

## ISA 570 – Updates to Paragraph 20 in Agenda Item 3-B and Related Application Material

[Marked from June 16, 2014]

### Requirements

18. 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 and likelihood of occurrence is such that, in the auditor's judgment, appropriate disclosure of the nature and implications of the uncertainty is necessary for: (Ref: Para. A19)
- (a) In the case of a fair presentation financial reporting framework, the fair presentation of the financial statements, or
  - (b) In the case of a compliance framework, the financial statements not to be misleading.

### Adequacy of Disclosures When Events or Conditions Have Been Identified and a Material Uncertainty Exists

19. If the auditor concludes that management's use of the going concern basis of accounting is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether the financial statements:
- (a) Adequately disclose the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans 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. (Ref: Para. A20)

### Adequacy of Disclosures When Events or Conditions Have Been Identified but No Material Uncertainty Exists

20. If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained, the auditor concludes in accordance with paragraph 18, that no material uncertainty exists, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework, the financial statements provide adequate disclosures about these events or conditions~~in view of the requirements of the applicable financial reporting framework~~. (Ref: Para. A21–A245A235)

## Application Material

*Adequacy of Disclosures When Events or Conditions Have Been Identified but No Material Uncertainty Exists*  
(Ref: Para. 20)

~~A21. Proposed ISA 700 (Revised)<sup>1</sup> establishes requirements and provides guidance for the auditor, in forming an opinion on the financial statements, to evaluate whether, in view of the requirements of the applicable financial reporting framework, the financial statements appropriately disclose the significant accounting policies selected and applied and provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements.~~

A22<sup>1</sup>. Some financial reporting frameworks may specify explicit disclosure requirements in relation to management's assessment of the entity's ability to continue as a going concern, while others may more generally require disclosures about significant management judgments made in preparing the financial statements. Adequate ~~these~~ disclosures about these event(s) or condition(s) may include, for example:

- The principal event(s) or condition(s) to which the assessment of the entity's ability to continue as a going concern relates, including:-
  - The magnitude of the effect on the entity of the identified event(s) or condition(s);
  - The likelihood of occurrence of the event(s) or condition(s); and
  - The timing of the occurrence of the event(s) or condition(s).
- ~~The possible effects of these event(s) or condition(s).~~
- The significant judgments made by management as part of its assessment, including management's plans that mitigate the event(s) or condition(s) that may cast significant doubt on the entity's ability to continue as a going concern for future action.
- The sensitivity of these significant judgments.

~~A23. The auditor's evaluation of the adequacy of the disclosures of significant judgments made by management in relation to events or conditions that have been identified may involve consideration of:~~

- ~~The magnitude of the effect on the entity of an identified event or condition;~~
- ~~The likelihood of that outcome occurring; and~~
- ~~The timing of the event or condition taking place~~

A22<sup>4</sup>. A fair presentation<sup>2</sup> financial reporting framework not only requires compliance with the requirements of the framework but also acknowledges explicitly or implicitly that it may be necessary for management to provide disclosures beyond those specifically required by the framework. Regardless of whether the applicable framework requires disclosures in respect of going concern, when the financial statements are prepared in accordance with a fair presentation framework, proposed ISA

<sup>1</sup> Proposed ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraph 13

<sup>2</sup> ISA 200, paragraph 13(a) and proposed ISA 700 (Revised), paragraph 7(b)

~~700 (Revised)<sup>3</sup> also requires the auditor to evaluate whether the financial statements achieve fair presentation, including consideration of whether the disclosures represent the identified event(s) or condition(s) in a manner that achieves fair presentation. In situations where the financial statements comply, in all material respects, with the specific disclosure requirements of the applicable financial reporting framework, the auditor may nevertheless conclude that, in order to achieve fair presentation, additional disclosures beyond those specifically required by the applicable financial reporting framework are necessary. Proposed ISA 700 (Revised)<sup>4</sup> explains that the auditor's evaluation of fair presentation is a matter of professional judgment and takes into account matters such as the facts and circumstances of the entity, including changes thereto, based on the auditor's knowledge of the entity and the audit evidence obtained during the audit. The evaluation may also include consideration, for example, of the disclosures needed to achieve a fair presentation arising from matters that may be relevant to the economic decisions of the users of the financial statements, such as evolving financial reporting requirements or the changing economic environment.~~

~~A25. If financial statements prepared in accordance with the requirements of a fair presentation framework do not achieve fair presentation, proposed ISA 700<sup>5</sup> requires the auditor to discuss the matter with management and, depending on the requirements of the applicable financial reporting framework and how the matter is resolved, determine whether it is necessary to modify the opinion in the auditor's report in accordance with [proposed] ISA 705 (Revised). This determination includes situations where the auditor concludes that the financial statements as a whole are not free from material misstatement because additional disclosures are required for fair presentation beyond those specifically required by the framework.~~

A23. If the auditor concludes that management's disclosures about the identified event(s) or condition(s) are inadequate, in view of the requirements of the applicable financial reporting framework or the auditor's evaluation of whether the financial statements achieve fair presentation, and this results in the financial statements being materially misstated, the auditor is required to modify the auditor's opinion in accordance with proposed ISA 705 (Revised).<sup>6</sup>

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<sup>3</sup> Proposed ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraph 14

<sup>4</sup> Proposed ISA 700 (Revised), paragraph A8

<sup>5</sup> Proposed ISA 700 (Revised), paragraph 18

<sup>6</sup> ISA 705, *Modifications to the Opinion in the Independent Auditor's Report*