



International Federation of Accountants

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Agenda Item

9

Committee: IAASB

Meeting Location: New York

Meeting Date: February 13-16, 2007

ISA 570 (Redrafted), “Going Concern”

Objective of Agenda Item

1. To discuss a first draft of an exposure draft of the proposed ISA 570 (Redrafted), “Going Concern”, based on the clarity drafting conventions adopted by the IAASB.

ISA 570 Redrafting Task Force Members

2. The members of the Task Force are:
Denise Esdon (Chair) IAASB Deputy Chair
Diana Hillier IAASB member
3. The redrafting support was undertaken by the Institut der Wirtschaftsprüfer (IDW), and in particular by Wolf Böhm (former IAASB Technical Advisor) and Gillian Waldbauer (IDW Technical Manager).

Activities of the Redrafting Task Force

4. The Redrafting Task Force held two conference calls with the IDW redrafting support team to discuss the drafts of the documents and proposed changes thereto. The documents in this Agenda Item reflect the results of the deliberations of the Redrafting Task Force.

Matters for IAASB Consideration

Elevation of present tense sentences to conditional requirements

5. A number of present tense sentences in extant ISA 570 provided guidance to the auditor when facing some specific situations. The Redrafting Task Force has included those as conditional requirements (paragraphs 11, 17(a).2, 19, 23.4, 23.5, 24.1, 24.2, and 25.1) based on elevations of present tense sentences, even if the circumstances may not be present in virtually all audits. The Task Force believes this is appropriate to do so, to ensure that the auditor, when facing those circumstances, acts in a consistent manner.

Limitation or clarification of the auditor’s responsibility

6. Extant ISA 570 contains a number of statements limiting or clarifying the auditor’s responsibility. The Redrafting Task Force debated the appropriate location of these statements within Redrafted ISA 570 and concluded that they should be included where

they are most relevant. Accordingly, such statements can be found in the following sections of Redrafted ISA 570:

Extant ISA 570	Redrafted ISA 570	Text
Para. 10	Introduction, Para. 7	The auditor cannot predict future events or conditions that may cause an entity to cease to continue as a going concern. 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.
Para. 37	Para. 23	...It is not the auditor's responsibility to rectify the lack of analysis by management.
Para. 21	Para. A9	... In such circumstances, the auditor's conclusion about the appropriateness of this assessment may also be made without the need for performing detailed procedures, as the auditor's other procedures may be sufficient to assess whether management's use of the going concern assumption in the preparation of the financial statements is appropriate in the circumstances.
Para. 25	Para. A11	Other than inquiry of management, the auditor does not have a responsibility to design audit procedures to test for indications of events or conditions which may cast significant doubt on the entity's ability to continue as a going concern beyond the period assessed by management...

Considerations when performing risk assessment procedures

7. The Redrafting Task Force has taken the view that parts of extant paragraphs 13, 14 and 15 should be elevated to requirements, on the grounds that the auditor always needs to consider going concern issues when performing risk assessment procedures, rather than solely at a later stage, i.e., once management has presented its own assessment to the auditor. Accordingly, paragraph 11.1 contains a requirement for the auditor to evaluate management's preliminary going concern assessment, when this exists, and paragraph 11.2 contains a requirement to discuss with management their basis for their intended use of the going concern assumption in the absence of such preliminary assessment.
8. The Redrafting Task Force believes that there is a distinct need for the auditor to be required to consider going concern issues at the risk assessment stage of the audit, rather than at a later stage alone. The Redrafting Task Force believes that the intent of the IAPC at the time extant ISA 570 was approved was to promote consideration of going concern issues early in the audit as any issues identified could have a pervasive effect on the auditor's risk assessments.

Introduction

9. Redrafted ISA 570 includes an introduction/scope section similar to that of ISA 240. The Redrafting Task Force believes that section is necessary to explain the rationale of the going concern assumption in the context of the applicable financial reporting framework, and to highlight the respective responsibilities of management and the auditor, including the inherent limitation of an audit as it relates to going concern.

Conforming amendments

ISA 315

10. Extant black lettered paragraph 12.2 requires the auditor to consider whether identified events and conditions affect the auditor's assessment of the risks of material misstatement. It has not been included within the requirements section of the Redrafted ISA, because paragraph 9 has been drafted such that it is clear that the auditor is required to consider events and conditions that may cast significant doubt on the entity's ability to continue as a going concern as part of the auditor's risk assessment procedures. In addition, ISA 315.30 (Redrafted) requires revision of the auditor's risk assessments during the course of the audit, as appropriate. Therefore the Redrafting Task Force believes that ISA 315 covers this requirement and has moved this text in the application material, cross referenced to ISA 315.
11. A number of minor conforming amendments were also introduced to extant ISA 570 when the risk assessment standards were issued. These conforming amendments were reviewed in light of the recently Redrafted ISA 315 and ISA 330 and some of those amendments were deleted (for example, extant ISA 570 contained some references to "business risks" which the Redrafting Task Force has concluded are appropriately dealt with in ISA 315).

ISA 260

12. The following conforming amendments arose from ISA 260 (to become paragraphs 39a and 39b of extant ISA 570).

The auditor should communicate with those charged with governance events or conditions the auditor has identified that may cast significant doubt on the entity's ability to continue as a going concern.

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:

- (a) Whether the events or conditions constitute a material uncertainty;
 - (b) Whether use of the going concern assumption is appropriate in the preparation of the financial statements; and
 - (c) The adequacy of related disclosures in the financial statements.
13. These paragraphs have been grouped together as one conditional requirement (paragraph 25 of Redrafted ISA).

ISA 700 and ISA 800

14. Extant ISA 570 was issued prior to the issuance of Revised ISA 700 and ISA 800 and made no distinction between financial reporting frameworks designed to achieve fair presentation and compliance frameworks.
15. The Redrafting Task Force has therefore clarified that the scope of the ISA does not cover financial statements prepared on a basis other than a going concern basis (paragraph 1) and the references to financial reporting frameworks (paragraphs 2 and 18).

Material Presented (Note: Agenda Item 9-A will be used for the purpose of the discussion at the meeting.)

Agenda Item 9-A (Pages 565 - 578)	Proposed ISA 570 (Redrafted)
Agenda Item 9-B (Pages 579 – 594)	Proposed ISA 570 (Redrafted) – Mapped Document – Marked up (showing changes from original mapping)
Agenda Item 9-C (Pages 595 – 606)	Proposed ISA 570 (Redrafted) – Mapped Document (prior to changes from original mapping)
Agenda Item 9-D (Pages 607 – 634)	Proposed ISA 570 (Redrafted) – Mapping Document
Agenda Item 9-E (Pages 635 - 644)	Proposed ISA 570 (Redrafted) – Proposed Disposition of the Present Tense and Other Statements

Action Requested

16. The IAASB is asked to review proposed ISA 570 (Redrafted) in Agenda Item 9-A and provide comments to the Redrafting Task Force.