

Summary of Significant Comments and Task Force Recommendations—Exposure Draft of Proposed ISA 570 (Redrafted)

General Comments

1. Many respondents¹ expressed support for the redrafting of the extant ISA 570. Certain respondents expressed partial support, subject to consideration of their further comments (FEE, ICAEW, ICJCE, IDW). Other respondents² commented on the content of the exposure draft but were silent as to whether they supported the redrafting of ISA 570 or not.

Objectives

Are the objectives to be achieved by the auditor, stated in the proposed redrafted ISA, appropriate?

2. The majority of respondents³ were of the opinion that the objectives are appropriate. Some respondents, however, provided editorial comments or conditions under which they would consider the objectives appropriate, while others (Audit Commission, FAR-SRS, NIA, WAO) did not comment on the objectives. Certain respondents⁴ considered the objectives to be inappropriate or considered the changes to have led to substantive changes to the Standard.
3. The main issues raised by respondents with regards to the objectives are as follows.

SUFFICIENT APPROPRIATE AUDIT EVIDENCE AND RELATED WORK EFFORT

- A number of respondents (CNCC, FEE, ICAEW, ICA Ireland, ICAS, KPMG-SA) suggested that the objectives have changed, or appear to have changed, the substance or emphasis of extant ISA 570, or that a greater work effort was implied.
- One respondent (CNCC) suggested that the reference in the objectives to “obtaining sufficient appropriate audit evidence” implied a need to obtain such evidence even if there is no uncertainty about the entity’s ability to continue as a going concern. Other respondents contended that the words “obtaining sufficient appropriate audit evidence” within the objectives will increase the expectations gap about the work or work effort that auditors perform or can perform in relation to going concern (FEE, ICAEW, ICA Ireland, ICAS), or imply that the auditor is providing “(positive) assurance” on the entity’s ability to continue as a going concern (ICAEW, ICAS). As a result, one respondent (ICAEW) suggested that the requirements of the proposed ISA will not meet the objectives as presently drafted. To mitigate any inappropriately raised expectations, two respondents (ICAEW and FEE) suggested that the introductory

¹ AICPA, AUASB, CICA, CIPFA, DTT, EYG, GT, HKICPA, ICAP, ICAS, ICPAS, KPMG, NAO, NIA, NIVRA, NZICA, Provincial Auditor SK, PwC, SNAO, Sublet, WAO.

² ACAG ACCA, AG-CA, APB, Audit Commission, BDO, CNCC, IBRA-IRE, ICAIndia, ICAIreland, ICMAP, IOSCO, IRBA, JICPA, KICPA, KMPG-SA, Mazars, ZICA.

³ ACAG, ACCA, AG-CA, AICPA, APB, AUASB, BDO, CICA, DTT, EYG, HKICPA, IBR-IRE, ICAIndia, ICAP, ICJCE, ICPAS, JICPA, Mazars, NIVRA, NZICA, Provincial Auditor SK, PwC, SNAO, Sublet, ZICA.

⁴ CIPFA, ICAEW, ICAIreland, ICAS, ICMAP, IDW, IRBA, KICPA, NAO.

material include explanations on the inherent limitations of an audit with respect to the going concern assumption – i.e. that the assurance the auditor can obtain on management’s going concern assumption may be reasonable, but it is much lower or significantly different (quantitatively and qualitatively) than that obtainable on other financial statement accounts. One respondent (IDW) shared a similar view that the proposed ISA needs to contain further discussion on the inherent limitations in the introductory section, as the public may have unreasonable expectations as to the nature of the sufficient appropriate audit evidence that an auditor can obtain in relation to going concern. The respondent argued that the audit evidence supporting the auditor’s conclusions about management’s use of the going concern assumption, and potential material uncertainties relating thereto, is generally future-oriented and, accordingly, the auditor would need to apply considerable professional judgment in concluding whether the use of the going concern assumption is appropriate.

- One respondent (KPMG-SA) questioned whether, in the context of future events as applied to a going concern, it is practicable to obtain sufficient appropriate audit evidence on the going concern issue. Two respondents (ICAEW and FEE) suggested that if reference to obtaining sufficient appropriate audit evidence in relation to the going concern assumption is retained in the objective, some additional explanation should be provided regarding the nature of sufficient appropriate audit evidence as it relates to the going concern assumption.
- One respondent (KPMG) commented that the objective in paragraph 9(a) would be more neutral if it read along the following lines: “To obtain sufficient appropriate audit evidence about the appropriateness of whether management’s use of the going concern assumption in the preparation and presentation of the financial statements ~~is appropriate in the circumstances.~~”

Preliminary Task Force Views and Recommendations

4. Consistent with other ISAs, the objectives on subject matter specific ISAs are to obtain sufficient appropriate audit evidence about the subject matter of the ISA. The Task Force believes that the requirements in the ISA establish reasonable expectations about the nature and extent of procedures that would meet the objective. However, the Task Force has amended the wording of paragraph 9(a) to be more consistent with wording in paragraph 2 of the extant ISA 570, as the Task Force agrees the wording in the proposed ISA could be interpreted as a change in meaning.

AUDITOR’S REPORTING RESPONSIBILITIES

- Three respondents (GT, ICMAP, IDW) commented that the objectives cover only situations when the going concern assumption is appropriate and a material uncertainty exists, but suggested that the objectives should cover reporting when the auditor concludes that the use of the going concern assumption is not appropriate.
- Two respondents (CIPFA, ICMAP) took the view that it would help readers if a clearer distinction were drawn in the objectives between the auditor’s reporting responsibilities and the assurance activities that support that reporting. They commented that the assurance objective of the auditor could be more usefully characterized in terms of

whether the use of the going concern is consistent with management's reasonable expectations, and whether those expectations are subject to material uncertainty. The respondents then suggested that the reporting objective would be that the auditor should consider the need to report on inconsistencies and material uncertainties.

- One respondent (NAO) suggested that the objective in paragraph 9(b) could be interpreted as meaning that the auditor is forming an opinion and providing some assurance on the going concern status of the entity itself, as opposed to auditing the assumptions that management have made about the ability of the entity to continue as a going concern. The respondent commented that the main focus of extant ISA 570 is on the evaluation by the auditor of the appropriateness of the assumptions made by management in connection with going concern. The respondent did not believe that the proposed objective as currently drafted made this clear.
- A few respondents (IOSCO, KPMG, KPMG-SA, NAO, CNCC) took the view that the proposed objectives could be reduced to a single objective, because the first objective appeared to duplicate the second one, and because the objectives, while addressing the right subject matter, were stated in a way that seemed indirect and wordy. Suggested wording from some of the respondents includes:

“The objective of the auditor is to determine whether management's going concern assumption in preparing and presenting the financial statements is appropriate, and to report accordingly.” (IOSCO);

“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 uncertainty about the entity's ability to continue as a going concern that needs to be disclosed in the financial statements.” (NAO).

Preliminary Task Force Views and Recommendations

5. The Task Force is of the view that there are two separate elements in the Standard: the need to obtain audit evidence about the appropriateness of using the going concern assumption (which is reflected in objective 9(a)), and the need to conclude, when events or conditions arise, whether such events or conditions represent a material uncertainty, and thereby report accordingly (which is reflected in paragraph 9(b) of ED-ISA 570).
6. However, to respond to comments that the objectives did not address the situation when the use of the going concern assumption is not appropriate, the Task Force has amended objective 9(b) and added objective 9(c) so that the proposed ISA covers both situations:
 - a) When a material uncertainty exists related to events and conditions that may cast doubt on the entity's ability to continue as a going concern; and
 - b) When the auditor concludes that management's use of the going concern assumption is inappropriate.

Action Requested

The IAASB is asked to consider the proposed revised wording of the objectives.

Requirements and Related Application Material

Have the criteria identified by the IAASB for determining whether a requirement should be specified been applied appropriately and consistently, such that the resulting requirements promote consistency in performance and the use of professional judgment by auditors?

7. The majority of respondents⁵ were of the opinion that the criteria identified by the IAASB for determining whether a requirement should be specified have been applied appropriately and consistently.
8. A number of respondents⁶ however, raised specific issues or suggested further clarification. Their comments are summarized below.

CONCLUSION ON APPROPRIATENESS OF USE OF GOING CONCERN ASSUMPTION

9. Some respondents (IOSCO, CNCC, IDW) noted that the proposed ISA does not provide any requirements or guidance with respect to the auditor's conclusion as to whether the use of the going concern assumption is appropriate. IOSCO suggested that reference be made in paragraph 17 in the proposed ISA to the auditor's need to evaluate whether the going concern assumption is appropriate. CNCC pointed out that the application material to paragraph 17 does not include any guidance about how to determine and to conclude whether the use of the going concern assumption is appropriate. CNCC therefore suggested that additional guidance on making such a determination should be provided.
10. IDW pointed out that both the description of the auditor's responsibility in paragraph 6 of the exposure draft and the objective in paragraph 9(a) refer to the auditor's evaluation of, or obtaining of sufficient appropriate audit evidence in relation to, the appropriateness of management's use of the going concern assumption in the preparation (and presentation) of the financial statements. The respondent, however, noted that there is no corresponding requirement that fulfills the stated responsibility or objective of the auditor. The respondent pointed out that paragraph 18 ("When the use of the going concern assumption is appropriate...") and paragraph 21 (If, in the auditor's judgment, the entity will not be able to continue as a going concern...) of the exposure draft are predicated on this conclusion having been made by the auditor.

Preliminary Task Force Views and Recommendations

11. The Task Force believes that, consistent with extant ISA 570, the auditor's focus is on whether a material uncertainty exists about the entity's ability to continue as a going

⁵ ACAG, AG-CA, AICPA, AUASB, CICA, CIPFA, DTT, FEE, GT, IBR-IRE, ICAIndia, ICAIreland, ICAP, ICAS, ICJCE, ICMAP, ICPAS, IDW, IRBA, KPMG, NAO, NIA, NIVRA, NZICA, Provincial Auditor SK, SNAO, WAO, ZICA.

⁶ ACCA, APB, Audit Commission, BDO, CNCC, EYG, HKICPA, ICAEW, IOSCO, JICPA, KICPA, KPMG-SA, Mazars, PwC, Sublet.

concern. Paragraphs 19-21 deal with the situation where the use of the going concern assumption is appropriate but a material uncertainty exists, and paragraph 22 deals with the situation where the going concern assumption is inappropriate. The requirements respond to the objective in paragraph 9(a). On this basis, the Task Force is of the view that the proposed ISA has addressed this point.

Action Requested

The IAASB is asked whether they agree with the Task Force’s conclusion.

“NEGATIVE REQUIREMENTS” OR ESSENTIAL GUIDANCE

12. There were differing views from respondents about the essential guidance (“negative requirements”) that delineate the auditor’s responsibility with respect to a particular requirement.
13. Two respondents (ACCA, GT) suggested that the last two sentences of paragraph 22 in the proposed ISA be moved to the application material. ACCA argued that these do not represent requirements, but explanatory material principally pointing out a matter that is not within the auditor’s responsibility. KPMG-SA suggested that the second sentence of paragraph 22 in the exposure draft be moved to the application material because it is not bold lettered in the extant ISA.
14. Two respondents (FEE, IDW) suggested that the text in paragraph A9 of the proposed standard (that there will often be no need for the auditor to go through an elaborate going concern evaluation process for situations where management is able to perform its going concern assessment without detailed analysis) be moved to the requirement that it limits.
15. Three respondents noted that the extent of an auditor’s responsibilities in the requirement in paragraph 15 in the proposed ISA is not clear (FEE, IDW) or appears open-ended (ICAIreland). ICAIreland suggested that the guidance in paragraph A12 in the exposure draft ought to be linked to paragraph 15. FEE and IDW suggested that the text in paragraph A12 represents a limitation on an auditor’s responsibility in relation to the requirement in paragraph 14, and should therefore be included together with the requirement to which it relates. Other respondents (GT, KPMG) made the same observation, but suggested that the link between paragraph 15 and paragraph A12 in the exposure draft be improved by moving paragraph A12 together with paragraph A16; one respondent (JICPA) suggested that paragraph A12 refer to paragraph 15.
16. Two respondents (FEE, IDW) noted that the first sentence in paragraph A16 in the exposure draft contains text that serves to limit or further specify the extent of an auditor’s responsibilities in relation to the requirement in paragraph 15. They therefore recommended that the first sentence of the paragraph be moved to the requirement in paragraph 15 to which it relates.

Preliminary Task Force Views and Recommendations

17. The IAASB has decided on the placement of essential guidance or “negative requirements” on a case-by-case basis, depending upon whether the requirement can “stand alone” in the requirements section.

18. The second sentence of paragraph 22 in the exposure draft limits the auditor’s responsibility with respect to the evaluation of management’s use of the going concern assumption by limiting the auditor’s responsibility when management has made an assessment without detailed analysis. The third sentence establishes the principle that a lack of analysis by management may not preclude the auditor from reaching a conclusion about the appropriateness of management’s use of the going concern assumption. For these reasons, the Task Force believes that these sentences should remain as essential guidance. However, the Task Force has moved these sentences to the requirement in paragraph 12 because they limit the responsibility of the auditor in relation to the performance of that requirement.
19. The Task Force believes that the second sentence of paragraph A9 is explanatory guidance on how the auditor can comply with the requirement in paragraph 12 rather than setting a “negative requirement.” In addition, moving the essential explanatory material from paragraph 22 to paragraph 12 better defines the expected work effort.
20. The Task Force agrees that the information in paragraphs A12 and A16 (second sentence) of the proposed ISA ought to be placed closer to one another, and has moved paragraph A12 accordingly. These represent explanatory material that should not be included in the requirements section. However, because the text in the first sentence of A16 represents a “negative requirement” that clearly limits the auditor’s responsibility in relation to the performance of the requirement of paragraph 15, this text has been moved to paragraph 15.

<p>Action Requested</p>

<p>The IAASB is asked whether they agree with the Task Force’s conclusion.</p>
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LACK OF ASSESSMENT BY MANAGEMENT AND RESULTING COMMUNICATIONS

21. One respondent (IOSCO) noted that there is no requirement for the auditor to request that management provide an assessment of an entity’s ability to continue as a going concern when management has not prepared such an assessment, even though paragraph 22 in the proposed ISA addresses what an auditor shall do when management is unwilling to make or extend its assessment when requested to do so by the auditor. IOSCO proposed moving paragraph A6 in the exposure draft from the application material section to the requirement section to follow paragraph 14.
22. IOSCO also commented that more should be said about what the auditor needs to do when management has not made a going concern analysis in order to communicate with those charged with governance, as well as make an appropriate and informative auditor’s report. IOSCO noted that management unwillingness to consider its use of the going concern assumption would raise an accounting policy issue and an issue in relation to compliance with the financial reporting framework in many jurisdictions. In cases where a going concern assessment is required by the financial reporting framework and management does not make such an assessment, IOSCO argued that the auditor should be discussing such lack of compliance with the framework with both management and those charged with governance.

Preliminary Task Force Views and Recommendations

23. The third sentence of paragraph 22 in the proposed ISA notes that 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. Consequently, the Task Force believes it would not be appropriate to include an unconditional requirement for the auditor to request management to make an assessment of the entity's ability to continue as a going concern. However, the Task Force does believe that the auditor should be required to make such a request when events or conditions have been identified that may cast doubt upon management's use of the going concern assumption in the preparation and presentation of the financial statements. Consequently, the Task Force has moved paragraph A6 in the proposed standard from the application material to paragraph 16(a), which deals with an auditor's required responses to identified events or conditions.
24. The Task Force considered whether the refusal by management to make or extend its assessment of the entity's ability to continue as a going concern when requested by the auditor to do so would be a significant matter of interest to those charged with governance, regardless of whether the financial reporting framework requires such an assessment. The Task Force has concluded that it may be a significant matter, but not necessarily in all circumstances. When it is a significant matter, it would be required to be communicated under ISA 260 (Revised and Redrafted).⁷ Therefore, the Task Force is of the view that adding a new requirement would not be appropriate. Furthermore, introducing such a requirement without using an existing present tense sentence in extant ISA 570 as a basis would go beyond the scope of the Clarity Project.

Action Requested

The IAASB is asked whether they agree with the Task Force's conclusion.

WRITTEN REPRESENTATIONS

25. A few respondents suggested that the requirement to obtain specific written representations from management regarding its plans for future action does not cover the written representations the auditor needs from management in relation to management's use of the going concern assumption. In particular, IDW contended that the auditor should obtain a general written representation from the relevant parties that they believe that their use of the going concern assumption is appropriate in the circumstances. CNCC took the view that when obtaining a specific representation from management regarding its plans for future action, the auditor should ensure that that representation includes a representation from management with respect to the feasibility of its plans.
26. NIVRA commented that management representations not only need to be obtained with respect to plans for future actions, but also for:
- a) The completeness of management's assessment, and an assertion that all relevant information to management is assessed; and

⁷ ISA 260 (Revised and Redrafted), "Communication with Those Charged with Governance."

- b) An assertion that management has assessed relevant information that has become available between the moment of the assessment and the date of the management representation.

Preliminary Task Force Views and Recommendations

- 27. The Task Force believes that requiring a representation from management in relation the appropriateness of its use of the going concern assumption in the financial statements would exceed what is currently required by ISA 580 (Revised and Redrafted)⁸ and the scope of the Clarity Project. The Task Force has therefore chosen not to add a requirement to that effect. Furthermore, as the going concern assumption is implicit in the preparation and presentation of the financial statements in accordance with an applicable financial reporting framework, the Task Force believes that the requirement in ISA 580 (Revised and Redrafted) to request management to represent that they have prepared financial statements that present fairly or give a true and fair view, already covers this point.
- 28. The Task Force agrees that the written representation in paragraph 16(d) of the proposed ISA ought to be extended to include reference to the feasibility of management’s plans for future action because if management is not prepared to confirm its belief that its plans for future action are feasible, any audit evidence obtained in that respect would need to be called into question. Consequently, the Task Force has extended the requirement in paragraph 16(d) in the proposed standard to cover the feasibility of management’s plans.
- 29. ISA 580 (Revised and Redrafted) includes a requirement for the auditor to obtain written representation from management, or where appropriate, those charged with governance, confirming that they have provided the auditor with all relevant information as agreed in the terms of engagement. For these reasons, the Task Force does not believe it is necessary to include a representation with respect to the completeness of management’s assessment, and an assertion that all relevant information to management is assessed, or a representation that management has assessed relevant information that has become available between the moment of the assessment and the date of the management representation (as suggested by NIVRA). Furthermore, a written representation by management or, where relevant, those charged with governance, confirming that they believe that their use of the going concern assumption in the preparation and presentation of the financial statements is appropriate would cover these matters and would therefore suffice.

Action Requested

The IAASB is asked whether they agree with the Task Force’s conclusion.

EXTERNAL CONFIRMATIONS OF SUPPORT OR GUARANTEES FOR THE ENTITY

- 30. One respondent (Mazars) suggested that the application and explanatory material include consideration of circumstances in which the continued going concern of an entity is reliant on the ongoing support from a third party such as a group or related company. They suggested that in these instances, the auditor should obtain evidence of the intention of continued support (such as a signed letter of continued support from the third party) and the

⁸ ISA 580 (Revised and Redrafted), “Written Representations.”

ability to provide this support (reviewing the third party’s financial position to evaluate whether it is in a position to provide the support).

31. Another respondent (AICPA) recommended that, where an entity is dependent on additional support from the owner-manager, paragraph A15 in the proposed standard should be revised to require the auditor to obtain a specific written representation from the owner-manager confirming his or her intention and understanding that his or her loan to the entity is subordinate to loans made to the entity by banks or other creditors. In this regard, the AICPA suggested that the substance of paragraph A15 in the proposed ISA ought to be moved to paragraph 16 as a requirement.

Preliminary Task Force Views and Recommendations

32. The Task Force believes that the substance of paragraph A15 in the exposure draft is not only an issue in relation to small entities and their owner-managers, but an issue for all sizes of entities where third party loans or other support is important to the ability of the entity to continue as a going concern. The text in A15 describes how this issue applies to small entities and their owner-managers. Consequently, the Task Force believes that the substance of the guidance needs to be applicable to all sizes and types of entities, and added to guidance applicable to all sizes of entities to this effect prior to paragraph A15 in the proposed ISA. Paragraph A15 has been amended to refer to small entity/owner-manager aspects of this issue.
33. The Task Force does not believe that it would be appropriate to require the auditor to obtain evidence of continued support and the ability to provide this support from a third party when such support is important to the ability of the entity to continue as a going concern. Rather, the Task Force believes that the auditors will need to apply judgment in assessing the risk pursuant to ISA 315 (Redrafted)⁹ and designing further audit procedures pursuant to ISA 330 (Redrafted)¹⁰ to address those risks, which may or may not include the need to obtain *external confirmations* from these third parties or also written representations from management or those charged with governance, if applicable. The Task Force has amended the guidance in A15 in the exposure draft (and in the new paragraph prior to A15 in the exposure draft) to clarify that the auditor may need to consider requesting *written confirmation* from those third parties of such continued support and to obtain evidence of their ability to provide such support.

Action Requested

The IAASB is asked whether they agree with the Task Force’s conclusion.

PERIOD OF MANAGEMENT’S ASSESSMENT SUBJECT TO AUDITOR’S EVALUATION

34. Four respondents addressed the period of management’s assessment subject to evaluation by the auditor. IBE-IRE suggested that the IAASB clarify in paragraph 13 of the exposure draft and the corresponding application material the situation where management’s assessment of the entity’s ability to continue as a going concern covers more than twelve

⁹ ISA 315 (Redrafted), “Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment.”

¹⁰ ISA 330 (Redrafted), “The Auditor’s Responses to Assessed Risks.”

months from the balance sheet date. ICAIndia suggested that paragraph 13 is intended to specify a minimum period to be assessed by management and not restrict management from assessing a longer period. ICAIndia therefore suggested that the wording in paragraph 13 in the exposure draft be amended to state that the auditor shall request management to extend its assessment period to at least twelve months from the balance sheet date.

35. ICJCE noted that legislation in some jurisdictions may require the auditor to evaluate a period of twelve months from the date of the audit opinion. For this reason, ICJCE suggested that the reference to the period of assessment be amended to read “assessment period of at least twelve months” in the last phrase of paragraph 13 in the exposure draft. GT suggested that the IAASB clarify the requirement in paragraph 15 to stipulate that the period of assessment used by management be at least 12 months from the balance sheet date as discussed in paragraphs 13 and A12 of the exposure draft.

Preliminary Task Force Views and Recommendations

36. In response to the comments received on this issue, the Task Force has amended paragraph 13 in the proposed standard as follows:

“In evaluating management’s assessment of the entity’s ability to continue as a going concern, the auditor shall cover the same period that used by management to make its assessment as required by the applicable financial reporting framework or by law or regulation if it specifies a longer period. If management’s assessment of the entity’s ability to continue as a going concern covers less than twelve months from the date of the financial statements, the auditor shall request management to extend its assessment period to at least twelve months from that date.”

37. These amendments are consistent with extant ISA 570. The other comments received are not a matter of clarification but rather question the original principles in extant ISA 570 and it would go beyond the scope of the Clarity Project to accept them.

Action Requested

The IAASB is asked whether they agree with the Task Force’s conclusion.

DEFINITIONS

38. Some respondents suggested the term “material uncertainty” ought to be defined in the Definitions section (ACCA, CICA, GT, ICMAP) or included in the introduction (KPMG-SA, AUASB) or the A&OEM section (ACCA).
39. ACCA argued that the second sentence of paragraph 17 is not a requirement, but explains what is meant by a “material uncertainty” and therefore should be placed in either the introduction or a definitions section. AUASB argued that, due to its pervasive nature, the guidance explaining when a material uncertainty exists would be better placed in paragraph 6 of the introduction, where the term is first used. The CICA argued that the concept is fundamental and therefore should be placed in the Definitions section. GT and ICMAP suggested that the IAASB also consider how the definition of “material uncertainty” in paragraph 17 relates to the reference to IAS 1 in footnote 3. They also suggested combining footnote 3 with the last sentence in paragraph 17 after having moved this sentence to the

Definitions section. KPMG-SA noted that the second part of paragraph 17 relating to the definition of a material uncertainty is not stated in bold in extant ISA 570 paragraph 31, and therefore recommended that this paragraph be moved to paragraph 7 of the introduction, where the concept of a material uncertainty is introduced in the exposure draft.

Preliminary Task Force Views and Recommendations

40. The Task Force does not believe a definition of the term “material uncertainty” is appropriate, because the use of the term “material uncertainty” in this standard applies only to this standard with respect to going concern issues. The term could mean other things in other ISAs (e.g., proposed ISA 705 (Revised and Redrafted)¹¹). Furthermore, the definition of “material uncertainty” is an accounting issue that would be defined by the applicable financial reporting framework, not the IAASB. However, to enable the application of proposed ISA 570 (Redrafted), a description of the meaning of a material uncertainty remains necessary. For these reasons, the Task Force believes that the description of the meaning of a material uncertainty should not be placed in a Definitions section.
41. Text was not placed in the A&OEM section, as it is essential to the understanding of the requirement immediately preceding. The Task Force believes the text in paragraph 17 explaining the meaning of a material uncertainty is essential guidance needed to help the auditor fulfill the requirement in paragraph 17, and, therefore, this text should remain in paragraph 17.
42. The discussion of the meaning of material uncertainty in footnote 3 to paragraph 6 of the exposure draft refers to the meaning of the term as used in a particular financial reporting framework (IFRS) as an example. The Task Force believes that for the purposes of this ISA, auditors require a description of material uncertainty that they can apply when performing the procedures required in the ISA in practical circumstances in the absence of any definition by the financial reporting framework: such a description should remain together with the requirements to which it relates. The footnote to paragraph 6 serves to explain the different terminology used by financial reporting frameworks for this concept, rather than trying to explain its meaning. For these reasons, the Task Force believes that it would not be appropriate to move the description of the meaning of a material uncertainty to the introduction.

Action Requested

The IAASB is asked whether they agree with the Task Force’s conclusion.

DOCUMENTATION

43. Some respondents (CNCC, ICAIreland, ICMAP, JICPA, Mazars, PwC) noted that ISA 570 does not contain requirements or application material on audit documentation. Two of these respondents (ICAIreland, PwC) noted that some other ISAs contain documentation requirements, and that such inclusion would therefore be desirable. One respondent (KPMG-SA) suggested that a cross reference to ISA 230 (Redrafted)¹² in relation to going concern (such as was done in ISA 260 (Revised and Redrafted)) would be appropriate. In

¹¹ Proposed ISA 705 (Revised and Redrafted), “Modifications to the Opinion in the Independent Auditor’s Report.”

¹² ISA 230 (Redrafted), “Audit Documentation.”

addition, CNCC suggested that additional guidance on the form and content of documentation would be needed, especially when there is no going concern issue. One respondent (ICJCE) suggested that a specific documentation requirement be included for paragraph A9 of the exposure draft.

44. ICAIreland and CNCC suggested that application guidance ought to be added to the proposed ISA. ICAIreland argued that going concern is one of the most fundamental issues the auditor considers as part of the audit. The respondent therefore recommended that key documentation matters relating to the auditor’s consideration of going concern be included, perhaps with a cross-reference to ISA 230 (Redrafted). CNCC was particularly concerned that guidance on documentation be provided when there are no going concern issues.

Preliminary Task Force Views and Recommendations

45. The Task Force is of the view that since extant ISA 570 does not include any documentation requirements, adding such requirements in the proposed ISA would go beyond the scope of the Clarity Project. Accordingly, no documentation requirements have been added.

Action Requested

The IAASB is asked whether they agree with the Task Force’s conclusion.

PUBLIC SECTOR ISSUES

46. Several respondents¹³ (including public sector auditing organizations, member bodies, standards setters, an audit oversight authority, and a regional organization) addressed substantive matters with respect to public sector issues. Some of the responses were quite detailed; others included detailed wording suggestions.
47. One respondent (Audit Commission: a public sector auditing body) suggested that, given the nature of the bodies they audit, the majority of changes within the proposed ISA would have little impact upon them. The respondent therefore did not feel it appropriate to respond to the specific areas highlighted in the exposure draft. In contrast, the comments from the majority of the other respondents (including other public sector auditing bodies) indicated that they believed ISA 570 to be highly relevant to audits of the financial statements of public sector entities.
48. The CICA questioned the accuracy of the wording in the first sentence of paragraph A3 that states that the going concern assumption is generally not a question for public sector entities having funding arrangements backed by a central government. The CICA noted that this ISA is relevant to auditors of all entities dependent on funding received from a government, since such funding often may be subject to withdrawal, sometimes within a short timeframe. The CICA therefore suggested that paragraph A3 be reworded as follows:

“The appropriateness of the use of the going concern assumption in the preparation of financial statements is generally not in question when auditing the financial statements of a central government. However, this ISA is relevant for audits of the financial statements of public sector entities who are dependent on government

¹³ APB, Audit Commission, CICA, CIPFA, FEE, IDW, IRBA, NAO, WAO

funding to be able to continue their operations and whose financial statements would therefore need to make such dependence apparent.”

49. The IRBA questioned the appropriateness of the second sentence of paragraph A3, which states that the ISA becomes effective for public sector entities only under certain conditions. The IRBA noted that going concern should always be relevant and that the auditor should always document going concern considerations, irrespective of the conditions which may exist. Likewise the NAO was concerned that the wording “...and the existence of the entity may be at risk, this ISA becomes relevant” suggests that ISA 570 may not be relevant in the public sector unless there is evidence of going concern issues. Although the NAO acknowledged that the circumstances surrounding going concern matters in the public sector may be different from those in the commercial sector, the NAO noted that the principles enshrined in ISA 570 should be applicable to all entities, including those in the public sector. The NAO suggested that the second sentence be redrafted to read:

“However, the principles and guidance outlined in this ISA are still relevant, and where such arrangements do not exist, or where central government funding of the entity may be withdrawn and the existence of the entity may be at risk this ISA will provide useful guidance.”

50. The APB recommended that the last sentence of paragraph A3 be deleted because if an entity has been privatized, it is no longer in the public sector. The CICA agreed that when an entity has been privatized, it is not longer in the public sector, and that in the experience of Canadian respondents working in the public sector, going concern issues are not becoming more common in this regard. The WAO noted that defining more clearly how the concept of going concern is to be applied to the public sector would also assist in clarifying the meaning and implications of this sentence in paragraph A3 regarding privatization issues, which, in their view, lacks sufficient clarity.
51. Two respondents (CIPFA, FEE) commented that although the guidance in paragraph A3 of the exposure draft is technically accurate, the wording may not be particularly clear or helpful to readers who do not already understand the related issues. In particular, they noted that the current wording better reflects the position of stable first world economies rather than, for example, third world governments operating in conditions of economic stress. These respondents suggested the following wording for paragraph A3:

“For governments which have the power to raise funding through taxation, it will often be straightforward to determine that the government is a going concern, although judgment may be necessary if the government has substantial net liabilities relative to the size of the economy, or where the government is substantially dependent on assistance from other governments. It will also normally be straightforward to confirm the going concern assumption for public sector entities with funding arrangements backed by government. However, where funding is not backed by government, or where there is an intention that a public sector entity operates on a for-profit basis analogous to the private sector, the considerations of this ISA become more relevant. Going concern issues will also often be relevant to the audit opinion on public sector entities for which there are plans to transfer some or part of the entity into private sector ownership, or to reduce the level of government backing.”

52. The IDW suggested that the guidance in paragraph A3 of the exposure draft needs to be expanded to cover the following issues:
- Even governments can become insolvent by not being able to meet their obligations when these become due, or by having their obligations exceed their realizable assets, even though they may not be able to become legally bankrupt.
 - In some cases, the auditor may need to consider, for example, whether rescheduling of debt is possible, and even when this appears possible, whether the central government can be considered a going concern.
 - The currency issued by a government can effectively no longer be accepted as a medium of exchange in the jurisdiction where such currency represents legal tender, in which case the government may effectively cease to be a going concern because it is not able to discharge its liabilities using its legal tender. In some jurisdictions, it is not only the central government that cannot become legally bankrupt (e.g., in federal systems where state or local governments are legally and fiscally independent entities).
53. The WAO viewed the IAASB's proposals in the exposure draft to be appropriate other than in relation to the analysis at paragraph A3 of the application of the proposed ISA to the public sector. The WAO contended that the exposure draft focuses on the continuation or otherwise of the entity in circumstances where funding may be uncertain. The WAO noted that in considering public sector entities, it is necessary to distinguish between the continuation of the entity, the transfer of functions within the public sector from one entity to another (which may or may not lead to the winding up of the original entity) and the complete cessation of an activity or function by the public sector in totality. The WAO suggested that the implications for auditors of these different types of scenario would be different, and in its view should be distinguished accordingly in the proposed ISA. In this regard, the WAO suggested that the ISA should distinguish among the following reasons for a public sector body ceasing to provide services:
- The body lacks the funds to provide a particular service but will continue in existence carrying out other activities;
 - A policy decision is taken that the public sector as a whole will not provide a particular function or service;
 - The body lacks the funding to remain in existence; or
 - A policy decision has been taken to transfer the provision of the service from one organization to another.
54. The WAO pointed out that the exposure draft deals explicitly with the third scenario above, but does not consider the other situations. Auditors would face potentially different risks in each of these situations and the WAO argued that the ISA should address each of these.

Preliminary Task Force Views and Recommendations

55. Based upon the views expressed by respondents and the treatment of the going concern assumption for financial statements in the public sector as described in paragraphs 38 to 41 in the International Public Sector Accounting Standard (IPSAS) 1, the Task Force disagrees

with the view expressed by the Audit Commission that going concern issues have no relevance to the audit of public sector entities.

56. Based upon the comments received from CIPFA, FEE and the IDW, the Task Force does not accept the view expressed by the CICA that the use of the going concern assumption in the preparation of financial statements is generally not in question when auditing the financial statements of a central government. The Task Force has amended the guidance to implicitly allow for situations where sovereign governments may not be able to continue as a going concern by drawing on the comments from the IDW, and CIPFA and FEE. In line with the comments received from CICA, NAO, CIPFA, FEE, and WAO, the guidance has been expanded to deal with situations where government funding may be withdrawn from public sector entities.
57. The Task Force believes that the use of the going concern assumption always relates to the financial statements for a particular financial reporting entity, not, as appears to be suggested by the WAO, in relation to particular functions, services or activities. In other words, the use of the going concern assumption is always related to the continuance of operations of a particular entity, whether in the private or public sector. The intention to wind up the operations of an entity, even without causing its insolvency, means that an entity is no longer going to be a going concern. However, the reasons provided by the WAO for a public sector body ceasing to provide services are certainly factors that an auditor may need to consider when determining whether management's use of the going concern assumption for the financial statements of that public sector entity is appropriate.
58. The Task Force also consulted the public sector representatives on the IAASB to obtain suggested wording from them to address the concerns noted above.

Action Requested

The IAASB is asked whether they agree with the Task Force's revised wording in paragraph A1.

APPENDIX

List of Respondents

Abbreviation	Organization
Professional Organizations	
AICPA	American Institute of Certified Public Accountants
ACCA	The Association of Chartered Certified Accountants
CIPFA	Chartered Institute of Public Finance and Accountancy
CNCC	Compagnie Nationale des Commissaires aux Comptes
CSOEC	Conseil Supérieur de l'Ordre des Experts-Comptables
FEE	Federation des Experts Comptables Europeens
FAR	Foreningen Auktoriserade Revisorer (Sweden)
HKICPA	Hong Kong Institute of Certified Public Accountants
IBR-IRE	Institut des Reviseurs d'Entreprises/ Instituut der Bedrijfsrevisoren
ICPAS	Institute of Certified Public Accountants of Singapore
ICAEW	The Institute of Chartered Accountants in England and Wales
ICAI	The Institute of Chartered Accountants of India
ICAIreland	The Institute of Chartered Accountants in Ireland
ICAP	Institute of Chartered Accountants of Pakistan
ICAS	The Institute of Chartered Accountants of Scotland
ICJCE	Instituto de Censores Jurados de Cuentas de Espana
ICMAP	Institute of Cost and Management Accountants of Pakistan
IDW	Institut der Wirtschaftsprüfer
JICPA	The Japanese Institute of Certified Public Accountants
KICPA	Korean Institute of Certified Public Accountants
NIA	National Institute of Accountants
NIVRA	Koninklijk Nederlands Instituut van Registeraccountants (Royal NIVRA)
ZICA	The Zambia Institute of Chartered Accountants
National Auditing Standard Setters	
APB	Auditing Practices Board (United Kingdom)
AuAASB	Auditing and Assurance Standards Board, Australian Government
CICA	Auditing and Assurance Standards Board of the Canadian Institute of

Abbreviation	Organization
	Chartered Accountants
IRBA	Independent Regulatory Board for Auditors (also a Regulator)
NZICA	Professional Standards Board of the New Zealand Institute of Chartered Accountants
Audit Firms	
BDO	BDO Global Coordination B.V
DTT	Deloitte Touche Tohmatsu
EYG	Ernst & Young Global
GT	Grant Thornton International
KPMG	KPMG
KPMG-SA	KPMG South Africa
MAZARS & GUERARD	Mazars & Guerard
PwC	PricewaterhouseCoopers
Public Sector Organizations	
ACAG	Australasian Council of Auditors-General
Audit Commission	Audit Commission
NAO	National Audit Office
Provincial Auditor-SK	Provincial Auditor Saskatchewan
SNAO	Swedish National Audit Office
WAO	Wales Audit Office
Regulators and Oversight Authorities	
IOSCO	International Organization of Securities Commissions
AG-CA	Auditor General of Canada
Individuals and Others	
Subelet	CPN Maria Cecelia and Carlos Javier Subelet

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