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Meeting 9 September 2008
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EXPOSURE DRAFT

ED 13/08
(September 2008)

Proposed Auditing Standard ASA 570 *Going Concern* (Revised and Redrafted) (Re-issuance of ASA 570)

Issued for Comment by the **Auditing and Assurance Standards Board**

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Australian Government

Auditing and Assurance Standards Board

Commenting on this Exposure Draft

Comments on this Exposure Draft should be forwarded so as to arrive by no later than 31 October 2008. Comments should be addressed to:

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A copy of all non-confidential submissions will be placed on public record on the AUASB website: www.auasb.gov.au.

Obtaining a Copy of this Exposure Draft

This Exposure Draft is available on the AUASB website: www.auasb.gov.au. Alternatively, any individual or organisation may obtain one printed copy of this Exposure Draft without charge until no later than 31 October 2008 by contacting:

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PREFACE

Reasons for Issuing ED 13/08

The Auditing and Assurance Standards Board (AUASB) is proposing to re-issue Auditing Standard ASA 570 *Going Concern* (Revised and Redrafted) pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is an independent statutory board of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001* (ASIC Act), as amended (ASIC Act). Under section 336 of the *Corporations Act 2001*, the AUASB may make Australian Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislative Instruments Act 2003*.

The International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC), has undertaken a programme to redraft, in “clarity” format, the entire suite of International Standards on Auditing (ISAs). In some cases, and in accordance with normal practice, the ISAs have been revised in addition to being redrafted. The redrafted ISAs are effective for audits of financial statements for periods beginning on or after 15 December 2009.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required to have regard to any programme initiated by the IAASB for the revision and enhancement of the ISAs and to make appropriate consequential amendments to the Australian Auditing Standards. Accordingly, the AUASB has decided to revise and redraft the Australian Auditing Standards using the equivalent redrafted ISAs.

**Proposed Auditing Standard ASA 570
*Going Concern (Revised and Redrafted) (Re-issuance of ASA 570)***

Main Proposals

This proposed Auditing Standard establishes mandatory Requirements and provides Application and Other Explanatory Material regarding the auditor's responsibility in the audit of a financial report with respect to management's use of the going concern assumption in the preparation and presentation of the financial report.

Proposed Operative Date

It is intended that this proposed Auditing Standard will be operative for financial reporting periods commencing on or after 1 January 2010.

Main changes from existing ASA 570 *Going Concern (April 2006)*

The main differences between this proposed Auditing Standard and the Auditing Standard that it supersedes, ASA 570 *Going Concern (April 2006)*, are included in the Tables of Differences provided as an attachment to this Exposure Draft.

Request for Comments

Comments are invited on this Exposure Draft of the proposed re-issuance of Auditing Standard ASA 570 *Going Concern* by no later than 31 October 2008. The AUASB is seeking comments on the main changes from the existing ASA 570. In addition, respondents are asked to consider and respond to the following questions:

1. Have applicable laws and regulations been appropriately addressed in the proposed standard?
2. Are there any references to relevant laws or regulations that have been omitted?
3. Are there any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?
4. What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the main changes to the Requirements of this proposed Auditing Standard? If there are significant costs, do these outweigh the benefits to the users of audit services?

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5. Are there any other significant public interest matters that constituents wish to raise?

The AUASB prefers that respondents express a clear opinion on whether the main changes to the Requirements of this proposed Auditing Standard are supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on the above matters. The AUASB regards both supportive and critical comments as essential to a balanced review of the Auditing Standard.

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Proposed Auditing Standard ASA 570
Going Concern (Revised and Redrafted) (Re-issuance of ASA 570)

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard ASA 570 *Going Concern (Revised and Redrafted)* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

This Auditing Standard is to be read in conjunction with ASA 100 *Preamble to AUASB Standards (Revised and Redrafted)*, which sets out the intentions of the AUASB on how the Australian Auditing Standards are to be understood, interpreted and applied.

AUDITING STANDARD ASA 570

Going Concern (Revised and Redrafted)

Application

- Aus 0.1 This Auditing Standard applies to:
- (a) an audit of a financial report for a financial year, or an audit of a financial report for a half-year, in accordance with Part 2M.3 of the *Corporations Act 2001*; and
 - (b) an audit of a financial report for any other purpose.
- Aus 0.2 This Auditing Standard also applies, as appropriate, to an audit of other historical financial information.

Operative Date

- Aus 0.3 This Auditing Standard is operative for financial reporting periods commencing on or after 1 January 2010.

Introduction

Scope of this ASA

1. This Auditing Standard deals with the auditor's responsibility in the audit of a financial report with respect to management's use of the going concern assumption in the preparation and presentation of the financial report.

Going Concern Assumption

2. Under the going concern assumption, an entity is viewed as continuing in business for the foreseeable future. General purpose financial reports are prepared on a going concern basis, unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so. Special purpose financial reports may or may not be prepared in accordance with a financial reporting framework for which the going concern basis is relevant (e.g., the going concern basis is not relevant for some financial reports prepared on a tax basis). When the use of the going concern assumption is appropriate, assets and liabilities are recorded on the basis that the entity will be able to realise its assets

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and discharge its liabilities in the normal course of business. (Ref: Para. A1)

Responsibilities of Management

3. Some financial reporting frameworks contain an explicit requirement for management, or those charged with governance, to make a specific assessment of the entity's ability to continue as a going concern, and standards regarding matters to be considered and disclosures to be made in connection with going concern. The detailed requirements regarding management's responsibility to assess the entity's ability to continue as a going concern and related financial statement disclosures may also be set out in law or regulation.
 - Aus 3.1 For example, Accounting Standard AASB 101, *Presentation of Financial Statements* requires management to make an assessment of an entity's ability to continue as a going concern. In addition, certain legislation, such as the *Corporations Act 2001*, requires a formal statement as to the solvency of the entity to be made by those charged with governance and included as part of the financial report upon which the audit's opinion is expressed.
4. In other financial reporting frameworks, there may be no explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern. Nevertheless, since the going concern assumption is a fundamental principle in the preparation of a financial report as discussed in paragraph 2, management's responsibility for the preparation and presentation of the financial report includes a responsibility to assess the entity's ability to continue as a going concern even if the financial reporting framework does not include an explicit requirement to do so.
5. Management's assessment of the entity's ability to continue as a going concern involves making a judgement, at a particular point in time, about inherently uncertain future outcomes of events or conditions. The following factors are relevant to that judgement:
 - The degree of uncertainty associated with the outcome of an event or condition increases significantly the further into the future an event or condition or the outcome occurs. For that reason, most financial reporting frameworks that require an explicit management assessment specify the period for which management is required to take into account all available information.

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- The size and complexity of the entity, the nature and condition of its business and the degree to which it is affected by external factors affect the judgement regarding the outcome of events or conditions.
- Any judgement about the future is based on information available at the time at which the judgement is made. Subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made.

Responsibilities of the Auditor

6. The auditor's responsibility is to obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial report and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern. This responsibility exists even if the financial reporting framework used in the preparation of the financial report does not include an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern.
7. However, as described in ASA 200 (Revised and Redrafted),¹ the potential effects of inherent limitations on the auditor's ability to detect material misstatements are greater for future events or conditions that may cause an entity to cease to continue as a going concern. The auditor cannot predict such future events or conditions. Accordingly, the absence of any reference to going concern uncertainty in an auditor's report cannot be viewed as a guarantee as to the entity's ability to continue as a going concern.

Effective Date

8. [Deleted by the AUASB. Refer Aus 0.3]

Objectives

9. The objectives of the auditor are:
 - (a) To obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial report;

¹ See ASA 200 (Revised and Redrafted), "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing."

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- (b) To conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; and
- (c) To determine the implications for the auditor's report.

Requirements

Risk Assessment Procedures and Related Activities

- 10. When performing risk assessment procedures as required by ASA 315 (Revised and Redrafted),² the auditor shall consider whether there are events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. In so doing, the auditor shall determine whether management has already performed a preliminary assessment of the entity's ability to continue as a going concern, and: (Ref: Para. A2-A5)
 - (a) If such an assessment has been performed, the auditor shall discuss the assessment with management and determine whether management has identified events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern and, if so, management's plans to address them; or
 - (b) If such an assessment has not yet been performed, the auditor shall discuss with management the basis for the intended use of the going concern assumption, and enquire of management whether events or conditions exist that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern.
 - 11. The auditor shall remain alert throughout the audit for audit evidence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. (Ref: Para. A6)
- Aus 11.1 If such events or conditions are identified, the auditor shall, in addition to performing the procedures in paragraph 16, consider whether they affect the auditor's assessment of the risks of material misstatement.

² See ASA 315 (Revised and Redrafted), "Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment," paragraph 5.

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Evaluating Management's Assessment

12. The auditor shall evaluate management's assessment of the entity's ability to continue as a going concern. (Ref: Para. A7-A9; A11-A12)
13. In evaluating management's assessment of the entity's ability to continue as a going concern, the auditor shall consider the relevant period which may be the same or may differ from that used by management to make its assessment as required by the applicable financial reporting framework. If management's assessment of the entity's ability to continue as a going concern covers less than the relevant period the auditor shall request management to correspond to the relevant period used by the auditor. (Ref: Para. A10-A12)
- Aus 13.1 "Relevant period" is 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:
- (a) the next annual reporting period in the case of the an annual financial report; or
 - (b) the corresponding reporting period for the following year in the case of an interim reporting period.
14. In evaluating management's assessment, the auditor shall consider whether management's assessment includes all relevant information of which the auditor is aware as a result of the audit.

Period beyond Management's Assessment

15. The auditor shall enquire of management as to its knowledge of events or conditions beyond the period of management's assessment that may cast significant doubt on the entity's ability to continue as a going concern. (Ref: Para. A13-A14)

Additional Audit Procedures When Events or Conditions Are Identified

16. When events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists through performing additional audit procedures, including consideration of mitigating factors. These procedures shall include: (Ref: Para. A15)

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- (a) When management has not yet performed an assessment of the entity's ability to continue as a going concern, requesting management to make its assessment.
- (b) Evaluating management's plans for future actions in relation to its going concern assessment, whether the outcome of these plans is likely to improve the situation and whether management's plans are feasible in the circumstances. (Ref: Para. A16)
- (c) When the entity has prepared a cash flow forecast, and analysis of the forecast is a significant factor in considering the future outcome of events or conditions in the evaluation of management's plans for future action: (Ref: Para. A17-A18)
 - (i) Evaluating the reliability of the underlying data generated to prepare the forecast; and
 - (ii) Determining whether there is adequate support for the assumptions underlying the forecast.
- (d) Considering whether any additional facts or information have become available since the date on which management made its assessment.
- (e) Requesting written representations from management or, where appropriate, those charged with governance, regarding their plans for future action and the feasibility of these plans.

Audit Conclusions and Reporting

17. Based on the audit evidence obtained, the auditor shall conclude whether, in the auditor's judgement, 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 judgement, appropriate disclosure of the nature and implications of the uncertainty is necessary for:
- (a) In the case of a fair presentation financial reporting framework, the fair presentation of the financial report, or
 - (b) In the case of a compliance framework, the financial report not to be misleading. (Ref: Para. A19)

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Aus 17.1 When there are no other matters requiring modification to the audit's report and the auditor is satisfied that it is appropriate, based on all reasonably foreseeable circumstances facing the entity, for management to prepare the financial report on the going concern basis, the auditor shall issue an unmodified auditor's report in accordance with ASA 700 *The Auditor's Report on a Financial Report* (Revised and Redrafted).

Use of Going Concern Assumption Appropriate but a Material Uncertainty Exists

18. When the auditor concludes that the use of the going concern assumption is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether the financial report:
- (a) Adequately describe 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 realise its assets and discharge its liabilities in the normal course of business. (Ref: Para. A20)
19. If adequate disclosure is made in the financial report, the auditor shall express an unmodified opinion and include an Emphasis of Matter paragraph in the auditor's report to:
- (a) Highlight the existence of a material uncertainty relating to the event or condition that may cast significant doubt on the entity's ability to continue as a going concern; and to
 - (b) Draw attention to the note in the financial report that discloses the matters set out in paragraph 18. (See ASA 706 (Revised and Redrafted).³) (Ref: Para. A21-A22)
20. If adequate disclosure is not made in the financial report, the auditor shall express a qualified or adverse opinion, as appropriate. (See

³ See ASA 706 (Revised and Redrafted), "*Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report.*"

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ASA 705 (Revised and Redrafted).⁴ The auditor shall state in the auditor's report that there is a material uncertainty that may cast significant doubt about the entity's ability to continue as a going concern. (Ref: Para. A23-A24)

Use of Going Concern Assumption Inappropriate

21. If the financial report have been prepared on a going concern basis but, in the auditor's judgement, management's use of the going concern assumption in the financial report is inappropriate, the auditor shall express an adverse opinion. (Ref: Para. A25-A26)

Management Unwilling to Make or Extend Its Assessment

22. If management is unwilling to make or extend its assessment when requested to do so by the auditor, the auditor shall consider the implications for the auditor's report. (Ref: Para. A27)

Communication with Those Charged with Governance

23. Unless all those charged with governance are involved in managing the entity, the auditor shall communicate with those charged with governance events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern. Such communication with those charged with governance shall include the following:

- (a) Whether the events or conditions constitute a material uncertainty;
- (b) Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial report;
- (c) The adequacy of related disclosures in the financial report; and

- Aus 23.1 (d) whether management is unwilling to make or extend its assessment as described in paragraph 22.

Significant Delay in the Approval of Financial Report

24. When there is significant delay in the approval of the financial report by management or those charged with governance after the date of

⁴ See ASA 705 (Revised and Redrafted), "Modifications to the Opinion in the Independent Auditor's Report."

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the financial report, the auditor shall enquire as to the reasons for the delay. When the auditor believes that the delay could be related to events or conditions relating to the going concern assessment, the auditor shall perform those additional audit procedures necessary, as described in paragraph 16, as well as consider the effect on the auditor's conclusion regarding the existence of a material uncertainty, as described in paragraph 17.

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Application and Other Explanatory Material

Introduction

Going Concern Assumption (Ref: Para. 2)

Considerations Specific to Public Sector Entities

- A1. Management's use of the going concern assumption is also relevant to public sector entities. Going concern risks may arise, but are not limited to, situations where public sector entities operate on a for-profit basis, where government support may be reduced or withdrawn, or in the case of privatisation. Events or conditions that may cast significant doubt on an entity's ability to continue as a going concern in the public sector may include situations where the public sector entity lacks funding for its continued existence or when policy decisions are made that affect the services provided by the public sector entity.

Risk Assessment Procedures and Related Activities

Events or Conditions That May Cast Doubt about Going Concern Assumption (Ref: Para. 10)

- A2. The following are examples of events or conditions that, individually or collectively, may cast significant doubt about the going concern assumption. This listing is not all-inclusive nor does the existence of one or more of the items always signify that a material uncertainty exists.

Financial

- Net liability or net current liability position.
- Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment; or excessive reliance on short-term borrowings to finance long-term assets.
- Indications of withdrawal of financial support by creditors.
- Negative operating cash flows indicated by historical or prospective financial report.
- Adverse key financial ratios.

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- Substantial operating losses or significant deterioration in the value of assets used to generate cash flows.
- Arrears or discontinuance of dividends.
- Inability to pay creditors on due dates.
- Inability to comply with the terms of loan agreements.
- Change from credit to cash-on-delivery transactions with suppliers.
- Inability to obtain financing for essential new product development or other essential investments.

Operating

- Management intentions to liquidate the entity or to cease operations.
- Loss of key management without replacement.
- Loss of a major market, key customer(s), franchise, license, or principal supplier(s).
- Labour difficulties.
- Shortages of important supplies.
- Emergence of a highly successful competitor.

Other

- Non-compliance with capital or other statutory requirements.
- Pending legal or regulatory proceedings against the entity that may, if successful, result in claims that the entity is unlikely to be able to satisfy.
- Changes in law or regulation or government policy expected to adversely affect the entity.
- Uninsured or underinsured catastrophes when they occur.

The significance of such events or conditions often can be mitigated by other factors. For example, the effect of an entity being unable to

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make its normal debt repayments may be counter-balanced by management's plans to maintain adequate cash flows by alternative means, such as by disposing of assets, rescheduling loan repayments, or obtaining additional capital. Similarly, the loss of a principal supplier may be mitigated by the availability of a suitable alternative source of supply.

- A3. The risk assessment procedures required by paragraph 10 help the auditor to determine whether management's use of the going concern assumption is likely to be an important issue and its impact on planning the audit. These procedures also allow for more timely discussions with management, including a discussion of management's plans and resolution of any identified going concern issues.

Considerations Specific to Smaller Entities

- A4. The size of an entity may affect its ability to withstand adverse conditions. Small entities may be able to respond quickly to exploit opportunities, but may lack reserves to sustain operations.
- A5. Conditions of particular relevance to small entities include the risk that banks and other lenders may cease to support the entity, as well as the possible loss of a principal supplier, major customer, key employee, or the right to operate under a license, franchise or other legal agreement.

Remaining Alert throughout the Audit for Audit Evidence about Events or Conditions (Ref: Para. 11)

- A6. ASA 315 (Revised and Redrafted) requires the auditor to revise the auditor's risk assessment and modify the further planned audit procedures accordingly when additional audit evidence is obtained during the course of the audit that affects the auditor's assessment of risk.⁵ If events or conditions that may cast significant doubt on the entity's ability to continue as a going concern are identified after the auditor's risk assessments are made, in addition to performing the procedures in paragraph 16, the auditor's assessment of the risks of material misstatement may need to be revised. The existence of such events or conditions may also affect the nature, timing and extent of the auditor's further procedures in response to the assessed risks. ASA 330 (Revised and Redrafted)⁶ establishes requirements and provides guidance on this issue.

⁵ See ASA 315 (Revised and Redrafted), paragraph 30.

⁶ See ASA 330 (Revised and Redrafted), "The Auditor's Responses to Assessed Risks."

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Evaluating Management's Assessment

Management's Assessment and Supporting Analysis and the Auditor's Evaluation (Ref: Para. 12)

- A7. Management's assessment of the entity's ability to continue as a going concern is a key part of the auditor's consideration of management's use of the going concern assumption.
- A8. It is not the auditor's responsibility to rectify the lack of analysis by management. In some circumstances, however, the lack of detailed analysis by management to support its assessment may not prevent the auditor from concluding whether management's use of the going concern assumption is appropriate in the circumstances. For example, when there is a history of profitable operations and a ready access to financial resources, management may make its assessment without detailed analysis. In this case, the auditor's evaluation of the appropriateness of management's assessment may be made without performing detailed evaluation procedures if the auditor's other audit procedures are sufficient to enable the auditor to conclude whether management's use of the going concern assumption in the preparation of the financial report is appropriate in the circumstances.
- A9. In other circumstances, evaluating management's assessment of the entity's ability to continue as a going concern, as required by paragraph 12, may include an evaluation of the process management followed to make its assessment, the assumptions on which the assessment is based and management's plans for future action and whether management's plans are feasible in the circumstances.

The Period of Management's Assessment (Ref: Para. 13)

- A10. Most financial reporting frameworks requiring an explicit management assessment specify the period for which management is required to take into account all available information.

Considerations Specific to Smaller Entities (Ref: Para. 12-13)

- A11. In many cases, the management of smaller entities may not have prepared a detailed assessment of the entity's ability to continue as a going concern, but instead may rely on in-depth knowledge of the business and anticipated future prospects. Nevertheless, in accordance with the requirements of this Auditing Standard, the auditor needs to evaluate management's assessment of the entity's ability to continue as a going concern. For smaller entities, it may be appropriate to discuss the medium and long-term financing of the

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entity with management, provided that management's contentions can be corroborated by sufficient documentary evidence and are not inconsistent with the auditor's understanding of the entity.

Therefore, the requirement in paragraph 13 for the auditor to request management to extend its assessment may, for example, be satisfied by discussion, enquiry and inspection of supporting documentation, for example, orders received for future supply, evaluated as to their feasibility or otherwise substantiated.

- A12. Continued support by owner-managers is often important to smaller entities' ability to continue as a going concern. Where a small entity is largely financed by a loan from the owner-manager, it may be important that these funds are not withdrawn. For example, the continuance of a small entity in financial difficulty may be dependent on the owner-manager subordinating a loan to the entity in favour of banks or other creditors, or the owner manager supporting a loan for the entity by providing a guarantee with his or her personal assets as collateral. In such circumstances the auditor may obtain appropriate documentary evidence of the subordination of the owner-manager's loan or of the guarantee. Where an entity is dependent on additional support from the owner-manager, the auditor may evaluate the owner-manager's ability to meet the obligation under the support arrangement. In addition, the auditor may request written confirmation of the terms and conditions attaching to such support and the owner-manager's intention or understanding.

Period beyond Management's Assessment (Ref: Para. 15)

- A13. As required by paragraph 11, the auditor remains alert to the possibility that there may be known events, scheduled or otherwise, or conditions that will occur beyond the period of assessment used by management that may bring into question the appropriateness of management's use of the going concern assumption in preparing the financial report. Since the degree of uncertainty associated with the outcome of an event or condition increases as the event or condition is further into the future, in considering events or conditions further in the future, the indications of going concern issues need to be significant before the auditor needs to consider taking further action. If such events or conditions are identified, the auditor may need to request management to evaluate the potential significance of the event or condition on its assessment of the entity's ability to continue as a going concern. In these circumstances the procedures in paragraph 16 apply.
- A14. Other than enquiry of management, the auditor does not have a responsibility to perform any other audit procedures to identify

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events or conditions that may cast significant doubt on the entity's ability to continue as a going concern beyond the period assessed by management, which, as discussed in paragraph 13, would be at least twelve months from the date of the financial report.

Additional Audit Procedures When Events or Conditions Are Identified

(Ref: Para. 16)

- A15. Audit procedures that are relevant to the requirement in paragraph 16 may include the following:
- Analysing and discussing cash flow, profit and other relevant forecasts with management.
 - Analysing and discussing the entity's latest available interim financial report.
 - Reading the terms of debentures and loan agreements and determining whether any have been breached.
 - Reading minutes of the meetings of shareholders, those charged with governance and relevant committees for reference to financing difficulties.
 - Enquiring of the entity's legal counsel regarding the existence of litigation and claims and the reasonableness of management's assessments of their outcome and the estimate of their financial implications.
 - Confirming the existence, legality and enforceability of arrangements to provide or maintain financial support with related and third parties and assessing the financial ability of such parties to provide additional funds.
 - Evaluating the entity's plans to deal with unfilled customer orders.
 - Performing audit procedures regarding subsequent events to identify those that either mitigate or otherwise affect the entity's ability to continue as a going concern.
 - Confirming the existence, terms and adequacy of borrowing facilities.
 - Obtaining and reviewing reports of regulatory actions.

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- Determining the adequacy of support for any planned disposals of assets.

Evaluating Management's Plans for Future Actions (Ref: Para. 16(b))

- A16. Evaluating management's plans for future actions may include enquiries of management as to its plans for future action, including, for example, its plans to liquidate assets, borrow money or restructure debt, reduce or delay expenditures, or increase capital.

The Period of Management's Assessment (Ref: Para. 16(c))

- A17. In addition to the procedures required in paragraph 16(c), the auditor may compare:
- The prospective financial information for recent prior periods with historical results; and
 - The prospective financial information for the current period with results achieved to date.
- A18. Where management's assumptions include continued support by third parties, whether through the subordination of loans, commitments to maintain or provide additional funding, or guarantees, and such support is important to an entity's ability to continue as a going concern, the auditor may need to consider requesting written confirmation (including of terms and conditions) from those third parties and to obtain evidence of their ability to provide such support.

Audit Conclusions and Reporting (Ref: Para. 17)

- A19. The phrase "material uncertainty" is used in AASB 101 *Presentation of Financial Statements* in discussing the uncertainties related to events or conditions which may cast significant doubt on the entity's ability to continue as a going concern that should be disclosed in the financial report. In some other financial reporting frameworks the phrase "significant uncertainty" is used in similar circumstances.

Use of Going Concern Assumption Appropriate but a Material Uncertainty Exists

Adequacy of Disclosure of Material Uncertainty (Ref: Para. 18)

- A20. The determination of the adequacy of the financial statement disclosure may involve determining whether the information explicitly draws the reader's attention to the possibility that the

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entity may be unable to continue realising its assets and discharging its liabilities in the normal course of business.

Audit Reporting When Disclosure of Material Uncertainty Is Adequate (Ref: Para. 19)

- A21. The following is an illustration of an Emphasis of Matter paragraph when the auditor is satisfied as to the adequacy of the note disclosure:

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.

- A22. In situations involving multiple material uncertainties that are significant to the financial report as a whole, the auditor may consider it appropriate in extremely rare cases to express a disclaimer of opinion instead of adding an Emphasis of Matter paragraph. ASA 705 (Revised and Redrafted) provides guidance on this issue.

Audit Reporting When Disclosure of Material Uncertainty Is Inadequate (Ref: Para. 20)

- A23. The following is an illustration of the relevant paragraphs when a qualified opinion is to be expressed:

Basis for Qualified Opinion

The Company's financing arrangements expire and amounts outstanding are payable on March 19, 20X1. The Company has been unable to re-negotiate or obtain replacement financing. This situation indicates the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and therefore the Company may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial report does not fully disclose this fact.

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Qualified Opinion

[Deleted by AUASB. Refer Aus A23.1]

Qualified Opinion

- Aus A23.1 In our opinion, except for the incomplete disclosure of the information referred to in the preceding paragraph, the financial report of [name of entity] is in accordance with the *Corporations Act 2001*, including:
- (a) giving a true and fair view of the company's financial position at December 31, 20X0 and of its financial performance and its cash flows for the year then ended; and
 - (b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

- A24. The following is an illustration of the relevant paragraphs when an adverse opinion is to be expressed:

Basis for Adverse Opinion

The Company's financing arrangements expired and the amount outstanding was payable on December 31, 20X0. The Company has been unable to re-negotiate or obtain replacement financing and is considering filing for bankruptcy. These events indicate a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial report does not disclose this fact.

Adverse Opinion

[Deleted by AUASB. Refer Aus A24.1]

Adverse Opinion

- Aus A24.1 In our opinion, because of the omission of the information mentioned in the preceding paragraph, the financial report of [name of entity] is not in accordance with the *Corporations Act 2001*, and does not:

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- (a) give a true and fair view of the financial position of the Company as at December 31, 20X0, and of its financial performance and its cash flows for the year then ended; and
- (b) comply with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

Use of Going Concern Assumption Inappropriate (Ref: Para. 21)

- A25. If the financial report have been prepared on a going concern basis but, in the auditor's judgement, management's use of the going concern assumption in the financial report is inappropriate, the requirement of paragraph 21 for the auditor to express an adverse opinion applies regardless of whether or not the financial report includes disclosure of the inappropriateness of management's use of the going concern assumption.
- A26. If the entity's management is required, or elects, to prepare the financial report when the use of the going concern assumption is not appropriate in the circumstances, the financial report is prepared on an alternative basis (e.g., liquidation basis). The auditor may be able to perform an audit of that financial report provided that the auditor determines that the alternative basis is an acceptable financial reporting framework in the circumstances. The auditor may be able to express an unmodified opinion on that financial report, provided there is adequate disclosure therein but may consider it appropriate or necessary to include an Emphasis of Matter paragraph in the auditor's report to draw the user's attention to that alternative basis and the reasons for its use.

Management Unwilling to Make or Extend Its Assessment (Ref: Para. 22)

- A27. In certain circumstances, the auditor may believe it necessary to request management to make or extend its assessment. If management is unwilling to do so, a qualified opinion or a disclaimer of opinion in the auditor's report may be appropriate, because it may not be possible for the auditor to obtain sufficient appropriate audit evidence regarding the use of the going concern assumption in the preparation of the financial report, such as audit evidence regarding the existence of plans management has put in place or the existence of other mitigating factors.

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Other Considerations

Aus A27.1 An auditor is required by section 311 of the *Corporations Act 2001* to notify the Australian Securities and Investments Commission (ASIC) if the auditor is aware of certain circumstances. ASIC Practice Note 34 *Auditors' Obligations: Reporting to ASIC* provides guidance to help auditors comply with their obligations under section 311 of the Act, such as reporting suspected insolvent trading.

Draft

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Going Concern (Revised and Redrafted) (Re-issuance of ASA 570)**

Conformity with International Standards on Auditing

Except as noted below, this Auditing Standard conforms with International Standard on Auditing ISA 570 *Going Concern* (Redrafted), issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

Paragraphs that have been added to this Auditing Standard (and do not appear in the text of the equivalent ISA) are identified with the prefix “Aus”.

The main differences between this Auditing Standard and ISA 570 (Redrafted) are:

- This Auditing Standard requires the auditor to assess the appropriateness of the going concern assumption for the relevant period, which is 12 months from the date of the auditor’s current report to the expected date of the auditor’s report for the next reporting period. However, ISA 570 requires the auditor to consider the appropriateness of the going concern assumption for a period of at least, but not limited to, twelve months from the balance sheet date. (paragraph’s 13 and Aus 13.1)
- This Auditing Standard includes the following Requirement that is not included as Requirement in ISA 570:
 - ◆ If such events or conditions are identified, the auditor shall, in addition to performing the procedures in paragraph 16, consider whether they affect the auditor’s assessment of the risks of material misstatement” (paragraph Aus 11.1)
 - ◆ When the auditor is satisfied that it is appropriate, based on all reasonably foreseeable circumstances facing the entity and the applicable financial reporting framework, for management to prepare the financial report on the going concern basis, the auditor shall issue an unmodified auditor’s report in accordance with ASA 700 *The Independent Auditor’s Report on a General Purpose Financial Report*. (paragraph Aus 17.1).
- This Auditing Standard includes in the Application and Other Explanatory Material references to Australian laws related to the illustrative auditor’s reports that ISA 570 does not. (paragraphs Aus A23 and Aus A24).

Compliance with this Auditing Standard enables compliance with ISA 570.

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Appendix 1

(Ref: Para.)

This Appendix will contain “Examples of Modified Auditor’s Reports Regarding the Going Concern Basis”, once ASA 700 *The Independent Auditor’s Report on General Purpose Financial Statements (Revised and Redrafted)* and ASA 705 *Modifications to the Opinion in the Independent Auditor’s Report (Revised and Redrafted)* have been approved by the AUASB.

Tables of Differences — ASA 570 (Revised and Redrafted) and Extant ASA 570

Base Standard

ISA 570 *Going Concern* is used as the base Auditing Standard for the purpose of re-drafting this proposed Auditing Standard. The base Auditing Standard will be amended for the following matters:

- Australian Laws and Regulations (including the *Corporations Act 2001*);
- Changes considered necessary because this Auditing Standard is a legislative instrument; and
- Changes considered necessary in the public interest.

Summary of Main Differences — ASA 570 (Revised and Redrafted) and Extant ASA 570

The table below details the main differences (excluding editorial amendments) between this proposed Auditing Standard and extant ASA 570.

Requirements in ASA (Revised and Redrafted) not in Extant ASA

Item #	ASA (Revised and Redrafted) Para. #	ASA (Revised and Redrafted) Requirements	Commentary
Objectives			
1	9	The objectives of the auditor are: (a) To obtain sufficient appropriate audit evidence about the appropriateness of management’s use of the going concern assumption in the preparation and presentation of the financial report; (b) To conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern; and (c) To determine the implications for the auditor’s report.	New Objectives included

Item #	ASA (Revised and Redrafted) Para. #	ASA (Revised and Redrafted) Requirements	Commentary
Risk Assessment Procedures and Related Activities			
2	10	<p>When performing risk assessment procedures as required by ISA 315 (Redrafted), the auditor shall consider whether there are events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern. In so doing, the auditor shall determine whether management has already performed a preliminary assessment of the entity’s ability to continue as a going concern, and; (Ref: Para. A2-A5)</p> <p>(a) If such an assessment has been performed, the auditor shall discuss the assessment with management and determine whether management has identified events or conditions that, individually or collectively, may cast significant doubt on the entity’s ability to continue as a going concern and, if so, management’s plans to address them; or</p> <p>(b) If such an assessment has not yet been performed, the auditor shall discuss with management the basis for the intended use of the going concern assumption, and inquire of management whether events or conditions exist that, individually or collectively, may cast significant doubt on the entity’s ability to continue as a going concern.</p>	<p>(1) Shaded text is elevation of extant ASA Explanatory Guidance [Extant ASA 570 para 19—equivalent Explanatory Guidance]</p> <p>(2) Bold text is elevation of extant ASA Explanatory Guidance [Extant ASA 570 para 20—equivalent Explanatory Guidance]</p> <p>(3) Unshaded text is equivalent in meaning to the extant ASA Requirement— [para 16].</p>
Evaluating Management’s Assessment			
3	7	<p>In evaluating management’s assessment, the auditor shall consider whether management’s assessment includes all relevant information of which the auditor is aware as a result of the audit.</p>	<p>Elevation of extant ASA Explanatory Guidance. [Extant ASA 570 para 25—equivalent Explanatory Guidance]</p>

Item #	ASA (Revised and Redrafted) Para. #	ASA (Revised and Redrafted) Requirements	Commentary
4	13	<p>In evaluating management’s assessment of the entity’s ability to continue as a going concern, the auditor shall cover the same period as 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 as defined in ISA 560 (Redrafted), the auditor shall request management to extend its assessment period to at least twelve months from that date. (Ref: Para. A10-A12)</p>	<p>(1) Bold text is equivalent in meaning to the extant ASA Requirement— [para 5].</p> <p>(2) Unshaded text is equivalent in meaning to the extant ASA Requirement— [para 23].</p> <p>(3) Shaded text represents conceptual differences between the extant ASA and ISA Requirements, as follows:</p> <p><i>(a). ISA uses “same period as that used by management” whereas ASA at [para 23] uses “relevant period”.</i></p> <p>“Relevant period” is defined in ASA 570 [para 7] as: “that used by the auditor (i.e. not management) and is defined as “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> <p>(a) the next annual reporting period in the case of an annual financial report; or</p> <p>(b) the corresponding reporting period for the following year in the case of an interim reporting period.”</p> <p>Extant ASA “relevant period” terminology/meaning retained, as this is a long established basic principle. Refer “Aus 13.1” wording below in (c).</p>

Item #	ASA (Revised and Redrafted) Para. #	ASA (Revised and Redrafted) Requirements	Commentary
			<p><i>(b). ISA uses “by law or regulation if it specifies a longer period”.</i></p> <p>Consistent with (a) above, extant ASA’s “relevant period” terminology is retained as the definitive Australian authority on the period of assessment.</p> <p><i>(c). ISA uses “If management’s assessment of the entity’s ability.....from the date of the financial statements.....to at least twelve months from that date”</i></p> <p>Extant ASA [para 23] specifies that management’s assessment must match the auditors – i.e. the assessment must be approximately 12 months from the date of the auditors current report.</p> <p>Accounting Standard, <i>AASB 101 – Presentation of Financial Statements</i> [para 26] requires that management to assess going concern “at least, but.... not limited to, twelve months from the end of the reporting period.” (where reporting period = entity’s balance date). The Standard allows for the extension of time specified in the current ASA.</p>

Item #	ASA (Revised and Redrafted) Para. #	ASA (Revised and Redrafted) Requirements	Commentary
			<p>Extant ASA established audit principle retained, through amendment to [para 13] as follows:</p> <p>“In evaluating management’s assessment of the entity’s ability to continue as a going concern, the auditor shall consider the relevant period which may be the same or may differ from that used by management to make its assessment as required by the applicable financial reporting framework, If management’s assessment of the entity’s ability to continue as a going concern covers less than the relevant period the auditor shall request management to extend its assessment period to correspond to the relevant period used by the auditor (Ref: Para. A10-A12)”</p> <p>Insert Aus A13.1 after [para 13] as follows:</p> <p>“Aus 13.1 “Relevant period” is that used by the auditor (not management) and is defined as “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> <p>(a) the next annual reporting period in the case of an annual financial report; or</p> <p>(b) the corresponding reporting period for the following year in the case of an interim reporting period.”</p>

Item #	ASA (Revised and Redrafted) Para. #	ASA (Revised and Redrafted) Requirements	Commentary
Additional Audit Procedures When Events or Conditions Are Identified			
5	16	<p>When events or conditions have been identified that may cast significant doubt on the entity’s ability to continue as a going concern, the auditor shall obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists through performing additional audit procedures, including consideration of mitigating factors. These procedures shall include: (Ref: Para. A15)</p> <p>(a) When management has not yet performed an assessment of the entity’s ability to continue as a going concern, requesting management to make its assessment.</p> <p>(b) Evaluating management’s plans for future actions in relation to its going concern assessment, whether the outcome of these plans is likely to improve the situation and whether management’s plans are feasible in the circumstances. (Ref: Para. A16)</p> <p>(c) When the entity has prepared a cash flow forecast, and analysis of the forecast is a significant factor in considering the future outcome of events or conditions in the evaluation of management’s plans for future action: (Ref: Para. A17-A18)</p> <p>(i) Evaluating the reliability of the underlying data generated to prepare the forecast; and</p> <p>(ii) Determining whether there is adequate support for the assumptions underlying the forecast.</p> <p>(d) Considering whether any additional facts or information have become available since the date on which management made its assessment.</p> <p>(e) Requesting written representations from management or, where appropriate, those charged with governance, regarding their plans for future action and the feasibility of these plans.</p>	<p>(1) Shaded Text at (c) is elevation of extant ASA Explanatory Guidance [Extant ASA 570 para 33—equivalent Explanatory Guidance]</p> <p>(2) Shaded Text at (d) is elevation of extant ASA Explanatory Guidance [Extant ASA 570 para 32—equivalent Explanatory Guidance]</p> <p>(3) Bold text has no extant ASA equivalent.</p> <p>(4) Unshaded text is equivalent in meaning to the extant ASA Requirement— [para 16].</p>

Item #	ASA (Revised and Redrafted) Para. #	ASA (Revised and Redrafted) Requirements	Commentary
Audit Conclusions and Reporting			
6	17	<p>Based on the audit evidence obtained, the auditor shall conclude whether, in the auditor’s judgement, 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 judgement, appropriate disclosure of the nature and implications of the uncertainty is necessary for:</p> <p>(a) In the case of a fair presentation financial reporting framework, the fair presentation of the financial statements, or</p> <p>(b) In the case of a compliance framework, the financial statements not to be misleading. (Ref: Para. A19)</p>	<p>(1) Shaded Text is an elevation of extant ASA Explanatory Guidance</p> <p>[Extant ASA 570 para 38—equivalent Explanatory Guidance]</p> <p>(2) Bold text has not extant ASA equivalent.</p>
Use of Going Concern Assumption Appropriate but a Material I Uncertainty Exists			
7	18	<p>When the auditor concludes that the use of the going concern assumption is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether the financial statements:</p> <p>(a) Adequately describe 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</p> <p>(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 realise its assets and discharge its liabilities in the normal course of business. (Ref: Para. A20)</p>	<p>Requirement more comprehensive and expressed differently to the extant ASA equivalent, but has similar meaning.</p> <p>Shaded text contains different terminology to extant ASA – “material uncertainty” in ASA (Revised and Redrafted) versus “significant uncertainty” in ASA.</p> <p>[Extant ASA 570 para 39—equivalent Requirement].</p>

Item #	ASA (Revised and Redrafted) Para. #	ASA (Revised and Redrafted) Requirements	Commentary
Communication with Those Charged with Governance			
8	23	<p>Unless all those charged with governance are involved in managing the entity, the auditor shall communicate with those charged with governance events or conditions identified that may cast significant doubt on the entity’s ability to continue as a going concern. Such communication with those charged with governance shall include the following:</p> <p>(a) Whether the events or conditions constitute a material uncertainty;</p> <p>(b) Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements;</p> <p>(c) The adequacy of related disclosures in the financial statements; and</p> <p>(d) management is unwilling to make or extend its assessment as described in paragraph 22.”</p>	<p>(1) Shaded text has not extant ASA equivalent. Not inconsistent with Australian practice.</p> <p>(2) Unshaded text is more comprehensive and expressed differently to the extant ASA equivalent, but has similar meaning. [Extant ASA 570 para 50—equivalent Requirement].</p> <p>(3) Further, extant ASA includes another Requirement (in bold) in [para 50]: “The auditor shall communicate with those charged with governance or management, as soon as practical, the impact on the auditor’s report where: (a) there is a material uncertainty as described at paragraphs 39 and 41; (b) the going concern assumption is inappropriate as described at paragraph 43; or (c) management is unwilling to make or extend its assessment as described in paragraph 46.”</p> <p>Extant ASA requirement at [para 50, (c)] retained as it contributes to the quality of the standard by alerting the auditor to a relevant mater (i.e. this Requirement is in the public interest).</p>

Item #	ASA (Revised and Redrafted) Para. #	ASA (Revised and Redrafted) Requirements	Commentary
			Insert “Aus 23.1” wording as follows: “Aus 23.1 (d) whether management is unwilling to make or extend its assessment as described in paragraph 22.”
Significant Delay in the Approval of Financial Statements			
13	24	When there is significant delay in the approval of the financial statements by management or those charged with governance after the date of the financial statements, the auditor shall inquire as to the reasons for the delay. When the auditor believes that the delay could be related to events or conditions relating to the going concern assessment, the auditor shall perform those additional audit procedures necessary, as described in paragraph 16, as well as consider the effect on the auditor’s conclusion regarding the existence of a material uncertainty, as described in paragraph 17.	Requirement is an elevation of extant ASA Explanatory Guidance. [Extant ASA 570 para 49—equivalent Explanatory Guidance]

Significant Differences in Appendices — ASA (Revised and Redrafted) and Extant ASA

Item #	Extant ASA	Appendix	Commentary
Appendix 1			
1	All	Linking Going Concern Considerations with Types of Audit Opinions	Extant ASA Appendix 1 text has not been included in the ASA (Revised and Redrafted).
Appendix 2			
2	All	Examples of Mitigating Factors	Extant ASA Appendix 1 text has not been included in the ASA (Revised and Redrafted).
Appendix 3			
3	All	Examples of Auditor’s Reports modified regarding the Going Concern Basis (Emphasis of Matter, Qualified Opinion, and Adverse Opinion.)	<p>Extant ASA Appendix 3 text is partially included in ASA (Revised and Redrafted) as Explanatory Guidance.</p> <p>ASA (Revised and Redrafted) contains paragraph extracts of auditor’s opinion only and does not include a full illustrative auditor’s report. [ASA (Revised and Redrafted) para. A21-A24 — contains equivalent Explanatory Material].</p> <p>The full illustrative auditor’s reports will be included as an Appendix to this Standard once the ASAs related to Auditor’s Report are redrafted (i.e. ASA 700 <i>The Independent Auditor’s Report on General Purpose Financial Statements</i> and ASA 705 <i>Modifications to The Opinion in the Independent Auditor’s Report</i>). Their auditor’s report wording, related to going concern, will then be reflected in ASA 570 (Revised and Redrafted).</p>