



Attachment to Board Meeting Summary Paper

Subject: ASA Redrafting Project – ASA 570 *Going Concern*
 (Revised and Redrafted)

Prepared by: AUASB Technical Group

Date: 17 February 2009

Issues

The AUASB is requested to consider and resolve the following issues:

Item #	Issues	Approve? Y/N
1	<p>Issue: The Board requested further review of Aus 13.1 regarding relevant period.</p> <p>Extant ASA 570 [paragraph 7]</p> <p>“Relevant period” means the period of approximately 12 months from the date of the auditor’s current report to the expected date of the auditor’s report for:</p> <ul style="list-style-type: none"> (a) the next annual reporting period in the case of an annual financial report; or (b) the corresponding reporting period for the following year in the case of an interim reporting period.” <p>Proposed ASA 570 (Revised and Redrafted) [paragraph Aus 13.1] as presented at 1 December 2008 meeting</p> <p>“Relevant period means the period of at least 12 months from the date of the auditor’s current report to the expected date of the auditor’s report for:</p> <ul style="list-style-type: none"> (a) the next annual reporting period in the case of an annual financial report; or (b) the corresponding reporting period for the following year in the case of an interim reporting period.” <p>AASB 101 Presentation of Financial Statements</p> <p>Paragraph’s 25 & 26 are the relevant paragraphs re Going concern. Both have equal authority.</p> <p>25. “When preparing financial statements, management shall make an assessment of an entity’s ability to continue as a going concern. An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment,</p>	

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	<p>of material uncertainties related to events or conditions that may cast significant doubt upon the entity’s ability to continue as a going concern, the entity shall disclose those uncertainties. When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern.</p> <p>26 In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. The degree of consideration depends on the facts in each case. When an entity has a history of profitable operations and ready access to financial resources, the entity may reach a conclusion that the going concern basis of accounting is appropriate without detailed analysis. In other cases, management may need to consider a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate.” (shaded text highlighted for emphasis)</p> <p>Paragraph 26 of AASB 101 has an emphasis on management making their going concern assessment at the end of the reporting period (i.e. closing balance date of the annual financial report). Australian Auditing Standards contemplate the auditor’s final assessment of going concern being performed after the end of the reporting period (i.e. once the audit has been finalised, and at the auditor’s report date) and consequently the auditor’s assessment period is inherently different from management’s.</p> <p>Suggest Aus 13.1 change as follows, to clarify wording (changes <u>underlined</u>/crossed-out for emphasis):</p> <p>“Relevant period means the period of <u>at least approximately</u> 12 months from the date of the auditor’s current report to the expected date of the auditor’s report for:</p> <ul style="list-style-type: none"> (a) the next annual reporting period in the case of an annual financial report; or (b) the corresponding reporting period for the following year in the case of an interim reporting period.” <p>As a result of Aus 13.1 change above, there is a consequential change required to its related guidance at A14 as follows (changes <u>underlined</u>/crossed-out for emphasis):</p> <p>“Other than enquiry of management, the auditor does not have a responsibility to perform any other audit procedures to identify events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern beyond the <u>relevant</u> period, assessed by management, which, as discussed in paragraph <u>Aus 13.1, is approximately would be at least</u> twelve months from the date of the <u>auditor’s report on the current financial statements report</u>.”</p> <p>There is also a consequential change to Conformity paragraph as it references to Aus 13.1</p> <p>Does the Board agree with proposed changes?</p>	

Information

The following matters are brought to the Board's attention for information purposes only:

Item #	Information only Matters	Para. #
1	Board requested in 1 December 2008 meeting for the following wording to be inserted: Aus 1.1 For the purposes of this Auditing Standard, a reference to management is taken to mean "management, and where appropriate, those charged with governance".	Aus 1.1
2	Board requested minor amendments to Aus 3.1.	Aus 3.1
3	Minor editorial changes to Aus 16.1 (footnote updated)	Aus 16.1
4	Board requested change to A21 (Emphasis of matter opinion wording) to add in wording from A23, for consistency. Emphasis of Matter "Without qualifying our opinion, we draw attention to Note X in the financial report which indicates that the Company incurred a net loss of ZZZ during the year ended December 31, 20X1 and, as of that date, the Company's current liabilities exceeded its total assets by YYY. These conditions, along with other matters as set forth in Note X, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern <u>and therefore the Company may be unable to realise its assets and discharge its liabilities in the normal course of business.</u> "	A21