

Auditor Reporting—Going Concern: Limited Scope Consideration of ISA 570

I. Objectives of Session

1. To bring to the Board's attention on a preliminary basis areas within ISA 570¹ where clarification may be needed to support the operationalization of the Board's suggested improvements to the auditor's report in relation to going concern, and to obtain the Board's preliminary views on the likely need for revision of ISA 570 in this regard.

Note to IAASB

The issues highlighted in this agenda paper and accompanying attachments are not intended for detailed discussion at this meeting. It is intended that any action the Board decides to pursue in relation to the topic of going concern is focused on supporting auditors in making the statements on going concern in the auditor's report suggested in the Invitation to Comment, and will be part and parcel of the broader Auditor Reporting project and not a separate project to revise ISA 570.

It will be important that the Board's work in this regard does not jeopardize the planned timing of June 2013 for the Auditor Reporting exposure draft (ED). Risk factors in this regard include:

- The need to correlate changes to ISA 570 with additional guidance that International Accounting Standards Board (IASB) may, or may not, decide to issue and the timing of that; and
- The inherent complexity and sensitivity of this topic.

II. Background

2. Subsequent to the approval of the ITC at the June 2012 IAASB meeting, IAASB leadership had the opportunity to present an update on the IAASB's activities, including the Board's Auditor Reporting project, at the IFRS Advisory Council (IFRS AC) meeting on June 19. Given that there may be a need to clarify the guidance in ISA 570 to support the Board's suggested improvements regarding going concern in the ITC, IAASB leadership highlighted to the IFRS AC the desirability of the Board coordinating closely with the International Accounting Standards Board (IASB) for this purpose as a number of key concepts in ISA 570 are rooted in International Financial Reporting Standards (IFRSs).
3. In follow up to the IFRS AC meeting, IAASB Chairman Arnold Schilder wrote to IASB Chairman Hans Hoogervorst in July to request that the IFRS Interpretations Committee consider clarifying the guidance related to going concern in IFRSs as a matter of urgency. The TF Chair, TF member Jon Grant and staff subsequently met with senior IASB staff via teleconference in early August to discuss the issues outlined in **Agenda Item 9-C.1** (the IAASB staff briefing paper). With input from the IAASB representatives, IASB staff has developed a paper summarizing the issues for purpose

¹ ISA 570, *Going Concern*

of outreach to national standard setters (NSS), securities regulators and the larger audit firms to obtain an assessment of diversity in practice in relation to the application of the requirements of IFRSs regarding going concern. IASB staff is in the process of developing a separate paper on this topic for consideration at the September 18-19, 2012 IFRS Interpretations Committee meeting. This IASB staff paper will be accompanied by the briefing paper in **Agenda Item 9-C.1**.

III. Approach to Consideration of ISA 570

4. On a preliminary basis, Staff is of the view that a narrow consideration of ISA 570 would be appropriate, focused on limited revisions to clarify certain key concepts and provide additional guidance for auditors in view of the explicit statements regarding going concern that may be added to the auditor's report. **Agenda Item 9-C.2** includes extracts of ISA 570 illustrating where Staff believes clarification may be beneficial.
5. Staff believes that the potential limited revision to ISA 570 may be grouped into the following three categories:

Category A: Clarification

Clarification may be needed, for example, to:

- Paragraph 1 to make the scope of the ISA consistent with the objectives of the standard, which deal with both the appropriateness of management's use of the going concern assumption and the concept of material uncertainties.
- Paragraph 2 to indicate that the consideration of going concern (for purposes of the disclosure of material uncertainties) is a wider concept than the "going concern assumption" used for determining the basis of accounting.
- Paragraph 3 to add management's responsibility for disclosing material uncertainties.
- Paragraph 4 to make a link between the disclosure of material uncertainties and fair presentation.
- Paragraph A2 to clarify that actions outside the ordinary course of business may need to be disclosed within the concept of material uncertainties.

Category B: Expanded Guidance

Additional guidance may be needed in, for example:

- Paragraphs 17 and A19 to provide the auditor with improved guidance on the "threshold" for determining when a material uncertainty exists, for example, based on the likelihood that an entity would not be able to meet its obligations as they become due without taking measures outside the normal course of business.

Category C: Reconsideration of ISA 570 in Light of Auditor Reporting Considerations

It may be necessary to reconsider, for example:

- Paragraph 18(b). Some of the wording is not included in the wording of the requirements of accounting standards and therefore it is unclear how such wording might best fit with the statements included in the ITC.

- Paragraph 19. Changes may be needed to align with the statements included in the ITC.
- Paragraph 23. Changes may be needed to align with changes to ISA 260.²

Matter for IAASB Consideration

1. Does the IAASB consider that the suggested new statements on going concern in the auditor's report can be provided based on extant ISA 570, or would there be merit in the TF considering whether additional limited modifications to ISA 570 are needed, taking into account the IFRS Interpretations Committee's consideration of the matter as described in paragraph 3 above?

² ISA 260, *Communication with Those Charged with Governance*