only if management is required to prepare

		financial statements or elects to do so.
Management Unwilling to Make or Extend Its Assessment		
37.1 If management is unwilling to make or extend its assessment when requested to do so by the auditor, the auditor should consider the need to modify the auditor's report as a result of the limitation on the scope of the auditor's work.	23.1	Requirement. Amended for conforming amendments from ISA 705.
37.2 In certain circumstances, such as those described in paragraphs 15, 18 and 24, the auditor may believe that it is necessary to ask management to make or extend its assessment.	A26.1	Application material, as it explains when the auditor may require management to make or extend its assessment. However, re-written to avoid duplication.
37.3. (1 st part) If management is unwilling to do so, it is not the auditor's responsibility to rectify the lack of analysis by management,	23.2 and A26.2c1	This text defines the auditor's responsibility in the context of the auditing standard when management does not make an assessment.
37.3(2 nd part) and a modified report may be appropriate because it may not be possible for the auditor to obtain sufficient appropriate evidence regarding the use of the going concern assumption in the preparation of the financial statements.	A26.2c2	This explains why a modification to the auditor's report may be appropriate; now amended in line with conforming

		amendments from ISA 705.
38.1 In some circumstances, the lack of analysis by management may not preclude the auditor from being satisfied about the entity's ability to continue as a going concern.	23.3	<p>This is essential guidance, as it sets the requirement of extant paragraph 17 in context</p> <p>This is application material discussing possible scenarios. Amalgamated with IAPS 1005 guidance.</p> <p>This is a conditional requirement already covered in black lettered text of extant paragraph 37; this requirement does not need to be repeated. The guidance has been included with that relating to paragraph 37, as it refers to not being able to obtain sufficient appropriate evidence.</p>
38.2 For example, the auditor's other procedures may be sufficient to assess the appropriateness of management's use of the going concern assumption in the preparation of the financial statements because the entity has a history of profitable operations and a ready access to financial resources.	A9.3	
38.3 In other circumstances, however, the auditor may not be able to confirm or dispel, in the absence of		

⁶ See footnote 5.

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has identified that may cast significant doubt on the entity's ability to continue as a going concern with those charged with governance.		change from ISA 260.
39.b <u>When events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor discusses with those charged with governance:</u> <u>(a) Whether the events or conditions constitute a material uncertainty;</u> <u>(b) Whether use of the going concern assumption is appropriate in the preparation of the financial statements; and</u> <u>(c) The adequacy of related disclosures in the financial statements.</u>	25.2	Requirement. Conforming change from ISA 260. Communication with those charged with governance needs to cover all of these issues.
Effective Date		
40 This ISA is effective for audits of financial statements for periods beginning on or after December 15, 2004.	8	Moved to introduction and amended to reflect effective date per clarity convention.
Public Sector Perspective		
1. <i>The appropriateness of the use of the going concern assumption in the preparation of the financial statements is generally not in question when auditing either a central government or those public sector entities having funding arrangements backed by a central government. However, where such arrangements do not exist, or where central government funding of the entity may be withdrawn and the existence of the entity may be at risk, this ISA will provide useful guidance. As governments corporatize and privatize government entities, going concern issues will become increasingly relevant to the public sector.</i>	A3	Application material on use of the going concern assumption. Amended to reflect further considerations by the redrafting Task Force.