

IAASB CAG REFERENCE PAPER

IAASB CAG Agenda (April 2007)

Agenda Item E.2.1

Clarity – Extracts of IAASB Exposure Drafts of Proposed Redrafted ISAs 230, 560, 570, 610 and 720

This Agenda Item contains extracts of the following IAASB Exposure Drafts of Redrafted ISAs (specifically, the Introduction through to the Requirements sections), together with the staff-prepared analysis of the dispositions of the present tense in the related extant ISAs.

Redrafted ISA	Reference
ISA 230 (Redrafted), “Audit Documentation”	Appendix I (pages 2-5)
ISA 560 (Redrafted), “Subsequent Events”	Appendix II (pages 6-16)
ISA 570 (Redrafted), “Going Concern”	Appendix III (pages 17-34)
ISA 610 (Redrafted), “The Auditor’s Consideration of the Internal Audit Function”	Appendix IV (pages 35-40)
ISA 720 (Redrafted), “The Auditor’s Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements”	Appendix V (pages 41-47)

New requirements, including new conditional requirements, based on the elevation of material in the present tense have been **highlighted** in the extracts of the exposed redrafted ISAs.

IAASB CAG REFERENCE PAPER

IAASB CAG Agenda (April 2007)

Agenda Item E.2.1

Clarity – Extracts of IAASB Exposure Drafts of Proposed Redrafted ISAs 230, 560, 570, 610 and 720

Appendix I

ISA 230 (Redrafted), “Audit Documentation”

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor’s responsibility to prepare audit documentation. The Appendix lists other ISAs containing subject matter-specific documentation requirements and guidance. The specific documentation requirements of other ISAs do not limit the application of this ISA. Laws or regulations may establish additional documentation requirements.

Nature and Purposes of Audit Documentation

2. Audit documentation that meets the requirements of this ISA together with the specific documentation requirements of other relevant ISAs provides evidence of the auditor’s basis for a conclusion about the achievement of the overall objective of the auditor. Audit documentation serves a number of purposes, including the following:
 - Assisting the audit team to plan and perform the audit.
 - Assisting members of the audit team responsible for supervision to direct and supervise the audit work, and to discharge their review responsibilities in accordance with ISA 220, “Quality Control for Audits of Historical Financial Information.”
 - Enabling the audit team to be accountable for its work.
 - Retaining a record of matters of continuing significance to future audits.
 - Enabling an experienced auditor to conduct quality control reviews and inspections¹ in accordance with ISQC 1, “Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements.”
 - Enabling the conduct of external inspections in accordance with applicable legal, regulatory or other requirements.

Effective Date

3. This ISA is effective for audits of financial information for periods beginning on or after [date].

¹ As defined in ISA 220.

IAASB CAG REFERENCE PAPER

IAASB CAG Agenda (April 2007)

Agenda Item E.2.1

Clarity – Extracts of IAASB Exposure Drafts of Proposed Redrafted ISAs 230, 560, 570, 610 and 720

Objective

4. The objective of the auditor is to have a sufficient and appropriate record of the basis for the auditor's report, and evidence that the audit was performed in accordance with ISAs and applicable legal and regulatory requirements.

Definitions

5. For purposes of the ISAs, the following terms have the meanings attributed below:
 - (a) Audit documentation – The record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached (terms such as “working papers” or “workpapers” are also sometimes used).
 - (b) Experienced auditor – An individual (whether internal or external to the firm) who has a reasonable understanding of (i) audit processes, (ii) ISAs and applicable legal and regulatory requirements, (iii) the business environment in which the entity operates, and (iv) auditing and financial reporting issues relevant to the entity's industry.

Requirements

Timely Preparation of Audit Documentation

6. The auditor shall prepare audit documentation on a timely basis. (Ref: Para. A1)

Documentation of the Audit Procedures Performed and Audit Evidence Obtained

Form, Content and Extent of Audit Documentation

7. The auditor shall prepare the audit documentation so as to enable an experienced auditor, having no previous connection with the audit, to understand: (Ref: Para. A2-A5, A14-A15)
 - (a) The nature, timing, and extent of the audit procedures performed to comply with the ISAs and applicable legal and regulatory requirements; (Ref: Para. A6-A7)
 - (b) The results of the audit procedures and the audit evidence obtained; and
 - (c) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions. (Ref: Para. A8-A11)
8. The auditor shall document discussions of significant matters with management and others, **including when and with whom the discussions took place.** (Ref: Para. A12)
9. If the auditor has identified information that is inconsistent with the auditor's final conclusion regarding a significant matter, the auditor shall document how the auditor addressed the inconsistency in forming the final conclusion. (Ref: Para. A13)

IAASB CAG REFERENCE PAPER

IAASB CAG Agenda (April 2007)

Agenda Item E.2.1

Clarity – Extracts of IAASB Exposure Drafts of Proposed Redrafted ISAs 230, 560, 570, 610 and 720

Departure from a Relevant Requirement

10. If, in exceptional circumstances, the auditor judges it necessary to depart from a relevant requirement, the auditor shall document how the alternative audit procedures performed achieve the aim of that requirement, and, unless otherwise clear, the reasons for the departure. (Ref: Para. A16-A17)

Identification of Specific Items or Matters Being Tested, and of the Preparer and Reviewer

11. In documenting the nature, timing and extent of audit procedures performed, the auditor shall record:
 - (a) The identifying characteristics of the specific items or matters being tested; (Ref: Para. A18)
 - (b) Who performed the audit work and the date such work was completed; and
 - (c) Who reviewed the audit work performed and the date and extent of such review.² (Ref: Para. A19)

Assembly of the Final Audit File

12. The auditor shall complete the assembly of the final audit file on a timely basis after the date of the auditor's report. (Ref: Para. A20-A21)
13. After the assembly of the final audit file has been completed, the auditor shall not delete or discard audit documentation before the end of its retention period. (Ref: Para. A22)
14. If the auditor finds it necessary to modify existing audit documentation or add new audit documentation after the assembly of the final audit file has been completed, the auditor shall, regardless of the nature of the modifications or additions, document:
 - (a) When and by whom they were made, and (where applicable) reviewed;
 - (b) The specific reasons for making them; and
 - (c) Their effect, if any, on the auditor's conclusions.

² Paragraph 26 of ISA 220 establishes the requirement for the auditor to review the audit work performed through review of the audit documentation, which involves the auditor documenting the extent and timing of the reviews. Paragraph 25 of ISA 220 describes the nature of a review of work performed.

IAASB CAG REFERENCE PAPER

IAASB CAG Agenda (April 2007)

Agenda Item E.2.1

Clarity – Extracts of IAASB Exposure Drafts of Proposed Redrafted ISAs 230, 560, 570, 610 and 720

Changes to Audit Documentation in Exceptional Circumstances after the Date of the Auditor's Report

15. If, in exceptional circumstances after the date of the auditor's report, the auditor has to perform new or additional audit procedures or draw new conclusions, the auditor shall document:
- (a) The circumstances encountered;
 - (b) The new or additional audit procedures performed, audit evidence obtained, and conclusions reached; and
 - (c) When and by whom the resulting changes to audit documentation were made, and (where applicable) reviewed. (Ref: Para. A23)

ISA 230 Disposition of Present Tense Statements

Para.	Statements in Amended Extant ISA 230	Elevated to reqt?	New para	Rationale and comments (as necessary)
6	The audit documentation for a specific audit engagement <i>is</i> assembled in an audit file.	No	A3	Describes the output of the assembly process.
7	The auditor ordinarily <i>excludes</i> from audit documentation superseded drafts of working papers, ...	No	A4	Explains what need not be included in audit documentation.
11	It is important that audit documentation <i>provides evidence</i> that the audit complies with the requirements of the ISAs.	No	A7	Not a new requirement but reflected in objective and explains requirement in paragraph 7(a).
12	Accordingly, other than in exceptional circumstances, the auditor <i>complies</i> with each requirement that is relevant in the circumstances...	No	A16	Explains the guidance in ISA 200 in the context of documenting departures from requirements.
22	The audit documentation <i>includes</i> records of the significant matters discussed, and when and with whom the discussions took place...	Yes	8	

IAASB CAG REFERENCE PAPER

IAASB CAG Agenda (April 2007)

Agenda Item E.2.1

Clarity – Extracts of IAASB Exposure Drafts of Proposed Redrafted ISAs 230, 560, 570, 610 and 720

Para.	Statements in Amended Extant ISA 230	Elevated to reqt?	New para	Rationale and comments (as necessary)
	Others with whom the auditor may discuss significant matters <i>include</i> those charged with governance, ...	No	A12	Illustrates the meaning of “others” in the context of the requirement.
26	The audit documentation, however, <i>evidences</i> who reviewed specified elements of the audit work performed and when.	No	A19	Explains the requirement in paragraph 11(c).
34	Such exceptional circumstances <i>include</i> the discovery of facts regarding the audited financial statements....	No	A23	Illustrates exceptional circumstances in the context of the requirement.

IAASB CAG REFERENCE PAPER

IAASB CAG Agenda (April 2007)

Agenda Item E.2.1

Clarity – Extracts of IAASB Exposure Drafts of Proposed Redrafted ISAs 230, 560, 570, 610 and 720

Appendix II

ISA 560 (Redrafted), “Subsequent Events”

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor’s responsibilities relating to subsequent events in an audit of financial statements. (Ref: Para. A1)
2. Financial statements may be affected by certain events that occur after the date of the financial statements. Many financial reporting frameworks specifically refer to such events. For example, International Accounting Standard (IAS) 10, “Events After the Balance Sheet Date” deals with the treatment in financial statements of events, both favorable and unfavorable, that occur between the date of the financial statements (referred to as the “balance sheet date” in the IAS) and the date when the financial statements are authorized for issue. Such financial reporting frameworks ordinarily identify two types of events:
 - (a) Those that provide evidence of conditions that existed at the date of the financial statements; and
 - (b) Those that provide evidence of conditions that arose after the date of the financial statements.

ISA 700, “The Independent Auditor’s Report on General Purpose Financial Statements” explains, that the date of the auditor’s report informs the reader that the auditor has considered the effect of events and transactions of which the auditor becomes aware and that occurred up to that date.

Effective Date

3. This ISA is effective for audits of financial statements for periods beginning on or after [date].

Objectives

4. The objectives of the auditor are to:
 - (a) Obtain sufficient appropriate audit evidence about whether events occurring between the date of the financial statements and the date of the auditor’s report that materially affect the financial statements are appropriately reflected in those financial statements, and
 - (b) Respond appropriately to facts that become known to the auditor after the date of the auditor’s report that materially affect the financial statements.

IAASB CAG REFERENCE PAPER

IAASB CAG Agenda (April 2007)

Agenda Item E.2.1

Clarity – Extracts of IAASB Exposure Drafts of Proposed Redrafted ISAs 230, 560, 570, 610 and 720

Definitions

5. For purposes of the ISAs the following terms have the meanings attributed below:
- (a) Date of the financial statements – The date of the end of the latest period covered by the financial statements, which is normally the date of the most recent balance sheet in the financial statements subject to audit.
 - (b) Date of approval of the financial statements – The date on which those with the recognized authority assert that they have prepared the entity's complete set of financial statements, including the related notes, and that they have taken responsibility for them. (Ref: Para. A2)
 - (c) Date of the auditor's report – The date selected by the auditor to date the report on the financial statements. The auditor's report is not dated earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the opinion on the financial statements.³ Sufficient appropriate audit evidence includes evidence that the entity's complete set of financial statements has been prepared and that those with the recognized authority have asserted that they have taken responsibility for them.
 - (d) Date the financial statements are issued – The date that the auditor's report and audited financial statements are made available to third parties, which may be, in many circumstances, the date that they are filed with a regulatory authority. In the case of the public sector, this may be the date the audited financial statements and the auditor's report thereon are presented to the legislature.
 - (e) Subsequent events – Events occurring between the date of the financial statements and the date of the auditor's report, and facts that become known to the auditor after the date of the auditor's report.

Requirements

Events Occurring Between the Date of the Financial Statements and the Date of the Auditor's Report (Ref: Para. A3-A8)

6. The auditor shall perform audit procedures designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements have been identified. The auditor is not, however, expected to perform additional audit procedures

³ In rare circumstances, law or regulation also identifies the point in the financial statement reporting process at which the audit is expected to be complete.

IAASB CAG REFERENCE PAPER

IAASB CAG Agenda (April 2007)

Agenda Item E.2.1

Clarity – Extracts of IAASB Exposure Drafts of Proposed Redrafted ISAs 230, 560, 570, 610 and 720

on all matters to which previously applied audit procedures have provided satisfactory conclusions.

7. The audit procedures required by paragraph 6 shall be completed as near as practicable to the date of the auditor's report. Such audit procedures take into account the auditor's risk assessment and shall include the following:
 - (a) Obtaining an understanding of the procedures management has established to ensure that subsequent events are identified.
 - (b) Reading minutes of the meetings of the entity's owners, management and those charged with governance held after the date of the financial statements and inquiring about matters discussed at meetings for which minutes are not yet available. (Ref: Para. A8)
 - (c) Reading the entity's latest available interim external financial statements and interim internal management financial statements.
 - (d) Inquiring of management as to whether any subsequent events have occurred which might affect the financial statements.
8. When the auditor identifies events that materially affect the financial statements, the auditor shall determine whether such events are properly accounted for and adequately disclosed in the financial statements.

Facts Which Become Known to the Auditor After the Date of the Auditor's Report but Before the Date the Financial Statements are Issued (Ref. A9-A11)

9. The auditor has no obligation to perform any audit procedures regarding the financial statements after the date of the auditor's report. However, when, after the date of the auditor's report but before the date the financial statements are issued, the auditor becomes aware of a fact which may materially affect the financial statements, the auditor shall:
 - (a) Discuss the matter with management,
 - (b) Determine whether the financial statements need amendment, and, if so,
 - (c) Determine whether management will amend the financial statements.
10. When management amends the financial statements, the auditor shall carry out the audit procedures necessary in the circumstances and shall issue a new auditor's report on the amended financial statements. Unless the circumstances in paragraph 11 apply, the new auditor's report shall not be dated earlier than the date of approval of the amended financial statements and, accordingly, the audit procedures referred to in paragraph 6 shall be extended to the date of the new auditor's report.
11. When the financial reporting framework allows management to restrict the amendment of the financial statements to the effects of the subsequent event or events causing that amendment

IAASB CAG REFERENCE PAPER

IAASB CAG Agenda (April 2007)

Agenda Item E.2.1

Clarity – Extracts of IAASB Exposure Drafts of Proposed Redrafted ISAs 230, 560, 570, 610 and 720

and those responsible for approving the financial statements are permitted to restrict their approval to that amendment, the auditor is permitted to restrict the audit procedures on subsequent events required in paragraph 6 regarding the amended financial statements to that amendment. In such cases, the auditor shall include, in the new auditor's report, a statement that the auditor's procedures are so restricted and provide an additional auditor's report date on that amendment.

12. When management does not amend the financial statements in circumstances where the auditor believes they need to be amended, then:
 - If the auditor's report has not yet been issued to the entity, the auditor shall modify the opinion appropriately so that the auditor expresses a qualified opinion or an adverse opinion as described in ISA 705, "Modifications to the Opinion in the Independent Auditor's Report" and then issue the auditor's report; or alternatively
 - If the auditor's report has already been issued to the entity, the auditor shall notify management or those charged with governance, as appropriate, not to issue the financial statements and the auditor's report thereon to third parties. If the financial statements are nevertheless subsequently issued, the auditor shall take action, in light of the auditor's legal rights and obligations and the recommendations of the auditor's legal counsel, to prevent reliance on the auditor's report.

Facts Which Become Known to the Auditor After the Financial Statements have been Issued

13. After the financial statements have been issued, the auditor has no obligation to perform any audit procedures regarding such financial statements. However, if after the financial statements have been issued, the auditor becomes aware of a fact that existed at the date of the auditor's report and that, if known at that date, may have caused the financial statements to be amended or the auditor to modify the auditor's report, the auditor shall:
 - (a) Discuss the matter with management,
 - (b) Determine whether the financial statements need amendment, and, if so,
 - (c) Determine whether management will amend the financial statements.
14. If management amends the financial statements, the auditor shall:
 - (d) Carry out the audit procedures necessary in the circumstances,
 - (e) Review the steps taken by management to ensure that anyone in receipt of the previously issued financial statements together with the auditor's report thereon is informed of the situation, and
 - (f) Issue a new auditor's report on the amended financial statements.
15. The auditor shall include in the new auditor's report an emphasis of matter paragraph referring to a note to the financial statements that more extensively discusses the reason for

IAASB CAG REFERENCE PAPER

IAASB CAG Agenda (April 2007)

Agenda Item E.2.1

Clarity – Extracts of IAASB Exposure Drafts of Proposed Redrafted ISAs 230, 560, 570, 610 and 720

the amendment of the previously issued financial statements and to the earlier report issued by the auditor.

16. Unless the circumstances in paragraph 11 apply, the auditor shall date the new auditor's report no earlier than the date of approval of the amended financial statements and, accordingly, the auditor shall extend the audit procedures referred to in paragraph 6 to the date of the new auditor's report.
17. If management does not take the necessary steps to ensure that anyone in receipt of the previously issued financial statements together with the auditor's report thereon is informed of the situation and does not amend the financial statements in circumstances where the auditor believes they need amendment, the auditor shall notify management and those charged with governance that action will be taken by the auditor to prevent future reliance on the auditor's report. If, despite such notification, management or those charged with governance do not take these necessary steps, the auditor shall take action, in light of the auditor's legal rights and obligations and the recommendations of the auditor's legal counsel, to prevent future reliance on the auditor's report.

ISA 560 Disposition of the Present Tense and Other Statements

I. Those That Have Been Elevated to a Requirement or Essential Guidance

Para.	Statements in extant ISA 560	New paragraph	Rationale and comment (as necessary)
5.3 ⁴	The auditor is not, however, expected to conduct a continuing review of all matters to which previously applied procedures have provided satisfactory conclusions:	6.2 requirement	This sentence limits the requirement in extant paragraph 5.1 and clarifies the auditor's duties in this context; has been slightly reworded.
6.1	The procedures to identify events that may require adjustment of, or disclosure in, the financial statements would be performed as near as practicable to the date of the auditor's report and ordinarily include the following:	7.1 requirement	Requirement, as it is essential in virtually all cases that certain procedures be performed as near to the date of the auditor's report as practicable.

⁴ 5.3 refers to paragraph 5, third sentence.

IAASB CAG REFERENCE PAPER

IAASB CAG Agenda (April 2007)

Agenda Item E.2.1

Clarity – Extracts of IAASB Exposure Drafts of Proposed Redrafted ISAs 230, 560, 570, 610 and 720

Para.	Statements in extant ISA 560	New paragraph	Rationale and comment (as necessary)
6.1b1 ⁵	<ul style="list-style-type: none"> Reviewing procedures management has established to ensure that subsequent events are identified. 	7(a) conditional requirement	Conditional requirement. Essential in all cases as far as such procedures exist.
6.1b2	<ul style="list-style-type: none"> Reading minutes of the meetings of shareholders, the board of directors and audit and executive committees held after period end <u>the date of the financial statements</u> and inquiring about matters discussed at meetings for which minutes are not yet available. 	7(b) conditional requirement	Conditional requirement. These procedures are required, to the extent that the relevant information exists.
6.1b3c0 (1 st part)	<ul style="list-style-type: none"> Reading the entity's latest available interim financial statements and 	7(c) conditional requirement	Conditional requirement. These procedures are required, to the extent that the relevant information exists.
6.1b5.1	<ul style="list-style-type: none"> Inquiring of management as to whether any subsequent events have occurred which might affect the financial statements. 	7(d) requirement	Essential in all cases: requirement.
9.1	The auditor does not have any responsibility to perform procedures or make any inquiry regarding the financial statements after the date of the auditor's report.	9.1 requirement	This limits the extent of the auditor's responsibilities for the period following issuance of the auditor's report and therefore represents essential guidance (negative requirement).

⁵ 6.1b1 refers to paragraph 6, first sentence, first bullet.

IAASB CAG REFERENCE PAPER

IAASB CAG Agenda (April 2007)

Agenda Item E.2.1

Clarity – Extracts of IAASB Exposure Drafts of Proposed Redrafted ISAs 230, 560, 570, 610 and 720

Para.	Statements in extant ISA 560	New paragraph	Rationale and comment (as necessary)
11	When management amends the financial statements, the auditor would carry out the procedures necessary in the circumstances and would provide management with a new report on the amended financial statements. The new auditor's report would be dated not earlier than the date the amended financial statements are signed or approved of <u>approval of the amended financial statements</u> and, accordingly, the procedures referred to in paragraphs 4 and 5 would be extended to the date of the new auditor's report.	10 conditional requirements	Conditional requirements. All four actions are necessary in these circumstances.
13.1	When the auditor's report has been released to the entity, the auditor would notify those persons ultimately responsible for the overall direction of the entity not to issue the financial statements and the auditor's report thereon to third parties.	12b2.1 conditional requirement	Conditional requirement to notify persons within the entity in this circumstance.
13.2	If the financial statements are subsequently released, the auditor needs to take action to prevent reliance on the auditor's report.	12b2.2 conditional requirement	Conditional requirement to take action to prevent reliance on the auditor's report in this circumstance.
13.3	The action taken will depend on the auditor's legal rights and obligations and the recommendations of the auditor's lawyer.	12b2.2 requirement	Combined with extant 13.1 and 13.2 as part of the new requirement.
14	After the financial statements have been issued, the auditor has no obligation to make any inquiry regarding such financial statements.	13.1 requirement	Essential guidance (negative requirement), as this limits the auditor's responsibilities, and thereby sets the context for the following requirement.

IAASB CAG REFERENCE PAPER

IAASB CAG Agenda (April 2007)

Agenda Item E.2.1

Clarity – Extracts of IAASB Exposure Drafts of Proposed Redrafted ISAs 230, 560, 570, 610 and 720

Para.	Statements in extant ISA 560	New para-graph	Rationale and comment (as necessary)
16c0-c1 (1 st part)	When management revises the financial statements, the auditor would	conditional requirements 14.1	
16c1 (2 nd part)	carry out the audit procedures necessary in the circumstances, would	14(a)	Conditional requirements: All three steps are necessary in the circumstances.
16c2	review the steps taken by management to ensure that anyone in receipt of the previously issued financial statements together with the auditor's report thereon is informed of the situation, and would	14(b)	
16c3	issue a new report on the revised financial statements.	14(c)	
17.2	The new auditor's report would be dated not earlier than the date the revised financial statements are approved of approval of the revised financial statements and, accordingly, the procedures referred to in paragraphs 4 and 5 would ordinarily be extended to the date of the new auditor's report.	16 requirement	This has been elevated to a requirement and amended to include the condition referring to new paragraph 11.
17.3	Local regulations of some countries permit the auditor to restrict the audit procedures regarding the revised financial statements to the effects of the subsequent event that necessitated the revision.	11.1 requirement	These two sentences are used as basis for requirement in new paragraph 11, which is now phrased in terms of dual dating.

IAASB CAG REFERENCE PAPER

IAASB CAG Agenda (April 2007)

Agenda Item E.2.1

Clarity – Extracts of IAASB Exposure Drafts of Proposed Redrafted ISAs 230, 560, 570, 610 and 720

Para.	Statements in extant ISA 560	New paragraph	Rationale and comment (as necessary)
17.4	In such cases, the new auditor's report would contain a statement to that effect.	11.2 requirement	
18.1	When management does not take the necessary steps to ensure that anyone in receipt of the previously issued financial statements together with the auditor's report thereon is informed of the situation and does not revise the financial statements in circumstances where the auditor believes they need to be revised, the auditor would notify those persons ultimately responsible for the overall direction of the entity that action will be taken by the auditor to prevent future reliance on the auditor's report.	17.1 conditional requirement	Conditional requirement necessary in these circumstances.
18.2	The action taken will depend on the auditor's legal rights and obligations and the recommendations of the auditor's lawyers.	17.2 conditional requirement	Amalgamated into a further conditional requirement in new paragraph 17.2.

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

Para.	Statements in extant ISA 560	New paragraph	Rationale and comment (as necessary)
5.2	These procedures are in addition to routine procedures which may be applied to specific transactions occurring after period end <u>and the date of the financial statements</u> to obtain audit evidence as to account balances as at period end <u>and the date of the financial statements</u> , for example, the testing of inventory cut-off and payments to	A3	This is guidance and includes examples; therefore it has been placed in application material.

IAASB CAG REFERENCE PAPER

IAASB CAG Agenda (April 2007)

Agenda Item E.2.1

Clarity – Extracts of IAASB Exposure Drafts of Proposed Redrafted ISAs 230, 560, 570, 610 and 720

Para.	Statements in extant ISA 560	New para-graph	Rationale and comment (as necessary)
	creditors.		
6.1b3c0 (2 nd part)	... as considered necessary and appropriate,	A5.1	Application material, as these procedures may not be necessary in all cases.
6.1b3c1	budgets, cash flow forecasts and other related management reports.	A5b1	Application material, as this procedure may not be necessary in all cases.
6.1b4	Inquiring, or extending previous oral or written inquiries, of the entity's lawyers concerning litigation and claims.	A5b2	Application material, as this procedure may not be necessary in all cases
6.1b5.2	<p>Examples of inquiries of management on specific matters are:</p> <ul style="list-style-type: none"> • The current status of items that were accounted for on the basis of preliminary or inconclusive data. • Whether new commitments, borrowings or guarantees have been entered into. • Whether sales of assets have occurred or are planned. • Whether the issue of new shares or debentures or an agreement to merge or liquidate has been made or is planned. • Whether any assets have been appropriated by government or destroyed, for example, by fire or flood. • Whether there have been any 	A4	Application material as these are examples of matters about which the auditor may consider it appropriate to inquire. It is neither a complete list nor are all aspects essential.

IAASB CAG REFERENCE PAPER

IAASB CAG Agenda (April 2007)

Agenda Item E.2.1

Clarity – Extracts of IAASB Exposure Drafts of Proposed Redrafted ISAs 230, 560, 570, 610 and 720

Para.	Statements in extant ISA 560	New para-graph	Rationale and comment (as necessary)
	<p>developments regarding risk areas and contingencies.</p> <ul style="list-style-type: none"> • Whether any unusual accounting adjustments have been made or are contemplated. • Whether any events have occurred or are likely to occur which will bring into question the appropriateness of accounting policies used in the financial statements as would be the case, for example, if such events call into question the validity of the going concern assumption. 		
7	When a component, such as a division, branch or subsidiary, is audited by another auditor, the auditor would consider the other auditor's procedures regarding events after period-end <u>the date of the financial statements</u> and the need to inform the other auditor of the planned date of the auditor's report.	-	This topic is dealt with in more detail by the requirements of ISA 600. Accordingly, this text has been deleted.
9.2	During the period from the date of the auditor's report to the date the financial statements are issued, the responsibility to inform the auditor of facts which may affect the financial statements rests with management.	A9	This is background information and has been placed in the application material, slightly reworded, so as to not create an obligation on the part of management within the standard.
19	It may not be necessary to revise the financial statements and issue a new auditor's report when issue of the financial statements for the following period is imminent, provided appropriate disclosures are to be made in such statements.	A10	Considered application guidance covering situations when amended financial statements are not needed and therefore no new auditor's report needs to be issued.

IAASB CAG REFERENCE PAPER

IAASB CAG Agenda (April 2007)

Agenda Item E.2.1

Clarity – Extracts of IAASB Exposure Drafts of Proposed Redrafted ISAs 230, 560, 570, 610 and 720

Appendix III

ISA 570 (Redrafted), “Going Concern”

Introduction (Ref: Para. A1-A3)

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor’s responsibility in the audit of financial statements with respect to management’s use of the going concern assumption in the preparation and presentation of the financial statements.

The Going Concern Assumption

2. Under the going concern assumption, an entity is viewed as continuing in business for the foreseeable future. Financial statements and, in particular, all general purpose financial statements, are therefore prepared on a going concern basis, unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so. When the use of the going concern assumption is appropriate, 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. There may be some circumstances where special purpose financial statements are prepared in accordance with a financial reporting framework for which the going concern basis is not relevant (e.g., some financial statements prepared on a tax basis in particular jurisdictions).

Responsibilities of the Auditor and of Management

3. Some financial reporting frameworks contain an explicit requirement⁶ 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, “Presentation of Financial Statements” requires management to make an assessment of an entity’s ability to continue as a going concern.⁷

⁶ 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 the financial reporting framework, law or regulation.

⁷ International Accounting Standard (IAS) 1 as at 31 December 2005, “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

IAASB CAG REFERENCE PAPER

IAASB CAG Agenda (April 2007)

Agenda Item E.2.1

Clarity – Extracts of IAASB Exposure Drafts of Proposed Redrafted ISAs 230, 560, 570, 610 and 720

4. 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 as described in paragraph 2, 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 requirement to do so.
5. Management's assessment of the entity's ability to continue as a going concern 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 to that judgment:
 - 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.
 - 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.
 - Any judgment about the future is based on information available at the time at which the judgment is made. Subsequent events may be inconsistent with a judgment which was reasonable at the time it was made.
6. The auditor's responsibility is to evaluate the appropriateness of management's use of the going concern assumption in the preparation of the financial statements and conclude whether there is a material uncertainty⁸ about the entity's ability to continue as a going concern that need to be disclosed in the financial statements. The auditor evaluates the appropriateness of management's use of the going concern assumption even if the financial

with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern.

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."

⁸ The phrase "material uncertainty" is used in IAS 1 in discussing the uncertainties related to events or conditions which may cast significant doubt on the entity'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 ISAs, the phrase "significant uncertainty" is used in similar circumstances.

IAASB CAG REFERENCE PAPER

IAASB CAG Agenda (April 2007)

Agenda Item E.2.1

Clarity – Extracts of IAASB Exposure Drafts of Proposed Redrafted ISAs 230, 560, 570, 610 and 720

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.

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.

Effective Date

8. This ISA is effective for audits of financial statements for periods beginning on or after [date].

Objectives

9. The objectives of the auditor are:
 1. To obtain sufficient appropriate audit evidence about whether management's use of the going concern assumption in the preparation and presentation of the financial statements is appropriate in the circumstances; and
 2. To conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, if such a material uncertainty exists, to consider the implications for the auditor's report.

Requirements

Performing Risk Assessment Procedures (Ref: Para. A4-A7)

10. **When performing risk assessment procedures** to obtain an understanding of the entity, the auditor shall:
 - (a) **Inquire of management** as to whether events or conditions exist that, individually or collectively, may cast significant doubt about the going concern assumption; and either
 - (b) **Consider management's assessment of the entity's ability to continue as a going concern, if such an assessment has been performed, to determine whether management has identified events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans to address them; or**
 - (c) **Discuss with management the basis for its intended use of the going concern assumption, if management has not yet performed such an assessment.**
11. The auditor shall remain alert throughout the audit for audit evidence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

IAASB CAG REFERENCE PAPER

IAASB CAG Agenda (April 2007)

Agenda Item E.2.1

Clarity – Extracts of IAASB Exposure Drafts of Proposed Redrafted ISAs 230, 560, 570, 610 and 720

Evaluating Management's Assessment (Ref: Para. A8-A15)

12. The auditor shall evaluate management's assessment of the entity's ability to continue as a going concern.
13. The auditor's evaluation shall cover the same period as that used by management to make its 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 shall request management to extend its assessment period to twelve months from the balance sheet date.
14. In evaluating management's assessment, the auditor shall consider whether management has taken into account all relevant information of which the auditor is aware as a result of the audit.

Period Beyond Management's Assessment (Ref: Para. A16)

15. The auditor shall inquire of management as to its knowledge of events or conditions beyond the period of assessment used by management that may cast significant doubt on the entity's ability to continue as a going concern.

Further Audit Procedures when Events or Conditions are Identified (Ref: Para. A17-A20)

16. 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 shall:
 - (a) Obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists through performing additional audit procedures, including consideration of other mitigating factors. When analysis of a cash flow forecast is a significant factor in considering the future outcome of events or conditions the auditor shall:
 - (i) Evaluate the reliability of the entity's information system for generating such information; and
 - (ii) Determine whether there is adequate support for the assumptions underlying the forecast.
 - (b) Evaluate management's plans for future actions based on its going concern assessment and whether the outcome of these plans will improve the situation, and obtain sufficient appropriate audit evidence that management's plans are feasible in the circumstances.
 - (c) Determine whether any additional facts or information have become available since the date on which management made its assessment.
 - (d) Request specific written representations from management regarding its plans for future action.

IAASB CAG REFERENCE PAPER

IAASB CAG Agenda (April 2007)

Agenda Item E.2.1

Clarity – Extracts of IAASB Exposure Drafts of Proposed Redrafted ISAs 230, 560, 570, 610 and 720

Audit Conclusions and Reporting

17. Based on the audit evidence obtained, the auditor shall conclude whether, in the auditor's judgment, a material uncertainty exists related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern. A material uncertainty exists when the magnitude of its potential impact is such that, in the auditor's judgment, appropriate disclosure of the nature and implications of the uncertainty is necessary for the fair presentation of the financial statements 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.

Use of Going Concern Assumption Appropriate but a Material Uncertainty Exists (Ref: Para. A21-A25)

18. When the use of the going concern assumption is appropriate in the circumstances but a material uncertainty exists, the auditor shall conclude whether the financial statements:
 - (a) Adequately describe 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 to deal with 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 it may be unable to realize its assets and discharge its liabilities in the normal course of business.
19. If adequate disclosure is made in the financial statements, the auditor shall express an unmodified opinion but shall include an Emphasis of Matter paragraph in the auditor's report to:
 - (a) Highlight 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 to
 - (b) Draw attention to the note in the financial statements that discloses the matters set out in paragraph 18. (See ISA 706 (Revised), "Emphasis of Matter Paragraphs and Other Matter(s) Paragraphs in the Independent Auditor's Report.")
20. If adequate disclosure is not made in the financial statements, the auditor shall express a qualified or adverse opinion, as appropriate (See ISA 705 (Revised), "Modifications to the Opinion in the Independent Auditor's Report"). The auditor shall include specific reference in the auditor's report 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.

IAASB CAG REFERENCE PAPER

IAASB CAG Agenda (April 2007)

Agenda Item E.2.1

Clarity – Extracts of IAASB Exposure Drafts of Proposed Redrafted ISAs 230, 560, 570, 610 and 720

Going Concern Assumption Inappropriate (Ref: Para. A26)

21. If, in the auditor's judgment, the entity will not be able to continue as a going concern, the auditor shall express an adverse opinion if the financial statements have been prepared on a going concern basis, **regardless of whether or not appropriate disclosure has been made.**

Management Unwilling to Make or Extend Its Assessment (Ref: Para. A27)

22. If management is unwilling to make or extend its assessment when requested to do so by the auditor, the auditor shall consider whether there is a need to modify the opinion in the auditor's report as a result of the auditor's inability to obtain sufficient appropriate audit evidence. It is not the auditor's responsibility to rectify the lack of analysis by management. In some circumstances, however, 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. **When the auditor is unable to obtain sufficient appropriate audit evidence to enable the auditor to determine, in the absence of management's assessment, whether or not events or conditions exist that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall qualify the opinion or disclaim the auditor's opinion as appropriate as discussed in ISA 705 (Revised).**

Significant Delay in the Approval of Financial Statements

24. **When there is significant delay in the approval of the financial statements by management or those charged with governance after the balance sheet date, the auditor shall inquire as to the reasons for the delay. When the auditor believes that the delay could be related to events or conditions relating to the going concern assessment, the auditor shall perform those additional audit procedures necessary, as described in paragraph 16, as well as consider the effect on the auditor's conclusion regarding the existence of a material uncertainty, as described in paragraph 17.**

Communication with Those Charged with Governance

25. **When the auditor has identified events or conditions that may cast significant doubt on the entity's ability to continue as a going concern the auditor shall communicate with those charged with governance about the matter. Such communication with those charged with governance shall include a discussion of the following:**
 - (a) Whether the events or conditions constitute a material uncertainty;**
 - (b) Whether the 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.**

IAASB CAG REFERENCE PAPER

IAASB CAG Agenda (April 2007)

Agenda Item E.2.1

Clarity – Extracts of IAASB Exposure Drafts of Proposed Redrafted ISAs 230, 560, 570, 610 and 720

Proposed Disposition of the Present Tense and Other Statements

I. Those That Have Been Elevated to a Requirement or Essential Guidance

Para.	Statements in extant ISA 570	New paragraph	Rationale and Comment (as necessary)
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	10 Requirement	This is a requirement, as the auditor needs to consider going concern issues at this "early"

IAASB CAG REFERENCE PAPER

IAASB CAG Agenda (April 2007)

Agenda Item E.2.1

Clarity – Extracts of IAASB Exposure Drafts of Proposed Redrafted ISAs 230, 560, 570, 610 and 720

Para.	Statements in extant ISA 570	New paragraph	Rationale and Comment (as necessary)
	procedures...		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 (Redrafted).
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.	10(b) 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.
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...	10(c) Conditional requirement	Where management has not performed a preliminary assessment, as part of the auditor's risk assessment procedures, the auditor needs to obtain an under-standing of management's reasons for preparing the financial statements on a going concern basis.
	...and inquires of management whether events or conditions, such as those discussed in paragraph 8, exist.	10(a) Requirement	This sentence constitutes a separate requirement for the auditor to inquire as to any <u>additional</u> events or conditions, such as those discussed in

IAASB CAG REFERENCE PAPER

IAASB CAG Agenda (April 2007)

Agenda Item E.2.1

Clarity – Extracts of IAASB Exposure Drafts of Proposed Redrafted ISAs 230, 560, 570, 610 and 720

Para.	Statements in extant ISA 570	New paragraph	Rationale and Comment (as necessary)
			paragraph 8, exist, irrespective of whether management has performed its assessment, and has been reworded accordingly.
20.2	In evaluating management's assessment, 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.	14 Requirement	Necessary in virtually all cases.
27.5	The auditor also considers whether any additional facts or information are available since the date on which management made its assessment.	16(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.	16(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:	Conditional requirements 16(a).2	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.
	The reliability of the entity's information system for generating such information; and	16(a).2b1	
	Whether there is adequate support for the assumptions underlying the forecast.	16(a).2b2	
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	17.2 Essential guidance	This is essential guidance needed to understand the preceding requirement. In line with [proposed] ISA 200

IAASB CAG REFERENCE PAPER

IAASB CAG Agenda (April 2007)

Agenda Item E.2.1

Clarity – Extracts of IAASB Exposure Drafts of Proposed Redrafted ISAs 230, 560, 570, 610 and 720

Para.	Statements in extant ISA 570	New paragraph	Rationale and Comment (as necessary)
	the uncertainty is necessary for the presentation of the financial statements not to be misleading.		(Revised and Redrafted), 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	<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>(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 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>	18 Conditional requirements	<p>These are conditional requirements. Financial statement presentation needs to be considered in all cases.</p> <p>The word "consider" has been replaced with "conclude" as the auditor is faced with a "yes/no" decision.</p>
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.	21 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

IAASB CAG REFERENCE PAPER

IAASB CAG Agenda (April 2007)

Agenda Item E.2.1

Clarity – Extracts of IAASB Exposure Drafts of Proposed Redrafted ISAs 230, 560, 570, 610 and 720

Para.	Statements in extant ISA 570	New paragraph	Rationale and Comment (as necessary)
			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.	22.2 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 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.
38.4	In these circumstances, the auditor modifies the auditor’s report as discussed in ISA 701, “Modifications to the Independent Auditor’s Report.”	23 Conditional requirement	Text amended in line with conforming amendments from ISA 705 (Revised).
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	24 Conditional requirement	Conditional requirement. It is essential that the auditor respond to a significant delay on the part of management, firstly considering whether

IAASB CAG REFERENCE PAPER

IAASB CAG Agenda (April 2007)

Agenda Item E.2.1

Clarity – Extracts of IAASB Exposure Drafts of Proposed Redrafted ISAs 230, 560, 570, 610 and 720

Para.	Statements in extant ISA 570	New paragraph	Rationale and Comment (as necessary)
	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.		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 [proposed] ISA 260 (Revised and Redrafted)	<p>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:</p> <ul style="list-style-type: none"> (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

Para.	Statements in extant ISA 570	New paragraph	Rationale and Comment (as necessary)
13/c1	..., because this allows for more timely discussions with management, review of management's plans and resolution of any identified going concern issues.	A5.2	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

IAASB CAG REFERENCE PAPER

IAASB CAG Agenda (April 2007)

Agenda Item E.2.1

Clarity – Extracts of IAASB Exposure Drafts of Proposed Redrafted ISAs 230, 560, 570, 610 and 720

Para.	Statements in extant ISA 570	New paragraph	Rationale and Comment (as necessary)
			assessment stage of the audit.
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 (Redrafted) 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 (Redrafted) requirement and so has been included as application material cross-referenced to ISA 330 (Redrafted).
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.	A11	Application material providing background to the requirement in extant paragraph 18.2.

IAASB CAG REFERENCE PAPER

IAASB CAG Agenda (April 2007)

Agenda Item E.2.1

Clarity – Extracts of IAASB Exposure Drafts of Proposed Redrafted ISAs 230, 560, 570, 610 and 720

Para.	Statements in extant ISA 570	New paragraph	Rationale and Comment (as necessary)
20.1	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.	A10	Application material providing guidance to the overall requirement by describing specific aspects that may be considered.
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	
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.	A13	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	A16	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

IAASB CAG REFERENCE PAPER

IAASB CAG Agenda (April 2007)

Agenda Item E.2.1

Clarity – Extracts of IAASB Exposure Drafts of Proposed Redrafted ISAs 230, 560, 570, 610 and 720

Para.	Statements in extant ISA 570	New paragraph	Rationale and Comment (as necessary)
	auditor may need to ask management to determine the potential significance of the event or condition on their going concern assessment.		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.	A12	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.	A17	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.	A18	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: ...	A19	Application material, as this lists procedures that may be appropriate depending on the individual circumstances.
29.2	In addition the auditor compares: The prospective financial information for	A20	Application material, as this is not necessarily appropriate in

IAASB CAG REFERENCE PAPER

IAASB CAG Agenda (April 2007)

Agenda Item E.2.1

Clarity – Extracts of IAASB Exposure Drafts of Proposed Redrafted ISAs 230, 560, 570, 610 and 720

Para.	Statements in extant ISA 570	New paragraph	Rationale and Comment (as necessary)
	recent prior periods with historical results; and The prospective financial information for the current period with results achieved to date.		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.	A21	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."	A22	The example reports are application material now amended to read "illustration of a report": Wording has been amended for conforming amendments ISA 705 (Revised) and ISA 706 (Revised).
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.	A23	This is application material referencing the possibility allowed by ISA 705.12 (Revised), accordingly, a reference to ISA 705 (Revised) has been added.

IAASB CAG REFERENCE PAPER

IAASB CAG Agenda (April 2007)

Agenda Item E.2.1

Clarity – Extracts of IAASB Exposure Drafts of Proposed Redrafted ISAs 230, 560, 570, 610 and 720

Para.	Statements in extant ISA 570	New paragraph	Rationale and Comment (as necessary)
34.3	<p>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>	A24	Application material, as these are examples, not mandatory text. The term “example” reports has been amended to read “illustration.”
34.4	<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</p>	A25	Application material, as these are examples, not mandatory text. The term “example” reports has been amended to read “illustration.”

IAASB CAG REFERENCE PAPER

IAASB CAG Agenda (April 2007)

Agenda Item E.2.1

Clarity – Extracts of IAASB Exposure Drafts of Proposed Redrafted ISAs 230, 560, 570, 610 and 720

Para.	Statements in extant ISA 570	New paragraph	Rationale and Comment (as necessary)
	<p>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>		
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.	A26	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 assessment.	A27.1	Application material, as it explains when the auditor may require management to make or extend its assessment. However, rewritten to avoid duplication.

IAASB CAG REFERENCE PAPER

IAASB CAG Agenda (April 2007)

Agenda Item E.2.1

Clarity – Extracts of IAASB Exposure Drafts of Proposed Redrafted ISAs 230, 560, 570, 610 and 720

Para.	Statements in extant ISA 570	New paragraph	Rationale and Comment (as necessary)
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.	A27.2c2	This explains why a modification to the auditor's report may be appropriate; now amended in line with conforming amendments from ISA 705 (Revised).
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.

IAASB CAG REFERENCE PAPER

IAASB CAG Agenda (April 2007)

Agenda Item E.2.1

Clarity – Extracts of IAASB Exposure Drafts of Proposed Redrafted ISAs 230, 560, 570, 610 and 720

Appendix IV

ISA 610 (Redrafted), “The Auditor’s Consideration of the Internal Audit Function”

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the external auditor’s considerations when obtaining an understanding of and determining whether to use the work of the internal audit function, and the extent to which the external auditor may use that work. This ISA does not deal with instances when internal audit personnel assist the external auditor in carrying out external audit procedures.

Relationship Between the Internal Audit Function and the External Auditor

2. The role of the internal audit function is determined by management or those charged with governance.⁹ The objectives of management and those charged with governance differ from those of the external auditor whose overall objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to report on the financial statements in accordance with the auditor’s findings. The objectives of the internal audit function vary according to the requirements of management or those charged with governance. (Ref: Para. A1-A2)
3. The internal audit function may achieve its objectives in a manner similar to that of the external auditor. Accordingly, certain aspects of the internal audit function’s activities may be useful to the external auditor in determining the nature, timing and extent of audit procedures to be performed.
4. Notwithstanding its degree of autonomy and objectivity, the internal audit function is not independent of management or the entity. The external auditor has sole responsibility for the audit opinion expressed and, accordingly, that responsibility is not reduced by the external auditor’s use of the work of the internal audit function.

Effective Date

5. This ISA is effective for audits of financial statements for periods beginning on or after [date].

⁹ In some circumstances, the role of the internal audit function may be determined by law or regulation.

IAASB CAG REFERENCE PAPER

IAASB CAG Agenda (April 2007)

Agenda Item E.2.1

Clarity – Extracts of IAASB Exposure Drafts of Proposed Redrafted ISAs 230, 560, 570, 610 and 720

Objective

6. The objective of the external auditor is to obtain an understanding of the internal audit function and determine whether the activities of the internal audit function are relevant to planning and performing the audit and, if relevant, the effect on the procedures performed by the external auditor.

Requirements

Obtaining an Understanding of the Internal Audit Function

7. The external auditor shall obtain an understanding of the internal audit function in conjunction with obtaining an understanding of internal control (as required by ISA 315 (Redrafted), “Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment”). The understanding obtained by the auditor shall include an understanding of the organizational status of the internal audit function and the scope of the internal audit function’s responsibilities. (Ref: Para. A3-A5)

Planning to Use the Work of the Internal Audit Function

8. When the external auditor intends to use the work of the internal audit function, the external auditor shall evaluate:
 - (a) The objectivity and technical competence of members of the internal audit function;
 - (b) Whether the internal audit function is carried out with due professional care; and
 - (c) The effect of any constraints or restrictions placed on the internal audit function by management or those charged with governance. (Ref: Para. A6)
9. In making judgments about the effect of the internal audit function’s work on the external auditor’s procedures, the external auditor shall consider:
 - (a) The materiality of the related financial statement amounts;
 - (b) The risk of material misstatement of the assertions related to those financial statement amounts; and
 - (c) The degree of subjectivity involved in the evaluation of the audit evidence gathered in support of the relevant assertions. (Ref: Para. A7-A9)

Using the Work of the Internal Audit Function

10. When the external auditor uses specific work of the internal audit function, the external auditor shall perform procedures to evaluate the adequacy of that work. (Ref: Para. A10-A11)

IAASB CAG REFERENCE PAPER

IAASB CAG Agenda (April 2007)

Agenda Item E.2.1

Clarity – Extracts of IAASB Exposure Drafts of Proposed Redrafted ISAs 230, 560, 570, 610 and 720

11. When evaluating specific work performed by the internal audit function, the external auditor shall consider the adequacy of the scope of work and whether the evaluation of the internal audit function remains appropriate. The external auditor shall evaluate whether:
- (a) The work is performed by persons having appropriate skills and expertise;
 - (b) The work is properly supervised, reviewed and documented;
 - (c) Sufficient appropriate audit evidence is obtained to be able to draw reasonable conclusions;
 - (d) Conclusions reached are appropriate in the circumstances and any reports prepared are consistent with the results of the work performed; and
 - (e) Any exceptions or unusual matters disclosed by the internal audit function are properly resolved.

Proposed Disposition of the Present Tense and Other Statements

I. Those That Have Been Elevated to a Requirement

Para.	Statements in extant ISA 610	New paragraph	Rationale and comment (as necessary)
12	The external auditor's assessment of the internal audit function will influence the external auditor's judgment about the use which may be made of internal auditing in making risk assessments and thereby modifying the nature, timing and extent of further external audit procedures.	9	Established as a requirement the auditor's considerations in making judgments about the effect of the internal audit function's work on the nature, timing, and extent of the external auditor's procedures.
13(a)	Any constraints or restrictions placed on internal auditing by management would need to be carefully considered.	8(c)	Use of would in this instance establishes a conditional requirement.
17	The evaluation of specific work of internal auditing involves consideration of the adequacy of the scope of work and related programs and whether the assessment of the internal auditing remains appropriate. This evaluation may include consideration	11	Matters that it is necessary for the auditor to consider in evaluating the work of the internal audit function.

IAASB CAG REFERENCE PAPER

IAASB CAG Agenda (April 2007)

Agenda Item E.2.1

Clarity – Extracts of IAASB Exposure Drafts of Proposed Redrafted ISAs 230, 560, 570, 610 and 720

Para.	Statements in extant ISA 610	New para-graph	Rationale and comment (as necessary)
	<p>of whether:</p> <p>(a) The work is performed by persons having adequate technical training and proficiency as internal auditors and the work of assistants is properly supervised, reviewed and documented;</p> <p>(b) Sufficient appropriate audit evidence is obtained to be able to draw reasonable conclusions;</p> <p>(c) Conclusions reached are appropriate in the circumstances and any reports prepared are consistent with the results of the work performed; and</p> <p>(d) Any exceptions or unusual matters disclosed by internal auditing are properly resolved.</p>		

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

Para.	Statements in extant ISA 610	New para-graph	Rationale and comment (as necessary)
6	The external auditor's primary concern is whether the financial statements are free of material misstatement.	2	Redrafted linking to the objective of the auditor to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement.
8	The external auditor has sole responsibility for the audit opinion expressed, and that responsibility is not reduced by any use made of internal auditing.	4	Statement of fact – not redrafted.

IAASB CAG REFERENCE PAPER

IAASB CAG Agenda (April 2007)

Agenda Item E.2.1

Clarity – Extracts of IAASB Exposure Drafts of Proposed Redrafted ISAs 230, 560, 570, 610 and 720

Para.	Statements in extant ISA 610	New para-graph	Rationale and comment (as necessary)
13(b)	The external auditor would also need to consider whether management acts on internal audit recommendations and how this is evidenced.	A5	One of the considerations when the auditor is assessing the internal audit function.
14	When planning to use the work of internal auditing, the external auditor will need to consider internal auditing's tentative plan for the period and discuss it at as early a stage as possible.	A7	Desirable, but not essential.
14	Where the work of internal auditing is to be a factor in determining the nature, timing and extent of the external auditor's procedures, it is desirable to agree in advance the timing of such work, the extent of audit coverage, materiality levels and proposed methods of sample selection, documentation of the work performed and review and reporting procedures.	A7	Desirable, but not essential.
15	Liaison with internal auditing is more effective when meetings are held at appropriate intervals during the period. The external auditor would need to be advised of and have access to relevant internal auditing reports and be kept informed of any significant matter that comes to the internal auditor's attention which may affect the work of the external auditor. Similarly, the external auditor would ordinarily inform the internal auditor of any significant matters which may affect internal auditing.	A9	Guidance.
18	The nature, timing and extent of the audit procedures performed on the specific work of internal auditing will depend on the	A10, A11	Guidance.

IAASB CAG REFERENCE PAPER

IAASB CAG Agenda (April 2007)

Agenda Item E.2.1

Clarity – Extracts of IAASB Exposure Drafts of Proposed Redrafted ISAs 230, 560, 570, 610 and 720

Para.	Statements in extant ISA 610	New para-graph	Rationale and comment (as necessary)
	external auditor's judgment as to the risk of material misstatement of the area concerned, the assessment of internal auditing and the evaluation of the specific work by internal auditing. Such audit procedures may include examination of items already examined by internal auditing, examination of other similar items and observation of internal auditing procedures.		

III. Those That Have Been Deleted

Para.	Statements in extant ISA 610	New para-graph	Rationale and comment (as necessary)
19	The external auditor would record conclusions regarding the specific internal auditing work that has been evaluated and the audit procedures performed on the internal auditor's work.	N/A	Deleted – covered by the requirements of [proposed] ISA 230 (Redrafted).

IAASB CAG REFERENCE PAPER

IAASB CAG Agenda (April 2007)

Agenda Item E.2.1

Clarity – Extracts of IAASB Exposure Drafts of Proposed Redrafted ISAs 230, 560, 570, 610 and 720

Appendix V

ISA 720 (Redrafted), “The Auditor’s Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements”

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor’s responsibility in relation to other information in documents containing audited financial statements. The auditor reads the other information as the credibility of the audited financial statements may be undermined by inconsistencies which may exist between the audited financial statements and other information. (Ref: Para. A1)
2. This ISA has been drafted in terms of documents containing audited financial statements that are provided to owners on the same terms, and at the same time, as the financial statements; for example documents such as annual reports. This ISA may also be applied, adapted as necessary in the circumstances, to other documents containing audited financial statements, such as those used in securities offerings. (Ref: Para. A2-A5)

Effective Date

3. This ISA is effective for audits of financial statements for periods beginning on or after [date].¹⁰

Objective

4. The objective of the auditor is to avoid being associated with other information that may undermine the credibility of the audited financial statements, through:
 - (a) Reading the other information and responding appropriately to identified material inconsistencies with the audited financial statements; and
 - (b) Responding appropriately to misstatements of fact in the other information that are unrelated to matters appearing in the audited financial statements and of which the auditor becomes aware when reading the other information for the purpose of identifying material inconsistencies.

Definitions

5. For purposes of the ISAs the following terms have the meanings attributed below:

¹⁰ This effective date will not be earlier than December 15, 2008.

IAASB CAG REFERENCE PAPER

IAASB CAG Agenda (April 2007)

Agenda Item E.2.1

Clarity – Extracts of IAASB Exposure Drafts of Proposed Redrafted ISAs 230, 560, 570, 610 and 720

- (a) Other information – Financial and non-financial information (other than the financial statements or the auditor's report thereon) which is included, either by law, regulation or custom, in a document containing audited financial statements, that is provided to owners on the same terms, and at the same time, as the financial statements. (Ref: Para A6)
- (b) Inconsistency – A statement contained in other information that contradicts information contained in the audited financial statements. A material inconsistency may raise doubt about the audit conclusions drawn from audit evidence previously obtained and, possibly, about the basis for the auditor's opinion on the financial statements.
- (c) Misstatement of fact – A statement, contained in other information, that is unrelated to matters appearing in the audited financial statements and is incorrectly stated or presented.

Requirements

Reading Other Information

- 6. The auditor shall read the other information to identify material inconsistencies, if any, with the audited financial statements.
- 7. The auditor shall make appropriate arrangements with the entity to obtain the other information on a timely basis. If it is not possible to obtain the other information prior to the date of the auditor's report, the auditor shall read such other information at the earliest practicable opportunity thereafter. (Ref: Para. A7)

Material Inconsistencies

- 8. If, on reading the other information, the auditor identifies a material inconsistency, the auditor shall determine whether the audited financial statements or the other information needs to be amended.
- 9. If an amendment is necessary to the audited financial statements and the entity refuses to make the amendment, the auditor shall express either a qualified or adverse opinion on those financial statements.
- 10. If an amendment is necessary to the other information and the entity refuses to make the amendment, the auditor shall either include in the auditor's report an Other Matter(s) paragraph describing the material inconsistency or take other appropriate action. (Ref: Para. A8-A9)

Misstatements of Fact

- 11. While reading the other information for the purpose of identifying material inconsistencies, the auditor may become aware of an apparent misstatement of fact. If the auditor becomes

IAASB CAG REFERENCE PAPER

IAASB CAG Agenda (April 2007)

Agenda Item E.2.1

Clarity – Extracts of IAASB Exposure Drafts of Proposed Redrafted ISAs 230, 560, 570, 610 and 720

aware of such a misstatement of fact, the auditor shall discuss the matter with the entity's management. (Ref: Para. A10)

12. When, following such discussions, the auditor still considers that there is an apparent misstatement of fact, the auditor shall request management to consult with a qualified third party, such as the entity's legal counsel, and the auditor shall consider the advice received.
13. If the auditor concludes that there is a misstatement of fact in the other information which management refuses to correct, the auditor shall take further appropriate action. (Ref: Para. A11)

Availability of Other Information After the Date of the Auditor's Report

14. When reading other information after the date of the auditor's report, the auditor may identify a material inconsistency or become aware of an apparent misstatement of fact in the other information. In such circumstances the auditor shall determine whether the audited financial statements or the other information needs to be amended.
15. When revision of the audited financial statements is necessary, the auditor shall follow the relevant requirements in [proposed] ISA 560 (Redrafted), "Subsequent Events."
16. When revision of the other proposed information is necessary and the entity agrees to make the revision, the auditor shall carry out the procedures necessary under the circumstances. (Ref: Para A12)
17. When revision of the other information is necessary but management refuses to make the revision, the auditor shall take further appropriate action. (Ref: Para A13)

Proposed Disposition of the Present Tense and Other Statements

I. Those That Have Been Elevated to a Requirement

Para.	Statements in extant ISA 720	New paragraph	Rationale and comment (as necessary)
9	In order that an auditor can consider other information included in the annual report, timely access to such information will be required.	7	See next following comment.
9	The auditor therefore needs to make appropriate arrangements with the entity to obtain such information prior to the date of the auditor's report.	7	The IAASB considers that there should be a requirement for the auditor to obtain the other information on a timely basis.

IAASB CAG REFERENCE PAPER

IAASB CAG Agenda (April 2007)

Agenda Item E.2.1

Clarity – Extracts of IAASB Exposure Drafts of Proposed Redrafted ISAs 230, 560, 570, 610 and 720

Para.	Statements in extant ISA 720	New paragraph	Rationale and comment (as necessary)
			This statement has been combined with the immediately preceding statement in the first sentence of paragraph 7 in the redrafted ISA.
9	In certain circumstances all the other information may not be available prior to such date.	7	See next following comment.
19	When all the other information is not available to the auditor prior to the date of the auditor's report, the auditor would read the other information at the earliest possible opportunity thereafter to identify material inconsistencies	7	The IAASB considers that where other information is not available to the auditor prior to the date of the auditor's report that there should be a requirement for the auditor to read the other information at the earliest practicable opportunity thereafter. This statement has been combined with the immediately preceding statement in the second sentence of paragraph 7 in the redrafted ISA.
20	If, on reading the other information, the auditor identifies a material inconsistency or becomes aware of an apparent material misstatement of fact, the auditor would determine whether the audited financial statements or the other information need revision.	14	-
21	When revision of the audited financial statements is appropriate, the guidance in ISA 560, "Subsequent Events" would be followed.	15	The IAASB considers that when, under such circumstances, revision of the audited financial statements is appropriate that the requirements of [proposed] ISA 560 (Redrafted) shall be followed.
22	When revision of the other	16	The IAASB considers that when

IAASB CAG REFERENCE PAPER

IAASB CAG Agenda (April 2007)

Agenda Item E.2.1

Clarity – Extracts of IAASB Exposure Drafts of Proposed Redrafted ISAs 230, 560, 570, 610 and 720

Para.	Statements in extant ISA 720	New paragraph	Rationale and comment (as necessary)
	information is necessary and the entity agrees to make the revision, the auditor would carry out the audit procedures necessary under the circumstances.		revision of the other information is necessary and the entity agrees to make such revisions that the auditor shall be required to carry out the procedures that are necessary under the circumstances.

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

Para.	Statements in extant ISA 720	New paragraph	Rationale and comment (as necessary)
1	The purpose of this International Standard on Auditing (ISA) is to establish standards and provide guidance on the auditor's consideration of other information, on which the auditor has no obligation to report, in documents containing audited financial statements.	1	The IAASB concluded that the phrase "on which the auditor has no obligation to report" is confusing and deleted it. The confusion arises from the fact that the extant ISA at paragraphs 13, 18 and 23 establishes reporting obligations with respect to other information. However, the IAASB considered that the redrafted ISA should make clear that the scope of the auditor's opinion does not encompass the other information. Paragraph A1 in the redrafted ISA addresses this point.
7	If such other information is omitted or contains deficiencies, the auditor may be required to refer to the matter in the auditor's report.	A3	This statement describes actions with respect to responsibilities that are beyond the scope of this ISA.
8	When such responsibilities involve the review of other information, the auditor will need to follow the guidance on review engagements in	-	This has been deleted as the IAASB considers it to be inappropriate to refer to review engagements within ISAs.

IAASB CAG REFERENCE PAPER

IAASB CAG Agenda (April 2007)

Agenda Item E.2.1

Clarity – Extracts of IAASB Exposure Drafts of Proposed Redrafted ISAs 230, 560, 570, 610 and 720

Para.	Statements in extant ISA 720	New paragraph	Rationale and comment (as necessary)
	the appropriate ISAs.		
9	In these circumstances the auditor would follow the guidance in paragraph 20-23.	-	This has been deleted as it is no longer required under the structure of the redrafted ISA.
13	The actions taken, such as not issuing the auditor's report or withdrawing from the engagement will depend upon the particular circumstances and the nature and significance of the inconsistency. The auditor would also consider obtaining legal advice as to further action.	A8	In the redrafting it has been made clearer that the decision on what further action to take may be based on advice from the auditor's legal counsel.
16	When discussing the matter with the entity's management, the auditor may not be able to evaluate the validity of the other information and management's responses to the auditor's inquiries, and would need to consider whether valid differences of judgment or opinion exist.	A10	Redrafted so as not to be a requirement and in particular not using the words "would need to consider."
18	The actions taken could include such steps as notifying those charged with governance in writing of the auditor's concern regarding the other information and obtaining legal advice.	A11	-
23	The actions taken could include such steps as notifying those charged with governance in writing of the auditor's concern regarding the other information and obtaining legal advice (This sentence is identical to that in paragraph 18.)	A13	-

IAASB CAG REFERENCE PAPER

IAASB CAG Agenda (April 2007)

Agenda Item E.2.1

Clarity – Extracts of IAASB Exposure Drafts of Proposed Redrafted ISAs 230, 560, 570, 610 and 720