

Agenda Item 9-E

Proposed Disposition of the Present Tense and Other Statements in the Proposed ISA 570 (Redrafted)

I. Those That Have Been Elevated to a Requirement or Essential Guidance or included in the Introduction or Objectives

§ in Extant ISA	Statements	§ in Redrafted ISA	Rationale or Comments
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.	6.1 Introduction	Included within the introduction as this sets the context for the auditing standard. (Essential background information on the auditor's role).
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.	6.2 Introduction	This is a fundamental principle, under-pinning the audit and accounting functions and is therefore included within the introduction, as this sets the context for the auditing standard. Additional text has been added to clarify that the auditor makes these considerations when the going concern assumption is relevant to the applicable financial reporting framework .
10	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.	7.1 and 7.2 Introduction	This sets forth an inherent limitation relating to the audit of financial statements in relation to going concern and is needed to clarify the role of the auditor in the introductory section.
13/c0	The auditor considers events and conditions relating to the going concern assumption when performing risk assessment procedures...	10 Requirement	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.

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14	In some cases, management may have already made a preliminary assessment when the auditor is performing risk assessment procedures. 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.	11 Conditional requirement	This is a conditional requirement that supports 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 <u>performed</u> a preliminary assessment.
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.	11 Conditional requirement for first part of sentence and Requirement for the latter part of the sentence	Where management has not performed a preliminary assessment, as 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. The latter part of the sentence constitutes a separate requirement for the auditor to in-quire as to any <u>additional</u> events or conditions, such as those discussed in paragraph 8, exist, irrespective of whether management has performed its assessment, and has been reworded accordingly.
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 Requirement	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 supplement 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.

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27.5	The auditor also considers whether any additional facts or information are available since the date on which management made its assessment.	17 (c) Requirement	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.
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.	17(b).2 Requirement	
29.1	When analysis of cash flow is a significant factor in considering the future outcome of events or conditions the auditor considers: The reliability of the entity’s information system for generating such information; and Whether there is adequate support for the assumptions underlying the forecast.	Conditional requirements 17(a).2 17(a).2b1 17(a).2b2	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 within this requirement.
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	This is 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.
32	If the use of the going concern assumption is appropriate but a material uncertainty exists, the auditor considers whether the financial statements: (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 (b) 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	19 Conditional requirements	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.

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	a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business.		
35.2 (2 nd part)	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.	22.2 Requirement	This is part of the requirement in the preceding black-lettered sentence (paragraph 35.1), as the auditor must express an adverse opinion even if disclosure has 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 35.1.
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 Requirement	This text defines the auditor’s responsibility in context of the auditing standard.
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 Essential guidance	This is essential guidance, as it sets the requirement of extant paragraph 17 in context.
38.3	In other circumstances, however, the auditor may not be able to confirm or dispel, in the absence of management’s assessment, whether or not events or conditions exist which indicate there may be a significant doubt on the entity’s ability to continue as a going concern, or the existence of plans management has put in place to address them or other mitigating factors.	23.4 Conditional requirement	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. Text amended in line with conforming amendments from ISA 705.

¹ See footnote 5.

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38.4	In these circumstances, the auditor modifies the auditor's report as discussed in ISA 700, "The Auditor's Report on Financial Statements," ¹ paragraphs 36-44.	23.5 Conditional requirement	
39	When there is significant delay in the signature or approval of the financial statements by management after the balance sheet date, the auditor considers the reasons for the delay. When the delay could be related to events or conditions relating to the going concern assessment, the auditor considers the need to perform additional audit procedures, as described in paragraph 26, as well as the effect on the auditor's conclusion regarding the existence of a material uncertainty, as described in paragraph 30.	24 Conditional requirement	Conditional requirement. It is essential that the auditor respond to a significant delay on the part of management, firstly considering whether there are going concern implications and if so, whether the auditor needs to perform additional work and consider the effect on the auditor's conclusion.
39b con-forming amend- ment from ISA 260	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.	25.2 Conditional requirement.	When the condition applies, the auditor always needs to communicate with those charged with governance.

II. Those That Have Been Treated as Application and Other Explanatory Material and Redrafted

§ in Extant ISA	Statements	§ in Redrafted ISA	Rationale or Comments
13/c1	..., because this allows for more timely discussions with management, review of management's plans and resolution of any identified going concern issues.	A5	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.

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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	Application material, as this is not applicable in every case.
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.
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. 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.	A10	Application material providing background to the requirement in extant paragraph 18.2.
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	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.
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	

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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.	A12	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.
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.	A15	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.
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 in relation to the requirement of extant paragraph 22.
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.	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.
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.	A17	This is application material as it provides examples rather than constituting an explicit list. Also, there may be other aspects of future plans that the auditor will inquire about as part of the review required in extant paragraph 26(a).
28	Audit procedures that are relevant in this regard may include the following: ...	A18	Application material, as this lists procedures that may be appropriate depending on the individual circumstances.

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29.2	In addition the auditor compares: The prospective financial information for recent prior periods with historical results; and The prospective financial information for the current period with results achieved to date.	A19	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.
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 (b), explaining the meaning of "state clearly" and giving 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 now amended to read "illustration of a report": Wording has been amended for conforming amendments ISA 705 706.
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.
34.3	The following is an example of the relevant paragraphs when a qualified opinion is to be expressed: "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	A23	Application material, as these are examples, not mandatory text. The term "example" reports has been amended to read "illustration".

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34.4	<p>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> <p>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 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>	A24	Application material, as these are examples, not mandatory text. The term “example” reports has been amended to read “illustration”.
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. 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.
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	A26.1	Application material, as it explains when the auditor may require management to make or extend its

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37.3 (2 nd part)	assessment. ...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	assessment. However, rewritten to avoid duplication. This explains why a modification to the auditor's report may be appropriate; now amended in line with conforming amendments from ISA 705.
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.	A9.2	This is application material discussing possible scenarios.