



Board Meeting Summary Paper

Subject: Going Concern Update

Date: 13 July 2010

AUASB
AGENDA
ITEM NO.

6

Meeting Date:
26 July

2010

Action Required

For Information Purposes Only

Agenda Item Objectives

To update the Board on feedback from assurance practitioners relating to the diagram in ASA 570 *Going Concern*, and the AUASB Technical Group's response.

Background

Clarity ASA 570 is based on the underlying ISA 570, which was redrafted (not revised). *Clarity* ASA 570 contains some differing terminology to that in the pre-existing standard. The *Clarity* version, as for the pre-existing, includes two "Aus" only Appendices – Appendix 1 *Linking Going Concern Considerations and Types of Audit Opinions* ("the diagram") and Appendix 2 *Illustrations of Auditor's Reports on a General Purpose Financial Report*. ISA 570 does not include any appendices or equivalent diagram. Both in the *Clarity* ASA 570 Appendices have been updated to reflect the terminology changes in the *Clarity* standard itself, to ensure consistency.

Related to this topic are two publications - the AUASB Bulletin *Auditing Considerations in an Uncertain Economic Environment* (issued April 2009), and joint AUASB/AICD publication *Going Concern Issues in Financial Reporting* (issued June 2009) both of which were based on pre-existing ASA 570. Both publications reproduced the pre-existing ASA 570 diagram (at Appendix 1 and 5 respectively).

Matters to consider

The AUASB Technical Group has recently received feedback from assurance practitioners on their differing interpretations of the Appendix 1 diagram in *Clarity* ASA 570. The diagram's terminology has been updated to reflect terminology changes in the standard. In particular there have been differing interpretations of the decision tree question "Is there significant doubt the entity will continue as a going concern?" which was worded in the pre-existing standard as "Is it highly improbable the entity will continue as a going concern?" The AUASB Technical Group believes that further guidance should be issued by the AUASB to assist practitioners in interpreting the diagram in accordance with the requirements and application and other explanatory material within the *Clarity* standard.

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The AUASB Technical Group is currently determining the best form of additional guidance material (for example, new/revised Bulletin, new Explanatory Guide)

It is proposed that the AUASB Chairman approve the additional guidance material out of session.

Material Presented

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| Agenda Item 6 | Board Meeting Summary Paper |
| Agenda Item 6.1 | <i>Clarity ASA 570 – Going Concern</i> (Aus Appendix 1) |
| Agenda Item 6.2 | Pre-existing ASA 570 – <i>Going Concern</i> (Appendix 1) |

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