



## Western India Regional Council (ICAI)

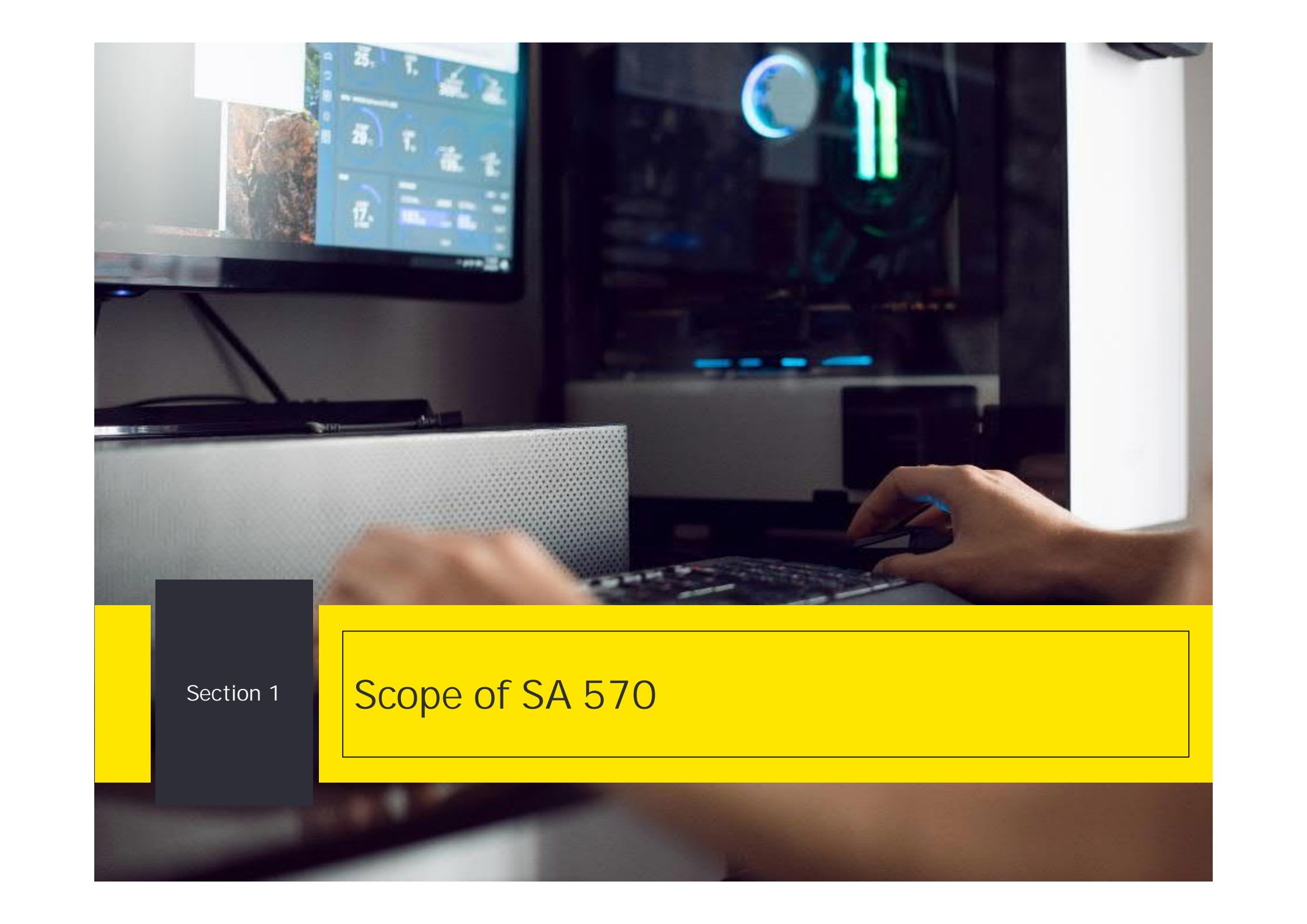
SA570 (Revised) – Going Concern

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December 22, 2021

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Section 1

## Scope of SA 570

# Scope of SA 570

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SA 570 deals with:

1. Auditor's responsibility in the audit of financial statement relating to Going Concern and
2. Implication for the auditor's report

SA further acknowledges that, when SA 701 (Communicating Key Audit Matters in the Independent Auditor's Report) applies, matters relating to going concern may be determined to be key audit matters.





Section 2

## Going Concern Basis of Accounting

# Going Concern Basis of Accounting

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Financial Statements are prepared on the assumptions that:

1. Entity is a Going Concern and
2. Entity will continue its operations for the foreseeable future



## General Purpose Financial Statement

Prepared using going concern basis of accounting unless management

- i) Either intends to liquidate the entity or
- ii) Intends to cease operations or
- iii) Has no alternative but to do so



## Special Purpose Financial Statement

May or may not be prepared in accordance with a financial reporting framework for which the going concern basis relevant.



## When use of going concern basis of accounting is appropriate

Assets and Liabilities are recorded on the basis that

- i) Entity will be able to realize its assets and
- ii) Entity will be able to discharge its liabilities



Section 3

## Responsibility for Assessment of the Entity's Ability to Continue as a Going Concern

# Responsibility for Assessment of the Entity's Ability to Continue as a Going Concern

Financial reporting framework	Laws and Regulations	When no explicit requirement by financial reporting framework
<p>Financial reporting framework may contain an explicit requirement that <u>Management to make a specific assessment</u></p> <ul style="list-style-type: none"><li>i) of the entity's ability to continue as a going concern and</li><li>ii) standards for matters to be considered and disclosures to be made in connection with going concern</li></ul>	<p>Laws and Regulation may set out detailed requirements regarding <u>management's responsibility</u></p> <ul style="list-style-type: none"><li>i) to assess the entity's ability to continue as a going concern and</li><li>ii) related financial statement disclosures</li></ul>	<p>There may be no explicit requirement for management to make a specific assessment on the entity's ability to continue as a going concern, but going concern basis of accounting is a fundamental principle in the preparation of financial statements:</p> <ul style="list-style-type: none"><li>i) Management to assess the entity's ability to continue as a going concern</li></ul>




# Responsibility for Assessment of the Entity's Ability to Continue as a Going Concern

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Management assessment involves making a judgement, at a particular point in time, about inherently uncertain future outcomes of events or conditions.

## Factors relevant to the 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.
- 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.



Section 4

## Objectives / Responsibilities of the Auditors

# Objectives / Responsibilities of the Auditors

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## Objectives / 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 in the preparation of the financial statements;
- 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
- To report in accordance with this SA.

Responsibilities exist even if the financial reporting framework used in the preparation of the financial statements does not include an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern.

Note: 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.



Section 5

## Risk Assessment Procedures and Related activities

# Risk Assessment Procedures and Related activities

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Auditor shall consider whether events or conditions exist that may cast significant doubt on the entity's ability to continue as a going concern by determining whether management has already performed a preliminary assessment of the entity's ability to continue as a going concern:

**If such an assessment has been performed the auditor shall discuss the assessment with management and determining:**

- 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

**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 events or conditions exist that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern

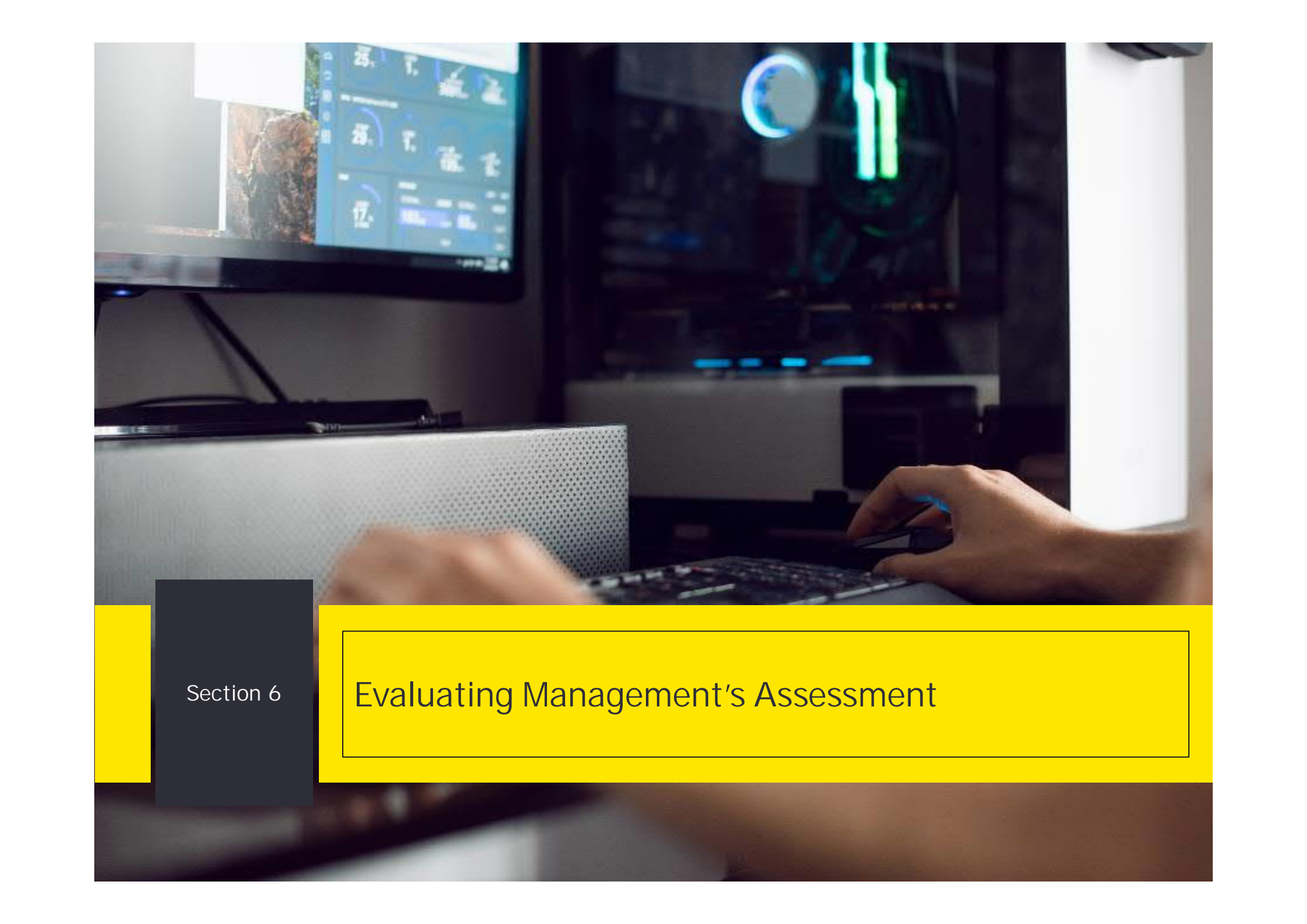
The auditor shall remain alert throughout the audit for audit evidence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.



# Risk Assessment Procedures and Related activities

Examples of events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern

Financial	Operating	Other
<ul style="list-style-type: none"> <li>• Net liability or net current liability position</li> <li>• Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment; or excessive reliance on short-term borrowings to finance long-term assets</li> <li>• Indications of withdrawal of financial support by creditors</li> <li>• Negative operating cash flows indicated by historical or prospective financial statements</li> <li>• Adverse key financial ratios.</li> <li>• Substantial operating losses or significant deterioration in the value of assets used to generate cash flows</li> <li>• Arrears or discontinuance of dividends</li> <li>• Inability to pay creditors on due dates</li> <li>• Inability to comply with the terms of loan agreements</li> <li>• Change from credit to cash-on-delivery transactions with suppliers</li> <li>• Inability to obtain financing for essential new product development or other essential investments</li> </ul>	<ul style="list-style-type: none"> <li>• Management intentions to liquidate the entity or to cease operations</li> <li>• Loss of key management without replacement</li> <li>• Loss of a major market, key customer(s), franchise, license, or principal supplier(s)</li> <li>• Labor difficulties</li> <li>• Shortages of important supplies</li> <li>• Emergence of a highly successful competitor</li> </ul>	<ul style="list-style-type: none"> <li>• Non-compliance with capital or other statutory or regulatory requirements, such as solvency or liquidity requirements for financial institutions</li> <li>• 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</li> <li>• Changes in law or regulation or government policy expected to adversely affect the entity</li> <li>• Uninsured or underinsured catastrophes when they occur</li> </ul>



Section 6

## Evaluating Management's Assessment

# Evaluating Management's Assessment

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Auditor to evaluate management's assessment of the entity's ability to continue as a going concern.


In evaluating management's assessment:

1. 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
2. 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\*, the auditor shall request management to extend its assessment period to at least twelve months from that date  
\*Date of financial statement as defined by SA560: The date of the end of the latest period covered by the financial statements.
3. the auditor shall inquire 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.
4. the auditor shall consider whether management's assessment includes all relevant information of which the auditor is aware as a result of the audit.

# Evaluating Management's Assessment – Key considerations

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- It is not auditors responsibility to rectify the lack of analysis by Management. 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 basis of accounting is appropriate in the circumstances
- Evaluating management's assessment of the entity's ability to continue as a going concern, 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 circumstance
- 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
- Other than inquiry of management, the auditor does not have a responsibility to perform any other audit procedures to identify events or conditions that may cast significant doubt on the entity's ability to continue as a going concern beyond the period assessed by management, which, would be at least twelve months from the date of the financial statements.



Section 7

Additional Audit Procedures When Events or Conditions are Identified



# Additional Audit Procedures When Events or Conditions are Identified

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The auditor shall obtain sufficient appropriate audit evidence 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 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 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.
- 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"
  - Evaluating the reliability of the underlying data generated to prepare the forecast; and
  - 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 and, where appropriate, those charged with governance, regarding their plans for future actions and the feasibility of these plans

# Additional Audit Procedures When Events or Conditions are Identified

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Other procedure may include:

- a) Analyzing and discussing cash flow, profit and other relevant forecasts with management
- b) Analyzing and discussing the entity's latest available interim financial statements
- c) Reading the terms of debentures and loan agreements and determining whether any have been breached
- d) Reading minutes of the meetings of shareholders, those charged with governance and relevant committees for reference to financing difficulties
- e) Inquiring 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
- f) 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
- g) Evaluating the entity's plans to deal with unfilled customer orders
- h) 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
- i) Confirming the existence, terms and adequacy of borrowing facilities
- j) Obtaining and reviewing reports of regulatory actions
- k) Determining the adequacy of support for any planned disposals of assets

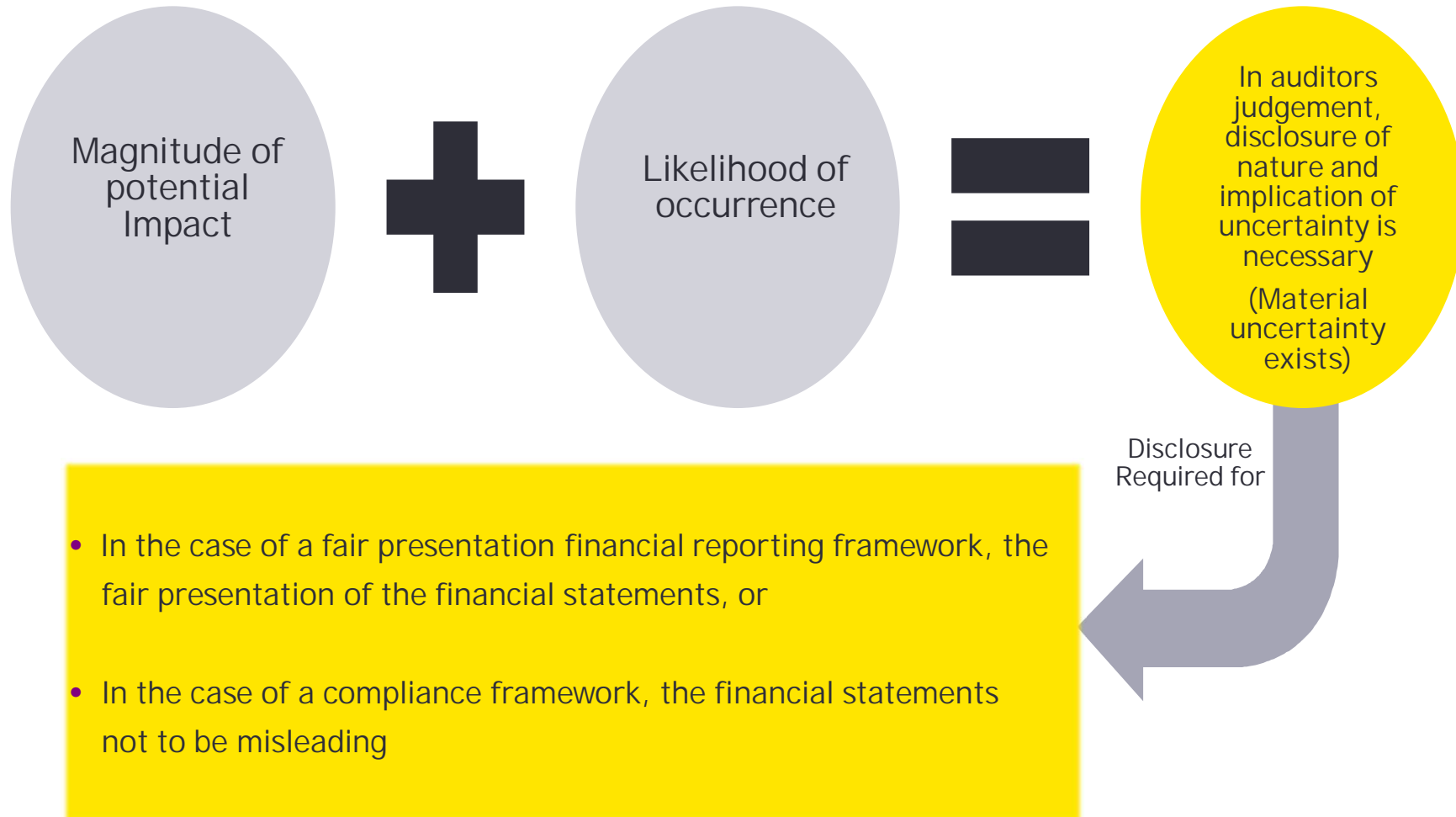


Section 8

Auditor Conclusions

# Auditor Conclusions

When does Material Uncertainty Exist?



# Auditor Conclusions

## Adequacy of Disclosures

### When events or conditions – **Identified** Materia Uncertainty - **Exists**

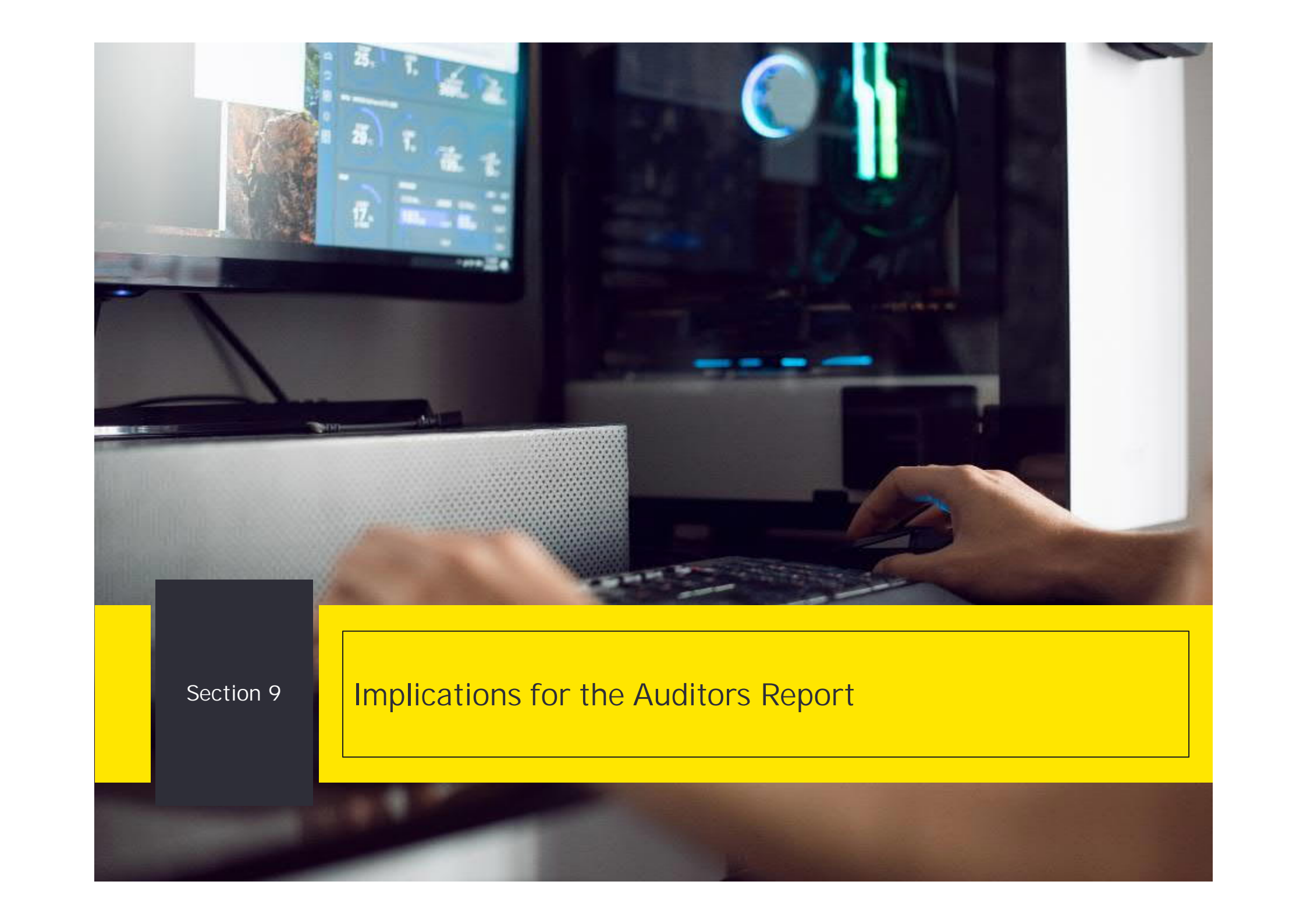
1. Adequately disclose
  - the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and
  - management's plans to deal with these events or conditions and
2. Disclose clearly that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business

### When events or conditions – **Identified** Materia Uncertainty – **Does Not Exist**

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. Some financial reporting frameworks may address disclosures about:

- Principal events or conditions;
- Management's evaluation of the significance of those events or conditions in relation to the entity's ability to meet its obligations;
- Management's plans that mitigate the effect of these events or conditions; or
- Significant judgments made by management as part of its assessment of the entity's ability to continue as a going concern

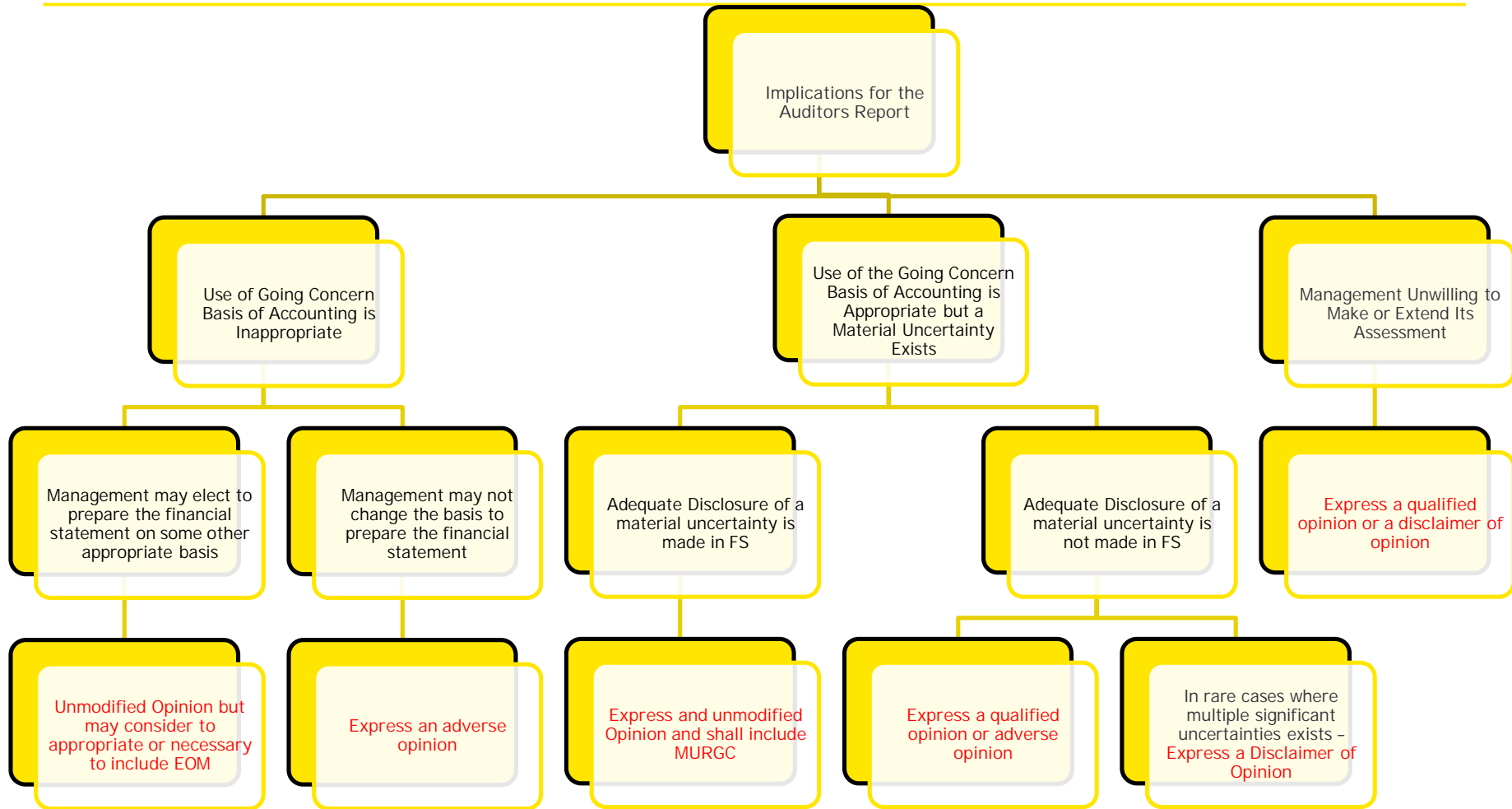




Section 9

Implications for the Auditors Report

# Implications for the Auditors Report



# Definitions

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MURGC : Material Uncertainty Relating to Going Concern

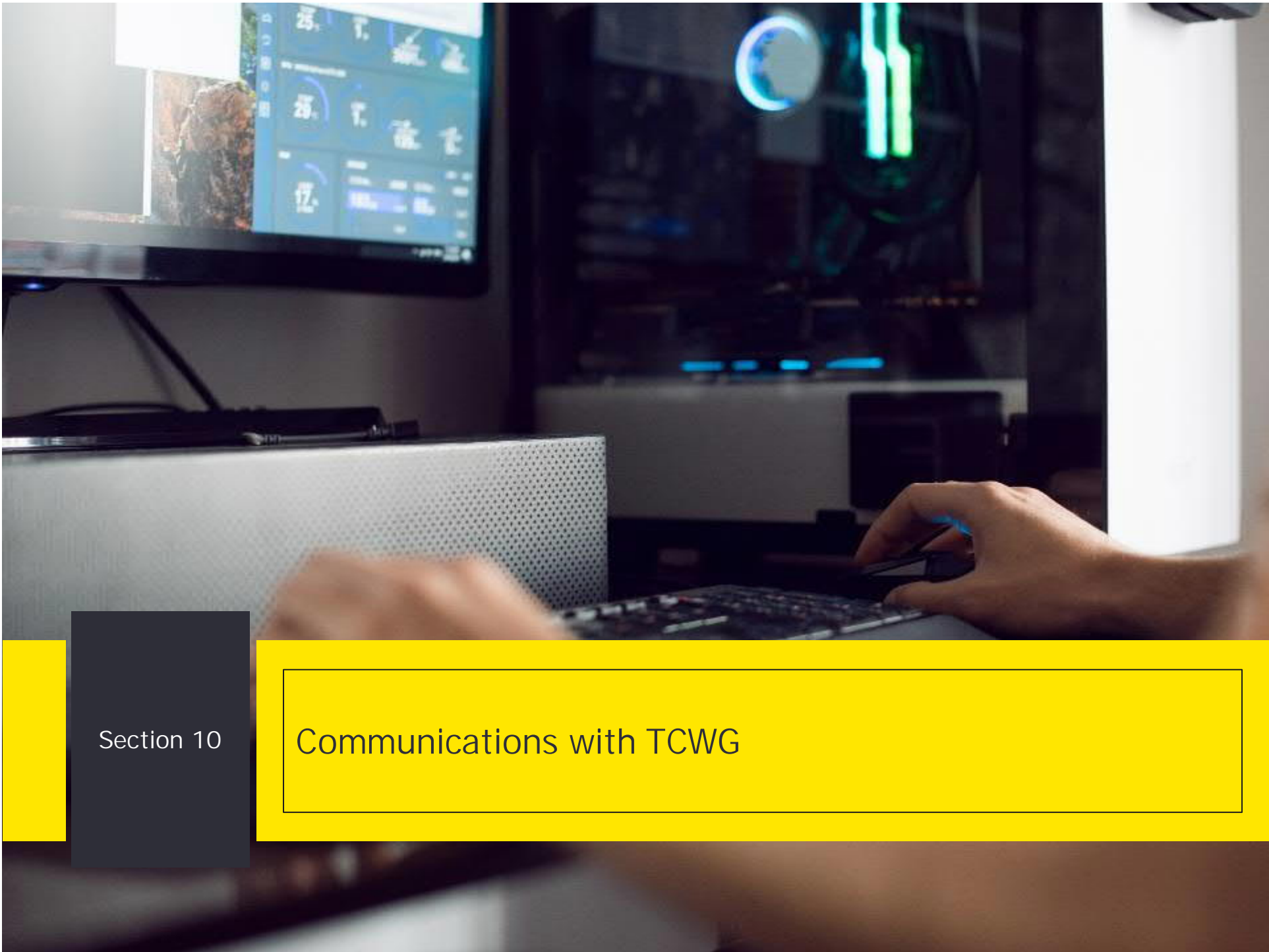
Qualified Opinion : The auditor shall express a qualified opinion when:

(a) The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or

(b) The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

Adverse Opinion : The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

Disclaimer of Opinion : The auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.



Section 10

Communications with TCWG

## Communications with TCWG

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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 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.



Section 11

COVID 19 Implications



## Key questions/inquiries an auditor should consider due to COVID-19

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- a) Has management performed a preliminary assessment of the entity's ability to continue as a going concern? Whether auditor has discussed with management the impact of the COVID-19 outbreak, if any, on their assessment?
- b) Were there interruptions in the supply and production cycle of the entity due to the COVID-19 outbreak? If so, does management have a feasible recovery plan? Do these events or conditions cast significant doubt about the entity's ability to continue as a going concern? Are these disruptions expected to continue for a foreseeable future and the action plan of the management to mitigate these risks?
- c) Did the auditor note any contradiction in audit evidence provided by the entity (e.g., different assumptions or inputs used for different purposes)?
- d) Are there any financial difficulties, resulting in additional credit risks, higher than usual bad debts and potential impairments and write-offs because of the COVID-19 outbreak? Has management considered these situations in their assessment of the entity's ability to continue as a going concern?
- e) Are there any potential issues related to debt, including debt covenants, which are applicable to the entity (for example, is the entity in compliance with debt covenants or do debt agreements contain material adverse change clauses or call provisions)? Has management considered these situations in their assessment of the entity's ability to continue as a going concern?
- f) Whether the auditor considered the risk of inadequate disclosures in the financial statements related to the COVID-19 outbreak and management's recovery plans?



Thank You