

STANDARD ON AUDITING (SA) 570 REVISED)

GOING CONCERN

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INTRODUCTION

- **Scope of this SA** - This Standard on Auditing (SA) deals with the auditor's responsibilities in the audit of financial statements relating to going concern and the implications for the auditor's report.
- **Going Concern Basis of Accounting** – Fundamental assumption unless management either intends to liquidate the entity or to cease operations
- **Responsibility for Assessment** – Management's responsibility
- **Responsibilities of the Auditor** - to obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting

REQUIREMENTS

- **Risk Assessment Procedures** - whether events or conditions exist that may cast significant doubt on the entity's ability to continue as a going concern.
- **Evaluating Management's Assessment**
 - Period covered
 - Detailed evaluation is required or not
- **Period beyond Management's Assessment**
- **Additional Audit Procedures When Events or Conditions Are Identified** - to determine whether or not 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

REQUIREMENTS

- Event or Conditions (Indicators) - Not an inclusive list

Financial

- Net liability or net current liability position.
- Indications of withdrawal of financial support by creditors.
- Negative operating cash flows indicated by historical or prospective financial statements.
- Adverse key financial ratios.
- 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

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.

Others

- 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.

REQUIREMENTS

- **Additional Audit Procedures When Events or Conditions are Identified -**

- Requesting management to make its assessment.
- Evaluating management's plans for future actions in relation to its going concern
- Where the entity has prepared a cash flow forecast, - i) Evaluating the reliability of the underlying data generated, ii) Determining whether there is adequate support for the assumptions.
- Considering whether any additional facts or information have become available
- Requesting written representations from management

- **Auditors Conclusion**

- A material uncertainty exists when the magnitude of its potential impact and likelihood of occurrence is such that, in the auditor's judgment, appropriate disclosure of the nature and implications of the uncertainty is necessary.

REQUIREMENTS

Auditor Conclusions

Situation	Reporting requirements
Use of Going Concern Basis of Accounting in Financial Statements is inappropriate	Adverse opinion
Use of Going Concern Basis of Accounting in Financial Statements is appropriate, but a material uncertainty exists : Adequate disclosure of Material Uncertainty is made in Financial Statements Adequate disclosure of Material Uncertainty is not made in Financial Statements	Unmodified opinion but a Separate Para “Material Uncertainty Related to Going Concern” Qualified or Adverse opinion
Management Unwilling to Make or Extend Its Assessment	Consider the implications for the auditor’s report (disclaimer or qualified opinion)
Going concern assumption has been concluded to be inappropriate and financial statements have been prepared on alternate basis	May consider highlighting the same by way of an EOM.

REQUIREMENTS

- **Communication with Those Charged with Governance** - shall include the following:
 - Whether the events or conditions constitute a material uncertainty;
 - Whether management's use of the going concern basis of accounting is appropriate
 - The adequacy of related disclosures in the financial statements
 - Where applicable, the implications for the auditor's report.
- **Significant Delay in the Approval of Financial Statements** - If 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 well as consider the effect on the auditor's conclusion regarding the existence of a material uncertainty.

OTHER CONSIDERATIONS

- **Key Audit Matter** - when SA 701 applies, matters relating to going concern may be determined to be key audit matters, and explains that a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern is, by its nature, a key audit matter.
- **Management's use of the going concern basis of accounting is also relevant to public sector entities.** - 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
- **Remaining Alert throughout the Audit for Audit Evidence about Events or Conditions** - nature, timing and extent of the auditor's further procedures in response to the assessed risks

OTHER CONSIDERATIONS

- **Considerations Specific to Smaller Entities**
 - it may be appropriate to discuss the medium and long-term financing of the entity with management, provided that management's contentions can be corroborated by sufficient documentary Evidence
 - Be satisfied by discussion, inquiry and inspection of supporting documentation,
 - Where a small entity is largely financed by a loan from the owner-manager, it may be important that these funds are not withdrawn the auditor may evaluate the owner-manager's ability to meet the obligation under the support arrangement
- **Communication with Regulators** - When the auditor of a regulated entity considers that it may be necessary to include a reference to going concern matters in the auditor's report, the auditor may have a duty to communicate with the applicable regulatory, enforcement or supervisory authorities

ADDITIONAL AUDIT PROCEDURES

Illustrative List

- Analyzing and discussing cash flow, profit and other relevant forecasts with management.
- Analyzing and discussing the entity's latest available interim financial statements.
- Reading the terms of debentures and loan agreements and determining whether any breaches
- Reading minutes of the meetings for reference to financing difficulties.
- Inquiring of the entity's legal counsel regarding the existence of litigation and claims.
- Confirming the existence, legality and enforceability of arrangements to provide or maintain financial support with related and third parties and assessing their financial ability.
- Evaluating the entity's plans to deal with unfilled customer orders.
- Performing audit procedures regarding subsequent events.
- Confirming the existence, terms and adequacy of borrowing facilities.
- Obtaining and reviewing reports of regulatory actions.
- Determining the adequacy of support for any planned disposals of assets.
- Comparing budgets vs actuals.

Thank You