



ISA 570 (Revised) Going Concern

Dr. Daoud Sobh

*Consultant,
Crowe Horwath Professional Auditors*

Lebanese Association of Certified Public Accountants - LACPA

**Reporting on Audited Financial Statements,
New and Revised Auditing Reporting Standards and
Related Conforming Amendments**

September 15 & 28, 2015 - LACPA Beirut

October 3, 2015 - LACPA Tripoli

Nov 1, 2016 - LACPA Beirut

CONTENTS

	Para	Application Para
Introduction		
Scope of this ISA	1	A1
Going Concern Basis of Accounting	2	A2
Responsibility for Assessment of the Entity's Ability to Continue as a Going Concern	3 - 7	
Effective Date	8	
Objectives	9	
Requirements		
Risk Assessment Procedures and Related Activities	10,11	A3 – A7
Evaluating Management's Assessment	12, 14	A8 – A13
Period beyond Management's Assessment	15	A14, A15
Additional Audit Procedures When Events or Conditions Are Identified	16	A16 – A20
Auditor Conclusions	17 - 20	A21 – A25
implications for the Auditor's Report	21 - 24	A26 - A35
Communication with Those Charged with Governance - TCWG	25	
Significant Delay in the Approval of Financial Statements	26	

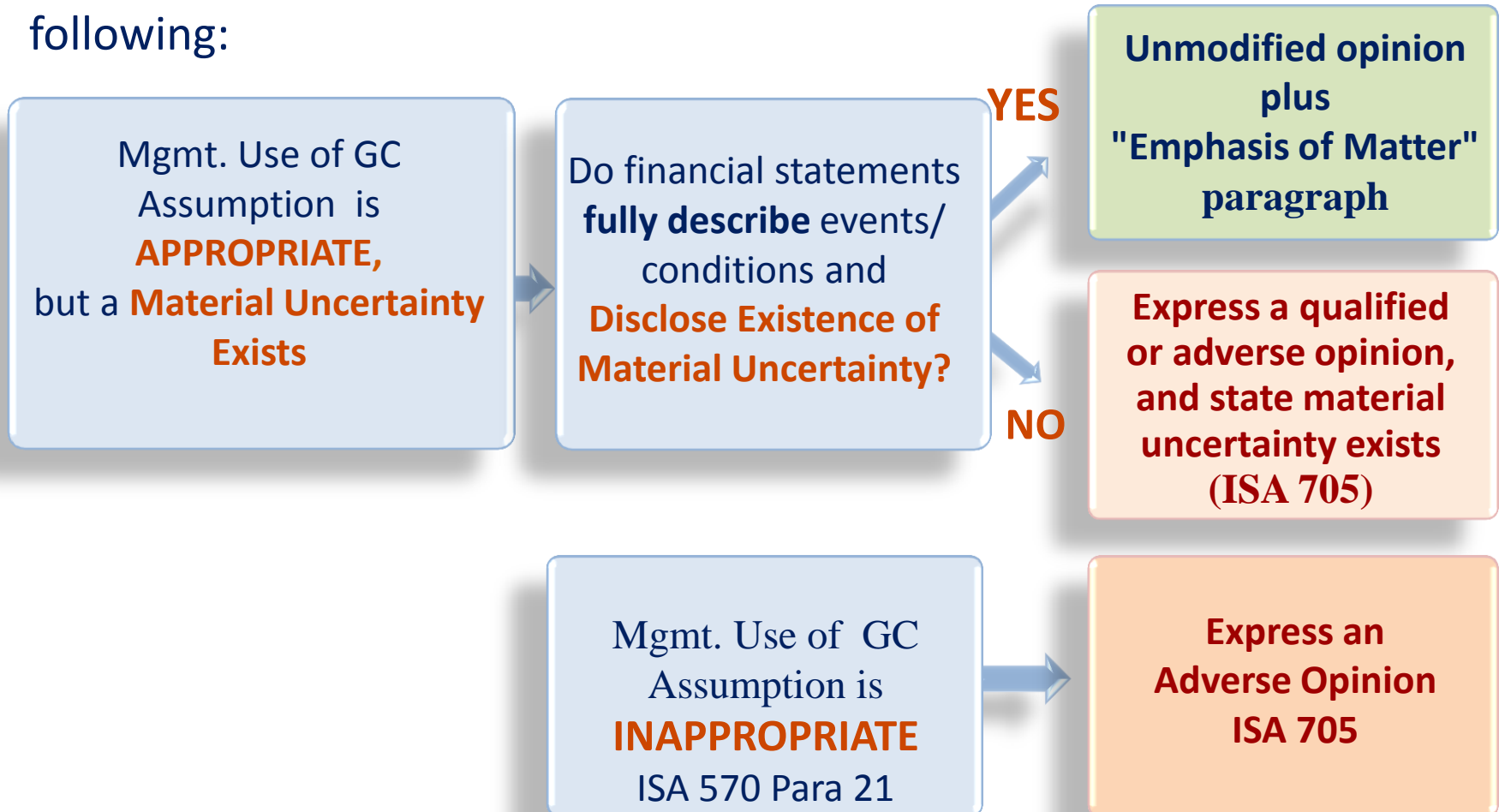
Going concern ISA 570 (Revised)

Applies to audits of **ALL ENTITIES** and now includes:

- A new requirement for the auditor **to evaluate** the **adequacy** of **going concern disclosures** in “close call” situations,
- A new required description **in all audit reports** of:
 - **management’s responsibilities** related to **going concern**,
 - the **auditor’s responsibilities** related to **going concern**,
- when **there is a Material Uncertainty**:
 - ▶ **If** the entity’s going concern **disclosures are adequate** a **new separate section** of the auditor’s report is required under the heading “**Material Uncertainty Related to Going Concern**”, drawing attention to those disclosures in financial statements
 - ▶ **If** the entity’s going concern **disclosures are inadequate**, a **modified opinion** is required (as per ISA 705) as the first section of the auditor’s report

ISA 570 – Going Concern (December 15, 2009)

To determine the impact of identified events/conditions on the audit report and communicate the decision to management, consider the following:



INDEPENDENT AUDITOR'S REPORT (sample)

To the Shareholders of ABC Company [or Other Appropriate Addressee]
Report on the Audit of the Financial Statements

1- Opinion

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements **present fairly**, in all material respects, the financial position of the Company as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

2- Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in [jurisdiction], and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3- Material Uncertainty Related to Going Concern

We draw attention to Note 6 in the financial statements, 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.

As stated in Note 6, these events or conditions, along with other matters as set forth in Note 6, indicate that a **material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern**. **Our opinion** is not modified in respect of this matter.

4- Responsibilities of Management and TCWG

5- Auditor's Responsibilities for the Audit of the F/S

6- Report on Other Legal and Regulatory Requirements

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

NEW

Responsibilities of Management and Those Charged with Governance for the F/S

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements-, management is responsible for assessing the Company's **ability to continue as a going concern**, disclosing, as applicable, matters related to **going concern** and using the **going concern** basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

TCWG are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements **as a whole** are free from material misstatement, **whether due to fraud or error**, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located at [Organization's] website at: [website link].

This description forms part of our auditor's report.

NEW

ISA 570 (Revised)
Going Concern
GC
26 Para. & 35 Applications

- **Financial statements** are prepared on the assumption that the entity is a **Going Concern** and will **continue** its operations for the foreseeable future.
- **General** purpose **financial statements** are prepared using the **going concern basis of accounting**, unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.
- Special purpose financial statements may or may not be prepared in..... (e.g., the **GC** basis of accounting is not relevant for some financial statements prepared on a tax basis in particular jurisdictions).
- **When** the use of the **GC** basis of accounting is **appropriate**, assets and liabilities are recorded on the basis that the entity will be able to realize its assets and discharge its liabilities in the **normal course of business**.

Responsibility for Assessment of the Entity's Ability to Continue as a Going Concern (Para 3 – 5)

Para 3

..... International Accounting Standard (IASs)

requires management to make an ASSESSMENT of an entity's ability to continue as a 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.

cont'd

Responsibility for Assessment of the Entity's Ability to Continue as a Going Concern (Para 3 – 5)

Para 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, where the going concern basis of accounting is a **fundamental principle in the preparation** of financial statements as discussed in paragraph 2, the preparation of the financial statements requires management 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.

Management's assessment of the entity's ability to continue as a going concern involves making a **judgment**, at a particular point in time, about **inherently uncertain future outcomes** of events or conditions.

The following factors are relevant to that judgment:

cont'd

Responsibility for Assessment of the Entity's Ability to Continue as a Going Concern (Para 3 – 5)

Para 5

The following factors are relevant to that judgment:

- **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 - **IAS 1 specify the period** for which management is required to take into account all available information. **(IAS 10)**
- **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 judgment regarding the outcome of events or conditions.
- Any judgment about the future is based on information available at the **time at which the judgment is made**. **Subsequent events** may result in outcomes that are **inconsistent** with judgments that were reasonable at the time they were made.

**This ISA (570) is
effective for audits of financial statements
for periods
ending on or after December 15, 2016.**

The objectives of the auditor are:

- (a) **TO OBTAIN** Sufficient **Appropriate Audit Evidence (SAAE)** regarding, and **conclude on**, the appropriateness of management's use of the going concern **basis of accounting** in the **preparation of the financial statements**;
- (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 REPORT** in accordance with this ISA.

cont'd

As described in **ISA 200**, 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 a material uncertainty about the entity's ability to continue as a going concern in an auditor's report cannot be viewed as a **guarantee** as to the entity's ability to continue as a going concern.

ISA 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing, paragraphs A51–A52

ISA 570 (Revised) Going Concern

Requirements (Para 10 – 26)

- Risk Assessment Procedures and Related Activities
- Evaluating Management's Assessment
- Period beyond Management's Assessment
- Additional Audit Procedures When Events or Conditions Are Identified
- **Auditor Conclusions**
- **Audit implications for the Auditor's Report**
- Communication with Those Charged with Governance - TCWG
- Significant Delay in the Approval of Financial Statements or Conclusions

Risk Assessment Procedures and Related Activities (Para 10, 11)

Para 10

When performing **risk assessment procedures** as required by **ISA 315 (Revised)**:

- the auditor shall consider whether events or conditions exist 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:

OR

(a) If such an assessment has been performed:

The auditor shall **discuss** the assessment with management and **determine whether management has identified such events or conditions** and, if so, **management's plans to address them;**

(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 basis of accounting, and **inquire** of management whether **such** events or conditions exist.

Evaluating Management's Assessment (Para 12 – 14)

12. The auditor **shall evaluate management's assessment** of the entity's ability to continue as a going concern.

13. In evaluating management's assessment ..., the auditor **shall cover the same period** as that used by management to make its assessment
IF management's assessment ... **covers less than 12 months** from the date of the financial statements as defined in **ISA 560,4 (Subsequent Events)** the auditor **shall request management to extend its assessment period to at least 12 months** from that date.

14. the auditor shall consider whether management's assessment includes all relevant information of which the auditor is aware as a result of the audit.

Additional Audit Procedures When Events or Conditions Are Identified

Para 16

IF events or conditions have been identified that may cast **significant doubt** on the entity's **ability to continue** as a GC, **the auditor shall obtain Sufficient Appropriate Audit Evidence (SAAE) to determine whether or not a material uncertainty exists related to events or through performing **additional audit procedures**, including consideration of mitigating factors. These procedures shall include:**

- (a) **Where 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 ...**, whether the outcome of these plans is likely to improve the situation, and whether management's plans are feasible in the circumstances,

cont'd

Additional Audit Procedures When Events or Conditions Are Identified

Para 16

- (c) **Where 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 actions
- (d) Considering whether **any additional facts or information have become available** since the date on which management made its assessment.
- (e) **Requesting written representations (ISA 580)** from management and, where appropriate, TCWG, regarding their plans for future actions and the feasibility of these plans.

Auditor Conclusions (Para 17 – 20)

17. The auditor shall **Evaluate** whether **Sufficient Appropriate Audit Evidence** (SAAE) has been **Obtained** regarding, and shall **Conclude on**, the appropriateness of **management's use** of the going concern basis of accounting in the **preparation of the financial statements**.
18. **Based** on the audit evidence **obtained**, the auditor shall **conclude whether**, in the auditor's judgment, 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. is such that, in the auditor's judgment, **Appropriate Disclosure** of the nature and implications of the **uncertainty Is Necessary** for the fair presentation of the financial statements,

cont'd

Auditor Conclusions (Para 17 – 20)

Adequacy of Disclosures When Events or Conditions Have Been Identified

BUT NO MATERIAL UNCERTAINTY EXISTS

20. If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained the auditor concludes that **no material uncertainty exists, the auditor shall evaluate whether**, in view of the requirements of the applicable financial reporting framework, **the financial statements provide adequate disclosures** about these events or conditions.

Implications for the Auditor's Report (Para 21 – 24)

- Use of Going Concern Basis of Accounting **IS APPROPRIATE** but a Material Uncertainty Exists
- Use of Going Concern Basis of Accounting **IS INAPPROPRIATE**

Implications for the Auditor's Report (Para 21 – 24)

Appendix,
(Para A29, A31, A32)

Opinion	Para	
<p>Unmodified Opinion & A Separate Section</p>	22	<p>when the auditor has concluded that Management's use of the going concern basis of accounting IS APPROPRIATE but a material uncertainty exists and Adequate Disclosure is made in the financial statements.</p>
<p>Qualified Opinion or Adverse Opinion</p> <p>in accordance with ISA 570 (Revised) - Going Concern</p>	23	<p>when the auditor has concluded that Management's use of the going concern basis of accounting IS APPROPRIATE but a a material uncertainty exists and Adequate Disclosure of a material uncertainty is Not made in the financial statements.</p>
<p>Adverse Opinion</p> <p>in accordance with ISA 570 (Revised) - Going Concern</p>	21	<p>when the auditor has concluded that Management's use of the going concern basis of accounting in the preparation of the financial statements IS INAPPROPRIATE.</p>

....., the auditor shall **communicate** with TCWG **events or conditions identified** that may cast **significant doubt** on the entity's ability to continue as a going concern. Such communication shall include the following:

- (a) Whether the events or conditions constitute a **material uncertainty**;
- (b) Whether management's use of the going concern basis of accounting is **appropriate** in the preparation of the financial statements;
- (c) The **adequacy of related disclosures** in the financial statements; and
- (d) Where applicable, **the implications for the auditor's report.**

Significant Delay in the Approval of Financial Statements

Para 26

If there is **significant delay** in the **approval of the financial statements** by management or TCWG after the date of the financial statements, **the auditor shall INQUIRE** as to the reasons for the delay.

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 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 18.

Illustrations of Auditor's Reports Relating to Going Concern

Appendix,
(Para A29, A31, A32)

Illustration	Opinion	
1	Unmodified Opinion & A Separate Section	An auditor's report containing an unmodified opinion when the auditor has concluded that a material uncertainty exists and disclosure in the financial statements is <u>ADEQUATE</u> .
2	Qualified Opinion	An auditor's report containing a qualified opinion when the auditor has concluded that a material uncertainty exists and that the financial statements are materially misstated due to <u>INADEQUATE DISCLOSURE</u> .
3	Adverse Opinion	An auditor's report containing an adverse opinion when the auditor has concluded that a material uncertainty exists and the financial statements <u>OMIT</u> the required disclosures relating to a material uncertainty.

Illustration 1 – **Unmodified** Opinion When a Material Uncertainty Exists and Disclosure in the Financial Statements **Is Adequate**

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Opinion

We have audited the financial statements of (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in [jurisdiction], and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 6 in the financial statements, which indicates that the Company incurred a net loss of ZZ during the year ended **December 31, 20X1** and, **as of that date, the Company's current liabilities exceeded its total assets by YY. As stated in Note 6, these events or conditions, along with other matters as set forth in Note 6, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.**

Illustration 1 – **Unmodified** Opinion When a Material Uncertainty Exists and **Disclosure** in the Financial Statements **Is Adequate**

INDEPENDENT AUDITOR'S REPORT

Key Audit Matters (for listed entity)

Key audit matters are those matters that, in our professional judgment, were

[Description of each key audit matter in accordance with ISA 701.]

Responsibilities of Management and Those Charged with Governance for the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).21]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).21]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).]

The engagement partner on the audit resulting in this independent auditor's report is [name].

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

Illustration 2 – **Qualified** Opinion When a Material Uncertainty Exists and the Financial Statements Are Materially Misstated Due to **Inadequate Disclosure**

INDEPENDENT AUDITOR’S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the financial statements of (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the incomplete disclosure of the information referred to in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects (or give a true and fair view of), the financial position of the Company as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Qualified Opinion

As discussed in Note yy, the Company’s financing arrangements expire and amounts outstanding are payable on March 19, 20X2. The Company has been unable to conclude re-negotiations or obtain replacement financing. This situation indicates that a material uncertainty exists that may cast significant doubt on the Company’s ability to continue as a going concern. The financial statements do not adequately disclose this matter.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in [jurisdiction], and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion

Illustration 2 – **Qualified** Opinion When a Material Uncertainty Exists and the Financial Statements Are Materially Misstated Due to **Inadequate Disclosure**

INDEPENDENT AUDITOR’S REPORT

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Basis for Qualified Opinion section, we have determined the matters described below to be the key audit matters to be communicated in our report.
[Descriptions of each key audit matter in accordance with ISA 701.]

Responsibilities of Management and Those Charged with Governance for the Financial

Statements [Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised). 24]

Auditor’s Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).24]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).]

The engagement partner on the audit resulting in this independent auditor’s report is [name].

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

Illustration 3 – **Adverse** Opinion When a Material Uncertainty Exists and **Is Not Disclosed** in the Financial Statements

INDEPENDENT AUDITOR’S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Financial Statements

Adverse Opinion

We have audited the financial statements of (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, because of the omission of the information mentioned in the Basis for Adverse Opinion section of our report, the accompanying financial statements do not present fairly (or do not give a true and fair view of), the financial position of the Company as at December 31, 20X1, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Adverse Opinion

The Company’s financing arrangements expired and the amount outstanding was payable on December 31, 20X1. The Company has been unable to conclude re-negotiations or obtain replacement financing and is considering filing for bankruptcy. This situation indicates that a material uncertainty exists that may cast significant doubt on the Company’s ability to continue as a going concern. The financial statements do not adequately disclose this fact.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in [jurisdiction], and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

Illustration 3 – Adverse Opinion When a Material Uncertainty Exists and Is Not Disclosed in the Financial Statements

INDEPENDENT AUDITOR’S REPORT

Responsibilities of Management and Those Charged with Governance for the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised). 27]

Auditor’s Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).27]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).]

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]



Thank You

Dr. Daoud Sobh

A3. The following are examples of events or conditions that, may cast significant doubt on the entity's ability to continue as a going concern. 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 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 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).
- ❑ Labor difficulties.
- ❑ Shortages of important supplies.
- ❑ Emergence of a highly successful competitor.

Other

- ❑ Non-compliance with capital or other statutory or regulatory requirements, such as solvency or liquidity requirements for financial institutions.
- ❑ 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.

cont'd

The significance of such events or conditions often can be mitigated by other factors. For example,

The effect of an entity being unable to 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.

Warning signals that management's assessment of going concern may not be appropriate

There are many abundance of warning signals that management's assessment of going concern may not be appropriate in the circumstances. These warnings signals were:

- a growth in the level of competition the Co. faces
- a significant decline in demand for its products
- failing to re-invest in new product development
- difficulties in recruiting suitably trained scientific staff
- an inability to agree suitable financing terms with the bank
- investing \$... M in new plant and machinery using an overdraft (a short-term borrowing facility which carries higher rates of interest)
- delayed payments to suppliers with some suppliers withdrawing credit and insisting on cash on delivery, which further impacts the overdrawn balance at the bank
- cash flow forecast showing a significantly worsening position within the next 12 months.

Indicators that an entity may not be a going concern

There are many indicators that an entity may not be a going concern, such as:

- inability to pay dividends to shareholders
- major losses or cash flow difficulties that have arisen since the reporting date
- adverse key financial ratios
- indications of withdrawal of financial support from the bank or other financial institutions
- negative operating cash flows
- major debt repayments falling due which the entity will not be able to meet
- pending legal or regulatory proceedings against the entity that may, if successful, result in claims that are unlikely to be satisfied

cont'd

Use of Going Concern Basis of Accounting IS INAPPROPRIATE

If the financial statements have been prepared using the going concern basis of accounting but, **in the auditor's judgment**, management's use of the going concern basis of accounting in the preparation of the financial statements **is inappropriate**, **the auditor shall express an ADVERSE OPINION**.

cont'd

Use of Going Concern Basis of Accounting Is Appropriate but a Material Uncertainty Exists

Adequate Disclosure of a Material Uncertainty Is NOT Made in the Financial Statements

If **adequate disclosure** about the material uncertainty is **not made** in the financial statements, **the auditor shall:**

- (a) **Express a QUALIFIED opinion or ADVERSE opinion**, as appropriate, in accordance with ISA 705 (Revised); and
- (b) **In the Basis for Qualified (Adverse) Opinion section** of the auditor's report, **state that a material uncertainty exists** that may cast significant doubt on the entity's ability to continue as a going concern and that **the financial statements do not adequately disclose this matter.**

Implications for the Auditor's Report (Para 21 – 24)

Para 24

Management **Unwilling** to Make or Extend Its Assessment

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.

Reasons for modifying the opinion

There are two reasons why an auditor would be unable to give an **UNMODIFIED** audit opinion:

- they conclude that the financial statements as a whole are **not free from material misstatements**; or
- they have been **unable to obtain sufficient appropriate Audit Evidence** to conclude that the financial statements as a whole are free from material misstatement.