



Meeting: IAASB Consultative Advisory Group
Meeting Location: Brussels
Meeting Date: March 6–7, 2012

Agenda Item **K**

Auditor Reporting—Going Concern and Other Information

Objective of Agenda Item

1. To consider proposals to enhance the communicative value of the auditor's report in relation to going concern (GC) and other information in documents containing audited financial statements (OI).

Papers to Be Referred to during Discussion

2. The discussion on this topic will follow the structure of this CAG Paper. Within this paper, reference is made to **Agenda Items K.1 and K.2** to facilitate the discussion. Discussion of the general approach to the auditor reporting project is provided in **Agenda Item G**, and the project proposal approved by the IAASB in December 2011 is provided in **Agenda Item G.1**.

Background

3. The Going Concern and Other Information (GCOI) Sub-committee was asked to explore options to enhance the communicative value of the auditor's report in relation to GC and OI, specifically:
 - Describing the auditor's responsibility for GC in an audit of financial statements;
 - Considering how the auditor could provide greater insight into the auditor's procedures and conclusion about whether management's use of the GC assumption is appropriate; and
 - Describing the auditor's responsibility for OI in an audit of financial statements and how the auditor could best communicate the outcome of the auditor's work regarding the OI.
4. Following on from the project proposal, **Agenda Items K.1 and K.2** set out the Auditor Reporting Task Force's (TF) consideration of options to enhance the communicative value of the auditor's report in relation to GC and OI. These options and related preliminary recommendations reflect the debates of the TF, informed by the discussions of the GCOI Sub-committee, and will be considered by the IAASB for the first time at its upcoming March 2012 meeting.

Summary of Preliminary TF Recommendations

5. Recognizing the desire for a progressive June 2012 IAASB consultation paper on auditor reporting, it is important that the CAG provides strategic input to the IAASB on the topic of GC and OI in the light of the TF's preliminary recommendations, which are as follows:

- (a) In relation to GC, further exploring the following options (which are not mutually exclusive) as offering the most promise from a value/impediments perspective:
- To require a conclusion in the auditor's report regarding the auditor's work under extant ISA 570,¹ in addition to a generic description of the responsibilities of management regarding GC (Option 2 in **Agenda Item K.1**).
 - To require the auditor to provide auditor commentary in the auditor's report regarding important matters relating to the entity's ability to continue as a GC (Option 3 in **Agenda Item K.1**).
 - To develop enhanced guidance in the ISAs regarding the use of emphasis of matter paragraphs (EOMs) to highlight material uncertainties regarding the GC assumption (Option 5 in **Agenda Item K.1**).

The TF has tentatively concluded that Option 2 and Option 3 (for GC EOMs in the case of the latter) should apply to audits of all entities. For Option 3 when there is no material uncertainty (and therefore no GC EOM), the Task Force believes that more discussion is needed about the use of auditor commentary before it can form a view on whether such option should apply to audits of all entities or limited to audits of listed entities only.

- (b) In relation to OI, further exploring the following option as offering the most promise from a value/impediments perspective:
- To require a conclusion in the auditor's report regarding the auditor's work under extant ISA 720,² in addition to a generic description of the responsibilities of the auditor regarding OI (Option 2 in **Agenda Item K.2**).

The TF has tentatively concluded that this option should apply only to audits of listed entities.

Matters for CAG Consideration

1. Do CAG Representatives support further IAASB consideration of the following options, as identified by the TF:
 - (a) In relation to going concern: Options 2, 3 and 5 as referred to above; and
 - (b) In relation to other information: Option 2 as referred to above?
2. Do CAG Representatives support the value/impediments analysis for each of these options as presented in:
 - Appendix 1 of **Agenda Item K.1** for going concern; and
 - Appendix 1 of **Agenda Item K.2** for other information?

In particular, are there any significant impediments to these options that have not been identified?

¹ ISA 570, *Going Concern*

² ISA 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*

3. What are CAG Representatives' reactions to the illustrative audit report wordings for:
 - Options 2 and 3 for GC in **Agenda Item K.1**; and
 - Option 2 for OI in **Agenda Item K.2**?
4. Do CAG Representatives support the TF's preliminary recommendations for the scope of application of these preferred options as set out in paragraph 5(a) and (b) above?

Material Presented – IAASB CAG PAPERS

Agenda Item K.1 Auditor Reporting—Going Concern (IAASB March 2012 Agenda Item 4-B)

Agenda Item K.2 Auditor Reporting—Other Information (IAASB March 2012 Agenda Item 4-C)