

### Proposed ISA 570 (Revised 2024), *Going Concern – Selected Paragraphs* Marked from Agenda Item 2-B.2

This Agenda Item includes the Going Concern Task Force's (GC TF) proposed revisions to selected paragraphs in proposed ISA 570 (Revised 2024) to address targeted matters raised in the IAASB Plenary discussion on December 9, 2024.

## Requirements

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### Adequacy of Disclosures

*Adequacy of Disclosures When Events or Conditions Have Been Identified but Significant Judgments are Made by Management in Concluding That There is No Material Uncertainty Exists*

32. 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~~determine whether in view of the requirements of the applicable financial reporting framework, the financial statements provide adequately ~~discloses~~disclosures about these events or conditions, including the significant judgments made by management in concluding that there is no material uncertainty ~~related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern~~. (Ref: Para. A73–A76)

*Adequacy of Disclosures When a Material Uncertainty Exists*

33. 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. ~~A73~~, A77)
- (a) 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 for future actions to address these events or conditions; and
  - (b) 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 the entity may be unable to realize its assets and discharge its liabilities in the normal course of business and continue its operations for the foreseeable future.

When a material uncertainty exists, adequate disclosure of the nature and implications of the uncertainty is necessary for:

- (i) In the case of a fair presentation financial reporting framework, the fair presentation of the financial statements, or
- (ii) In the case of a compliance framework, the financial statements not to be misleading.

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## Application and Other Explanatory Material

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### Evaluating the Audit Evidence Obtained and Concluding (Ref: Para. 30–31)

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#### *Concluding on Whether a Material Uncertainty Exists* (Ref: Para. 31)

A72. When events or conditions are identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor's conclusion required by paragraph 31 is dependent on the auditor's evaluation of management's plans for future actions in accordance with paragraphs 26–28. If the auditor is unable to obtain sufficient appropriate audit evidence ~~relating to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, including with respect to whether~~about management's plans for future actions ~~mitigate the effects of such events or conditions, then~~ a material uncertainty exists. When a material uncertainty exists, the auditor is required to determine whether the financial statements provide the disclosures required by paragraph 33.

#### **Adequacy of Disclosures** ~~(Ref: Para. 32–33, 34(b)(i), 35(a))~~

~~A73. When a material uncertainty exists or when significant judgments are made by management in concluding that there is no material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, adequate disclosure is necessary for:~~

- ~~(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 but Significant Judgments are Made by Management in Concluding That There is No Material Uncertainty Exists* (Ref: Para. 32, 34(b)(i))

~~A734. Even when no material uncertainty exists, paragraph 32 requires the auditor to determine that the financial statements adequately disclose the significant judgments made by management in concluding that there is no material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.~~ Some financial reporting frameworks may address disclosures about:

- Principal events or conditions;
- Management's evaluation of the significance of those events or conditions in relation to the entity's ability to meet its obligations;
- Management's plans that mitigate the effect of these events or conditions;
- The assumptions management makes about the future, and other sources of estimation uncertainty; or

- Significant judgments made by management as part of its assessment of the entity's ability to continue as a going concern.

Example:

In assessing the entity's ability to continue as a going concern, management considers all relevant information about events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. Having considered all relevant information, including the feasibility and effectiveness of any remedial actions to mitigate the effects of those events or conditions, management may conclude that there is no material uncertainty. For example, in response to declining customer demand and uncertainties faced in the broader economic environment, management may have started executing a turnaround strategy that is demonstrating ~~initial~~some evidence of success (e.g., reducing costs, optimising cash flows and preserving liquidity, to support the entity's ability to realize its assets and discharge its liabilities in the normal course of business and continue its operations for the foreseeable future). However, ~~when~~ reaching the conclusion that there is no material uncertainty ~~this~~ involved significant judgment by management in estimating the impact and the timing of the future cash flows.

A74. When significant judgments are made by management in concluding that there is no material uncertainty, in applying paragraph 32 the auditor may determine, depending on the facts and circumstances, that additional disclosures are necessary for the financial statements to achieve fair presentation (for fair presentation frameworks) or for the financial statements not to be misleading (for compliance frameworks), as appropriate. This also may be the case, for example, when no disclosures are explicitly required by the applicable financial reporting framework regarding these circumstances.

A75. When the financial statements are prepared in accordance with a fair presentation framework, the auditor's evaluation as to whether the financial statements achieve fair presentation includes the consideration of the overall presentation, structure and content of the financial statements, and whether the financial statements, including the related notes, represent the underlying transactions and events in a manner that achieves fair presentation.<sup>1</sup> ~~Depending on the facts and circumstances, the auditor may determine that additional disclosures are necessary to achieve fair presentation. This may be the case, for example, when significant judgments are made by management in concluding that there is no material uncertainty, and no disclosures are specifically required by the applicable financial reporting framework regarding these circumstances.~~

A76. In accordance with ISA 705 (Revised),<sup>2</sup> the auditor is required to express a modified opinion in the auditor's report when the financial statements do not provide the additional disclosures necessary to achieve fair presentation beyond disclosures specifically required by the applicable financial reporting framework.

*Adequacy of Disclosure When a Material Uncertainty Exists (Ref: Para. 33, 35(a))*

A77. Paragraph 33 requires the auditor to determine whether the financial statement disclosures address

<sup>1</sup> ISA 700 (Revised), paragraph 14

<sup>2</sup> ISA 705 (Revised), paragraphs 6 and A7

the matters set forth in that paragraph. This determination is in addition to the auditor determining whether disclosures about a material uncertainty, required by the applicable financial reporting framework, are adequate. Disclosures required by some financial reporting frameworks that are in addition to matters set forth in paragraph 33 may include disclosures about:

- Management's evaluation of the significance of the events or conditions relating to the entity's ability to meet its obligations and management's plans for future actions to address these events or conditions; or
- Significant judgments made by management as part of its assessment of the entity's ability to continue as a going concern.

Some financial reporting frameworks may provide additional guidance regarding management's consideration of disclosures about the magnitude of the potential impact of the principal events or conditions, and the likelihood and timing of their occurrence.

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