

**Meeting:** IAASB Consultative Advisory Group  
**Meeting Location:** New York  
**Meeting Date:** September 8-9, 2014

## Agenda Item I.1

### Auditor Reporting – Going Concern (GC) – Report Back, Issues and Drafting Team Recommendations

#### Objectives of Agenda Item

1. To provide a report back on comments of the Representatives on this project as discussed at the March 2014 CAG Meeting.
2. To discuss issues and Drafting Team (DT-570) recommendations relevant to finalizing proposed ISA 570<sup>1</sup> (**Agenda Item I.2**). In addition changes relating to GC have also been made in proposed ISA 700 (Revised), including the illustrative reports included therein (**Agenda Item G.2**).

#### March 2014 CAG Discussion

3. Below are extracts from the draft minutes of the March 2014 CAG meeting<sup>2</sup> on the discussion of Agenda Item C.2 and an indication of how the project Task Force or IAASB has responded to the Representatives' comments.

Representatives' Comments	Task Force/IAASB Response
<i>IASB Update</i>	
Mr. Stewart provided an update on the IASB's work and the reason for its actions on GC, noting that the IASB had considered proposals for new requirements for preparers to disclose events and conditions that may cast significant doubt on an entity's ability to continue as a GC on a gross basis (i.e. before considering management's plans for mitigation). However, the IASB agreed not to proceed with the proposal, as its members were split 8-8. Those IASB members who did not support the proposal were concerned that there would be too many general business risks being identified, which would lead to boilerplate disclosures in the financial statements.	Update noted.

<sup>1</sup> Proposed ISA 570 (Revised), *Going Concern*

<sup>2</sup> The minutes will be approved at the September 2014 IAASB CAG meeting.

Representatives' Comments	Task Force/IAASB Response
<p>In relation to the meeting between IASB and the IAASB, as noted in Agenda Item C.2, the IFRS Interpretations Committee (IFRIC) had agreed to consider whether there was something that could be done at an interpretations level with respect to GC. Mr. Stewart noted that IFRIC has plans to consider whether to issue an agenda decision to draw on previous discussions related to GC at its March 2014 meeting. The agenda decision could highlight the existing disclosure requirement in IFRSs relating to significant judgments made by management in preparing the financial statements.<sup>3</sup> He also noted that, in his view, the requirement in IAS 1 can be applied to GC judgments and could be relevant in situations of close calls where management uses a significant amount of judgment in its determination of whether a material uncertainty (MU) exists. Such an agenda decision paper would not change requirements in IFRSs, but rather remind preparers of existing requirements, which auditors could draw upon to promote better disclosures.</p>	<p>Update noted.</p> <p>Mr. Landes noted the importance of Mr. Stewart's comments, and agreed that paragraph 122 in IAS 1 could be used as the hook in the accounting standards to enable the auditor to drive better disclosures by management about GC even when management has not identified a MU. He noted that it was difficult for auditors to insist on such disclosures in the absence of a requirement in the accounting standards and that, if management was required by IFRSs to make disclosures, some progress could be made to provide investors with what they want to know about GC considerations and respond to calls for earlier disclosures. Prof. Schilder noted that he was pleased with the existing mechanism in IAS 1 and IFRIC's plans to clarify this and point to this linkage. He noted that, if made clearer from the IASB side, the IAASB may be able to build on it. Ms. de Beer agreed that it would be useful for IFRIC to clarify the matter and very important for the IAASB to explore this approach in getting auditors to do more regarding GC.</p> <p><i>See update in paragraph 5 below.</i></p>
<p>Mr. Baumann asked Mr. Stewart if his interpretation of IAS 1 was to require disclosures of risks and uncertainties, including those around liquidity concerns. Mr. Stewart responded that IFRS 7<sup>4</sup> contained the disclosure requirements of such risks. Mr. Stewart noted that he was referring to the significant judgments made by management in relation to the application of accounting policies and the requirements to disclose such judgments. Mr. Stewart further noted that the purpose of the potential IFRIC agenda decision would be to remind preparers of the particular requirement in IAS 1 and not those specific to risks and uncertainties. Mr. Baumann</p>	<p>Point noted.</p>

<sup>3</sup> IAS 1, *Presentation of Financial Statements*, paragraph 122 states: "An entity must disclose, in the summary of significant accounting policies or other notes, the judgments, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements."

<sup>4</sup> IFRS 7, *Financial Instruments: Disclosures*

Representatives' Comments	Task Force/IAASB Response
<p>expressed the opinion that he was unsure whether the disclosure requirement in IAS 1 was relevant, if it relates to accounting policies, in so far as the use of the GC basis of accounting is concerned. Instances when it is not appropriate were so rare that it seemed that the accounting standard setters would still have to do something on the subject of GC for the purpose of encouraging earlier disclosures. He highlighted the US Financial Accounting Standards Board (FASB) project, which had suggested an earlier threshold of “more likely than not” in relation to uncertainties about GC. Mr. Baumann noted that a number of issues were raised around the threshold of reporting on GC as a result of the FASB’s ED, and therefore the FASB had decided to re-deliberate the proposals. He asked if the IASB was working with FASB on this topic and why this was not on the list of joint projects. Mr. Stewart noted that the IASB staff was monitoring what FASB was doing, but that this was not a joint project. He further noted that the IASB already has certain disclosure requirements related to GC, while the US currently does not. Mr. Baumann noted that currently the disclosures required by IFRSs in relation to MU were exception-based disclosures, to which Mr. Stewart agreed. Mr. Stewart noted that the required disclosure relates more to judgments made by management in applying its accounting policies.</p>	
<p>Mr. Stewart agreed that the auditing and accounting standards needed to be in alignment with one another and supported the feedback that the auditing standards should not go beyond disclosures that are required by the accounting standards. He acknowledged that some of the comments to the ED were premised on the IASB completing a project on GC and that perhaps these comments could be viewed differently given the IASB’s decision not to proceed with GC. However, he was of the view that the consequences of IASB’s decision would not affect the statements proposed by the IAASB in the ED, in particular because the IASB had not considered the</p>	<p>Point taken into account.</p> <p>The IAASB continues to be of the view that it is important, to the extent practicable, to have alignment between the requirements required by the applicable financial reporting framework and the standards set by the IASB and others, with auditor reporting on GC. In particular, the Drafting Team notes that the IFRIC Agenda Decision published in July 2014 has provided a basis for the IAASB to include further guidance within its auditing standards relative to the auditor’s work effort on GC disclosures.</p> <p>In addition, the required statements in proposed ISA 700 (Revised)<sup>5</sup> addressing management’s responsibilities</p>

<sup>5</sup> Proposed ISA 700 (Revised), *Forming an Opinion on Financial Statements*

Representatives' Comments	Task Force/IAASB Response
need for a positive statement by management about the appropriateness of the use of the GC basis of accounting in the preparation of the financial statements. Mr. Stewart thought it was important not to link the IASB's conclusions to the IAASB's proposals and that in his opinion the IAASB's proposals are not reliant on IASB changing IAS 1.	related to GC are linked to the requirements in the applicable financial reporting framework. <i>See Section II below and paragraphs 20 and A23–A24 of Agenda Item I.2, as well as paragraphs 34(c) and A48 of Agenda Item G.2.</i>
Ms. de Beer questioned whether DT-570 has considered delinking the two requirements, as Mr. Stewart's feedback indicated that it might be difficult for auditors to comment on the appropriateness of management's use of the GC basis of accounting in the preparation of the financial statements. However, the proposed auditor statement on whether a MU had been identified was less closely linked to the IASB completing its project and to this end the IAASB could deal with this part of GC in its project by adding an additional requirement for auditors.	<p>Point taken into account.</p> <p>The IAASB agreed with the Drafting Team recommendation to revert to exception-based reporting on GC, rather than require statements about the use of the GC basis of accounting and whether a MU has been identified.</p> <p>However, the IAASB agreed to include an additional requirement relating to the auditor's responsibilities with respect to assessing disclosures for situations where events or conditions have been identified that may indicate that a MU exists, but it is ultimately concluded, based on audit evidence obtained, that no MU exists. The IAASB also believes it is useful to describe both management and the auditor's responsibilities with respect to GC in the auditor's report. <i>See Sections I and II below.</i></p>
<i>Feedback on DT-570's Recommendation to Revert to Exception-Based Reporting</i>	
Mr. Hansen commented that he personally agreed with exception-based reporting for GC and that accounting standards should be driving disclosures. Similar to any other contingency, Mr. Hansen was of the view that matters related to GC should be disclosed and reported in the financial statements. However, he noted investors and the public supported the changes from the IAASB's previous proposals, as they have spoken loudly that they wanted to know more about GC, so even if theoretically the disclosures should be in financial statements, he questioned whether investors would find exception-based reporting by auditors sufficient, given the demand for discussion on GC in the auditor's report.	<p>Point taken into account.</p> <p>The IAASB is of the view that, absent the ability to make changes to GC on a holistic basis, exception-based reporting is the better option in light of responses received on exposure. While the two explicit conclusions are no longer required, the Drafting Team notes that the context underlying the statements proposed for inclusion in the auditor's report in the Exposure Draft have been substantially retained, but in the Management Responsibility and Auditor's Responsibility sections of the auditor's report rather than in a separate GC section. Finally, the IAASB agreed that the approach taken in proposed ISA 701<sup>6</sup> would allow for matters related to GC to be communicated as key audit matters (KAM) when</p>

<sup>6</sup> ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

Representatives' Comments	Task Force/IAASB Response
	<p>such matters are determined to be of most significance in the audit, thereby providing relevant information to users in such circumstances.</p> <p><b>See Section II below.</b></p>
<p>Mr. Dalkin noted that, for the public sector, the element of fiscal sustainability was very important and that the public sector generally prefers reporting on an exception basis. He further noted that a requirement to report on GC on an ongoing basis would create difficulties.</p>	<p>Point accepted.</p> <p>Mr. Landes noted that ISA 570 explains that the concept of GC is relevant to the public sector, but noted Mr. Dalkin's support for exception-based reporting and the additional reporting responsibilities in the public sector.</p>
<p>Ms. Sucher noted her disappointment with the proposals, as GC was one of the biggest areas of concern during the financial crisis. She noted that one of the biggest areas of misunderstanding by users was the area of GC and what it actually meant, as well as the auditor's responsibilities for GC. She noted that education of users was important and that preparers could also provide better disclosures. While she understood DT-570's rationale for its proposed course of action, she expressed disappointment that more could not be done by auditors. Ms. Sucher noted that, given the fact that users still do not understand what GC means, she would encourage the IAASB to keep up pressure to achieve a holistic approach and discuss whether, within the current scope of IAS 1, preparers could do more in respect of disclosures and whether auditors could also encourage the preparers to do more. She noted that there is scope for auditors to do more work on GC, but whether this is captured by the auditor's report is a different issue.</p>	<p>Point taken into account.</p> <p>The IAASB believes that the current proposals do provide some educational value to users through the explanation of Management's Responsibilities and Auditor's Responsibilities with respect to GC currently proposed for inclusion in those respective sections of the auditor's report. The proposed new requirement in respect of disclosures for situations where events or conditions have been identified that may indicate that a MU exists, but it is ultimately concluded, based on audit evidence obtained, that no MU exists, is also intended to enhance the auditor's work effort in assessing the appropriateness of the disclosures in respect of GC. The IAASB is also pleased that the IFRIC Agenda Decision finalized in July 2014 further explains preparers' responsibilities in relation to significant judgments made in concluding that there remain no <del>MU's</del> <b>MUs</b> related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. <b>See Sections I and II below as well as paragraphs 20 and A23–A24 of Agenda Item I.2.</b></p>
<p>Ms. Lang referred to a survey of small- and medium-sized entities (SMEs) that indicated support for the IAASB's proposals in the ED in GC, with this support coming from users and investors but not from preparers. Mr. Waldron noted that the CFA Institute considers GC to be a matter of great importance and believes that exception-based reporting will not provide the requested information on GC.</p>	<p>Point noted.</p>
<p>Ms. Lang questioned which stakeholders found a</p>	<p>Point taken into account.</p>

Representatives' Comments	Task Force/IAASB Response
<p>holistic approach to be necessary, and whether any respondents who explicitly supported the IAASB's approach without noting the need for a holistic approach would be satisfied with DT-570's recommendations, in particular investors. Ms. Lang noted that it was interesting that there was a divergence of views and, as such, a holistic approach might help solve issues. She further noted that the EFAA had expressed its support and had sympathy for what IAASB was trying to do with ISA 570, but also had to consider the implication of application to SMEs.</p>	<p>Ms. Healy noted that investors had highlighted the need for early warnings in relation to GC within the financial statements and shared the IAASB's view (which was also supported by other respondents to the ED) that the auditing requirements were closely linked to the accounting standards, with 30% of all respondents looking for changes in accounting standards to address the GC issue. She further noted comments from investors and other respondents that indicated that a specific statement on basis of accounting was not a valuable statement, as it is relatively rare for the GC basis of accounting not to be appropriate, even if a MU has been identified. Ms. Healy also noted that some respondents had identified a risk that such a statement could be viewed as a "sign off" on the financial health or viability of an entity when another basis of accounting was not really likely. She noted that, with respect to the statement on MU, investors identified concerns about the potential for boilerplate language and more assurance to be taken from the statement than that intended. Ms. Healy further noted that some investors did not mention the topic of GC at all and, as such, it is difficult to judge their views.</p>
<p>Mr. Koktvedgaard supported the move away from reporting on GC in all auditor's reports, and questioned whether a separate section on GC was necessary at all. In his view, the inclusion of KAM in the auditor's report provided the opportunity for auditors to highlight when GC was an issue and an area of significant auditor attention in the audit. If issues relating to GC did not meet the threshold of a KAM, Mr. Koktvedgaard questioned whether any disclosures by the auditor about GC would be necessary. Ms. de Beer asked Mr. Koktvedgaard if he then supported the inclusion of KAM for all entities and not just listed entities. Mr. Koktvedgaard responded that he did not necessarily support the inclusion of KAM for all entities, but that the same language could be applied to both. He noted that the vehicles already put in place (e.g. KAM or EOM paragraphs) should be used, rather than inventing a new one for a specific topic.</p>	<p>Point taken into account.</p> <p>Mr. Montgomery responded that some respondents to the ED supported Mr. Koktvedgaard's view that, if auditors were focusing on GC, that this should be reported through KAM. He noted that there could be circumstances in which a lot of audit time and effort was spent on GC and the auditor concluded that there was a MU. If this was the case, auditor disclosure is already required through an extant EOM paragraph or in accordance with DT-570's recommendations for a separate section to be included in the auditor's report. On the other hand, if a lot of time and effort was spent in the area of GC but the auditor concluded that no MU existed (i.e., a "close call"), there is a conundrum in how the auditor can describe such circumstances without a corresponding management disclosure, and not be the provider of original information. Mr. Montgomery reiterated the point that a strong majority of respondents had stated that a holistic approach was needed and,</p>

Representatives' Comments	Task Force/IAASB Response
	<p>citing various reasons, that the auditor should never make disclosures about GC without management making the appropriate underlying disclosures. Mr. Montgomery further noted that DT-570's proposal was a compromise approach and represented what could reasonably be achieved, given the limited developments of the IASB, to address those looking for a holistic approach. He noted that the proposal at least described what the responsibilities are in respect of GC. He noted that the IAASB, while supportive of statements in the auditor's report based on the work effort in ISA 570, is caught in the middle without an obvious effective solution, and DT-570 believes that it is not possible to fully address GC without a corresponding accounting standard solution. Mr. Thompson agreed, but thought that requiring the auditor to include a KAM in the auditor's report will also help to encourage management to make similar disclosures.</p> <p>The IAASB is of the view that its revised proposals related to GC provide an appropriate balance in response to concerns raised on exposure, in particular the need for a holistic approach to GC, because such proposals (i) require the auditor to draw attention to disclosures in the financial statements when, based on the audit evidence obtained, the auditor has concluded a MU exists; (ii) allow for the possibility that the auditor will include a KAM in circumstances where the consideration of GC issues was a matter of most significance in the audit; and (iii) highlight in all auditor's reports the respective responsibilities of management and the auditor in relation to GC.</p>
<p>Mr. Hansen noted that the US Advisory Committee on the Auditing Profession had made an explicit call for more disclosure in the auditor's report with respect to GC in response to feedback from investors. He noted that he understood the conundrum described by Mr. Montgomery but had hoped that the project would go further in its proposals.</p>	<p>Point taken into account.</p> <p>As described above, the IAASB believes it has progressed as far as possible in light of the limited developments of the IASB.</p>
<p>Mr. Arteagoitia disagreed with DT-570's approach and was of the view that it weakened the proposals. Referring to paragraph 14 of Agenda Item C.2, he</p>	<p>Point noted.</p> <p>Prof. Schilder noted that he understood that the EC staff did not interpret European law and that the intention of</p>



Representatives' Comments	Task Force/IAASB Response
stated that the EC did not make interpretations of European law.	the reference in the agenda material was not to suggest that the staff did so, but rather to highlight that the European audit reform proposals now required only a statement about any MU that had been identified, which was akin to exception-based reporting. Mr. Arteagoitia agreed.
Ms. Blomme acknowledged the view that auditors could say more in the auditor's report in relation to GC and the need for a holistic approach to the topic of GC. She commented that the EC's latest accounting directives do not contain requirements for preparers to discuss GC in the financial statements. However, she was of the view that they would have been ready in Europe to implement, should the directives have gone further in relation to GC, as was expected. She noted, therefore, that some may view exception-based reporting as a step back, but it is in line with the European audit reform proposals and, as such, FEE supports it. She was also of the view that the link between GC and KAM could be further explained.	Point accepted. The link between GC and KAM has been further addressed by the ISA 701 Drafting Team. <i>See paragraph A55 of Agenda Item D.2 and further discussion in Section I below.</i>
<i>Description of Management's and Auditor's Responsibilities for GC</i>	
Ms. Sucher and Mr. Hansen supported the inclusion of the statements in the Management's Responsibilities and Auditor's Responsibilities sections of the auditor's report. Mr. Hansen noted that, if the purpose is to educate users on management's and auditor's responsibilities, he is not against inclusion, subject to finding the appropriate wording. However, he questioned whether auditors should be specifying management's responsibilities, and that further input from preparers may be useful. He also suggested the need for addressing this matter through the management representation letter.	Point taken into account. At its June 2014 meeting, the IAASB supported requiring the description of management's responsibilities to make reference to GC. The ISAs themselves cannot specify requirements for management, but rather refer to the premise of the audit in the context of an applicable financial reporting framework. The proposed requirement to describe management's responsibilities in the auditor's report is intended to be linked to the underlying financial reporting framework that establishes such responsibilities and is not inconsistent with the descriptions that would have been required by the proposals in the ED. According, the Drafting Team does not believe that further input from preparers would be necessary at this stage.  The Drafting Team notes that paragraph 16(e) of proposed ISA 570 continues to address the auditor obtaining representations from management (a requirement in extant ISA 570). However, the Drafting Team has developed application material for the Board's



Representatives' Comments	Task Force/IAASB Response
	consideration to further support this requirement and highlight circumstances in which the auditor may consider it necessary to obtain a specific representation in relation to GC. <b>See paragraphs 16(e) and A19 of Agenda Item I.2.</b>
<p>Mr. Koktvedgaard noted that, instead of adding a sentence to describe management's responsibilities in the auditor's report, the statement could be part of the management report. He was of the view that, while auditing standard setters do not prescribe what is required in a management report, if management does put such a statement in its report, this does not need to be repeated in the auditor's report</p>	<p>Point not accepted.</p> <p>Mr. Landes agreed, and noted DT-570 could consider how to address this in the standard.</p> <p>The Drafting Team further considered this point. However, it was noted that a management report would not always be included with the financial statements and as such, the consistency of the auditor's report would be decreased. Paragraph A46 of proposed ISA 700 (Revised) acknowledges that, in addition to including the wording as required by the ISA, the auditor may refer to a more detailed description of these responsibilities by including a reference to where such information may be obtained (for example, in the annual report of the entity or a website of an appropriate authority).</p>
<p>Ms. Sucher questioned whether this change would require re-exposure, and suggested that DT-570 further consider this.</p>	<p>Point noted.</p> <p>The IAASB's initial view is that the change is responsive to feedback on exposure and therefore re-exposure would not be necessary. The matter of re-exposure will be tabled for voting at the September 2014 IAASB meeting.</p>
<p>Ms. Sucher did not support inclusion of the statement about the auditor's inability to guarantee an entity's ability to continue as a GC, as she viewed it as undermining the work performed by the auditor. Mr. James agreed, as it states the obvious. Mr. Hansen had a similar adverse reaction, as there are other areas in the audit, such as impairment, which are equally not guaranteed. Ms. Sucher noted that, if a disclaimer were to be included, the wording needs to be clearer and less defensive.</p>	<p>Point taken into account.</p> <p>Mr. Landes noted that he understood the point on guarantee statements and that there had been strong discussion among DT-570 about this statement. He noted that DT-570 had included the statement in the illustration in order to obtain views from CAG Representatives and the IAASB members.</p> <p>At the June 2014 meeting, some IAASB members had a similar reaction and asked the Drafting Team to revisit the sentence. Ms. de Beer suggested it would be preferable for the language to be as balanced and factual as possible to respond to the CAG's concerns about the inclusion of such a statement in the auditor's report.</p>

Representatives' Comments	Task Force/IAASB Response
	<p>While acknowledging the difficulty in obtaining the right balance for the statement. The Drafting Team continues to believe that it is useful to continue to include this statement and has drafted alternative wording to address the request to make the language as balanced and as factual as possible.</p> <p><b>See illustrative reports in Agenda Item G.2</b></p>

## Matters for CAG Consideration

4. The Representatives are asked to note the Report Back above. Specific Matters for CAG Consideration are set below.

## Issues and Drafting Team Recommendations

- I. *Enhancing Disclosures Related to Events and Conditions that may Give Rise to MUs about an Entity's Ability to Continue as a GC*
  - A. Relevant Accounting Developments
    5. Notably, since the March 2014 CAG meeting, the IFRS Interpretations Committee (IFRIC) finalized and published its Agenda Decision<sup>7</sup> in July 2014, in respect of disclosures required in relation to MU's related to events or conditions that may cast significant doubt upon the entity's ability to continue as a GC (i.e. the work referred to by Mr. Stewart in the Report Back above). This Agenda Decision observes a situation where management, after considering all relevant information, including the feasibility and effectiveness of any planned mitigation, concludes that there are no MUs relating to GC. In such a situation, the Agenda Decision highlights paragraph 122 of IAS 1, noting it "would apply to the judgments made in concluding that no MUs remain related to events or conditions that may cast doubt upon the entity's ability to continue as a GC." The topic of GC has now also been removed from the agenda of the IFRIC.
    6. Further, at its May 7, 2014 meeting, the US Financial Accounting Standards Board (FASB) continued its re-deliberations in respect of disclosures relating to uncertainties about an entity's GC presumption. The FASB opted to pursue a "single-threshold approach" that would require disclosures when substantial doubt<sup>8</sup> exists about an entity's ability to continue as a GC. The FASB determined that management's assessment of an entity's ability to continue as a GC should be based on relevant conditions or events known or reasonably knowable at the date the financial statements are issued; and that the look-forward period should be one year from the date the financial statements are issued. Further, it was determined that the standard will apply to both public and non-public entities. It is

<sup>7</sup> The finalized Agenda Decision can be found on the IFRS website - <http://media.ifrs.org/2014/IFRIC/July/IFRIC-Update-July-2014.pdf>

<sup>8</sup> The term "substantial doubt" should be defined as akin to the term "probable" as it is used in Accounting Standards Codification ASC 450, on contingencies.

expected that the new requirements will apply prospectively to annual periods beginning on or after December 15, 2015.

B. Drafting Team Recommendations

7. At the June 2014 IAASB meeting, the majority of the members expressed support for the inclusion of a new requirement in proposed ISA 570 (Revised) to address the auditor's work effort in relation to GC disclosures. In light of this and the support expressed by the CAG at its March 2014 meeting, DT-570 has continued to develop and refine a proposed requirement and related application material. In particular, in its refinement of the new requirement, DT-570 considered the feedback from the Board, that the new requirement:
  - Could be seen as setting additional disclosure requirements beyond those in the accounting standards (in particular, in IFRSs);
  - Unduly shifted the focus away from disclosures relating to MUs; and
  - Placed too much emphasis on close call situations when compared with the limited guidance relating to the auditor's work effort in relation to disclosure of MUs.
8. Further, a few IAASB members were of the view that the revised application material discussed at the June 2014 meeting<sup>9</sup> could apply equally to MUs as to "close call" situations.
9. DT-570 is of the view that this new requirement and related guidance does not create new accounting requirements, but rather focuses the auditor, specifically with respect to GC, on requirements that already exist within both the accounting and the auditing standards, which require the financial statements to present fairly the activities and position of an entity. The proposed new requirement is presented as paragraph 20 in **Agenda Item I.2**.
10. DT-570 is also of the view that the clarification of paragraph 122 of IAS 1 can be applied to "close call" situations as discussed in the IFRIC Agenda Decision, where management has ultimately determined that any identified MU has been sufficiently mitigated. In such situations, it is likely that significant judgments will be made in determining and assessing the mitigating factors and therefore the accounting literature, as interpreted, would require disclosures of such judgments by management in its financial statements. DT-570 believes this IFRIC Agenda Decision provides a useful "hook" to further require auditors to consider disclosures in such circumstances as part of the overall work effort related to GC in accordance with proposed ISA 570 (Revised).
11. Notwithstanding this, DT-570 also agrees that balance was needed to ensure auditors were appropriately focused on disclosures relating to MUs, in light of the concern expressed by some IAASB members that too much emphasis was being placed on the auditor's work effort in respect of close call situations. To redress the balance, DT-570 has developed application material to the extant requirement in paragraph 19 of proposed ISA 570, discussing the auditor's responsibilities with respect to disclosures when a MU exists. This application material is designed to make the guidance around the auditor's consideration of disclosures robust and to place adequate emphasis on the

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<sup>9</sup> The revised application material was presented at the June 2014 Board Meeting in Agenda Item 3 – ISA 570. [http://www.ifac.org/sites/default/files/meetings/files/20140616-IAASB-Updated-Extract\\_Agenda\\_Item\\_3B\\_ISA%20570.pdf](http://www.ifac.org/sites/default/files/meetings/files/20140616-IAASB-Updated-Extract_Agenda_Item_3B_ISA%20570.pdf)

requirement when a MU exists. These updates are presented in paragraphs A21–A22 of **Agenda Item I.2**.

12. In light of the IFRIC Agenda Decision, DT-570 reviewed the proposed new requirement for the auditor's consideration of disclosures when events or conditions have been identified but it is ultimately concluded that no MU exists (paragraph 20 of **Agenda Item I.2**). DT-570 developed additional application material explaining the auditor's responsibilities in respect of disclosures in such situations. Further, DT-570 is of the view that it continues to be appropriate to remind auditors of their responsibilities in connection with the underlying fair presentation framework in accordance with proposed ISA 700 Revised). These updates are presented in paragraphs A23–A24 of **Agenda Item I.2**.
13. DT-570 considered the feedback from the CAG and the Board that additional guidance should be included within proposed ISA 570 (Revised) to explain that the circumstance contemplated by the proposed new requirement could also be determined to be a KAM in accordance with proposed ISA 701. On reflection, DT-570 determined that all matters pertaining to the consideration of GC as a KAM were more appropriately considered in proposed ISA 701 and further discussion in proposed ISA 570 would lead to unnecessary duplication. DT-570 acknowledged that paragraph A55 of proposed ISA 701 (**Agenda Item D.2**) provides a useful signal to the fact that one or matters relating to the conclusion arising from the auditor's work effort in relation to GC under proposed ISA 570 (Revised) may be determined to be KAMs.

**Matter for CAG Consideration**

1. Representatives are asked for their views on the addition of a requirement in respect of disclosures in a "close call" situation as discussed above and how this requirement has been articulated in the revised requirement in paragraph 20 and application material in paragraphs A23–A24 of proposed ISA 570 (Revised) (**Agenda Item I.2**).
2. Representatives are also asked for their views on the inclusion of application material relating to the disclosure requirement when based on the audit evidence, it is concluded that a material uncertainty exists. (Paragraphs A21–A22 of proposed ISA 570 (Revised) (**Agenda Item 1.2**).

**II. Management's Responsibilities and Auditor Responsibilities Relating to GC**

*A. Drafting Team Recommendations*

14. In light of the support from the CAG and IAASB to explore the inclusion of additional statements in the "Management's Responsibilities" and "Auditor's Responsibilities" sections of the auditor's report in respect of GC, DT-570 continued to pursue drafting additional wording with respect to these responsibilities.
15. In drafting the additional wording, DT-570 sought to inform users of the auditor's report about the use of the GC basis of accounting in the preparation of the financial statements, when the use of this basis is appropriate, and that management is responsible for this determination in accordance with the applicable financial reporting framework as part of the preparation of the financial statements. DT-570 also sought to inform the users on the extent of the auditor's work effort in relation to the identification of a MU and the ability of the entity to continue as a GC. The IAASB believe this is a

viable alternative to including such language in a “GC” section in the auditor’s report, with corresponding changes to the requirements in proposed ISA 700 (Revised).

16. The IAASB believes that the description of management’s and the auditor’s responsibilities with respect to GC should be included in all auditor’s reports for all entities. The inclusion of such additional wording will provide users with additional transparency and clarification of those responsibilities that pertain to management and those that pertain to the auditor. Further, the additional wording will emphasize that those responsibilities exist in all cases irrespective of whether a MU has been identified.
17. The IAASB provided feedback at its June 2014 Meeting on DT-570’s initial draft of both the illustrative statements and the underlying requirements with respect to management and the auditor’s responsibilities. The Board recommended that DT-570 revisit the length and content of the required description of management’s responsibilities and the auditor’s responsibilities and also to reconsider the wording of the sentence that the auditor cannot predict future events or conditions that may cause an entity to cease to continue as a GC (i.e., the “guarantee statement”).
18. With respect to management’s responsibilities, DT-570 acknowledged that the illustrative wording was somewhat repetitive; however, DT-570 considered that the responsibilities included within the illustration continued to be relevant. As such, DT-570 has proposed an alternative presentation that alleviates the identified repetition.
19. On balance, due to the approach taken in proposed ISA 570 (Revised) in relation to MUs and the outcomes that could result from the auditor’s work (e.g. a modified opinion may be necessary or, when disclosures of a MU is appropriate, reference is made to such disclosures), the length is necessary to adequately explain the auditor’s responsibilities in a way that will be understood by users.
20. DT-570 also considered the wording with respect to those responsibilities. Specifically, DT-570 considered whether users might misinterpret the wording proposed to the Board at the June 2014 meeting,<sup>10</sup> and as a result would assume that the auditor would always be able to determine if a MU exists.
21. DT-570 considered replacing “a MU exists” with “a MU has been identified”, but determined that this might imply a greater work effort on the part of the auditor than that which is required by proposed ISA 570 (Revised), in light of the auditor’s work being premised on the audit evidence that has been obtained when events or conditions that may cast significant doubt on the entity’s ability to continue as a GC had been identified.
22. Based on the above considerations, DT-570 considered that the wording required in the Auditor’s Responsibilities section should align with the responsibilities as described in proposed ISA 570

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<sup>10</sup> Agenda Item 2-D from the June 2014 Board Meeting included the following illustrative wording with respect to the auditor’s responsibilities relating to going concern: “Evaluate the appropriateness of management’s use of the going concern basis of accounting in the preparation of the financial statements, and evaluate, based on the audit evidence obtained, whether a material uncertainty exists about the entity’s ability to continue as a going concern.... If a material uncertainty exists, we are required to draw attention in our auditor’s report to the relevant disclosures in the financial statements...”

(Revised) and thus proposes that the illustrative wording in respect of the auditor's responsibilities relating to GC uses the term "concludes that a MU exists."

23. In respect of the guarantee statement, DT-570 acknowledged concerns from the IAASB, CAG and others about the tone and appropriateness of including a "guarantee statement," and the difficulty in obtaining the right balance for the statement. However, DT-570 continues to believe that it is useful to continue to include this statement in the auditor's report to provide further context about the basis on which the auditor's work with respect to GC is performed.
24. In consideration of the perceived defensive tone of this statement, DT-570 has revisited the language proposed in the ED and has sought to more factually explain the limitations of the auditor's work (drawing reference to material already included in ISA 570).
25. The proposed statements for inclusion in the Management's Responsibilities and Auditor's Responsibilities sections of the auditor's report are included in the illustrative auditor's report in **Agenda Item G.2**. The requirements relating to these proposed statements are included in paragraphs 34(b)–(c) and 39(b)(iv) of **Agenda Item G.2**, respectively. Further, the related application material in paragraph A48 of **Agenda Item G.2** explains that these statements may need to be adapted if a reporting framework other than IFRSs is used.

#### **Matter for CAG Consideration**

3. Representatives are asked for their views on the proposed illustrative wording in respect of management's and the auditor's responsibilities as discussed above and how these responsibilities have been articulated in the revised requirement in paragraphs 34(b)–(c), 39(b)(iv), the application material in paragraph A48 and the illustrative reports of proposed ISA 700 (Revised) (**Agenda Item G.2**).
4. Representatives are also asked for their views on the revise wording proposed for the "guarantee statement."

### **III. Other Revisions to Proposed ISA 570 (Revised)**

#### *Separate Section with Required Heading to Highlight a MU Related to GC*

26. In light of the reversion to exception based reporting, the IAASB considered how a MU, when it is determined to exist, should be presented and disclosed in the auditor's report. In situations where a MU has been appropriately identified and disclosed, DT-570 is recommending that a separate section entitled "MU Related to GC" be included within the auditor's report, replacing the "GC" section proposed in the ED and that, consistent with the ED (and the premise of the extant Emphasis of Matter (EOM) paragraph), a statement would be required to draw attention to the note in the financial statements in which the MU is disclosed and to explain the events or conditions that gave rise to the existence of that MU.
27. DT-570 also considered, when a MU exists, whether any flexibility should be allowed in terms of the heading to be used in the auditor's report and concluded that the same heading should be used in all auditor's reports unless law or regulation prescribe a different heading. The IAASB is of the view that a required heading will lead to consistency in reporting and will more clearly flag GC issues for users of the auditor's report when they exist.

*GC Reporting when the Auditor Expresses a Qualified or Adverse Opinion*

28. The IAASB also considered whether a separate section highlighting the MU should be required in cases where the auditor's opinion is modified due to inadequate disclosures relating to the MU. DT-570 was initially of the view that the section entitled "MU Related to GC" should still be included in the auditor's report when the opinion is modified, notwithstanding that this may be viewed as somewhat duplicative. DT-570 believed that this would give the appropriate prominence and emphasis to the MU relating to GC through inclusion in both the Basis for Qualified/Adverse Opinion section as well as the separate section "MU Related to GC".
29. At the June 2014 meeting, the Board indicated that it felt that such a requirement was unnecessarily duplicative. DT-570 reflected on this feedback and overall agrees that requiring the explanation of a qualification in respect of a MU to be included in two different sections in the auditor's report did add a level of duplication that was not needed and as such is now proposing to remove this requirement from proposed ISA 570.
30. However, given the fundamental importance of GC to the preparation of the financial statements, DT-570 continues to be of the view that the auditor's report should clearly state that the qualification is due to a MU relating to GC. As such, DT-570 amended proposed ISA 570 to include the requirement that the Basis for Qualified (Adverse) Opinion paragraph explicitly use the term "MU"; that reference is made to the fact that a MU exists that may cast doubt on the entity's ability to continue as a GC; and that the auditor's opinion is qualified in this respect (see paragraph 23 of **Agenda Item I.2**).

*Presentation of the Requirements in Proposed ISA 570 (Revised)*

31. Finally, as a result of the above changes to ISA 570 as exposed, DT-570 considered the appropriateness of its organization and format. DT-570 is of the view that the proposed "Auditor Conclusions and Reporting" section of the standard would be better split into two separate sections, entitled "Auditor Conclusions" and "Implications for the Auditor's Report". Further, certain paragraphs within those sections have been re-ordered to provide a more logical flow.

**Matter for CAG Consideration**

5. Representatives are asked for their views on requiring the use of the term "MU" in the basis of opinion when that opinion is either qualified or adverse instead of requiring a separate "MU relating to GC" paragraph in the auditor's report.
6. Representatives are asked for their views on the other revisions to proposed ISA 570 (Revised) described above and any other matters relevant to auditor reporting on GC.

**Material Presented – IAASB CAG PAPER**

Agenda Item I.2      Revised Draft of Proposed ISA 570 (Revised) (Clean)