Guide on auditor’s responsibilities relating to going concern assumption in an audit of financial statements

July 2017

Technical Services Department
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1. INTRODUCTION

1.1 Going concern and its significance

Going concern is a fundamental accounting principle that underlies preparation of financial statements as it establishes the measurement and classification basis for assets and liabilities of any entity.

In accordance with the financial reporting frameworks applicable in Pakistan, the financial statements are prepared under an inherent presumption that the reporting company will continue its operation on a going concern basis. Consequently, under the going concern assumption, the company is assumed to be able to operate in the normal course of business, realize its assets, discharge its liabilities, and obtain refinancing (if necessary). The assessment of a company’s ability to continue as a going concern is the responsibility of company’s management. The appropriateness of management’s use of the going concern assumption, however, is a matter for the auditor to consider in every audit engagement. When business organizations experience difficult or uncertain economic conditions, assessment of the going concern assumption and auditor’s report thereon could both become a challenge.

There is also an increased focus on going concern by regulators. Both locally and internationally, the topic of going concern is of significant interest to stakeholders and the focus on going concern matters has increased in recent times.

1.2 Going concern audit considerations

Seeking an appropriate balance between company-specific information about the auditor’s findings with respect to going concern and a more standardized language that describes how the auditor approaches going concern in an audit, the International Auditing and Assurance Standards Board (IAASB), has made revisions to International Auditing Standard (ISA) 700, Forming an Opinion and Reporting on Financial Statements, has enhanced the communications about going concern in the auditor’s report, and certain revisions made to ISA 570, Going Concern, regarding the auditor’s related work effort.

The new and revised auditor reporting standards, including ISA 570 (Revised), Going Concern, are applicable in Pakistan, and considered as foundation for the future of global auditor reporting and improved auditor communications.

1.3 Purpose of the Guide

For the benefit of members and other stakeholders, the Auditing Standards Committee of the Institute of Chartered Accountants of Pakistan (the Institute) has developed this publication titled “Guide on Auditor’s Responsibilities Relating to Going Concern Assumption in an Audit of Financial Statements” (the Guide).

The Institute’s review of audited financial statements of the companies highlighted going concern as an area with significant reporting and auditing impacts, and requiring enhanced understanding and better documentation. This involve management assessment of going concern, adequacy of related disclosures in the financial statements, audit considerations of going concern and auditor reporting of going concern. Further, as an area of crucial importance for users of financial statements, going concern is the focus subject of the new and revised auditor reporting standards.

In light of enhanced auditor reporting requirements emanating from new and revised auditing standards and substantive issues with potential impact on the audit quality, development of a Guide on the audit considerations of going concern was considered necessary.
1.4 Uses of the Guide

This Guide can be used to:

- provide a deeper understanding of the role of the management in the assessment and reporting of going concern;
- provide a comprehensive understanding of auditor responsibilities in performing an evaluation of appropriateness of going concern and auditor reporting considerations in relation to going concern;
- serve as reference Guide for members and audit staff;
- create training materials and enhance individual study and group discussions; and
- improve communications between the auditor and management.

This Guide may be downloaded from the Technical Services section of the Institute’s website: [http://www.icap.net.pk/guidance](http://www.icap.net.pk/guidance)

1.5 Content and organization

This Guide considers the audit requirements in respect of going concern requirements outlined in ISA 570 (Revised), auditors’ considerations and reporting responsibilities in relation to the financial statements audit of going and non-going concern companies.

The Guide aims to help the auditor in performing an evaluation of appropriateness of the company’s going concern assumption during the audit of financial statements. To enable management and auditors to be better informed of the audit implications of going concern issues, the Guide also explains the nature and range of possible auditor’s opinions relating to going concern issues. Finally, the Guide also contains a number of appendices, providing useful information in the form of flowcharts, checklists and examples.

The Guide has been organized in the following sections:

1. **Introduction** – explains the purpose and content of the Guide;
2. **Going concern basis of accounting** – provides an overview of requirements for going concern assessment by company’s management and going concern accounting requirements, under the approved financial reporting framework in Pakistan;
3. **Going concern auditing considerations** – outlines the auditors responsibilities in relation to the evaluation of company’s going concern;
4. **Audit procedures** – lists the procedures considered and performed by the auditor during the evaluation of company’s going concern basis;
5. **Auditor reporting considerations** – explains the implications of results of going concern evaluation on the auditor report, in accordance with ISA 570 (Revised); and
6. **Communication** – explains auditor’s responsibility to communicate with those charged with governance.

This Guide also contains helpful appendices that include:

- Flowcharts, summarizing various scenarios resulting from management assessment of going concern, possible outcome from management’s assessment of going concern and types of audit opinion;
- Summary of the circumstances linking the auditor’s going concern considerations with types of audit opinion;
- Checklist, outlining ISA 570 (revised) requirements;
Guide on auditor’s responsibilities relating to going concern assumption in an audit of financial statements

- Examples of types of audit reports on different going concern scenarios and extracts of going concern disclosures and reporting from the financial statements of international companies; and
- Copies of the Institute’s technical opinions on going concern.

It is acknowledged that the Guide contains few references from UK Financial Reporting Council’s Guidance on Going Concern basis of accounting, audited financial statements of international companies and reference books/ guidance of international accountancy firms.

1.6 Acronyms used

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<tr>
<th>Acronym</th>
<th>Description</th>
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<td>AFRS</td>
<td>Accounting and Financial Reporting Standards</td>
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<tr>
<td>Act</td>
<td>Companies Act 2017</td>
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<td>Ordinance</td>
<td>Repealed Companies Ordinance 1984</td>
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<td>F/S</td>
<td>Financial Statements</td>
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<td>IASB</td>
<td>International Accounting Standards Board</td>
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<td>IAASB</td>
<td>International Auditing and Assurance Standards Board</td>
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<tr>
<td>ICAP / the Institute</td>
<td>The Institute of Chartered Accountants of Pakistan</td>
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<td>IFAC</td>
<td>International Federation of Accountants</td>
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<td>IFRS</td>
<td>International Financial Reporting Standard</td>
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<td>Securities and Exchange Commission of Pakistan</td>
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<td>SMEs</td>
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<td>SSEs</td>
<td>Small-sized Entities</td>
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<td>TCGW</td>
<td>Those Charged with Governance</td>
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1.7 Disclaimer

This Guide is designed to assist auditors in the effective implementation of ISA 570 (Revised), but is not intended to be a substitute for reading the standard and other IAASB pronouncements. Furthermore, an auditor should utilize his/her professional judgment and the facts and circumstances involved in each particular audit engagement. The material contained here is for the purpose of guidance and information only and shall not constitute advice or recommendation of any nature. While all reasonable care has been taken in the preparation of this Guide, ICAP does not make any express or implied representations or claims as to the completeness, reliability or accuracy of any material in this publication and does not accept any liability to any party for any loss, damage or costs howsoever arising, whether directly or indirectly, whether in contract, or otherwise from any action or decision taken (or not taken) as a result of any person relying on or otherwise using this document or arising from any omission from it.
2. GOING CONCERN BASIS OF ACCOUNTING

2.1 Financial reporting in Pakistan

The financial reporting framework in Pakistan is based on the approved accounting standards, which includes:

- IFRSs issued by the IASB, as notified by SECP;
- IFRS for SMEs issued by the IASB, as notified by SECP;
- AFRS for SSEs (revised) issued by the ICAP, as notified by SECP; and
- Accounting Standard for Not for Profit Entities issued by ICAP.

The applicability of the abovementioned approved accounting standards to individual companies is based on the nature and/or size of the entity (herein referred to as "company" (Terminology used in accordance with the Companies Act 2017 (the Act).

2.2 Going concern, the fundamental principle

The framework of the approved accounting standards is based on a single assumption underlying the financial statements, namely going concern.

The framework notes that financial statements are prepared on a basis that assumes “… entity is a going concern and will continue in operation for the foreseeable future”.

The going concern is the fundamental principle underlying the preparation of financial statements of every entity/company, irrespective of its size and nature.

2.3 The accounting principle of going concern is contained in the IFRS, in paragraphs 25 and 26 of IAS 1 Presentation of Financial Statements. All the other frameworks mentioned above also contain the same principle.

Paragraphs 25 and 26 of IAS 1 are reproduced as under:

“25. When preparing financial statements, management shall make an assessment of an entity’s ability to continue as a going concern. An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity’s ability to continue as a going concern, the entity shall disclose those uncertainties. When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern.”

“26. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. The degree of consideration depends on the facts in each case. When an entity has a history of profitable operations and ready access to financial resources, the entity may reach a conclusion that the going concern basis of accounting is appropriate without detailed analysis. In other cases, management may need to consider a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate.”

2.4 Further, IAS 10 Events Occurring After the Balance Sheet Date, also provides guidance on the going concern. Relevant paragraphs 14 and 15 are reproduced below:

“14. An entity shall not prepare its financial statements on a going concern basis if management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so.”
2.6 The primary accounting and reporting guidance on going concern is outlined in IAS 1, and the key points of paragraph 25 of IAS 1, are mentioned below:

1. **Management assessment of going concern** - When preparing financial statements, management shall make an assessment of a company's ability to continue as a going concern.

2. **Preparation of financial statements on going concern** - An company shall prepare financial statements on a going concern basis unless management:
   - intends to liquidate the entity;
   - to cease trading; or
   - has no realistic alternative but to do so

3. **Material uncertainties and going concern** - When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the company's ability to continue as a going concern, the entity shall disclose those uncertainties.

4. **Non-going concern companies** - When a company does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the company is not regarded as a going concern.

### 2.6.1 Management assessment of going concern

| **Management** | Under the Companies Act (previously, under the repealed Companies Ordinance 1984 as well) directors are responsible to present the company's financial statements, to its members. Accordingly, the directors are required to consider and assess all the circumstances and facts known at the date the financial statements are approved, including the assessment of going concern of the company. |
| **Timing of assessment** | Management is required to assess the company's ability to continue as a going concern at the time of preparing the financial statements. |
| **Assessment period** | The assessment of going concern inherently requires judgment and consideration of uncertain future outcomes and conditions. Further, when we look into future the degree of uncertainty increases. It is therefore important to determine the time horizon for the assessment. |
The management’s going concern assessment should cover the company’s prospects for at least 12 months from the end of the reporting period. This, however, is understood to be the minimum requirement; if information for longer period is available, it should not be disregarded. A company cannot, for example, prepare its financial statements on a going concern basis if it intends to cease operations 18 months from the end of the reporting period.

| Entity specific assessment | The determination of going concern should be made for each reporting entity, as required under the applicable financial reporting framework. In the Guide the term “company” is used in accordance with the terminology of the Companies Act. In many cases, a going concern basis may not be considered appropriate for an individual subsidiary, while the going concern basis may remain appropriate for the subsidiary’s parent and for the group as a whole. Irrespective of the basis of accounting applied by a subsidiary, if the group itself is a going concern, the going concern principles of approved accounting standards are applied to the group’s consolidated financial statements. This might result in recognition and measurement differences between the consolidated financial statements and the subsidiary’s individual financial statements. |
| Subsequent events | In accordance with approved accounting standards, events that occur between the reporting date and the date on which the financial statements are authorized for issue should be considered for their impact on the financial statements. Regarding going concern, management’s assessment should be based on the relevant conditions that are known and available at the issuance date, rather than at the reporting date. This means that the assessment should consider the most current information available before the financial statements are issued, requiring companies to consider all relevant subsequent events after the balance sheet date. In relation to the “known” events, company should make a reasonable effort to identify conditions that it may not readily know, but that could be identified without undue cost and effort. In a situation, where at the year end, management believed that the company was a going concern, however, the post year end assessment lead to the conclusion that the going concern assumption is not appropriate, all financial statements prepared after the assessment (including the financial statements in respect of which management is making the assessment) should prepared on an alternate basis, and not on the going concern basis. This is consistent with approved accounting standards which require a fundamental change to the basis of accounting where the going concern assumption is no longer appropriate. |
| Extent of the assessment | The assessment process carried out by management should be proportionate to the size, complexity and the particular circumstances of the company. The extent of assessment is determined by the prevailing circumstances. In case of financial and operating strength and positive outlooks, the assessment can be much more |
straightforward than in challenging industries.

| Documentation of the assessment | The assessment should be documented in a sufficient detail, where going concern question is arising, explaining the basis of the management's conclusion with respect to the going concern basis of accounting at the date of approval of the financial statements. |

2.6.2 Preparation of financial statements on going concern

| Adoption of going concern basis of accounting | Companies are required to adopt going concern basis of accounting in the preparation of financial statements, except in circumstances, stated in 2.6 (4) above. |
| Existence of uncertainties | The existence of significant doubts about the company's ability to continue as a going concern is not sufficient reason to depart from preparing financial statements on a going concern basis; financial statements, as stated in 2.6 (2) above, should be prepared on a going concern basis unless management intends either to liquidate the company or to cease trading, or has no realistic alternative but to do so. |

| Dormant company | There could be variant scenarios of dormant companies, e.g.:
- a solvent company has ceased trading, become dormant and plans to be in existence as a dormant company;
- a company is established and is solvent, however, it has not traded. |

In cases where the company is going to be maintained as a dormant company it would be usual to continue to prepare financial statements of such company on a going concern basis. The underlying reasons are, the company is solvent and could re-commence trading at a point in the future, the criteria to depart from the going concern basis is the intention to liquidate or ceasing to trade are not met.

2.6.3 Material uncertainties and going concern

| Determination of uncertainty | As discussed above, approved accounting standards require management to make an assessment of a company's ability to continue to adopt the going concern basis of accounting in the future. As part of their assessment, management should determine if there are any material uncertainties relating to events or conditions that may cast significant doubt upon the continuing use of the going concern basis of accounting in future periods. |

In many cases, the assessment of the company's status as a going concern will be a simple matter. Generally, a profitable company with no financing problems will almost certainly be a going concern. However, in other cases, management may need to give a careful consideration to the company's ability to meet its liabilities as they fall due, meet its customer orders, arrange new financing, increase its market size, increase its customer base, favorably resolve litigations and disputes etc. Detailed cash flow, profit forecasts and business plan analysis may be required before management is satisfied that the company is a going concern.

As explained earlier, events or conditions might result in the going concern basis of accounting being inappropriate in future reporting.
periods. In performing the going concern assessment, management should consider:

- all available information about the future;
- the realistically possible outcomes of events and changes in conditions; and
- the realistically possible responses to such events and conditions that would be available to the management.

| Material uncertainty | Uncertainties relating to such events or conditions are considered material if their disclosure could reasonably be expected to affect the economic decisions of shareholders and other users of the financial statements. This is a matter of management’s professional judgment, requiring a consideration of all relevant qualitative and quantitative information, and assessment of uncertainties both individually and in combination with others. In determining whether there are material uncertainties, the management should consider:

- the magnitude of the potential impacts of the uncertain future events or changes in conditions on the company and the likelihood of their occurrence;
- the realistic availability and likely effectiveness of actions that the directors could take to avoid, or reduce the impact or likelihood of, the uncertain future events or changes in conditions; and
- whether the uncertain future events or changes in conditions are unusual, or occur with sufficient regularity for the directors to make predictions about them with a high degree of confidence. |

| Disclosure of material uncertainty | The emergence of significant doubt about a company’s ability to continue as a going concern is the trigger for providing disclosure. The company shall disclose material uncertainties relating to going concern in the financial statements, when:

- there are events or conditions involving uncertainties; and
- these uncertainties have casted significant doubt upon the company’s ability to continue as a going concern. If a significant doubt about going concern is alleviated as a result of the consideration of management’s plans, and financial statements are prepared on going concern basis, the company should disclose information that enables users of financial statements to understand all of the following:

(a) Principal events or conditions that initially gave rise to the material uncertainty on company’s ability to continue as a going concern;

(b) Management’s evaluation of the significance of those conditions in relation to the company’s ability to meet its obligations;

(c) The possible consequence of the material uncertainty on the financial position, as the company may not be unable to realize its assets and discharge its liabilities in the normal course of business; and |
(d) Management’s plans that alleviated the material uncertainty relating to going concern.

**Disclosure of judgments relating to going concern**

The approved accounting standards (Paragraph 122 of IAS 1) require disclosure of the judgments made in applying the company’s accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

The management assessment of the going concern may involve significant judgment, though management may conclude that there are no material uncertainties.

There can be a situation, where the management is required to consider the events or conditions that may cast significant doubt upon the company’s ability to continue as a going concern, and after considering all relevant information; management concludes that there are no material uncertainties that require disclosure in the financial statements. However, management’s conclusion that there was no material uncertainty involved significant judgment.

The approved accounting standards require disclosure of the judgments made in applying the company’s accounting policies and that have the most significant effect on the amounts recognized in the financial statements. Accordingly, in cases where a significant uncertainty relating to the going concern assessment was involved, the financial statements should disclose those judgments.

The fact that management has included such disclosures, however, does not necessarily mean that there is a material uncertainty related to the company’s ability to continue as a going concern.

### 2.6.4 Non-going concern companies

**Disclosure in the financial statements**

If a company is not a going concern, recognition, measurement, presentation and disclosure requirements may require changes under an alternative basis of accounting.

In a case where company’s financial statements are not prepared on a going concern basis, the financial statements should disclose the following, as required under the applicable financial reporting framework:

- the fact that the company is not a going concern;
- reasons why the company is no longer considered a going concern; and
- details of the new basis of accounting adopted.

The Institute’s "Guideline on the basis of Preparation of Financial Statements of Companies that are not Considered Going Concern", issued vide Circular 3 of 2017 dated February 07, 2017, can be referred for the accounting and preparation of financial statements of the non-going concern companies.
3. **AUDIT REPORTING STANDARDS AND GOING CONCERN**

3.1 **New and revised auditor reporting standards**

In January 2015, the IAASB released new and revised auditor reporting standards, designed fundamentally to enhance auditors’ reports for investors and other users of financial statements.

The new auditor reporting standards are widely recognized as the most significant development in auditing, in recent history and lay the foundation for the future of global auditor reporting and improved auditor communications.

As part of the above referred enhanced auditor reporting, The IAASB has revised the ISA 570, applicable for audit of financial statements for the period ending on or after December 15, 2016.

3.2 **Auditor work effort on going concern**

Although the new requirements do not change the underlying work effort required in the audit, it will improve the focus by the auditor on significant areas of the audit, including going concern.

As investors and others have requested earlier warning of potential issues that may exist with respect to company’s ability to continue as a going concern, auditor’s reporting on going concern is of crucial importance.

In view of the requirements of the applicable financial reporting framework, communication about the going concern issues is primarily the responsibility of management. However, in order to increase the transparency for readers of financial statements, audit reports will include explicit statements relating to going concern. With new and revised auditor reporting standards there will be increased focus on going concern disclosures and the disclosures in the financial statements to which the auditor’s report makes reference.

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<td>For assessing the entity’s ability to continue as a going concern and whether use of going concern basis of accounting is appropriate as well as disclosing, if applicable, matters relating to going concern. (ISA 700 paragraph 34(b)).</td>
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<th>The responsibilities of auditors</th>
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<tr>
<td>I. to conclude on the appropriateness of management’s use of going concern basis of accounting in the preparation of financial statements;</td>
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<tr>
<td>II. to conclude, based on the audit evidence obtained up to the date of the audit report, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the company’s ability to continue as a going concern; and</td>
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<tr>
<td>III. to ensure that the disclosures made in the financial statements regarding management’s critical judgment and assessment of the company’s ability to continue as a going concern, for example, when management made significant judgments in reaching overall conclusion that no material uncertainties exist, are adequate.</td>
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3.3 **Audit procedures**

The fulfillment of auditor’s responsibilities related to the going concern is dependent upon the following factors:
I. Management’s responsibility to assess the company’s ability and to assess whether the going concern basis of accounting is appropriate for the preparation of financial statements);

II. Auditor’s evaluation of the management assessment; and

III. Auditor’s consideration of material uncertainties that may cast significant doubt on the company’s ability to continue as a going concern.

The above factors and related aspects are explained in section 4 of this Guide.

3.4 Auditor reporting considerations

Based on the above audit procedures, there will be auditor conclusion and reporting. As provided in the ISA, the reporting considerations can arise when:

I. There is a 'close call' on whether or not a material uncertainty relating to going concern exists.

II. A separate section in the auditor’s report addressing material uncertainty relating to going concern is appropriate.

III. There are multiple uncertainties that are significant to the financial statements as a whole.

IV. Disclosure in the financial statements is not adequate but use of the going concern assumption is appropriate.

V. The use of going concern assumption is inappropriate.

VI. Management is unwilling to make or extend its assessment in circumstances when the auditor believes it is necessary.

The above reporting considerations are explained in section 5 of this Guide.
4. AUDIT PROCEDURES

4.1 Management responsibility for assessment of the company's ability as a going concern and responsibilities of the auditor

4.1.1 Acknowledgement of management responsibility

As explained in section 2 of this Guide, the financial reporting frameworks require that while preparing the financial statements the management should carry out the going concern assessment. The management's assessment of going concern requires the use of judgment which is affected by the following factors:

i. The degree of uncertainty associated with the outcome of an event or condition increases significantly the further into the future an event, condition or the outcome occurs;

ii. The size and complexity of the company, the nature and condition of its business and the degree to which it is affected by external factors; and

iii. The information and facts available at the time of making judgment. Subsequent events may result in outcomes that are inconsistent with the judgments made earlier.

In the audit report as per the ISA 700 (Revised), Forming an Opinion and Reporting on Financial Statements under the paragraph 34, ‘Responsibilities for the Financial Statements’ the auditor’s report is required to describe management's responsibility for:

a) Preparing the financial statements in accordance with the applicable financial reporting framework, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and

b) Assessing the entity's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate as well as disclosing, if applicable, matters relating to going concern. The explanation of management’s responsibility for this assessment shall include a description of when the use of the going concern basis of accounting is appropriate.

4.1.2 Auditor’s responsibility

ISA 570 (Revised) explains that the auditor’s responsibilities are 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, and to conclude, based on the audit evidence obtained, whether a material uncertainty exists about the company’s ability to continue as a going concern.

ISA 570 (Revised) also deals with the way in which auditors may have to report on going concern. In this regard, the objectives of the auditor are to:

- Obtain sufficient appropriate audit evidence and conclude on the appropriateness of management’s use of the going concern basis of accounting in the preparation of the company’s financial statements;

- Conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company’s ability to continue as a going concern; and

- To report in accordance with the ISA.

ISA 700 (Revised) has also enhanced description of the auditor’s responsibilities, including a conclusion on the appropriateness of management’s use of going concern basis of accounting.
Paragraph 39 (iv) of ISA 700 (revised) is reproduced below:

“To conclude on the appropriateness of management’s use of the going concern basis of accounting and, 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. If the auditor concludes that a material uncertainty exists, the auditor is required to draw attention in the auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the opinion. The auditor’s conclusions are based on the audit evidence obtained up to the date of the auditor’s report. However, future events or conditions may cause an entity to cease to continue as a going concern.”

4.2 Evaluating the management’s assessment

4.2.1 Going concern evaluation

The evaluation of management’s assessment of going concern is a key part of the auditor’s work in the audit of going concern assumption used in the preparation of financial statements. In many cases, in view of the healthy financial position, smooth running of operations and no future adverse event arising, would lead the auditor to easily conclude on the ability of the company to continue as a going concern.

In the evaluation, the auditor is to consider the same period as that used by management to make its assessment as required by the applicable financial reporting framework. If management's assessment covers less than 12 months, the auditor should request management to extend its assessment period to at least 12 months from that date.

As a normal audit procedure the auditor will discuss with management the going concern status of the company and, in particular, those elements that are significant to overcome the adverse effects of the conditions and events, if any, arising in the company.

The auditor needs to consider these discussions in the light of corroborative documentation and the knowledge of the business. Written representation from management may also be obtained to confirm certain matters or to support other audit evidence.

Nonetheless, considering the specific responsibility of the auditor to make an assessment of the company’s going concern assumption, the evaluation is to be carried out and documented in the audit work papers.

4.2.2 Lack of analysis by management

The auditor is responsible for obtaining sufficient appropriate evidence to evaluate the management’s assessment of going concern. The auditor is not responsible to carry out, improve or rectify management’s assessment or the lack of analysis by management, by producing an auditor's own detailed analysis.

Generally, a significant number of SSEs and a number of MSEs do not have structured working capital management processes and formalized going concern assessment process. Management tends to focus only on running the business, and may neglect their company’s working capital positions or find the preparation of cash flow projections unnecessary. SME’s management mostly relies on its in-depth knowledge of the business and experience to determine the ability to continue as a going concern.

In certain cases, the lack of analysis by management may not prevent the auditor from concluding on the going concern assumption. 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, the auditor can obtain evidence, for example through discussion with management of the medium and long-term financing of the company, examination of supporting documents and evaluate and enquiry the consistency of financing prospects with its understanding of the company.
In a situation where a company is in loss or has other material uncertainties, and has been facing, profitability, liquidity or other problems in the previous years, the auditor may have difficulty trying to evaluate management’s assessment on the appropriateness of the going concern assumption. As explained above, auditor is responsible to obtain evidence by evaluating the process management followed for going concern assessment, and cannot rectify or take the responsibility of management's assessment of going concern.

4.2.3 Considerations for SSEs

For SSEs, it may be appropriate to discuss the medium and long term financing of the company 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 company. Notwithstanding the considerations above, a detailed assessment of going concern based on formal procedures like budgets, cash flow forecasts etc. is likely to provide the most persuasive audit evidence to evaluate the management’s assessment.

4.2.4 Period beyond management assessment

The auditor shall inquire management as to its knowledge of events or conditions beyond the period of management's assessment that may cast significant doubt on the company's ability to continue as a going concern.

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 basis of accounting in preparing the financial statements. However, other than inquiry of management, the auditor does not have responsibility to perform any other audit procedures to identify events or conditions that may cast significant doubts on the company's ability to continue as a going concern beyond the period assessed by management.

4.3 Determining whether there is a material uncertainty that may cast significant doubt on the company’s ability to continue as a going concern

4.3.1 Preliminary assessment

The auditor's duty in respect of going concern begins at the onset of planning phase of the audit, i.e., when the auditor performs risk assessment procedures to update information about the company and identify changes in the business since the last audit that may be relevant for the audit of the current period.

ISA 570 paragraph 10 states that when performing risk assessment procedures as required by ISA 315, the auditor shall consider whether there are events or conditions that may cast doubt on the company's ability to continue as a going concern. Such consideration should include inquiry of management at planning stage for potential indication of going concern issues arising from possible events. At this stage, the auditor shall determine whether the management has made a preliminary assessment of company's ability to continue as a going concern. If such an assessment has been performed by the management, the auditor shall discuss the assessment with the management to determine whether any events or conditions which may cast significant doubts on company's going concern ability have been identified and how they plan to address them.

Early discussion between management and auditor would give the auditor sufficient time to plan, design and implement responses to address the assessed risk(s). Furthermore, management is also informed at an early stage of the audit about the supporting documentation that the auditor requires to evaluate their assessment of the company’s ability to continue as a going concern. This would allow management ample time to obtain further supporting documentation or implement a remedial action plan to address the going concern issue.

However, in case management has not performed such a preliminary assessment, 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 impacts the company’s ability to continue as a going concern.

The risk assessment procedures help the auditor to determine whether management’s use of the going concern basis of accounting 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.

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

4.3.2 Assessment criteria

The criteria outlined in paragraph 25 of IAS 1 to assess going concern as a suitable basis for the preparation of the financial statements are clear and that the rebuttal of the going concern presumption has been set at a suitably high level i.e. intends to cease trading or liquidate or no realistic alternative but to do so.

4.3.3 Existence of significant doubt

The emergence of the significant doubt about the company's ability to continue as a going concern necessitates disclosures. The conditions that give rise to significant doubt ordinarily relate to the company's ability to meet its obligations as they become due. Significant doubt exists when conditions and events considered in the aggregate indicate that it is probable that a company will be unable to meet its obligations as they become due within one year after the financial statement reporting date.

It is important to note that when the company prepares financial statements on a going concern basis, this does not imply an absolute level of confidence that the company will be able to continue as a going concern. Even when an the company is in severe financial difficulties, paragraph 25 of IAS 1, requires the going concern basis to be used unless management either intends to liquidate the company or to cease trading, or has no realistic alternative but to do so.

Accordingly, a company will depart from the going concern basis only when it is, in effect, clear that it is not a going concern. When there is significant uncertainty over whether a company can continue in operational existence, IAS 1 requires the going concern basis to be used and appropriate disclosures to be made.

4.3.4 Examples of factors that may cast significant doubt

Following are the examples of events and circumstances (as provided in paragraph A3 of ISA 570 (Revised) that individually or collectively may cast significant doubt on the company's ability to continue as a going concern:

Financial
- Net liability or net current liability position.
- Fixed term borrowings approaching maturity without realistic prospects of renewal or repayment.
- Indications of withdrawal of financial support by creditors.
- Negative operating cash flows, adverse key financial ratios, inability to pay dividends, creditors and loans.

Operating
- Management's intentions to liquidate the company or to cease operations.
- Loss of key management without replacement.
- Loss of major market, key customers.
Other

- Non-compliance with capital or other statutory or regulatory requirement, such as solvency or liquidity requirements for financial institutions.
- Pending legal or regulatory proceedings against the company that may, if successful, result in claims that the company is unlikely to satisfy.
- Loss of license or principal supplier.

4.3.5 Consideration of magnitude and likelihood

As explained earlier, the auditor on the basis of audit evidence obtained shall judge and conclude, whether a material uncertainty exists related to events or conditions that, individually or collectively, may cast significant doubt on the company’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 judgment, appropriate disclosure of the nature and implications of the uncertainty is necessary.

The phrase ‘material uncertainty’ is used in IAS 1, while discussing the uncertainties related to events or conditions which may cast significant doubt on the company’s ability to continue as a going concern that should be disclosed in the financial statements.

In determining whether there are material uncertainties, following require consideration:

- the magnitude of the potential impacts of the uncertain future events or changes in conditions on the company and the likelihood of their occurrence;
- the realistic availability and likely effectiveness of actions that the management could take to avoid, or reduce the impact or likelihood of, the uncertain future events or changes in conditions; and
- whether the uncertain future events or changes in conditions are unusual, rather than occurring with sufficient regularity for the management to make predictions about them with a high degree of confidence.

What is material is a matter of auditor’s professional judgment. Uncertainties relating to those events or conditions are considered material if their disclosure could reasonably be expected to affect the economic decisions of shareholders and other users of the financial statements. The auditor is required to use judgment by considering the uncertainties arising from the assessment, both individually and in combination with others.

Events or conditions might result in the going concern basis of accounting being inappropriate in future reporting periods. In performing this assessment, auditor should consider all available information about the future, the realistically possible outcomes of events and changes in conditions and the realistically possible responses to such events and conditions that would be available to the company.

4.3.6 Risks and uncertainties

The applicable financial reporting frameworks require disclosures of risks and uncertainties in the financial statements, with the underlying objective to assist users to better understand the company’s financial position, financial performance and cash flows of the company. Such disclosures assume more significance in times of uncertainty and may be included even when management has concluded that there is not a material uncertainty about the company’s ability to continue as a going concern.
For example, management may consider it appropriate to include disclosures about the existence of general economic uncertainty, or systemic risks, across, for example, an industry, and how the company is addressing them in order to reassure users of the financial statements about the company's financial position. Such disclosures may be considered important and appropriate in the circumstances to ensure that the financial position of the company is placed in appropriate context given the general economic conditions and how those conditions may affect the company.

Above are the specific circumstances of the company that are pertinent to the auditor's conclusion regarding going concern. If the uncertainty arises not only as a result of the systemic position, but also because of circumstances specific to the company, it may be more likely that the auditor will judge it to be material.

4.3.7 Solvency and liquidity risks

Solvency risk is the risk that a company will be unable to meet its liabilities in full. Over the long term, a company must generate sufficient value such that its assets exceed its liabilities. A failure to do so could render it insolvent. Insolvency is likely to be preceded by a lack of liquidity.

Liquidity risk is the risk that a company will be unable to meet its liabilities as they fall due. A company must generate and retain sufficient cash to allow it to meet its liabilities at the time contractual payments are due. The liquidity of an otherwise profitable company can be threatened if it is incapable of converting assets into cash when it is necessary to make such payments.

Threats to solvency and liquidity should be considered as part of the assessment of the principal risks and uncertainties faced by the company. When the management has concluded that there is no material uncertainty regarding the appropriateness of the going concern basis of accounting, the assessment of principal risks and uncertainties may still identify risks that impact solvency and liquidity. When making the assessment of principal risks and uncertainties, consideration is given to full range of business risks that include both risks that are financial and non-financial in nature. Principal risks and uncertainties that arise from, for example, operational, competitive, market or regulatory factors, may ultimately impact on a company's solvency and liquidity. Principal risks and uncertainties should be described in a clear, concise and understandable way; it is not necessary to label risks as solvency and liquidity risks when other descriptions can more easily set out their nature and potential impacts.

4.3.8 Letter of support

In practice where companies face financial difficulties it is possible that a related party, especially in a group situation the parent company, provides a letter of support to the company that it will provide the necessary financial assistance to continue the company as a going concern.

Obtaining financial support letter to confirm 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 funds is one of the audit procedures that may be performed when events or conditions are identified which may cast significant doubt on the company’s ability to continue as a going concern.

A commitment by a related party or a third party to provide financial support, therefore, may be integral to a plan that mitigates the effect of a going concern uncertainty. The following are some of the pointers to be observed with regards to the letter of financial support:

I. The wordings of the letter of financial support might not necessarily create a binding legal obligation, and auditor should therefore seek to satisfy himself/herself as to the intention and legal enforceability of the letter. Where the letter merely indicates a general intention to provide support, it may not be enforceable.
II. The auditor should exercise his judgment as to whether or not legal advice is to be obtained in determining the adequacy and enforceability of the letter of financial support as audit evidence.

III. When obtaining the letter of financial support, the auditor should take into consideration the intention and ability of the provider of the support to comply with the terms.

IV. The auditor should consider obtaining the relevant period audited financial statements of the company providing the support and to ensure that the company is in a position to provide the financial support.

V. The auditor may consider obtaining the resolution passed by the Board of Directors of the Group Company providing the support, to confirm the Board’s consent to provide financial support to its Group Company.

VI. The financial support should be for a minimum period of 12 months from the date of the balance sheet or the longer period during which there is the possible need for such support.

The list of pointers above is not exhaustive, and the auditor may consider additional requirements to achieve the required comfort level.

It is to be noted that the commitment to support should be in the form of a written communication between the parties and addressed to the management of the company and not to the auditors, as it is the management who is seeking the evidence in order to support its conclusion regarding the appropriateness of adopting a going concern basis for preparing the financial statements.

In most cases where there is a proper letter of support that mitigates the going concern uncertainty, it will form a sufficient appropriate audit evidence to support that the company will continue its operation in the foreseeable future and hence there will be no material uncertainty that require auditor to modify the audit report provided, appropriate disclosures have been made in the financial statements.

4.3.9 Consideration for SSEs

The size of a company may affect its ability to withstand adverse conditions. SSEs may be able to respond quickly to exploit opportunities, but may also lack the ability to sustain operations in changing circumstances. Conditions of particular relevance to SSEs include the risk that bank and other lenders may cease to support the company, 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.

4.3.10 Management risk mitigation strategies and additional audit procedures

If events or conditions which cast significant doubts on company’s ability to continue as a going concern have been identified, either in the preliminary assessment or evaluation of management assessment, the auditor shall perform additional audit procedures, including consideration of mitigating factors, to determine whether or not a material uncertainty exist.

To mitigate the going concern uncertainty, management may focus on the short-term operating turnaround initiatives and/or long-term strategic initiatives. The operating approach to company turnaround typically consists of actions related to cost reduction, revenue generation and operating asset reduction. The management may implement more extensive strategic changes and adopt more forward looking, expansionary and external market focused strategies. These strategies may involve capital management, financing arrangements and or business expansion/curtailment related plans.

Considerations relating to management plans for implementation to alleviate the risk may include the following:

- Plans to dispose of assets or sell unprofitable segments of the business.
Guide on auditor’s responsibilities relating to going concern assumption in an audit of financial statements

- Plans to raise additional funds through arrangement of financing facilitate and/or manage funds through restructuring of the debt.
- Plans to arrange letter of support from the related and/or other parties.
- Plans to raise additional funds through issuance of shares.
- Plans to reduce or delay expenditures.
- Plans to generate future cash flows from operations.

The auditor’s responsibility is to evaluate management’s plan and consider:

1. Whether management's plans are feasible in the circumstances;
2. Whether management plans are likely to be implemented; and
3. Whether management plans are likely to allow the company to operate for at least a year beyond the date of the financial statements.

Below are examples of types of management plans and corresponding audit procedures that may be performed by the auditor when evaluating management’s plans:

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<tr>
<th>Type of management plans</th>
<th>Examples of audit procedures that may be performed when evaluating management's plans</th>
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| Disposals: Management may plan to dispose off assets and/or business segment | • Consider the adequacy of support for any planned disposals of assets/business line.  
  • Determine restrictions on disposal of assets, such as covenants in loan or similar agreements or encumbrances against assets, limiting and/or disallowing the disposal of assets/business segment.  
  • Consider marketability of the assets that management plans to sell.  
  • Evaluate possible direct or indirect effects of disposal of assets (Market perception, employee relationships, customer relationships etc).  
  • Obtain sufficient appropriate audit evidence in relation to management's ability and intent to sell such assets/business segment at the values included in the plans.  
  • Consider the sufficiency and timing of the expected cash flows from the asset/business segment disposals.  
  • Consider the company's inability to terminate leases and/or other related agreements on acceptable terms. |
| Financing: Management may plan to borrow money and/or restructure the existing financing arrangements | • Review the terms of financing arrangements or other contracts (including material and technical covenants) and determine whether any covenant has been breached or may possibly be breached. It is to be noted that materiality is not considered when determining whether a covenant has been violated (a covenant either has or has not been met).  
  • Consider the implications of identified breach of covenant violations, as determined above.  
  • Confirm the existence, terms and adequacy of borrowing facilities.  
  • Determine the availability of financing, including existing or committed credit arrangements, such as lines of credit or |
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<th>Type of management plans</th>
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<td>arrangements for factoring receivables or sale-leaseback of assets.</td>
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<td>• Consider the possible effects of existing restrictions on additional borrowing and/or the sufficiency of available collateral.</td>
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<td>• Establish that guarantees by related parties or agreement by lenders to waive non-compliance with covenants are obtained in writing, and that they cover at least 12 months and one day period from the date of the the balance sheet date.</td>
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<td>• Consider the existing or committed arrangements to restructure or subordinate debt or guarantee loans to the company.</td>
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<td>• Evaluate the company's ability to be in compliance with covenants for the year subsequent to the date of the financial statements, in light of the financial projections presented as part of management's plans.</td>
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<td>• Consider whether the existence of on-demand clauses in term loans affect the classification of such liabilities on the company's balance sheet and whether the lenders may in fact invoke such clauses, rather than continuing a practice of granting waivers.</td>
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<td>• Consider obtaining written representation/confirmation from the parties to the agreement (management and the counterparty) evidencing their mutual understanding of the appropriate interpretation of specific provisions of financing arrangements and other executory contracts that require interpretation in order to conclude on compliance with the related restrictive covenants.</td>
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<td>• Determine whether cross-default provisions exist within the company's agreements whereby a default/ violation of covenants in respect of one agreement could have a cascading effect on the company's compliance with covenants in a separate agreement.</td>
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<td>• Review the existing or committed funding arrangements for a &quot;material adverse change&quot; clause or similar provisions in the loan commitment that would enable the funding to be rescinded by the counterparty.</td>
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<td>• Evaluate whether uncommitted financing sources will be made available to the company in sufficient amounts and at appropriate times.</td>
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<td></td>
<td>• Review the communications and agreements with financial institutions regarding the prospects of renewal or repayment of fixed term borrowings.</td>
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**Expenditure:**

Management's plans may include reduction or delay of expenditures

- Consider the level of detail of management's plans including identification of triggering events, nature of costs that will be subject to reduction, and execution method of the cost containment or reduction plan.
- Evaluate the feasibility of management's plans to reduce expenditures.
- Consider the reasonableness of plans to postpone maintenance or research and development projects.
- Determine possible direct or indirect effects of reduced or delayed expenditures.
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| **Share capital:**      | • Consider the reasonableness of the management plan to raise additional capital and also consider the company’s capability to raise additional share capital, including consideration of the existing or committed arrangements to raise additional capital.  
• Consider existing or committed arrangements to reduce current dividend level or to accelerate cash distributions from affiliates or other investors.  
• Evaluate the impact of increased share capital on the company (EPS etc).  
• Assess the availability of authorized share to issue and potential shareholder approval requirements.  
• Research the market publications/news to analyse the impact of the company’s increased share capital. |
| Management may plan to raise additional share capital | **Financial support:**  
Management may plan to obtain support from the holding company or other third parties  
• Confirm the existence (e.g. written confirmation or contractual agreement), legality and enforceability of arrangement(s) to provide or maintain financial support with the related and/or third parties.  
• Determine the financial ability of such parties to provide the financial support.  
• Consider the time period of the financial support committed by the related and/or third parties.  
• Assess the ability and intent of the related party or other third party to fulfill the commitment.  
• Evaluate whether the commitment is likely to be sufficient under the circumstances. |
| **Revenue:**             | • Analyse and discuss cash flow, profit and other relevant forecasts with management.  
• Consider the availability of financing alternatives to fund growth initiatives (i.e. Procure inventory, outlet expansion etc).  
• Consider historical evidence of growth and profitability of the company.  
• Determine reliability of sales forecasts.  
• Evaluate company’s inability to finance significant marketing campaigns including any significant discounting activities.  
• Consider the macro business environment and industry developments. |
| Plan of management may involve significant revenue growth or increases in gross margins | **Others**  
• Read minutes and other records of the meetings of shareholders, board of directors and relevant committees for reference to financing difficulties and management’s plans to address them, including their ability to implement and mitigate the related risks.  
• Consider the reliability of the system for generating the prospective information.  
• Read the information and the underlying assumptions to determine whether it is consistent with other plans or evidence.  
• Obtain replies to inquiries from the company's legal advisors regarding the existence of litigation and claims and the reasonableness of management's assessments of their outcome and the estimate of their financial implications.  
• Inquire of company's legal advisors of potential legal hurdles. |
Table: Examples of audit procedures that may be performed when evaluating management's plans

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<td>and possible litigations, arising from the management's plans.</td>
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<td></td>
<td>• Evaluate the company's plans to deal with unfilled customer orders.</td>
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<td></td>
<td>• Evaluate the company's ability and plans to deal with labour unions.</td>
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<td></td>
<td>• Perform audit procedures regarding subsequent events to identify those that either mitigate or otherwise affect the company's ability to continue as a going concern.</td>
</tr>
<tr>
<td></td>
<td>• Analyze and discuss the company's latest available interim financial statements or other relevant financial information.</td>
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<td>• Obtain and review reports of the regulatory actions.</td>
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<tr>
<td></td>
<td>• Inspect communications and agreements with debtors and creditors for indications of withdrawal of their business support to the company.</td>
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Additional procedures provided by ISA 570 (Revised) are:

i. Where the management has not yet performed going concern assessment, requesting management to make its assessment;

ii. Evaluating management's plans for future actions in relation to its going concern assessment to determine whether these plans are feasible in the circumstances and outcome of these plans is likely to improve the situation;

iii. Analyzing cash flow forecasts where analysis of forecast is important in considering the future outcome of events or conditions in the evaluation of management's plans for future action;

iv. Evaluating the reliability of the underlying data generated to prepare the forecast;

v. Determining whether there is adequate support for the assumptions underlying the forecast;

vi. Considering whether any additional facts or information have become available since the date on which management made its assessment;

vii. Requesting written representation from management/director regarding their plans for future action and the feasibility of these plans;

viii. Analyzing and discussing cash flow, profit and other relevant forecasts with management;

ix. Analyzing and discussing the company’s latest available interim financial statements;

x. Reading the terms of debentures and loans agreements and determining whether any have been breached;

xi. Reading minutes of the meetings of shareholders, directors and relevant committees for reference to financing difficulties;

xii. Inquiring the company’s legal counsel regarding the existence of litigation and claims and the reasonableness of management’s assessment of their outcome and the estimate of their financial implications;

xiii. 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;

xiv. Evaluating the company’s plans to deal with unfilled customer orders;

xv. Performing audit procedures regarding subsequent events to identify those that either mitigate or otherwise affect the company’s ability to continue as a going concern;

xvi. Confirming the existence, terms and adequacy of borrowing facilities;
vii. Obtaining and reviewing reports of regulatory actions;
viii. Determining the adequacy of support for any planned disposals of assets;
ix. Inquiries of management of its plans for future action including plans to liquidate assets, borrow money, or restructure debt, reduce or delay expenditure or increase capital;

x. Comparison of prospective financial information for recent periods with historical results;

xi. The prospective financial information for the current period with results to date; and

xii. Where management assumptions include continued support by third parties whether through subordination of loans, commitment to maintain or provide additional funding, or guarantees and such support is important to the company’s ability to continue as a going concern, the auditor may need to consider requesting written confirmation (including the terms and conditions) from those third parties and to obtain their ability to provide such support.
5. AUDITOR’S CONCLUSION AND REPORTING

The auditor shall evaluate whether sufficient appropriate audit evidence has been obtained, and shall conclude on the appropriateness of management’s use of going concern assumption in the preparation of its financial statements.

Following are the implications for the auditor’s report on the basis of conclusion drawn by the auditor:

5.1 There is a ‘close call’ on whether or not a material uncertainty relating to going concern exists

5.1.1 ISA 570 states that if events or conditions have been identified that may cast significant doubt on the company’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.

5.1.2 Therefore, even when no material uncertainty exists, the going concern auditing standard requires the auditor to evaluate whether the financial statements provide adequate disclosure about events or conditions that may cast significant doubt on the company’s ability to continue as a going concern. The disclosures are about:

Principal events or conditions:

- Management’s evaluation of the significance of those events or conditions in relation to the company’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 company’s ability to continue as a going concern.

The assessment of the company’s ability to continue as a going concern and communication about going concern issues are the responsibility of management and those charged with governance.

5.1.3 To explain further, in situations where events or conditions have been identified that may cast significant doubt on the company’s ability to continue as a going concern, management may conclude, and the auditor may agree, that, after considering management’s plans to deal with these events or conditions, no material uncertainty exists (i.e. a “close call” situation).

5.1.4 The Going Concern standard requires the auditor to evaluate the adequacy of disclosures in “close call” situations. It also provides guidance on the types of disclosures that may be required by the applicable financial reporting framework in a “close call” situation. If the auditor concludes that adequate disclosure has not been made in the circumstances, the auditor would modify the auditor’s opinion.
5.2 A separate section addressing material uncertainty relating to going concern is appropriate

5.2.1 If the auditor concludes that management’s use of the going concern basis of accounting is appropriate in the circumstances but a material uncertainty exists, the auditor determines whether the financial statements:

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

Paragraph 19 of ISA 570 (Revised) requires the auditor to determine whether the financial statement disclosures address the matters set forth in that paragraph which are given above. This determination is in addition to the auditor determining whether disclosures about a material uncertainty, required by the applicable financial reporting framework, are adequate. Disclosures required by financial reporting frameworks that are in addition to matters set forth in above paragraph include disclosures about:

- Management’s evaluation of the significance of the events or conditions relating to the company’s ability to meet its obligations; or
- Significant judgments made by management as part of its assessment of the company’s ability to continue as a going concern.

5.2.2 In situations where there is material uncertainty that may cast significant doubt about the company’s ability to continue as a going concern, however, the financial statements are prepared as going concern and considered to be appropriate. In such cases, if adequate disclosure about the material uncertainty is made in the financial statements, the auditor shall express an unmodified opinion and the auditor’s report shall include a separate section under the heading “Material Uncertainty related to Going Concern” to:

- Draw attention to the note in the financial statements that discloses the matters of material uncertainty; and
- State that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the company’s ability to continue as a going concern and that the auditor’s opinion is not modified in respect of the matter.

5.2.3 ‘Material Uncertainty related to Going Concern’ section is only appropriate when there is material uncertainty that may cast significant doubt about the company’s ability to continue as a going concern, and the auditor is satisfied that management’s disclosure of the going concern issue is adequate. If the disclosure is not adequate, a modified opinion is necessary.

5.2.4 It is important to be careful with the wording so that auditor does not inadvertently make assertions on behalf of management. The key is that the financial statements themselves adequately describe the uncertainties. It is emphasized that the ‘Material Uncertainty related to Going Concern’ section is not a ‘lighter’ form of qualification.

5.2.5 To modify or omit the terms ‘material uncertainty’ or ‘significant doubt’ in the financial statement disclosures are not appropriate.

The use of terms such as ‘some question’ or ‘some doubt’ should not be accepted. Also, it is not enough that the note in the financial statements discusses the situation broadly, however, that reference to material uncertainty and significant doubt is in the audit report ‘Material Uncertainty related to Going Concern’ section only.
The ‘Material Uncertainty related to Going Concern’ section in the auditor’s report is not a substitute for appropriate disclosure by the company of the going concern uncertainty on the financial statements.

5.2.6 As stated, ISA 570 (Revised) requires that the ‘Material Uncertainty related to Going Concern’ section draws attention to the note in the financial statements that discloses the matters related to the material uncertainty. Overall, the disclosure needs to convey the fact that there is a material uncertainty. Conditional statements such as, 'If the company is unable to secure the additional financing described in Note X, there would be substantial doubt about the company's ability to continue as a going concern', are not appropriate and should not be agreed as such wording implies that auditor is unable to form a view as to whether substantial doubt exists or not.

5.2.7 ‘Material Uncertainty related to Going Concern’ section of Illustration is extracted as follows:

Material Uncertainty related to Going Concern

We draw attention to Note XX in the financial statements, which indicates that the company incurred a net loss of ZZZ during the year ended December 31, 20X6 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."

5.3 There are multiple uncertainties that are significant to the financial statements as a whole

5.3.1 In situations involving multiple uncertainties that are significant to the financial statements as a whole, the auditor may consider it appropriate in extremely rare cases to express a disclaimer of opinion instead of including the statements required by paragraph 22 of ISA 570 (Revised).

5.3.2 There may be circumstances when, in addition to a material uncertainty regarding the company’s ability to continue as a going concern, there are other material uncertainties that, collectively, make it difficult to form a view on the financial statements as a whole. As indicated in paragraph 10 of ISA 705 (Revised) the auditor would only disclaim an opinion when, in extremely rare circumstances involving multiple uncertainties, the auditor conclude that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements.

5.3.3 An illustrative example is given below:

"Basis for Disclaimer of Opinion

In seeking to form an opinion on the financial statements, we have considered the implications of the significant uncertainties disclosed in the financial statements concerning the company's ability to continue as a going concern as disclosed in note XX to the financial statements, the substantial achievement of targets laid down in the business plan, the uncertainties linked to company’s ongoing and potential litigations and settlements with creditors since the acquirers are currently not in a position to negotiate the settlement with the creditors due to change of ownership, and uncertainty regarding the availability of sufficient additional funding as may be needed to continue planned activities. These conditions, along with other matters explained in note XX to the financial statements, indicate the existence of material uncertainties which may cast significant doubt as to the company’s ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern.

There is potential for the uncertainties to interact with one another and non-availability of evidence to support the management’s assertion regarding relaxation in payment period by creditors, such that we have not been able to obtain sufficient appropriate audit evidence regarding the possible effect of the uncertainties taken together.
Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements.

5.4 Disclosure in the financial statements is not adequate but use of the going concern assumption is appropriate

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

- Express a qualified opinion or adverse opinion, as appropriate, in accordance with ISA 705 (Revised).
- In the Basis for Qualified (Adverse) Opinion section of the auditor’s report that a material uncertainty exists that may cast significant doubt about the company’s ability to continue as a going concern and that the financial statements do not adequately disclose this matter.

5.4.2 A material uncertainty exists when the magnitude of the potential impact of the events or conditions and the likelihood of occurrence is such that appropriate disclosure is necessary to achieve fair presentation (for fair presentation frameworks) or for the financial statements not to be misleading (for compliance frameworks).

5.4.3 Paragraph 19 of ISA 570 requires the auditor to determine whether the financial statement disclosures address the matters set forth in that paragraph. This determination is in addition to the auditor determining whether disclosures about a material uncertainty, required by the applicable financial reporting framework, are adequate. Disclosures required by some financial reporting frameworks that are in addition to matters set forth in paragraph 19 may include disclosures about:

- Management’s evaluation of the significance of the events or conditions relating to the company’s ability to meet its obligations; or
- Significant judgments made by management as part of its assessment of the company’s ability to continue as a going concern.

5.4.4 Some financial reporting frameworks may provide additional guidance regarding management’s consideration of disclosures about the magnitude of the potential impact of the principal events or conditions, and the likelihood and timing of their occurrence.

5.4.5 The following is an illustration of the relevant paragraphs in the Auditor’s Opinion section and Basis for Qualified Opinion section.

Qualified Opinion

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 (IFRSSs).

Basis for Qualified Opinion

As discussed in Note [X], the Company’s financing arrangements expire and amounts outstanding are payable on March XX, 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.

5.4.6 The following is an illustration of the relevant paragraphs in the Auditor’s Opinion section and Basis for Adverse Opinion section.
Adverse Opinion
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.

5.4.7 As discussed above, it is management’s responsibility to include adequate disclosures in the financial statements about the company’s risks and uncertainties, and to adequately convey any material uncertainty about the company’s ability to continue as a going concern. The wording in the note to the financial statements is management’s explanation, not the auditor and a ‘Material Uncertainty related to Going Concern’ section in the auditor’s report is not a substitute for appropriate disclosure of the going concern uncertainty in the financial statements.

5.4.8 Under IFRS, paragraph 25 of IAS 1 requires that, when management is aware of material uncertainties that may cast doubt on the company’s ability to continue as a going concern, those uncertainties shall be disclosed. If management does not present this information in the financial statements, an unmodified opinion is no longer appropriate. The omission of this disclosure, as for any other material disclosure, will lead the auditor to express a qualified or adverse opinion, as required by paragraph 23 of ISA 570 (Revised).

5.5 The use of going concern assumption is inappropriate

5.5.1 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 requirement of paragraph 21 of ISA 570 for the auditor to express an adverse opinion applies regardless of whether or not the financial statements include disclosure of the inappropriateness of management’s use of the going concern basis of accounting.

5.5.2 The following is an example of an adverse opinion because the financial statements have been prepared using the going concern basis of accounting, in circumstances, when the auditor concludes that it is not appropriate.

Adverse Opinion
In our opinion, because of the significance of the matter discussed in the Basis for adverse opinion section of our report, ABC Inc. (the Company)’s financial statements do not present fairly the financial position of the Company as at December 31, 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for adverse opinion
As discussed in Note X to the financial statements, XYZ Company financing arrangements expired and the amount outstanding was payable on ............ 20X6. The Company has been unable to re-negotiate or obtain replacement financing and is facing closure. Based on the audit evidence obtained, we believe that XYZ Company will not be able to meet its obligations in the ordinary course of business. Accordingly, we do not agree with management’s preparation and presentation of the financial statements on a going concern basis. Had the financial statements been prepared on a liquidation basis of accounting, we believe that it would have had a significant negative effect on XYZ Company’s financial position and financial performance.
5.5.3 When the use of the going concern basis of accounting is not appropriate in the circumstances, management may be required, or may elect, to prepare the financial statements on another basis (for example, liquidation basis). The auditor may be able to perform an audit of those financial statements provided that the auditor determines that the other basis of accounting is acceptable in the circumstances. The auditor may be able to express an unmodified opinion on those financial statements, provided there is adequate disclosure therein about the basis of accounting on which the financial statements are prepared, but may consider it appropriate or necessary to include an Emphasis of Matter paragraph in accordance with ISA 706 in the auditor’s report to draw the user’s attention to that alternative basis of accounting and the reasons for its use.

5.5.4 In the first year when the alternative basis of accounting is adopted, it may be appropriate to add an Emphasis of Matter paragraph drawing attention to the fact that the financial statements are prepared on an alternative basis of accounting (for example, liquidation basis).

5.6 Management is unwilling to make or extend its assessment in circumstances when the auditor believe it is necessary

5.6.1 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.

5.6.2 Depending on the situation, 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. This is because it may not be possible for the auditor to obtain sufficient appropriate audit evidence regarding management’s use of the going concern basis of accounting in the preparation of the financial statements, such as audit evidence regarding the existence of plans that management has put in place or the existence of other mitigating factors.

5.6.3 It is the auditor’s responsibility to obtain sufficient appropriate audit evidence about the appropriateness of management’s use of the going concern basis of accounting in the preparation of the financial statements.

It is not the auditor’s responsibility to rectify the lack of analysis by management. However, paragraph A9 of ISA 570 (Revised) notes that the lack of detailed analysis may not prevent the auditor from concluding whether management’s use of the going concern basis of accounting is appropriate in the circumstances – for example, when there is a history of profitable operations and the company has ready access to financial resources.

5.6.4 In addition, even if management is unwilling to make or extend an analysis, the auditor may be able to use other audit procedures in some circumstances to get satisfied with the result of the assessment. This may be possible, for example, when auditor is able to confirm through other audit procedures that the company has a history of profitable operations and ready access to financial resources and its operating environment is stable.

5.6.5 The audit procedures in relation to Other Information may be helpful in obtaining evidence regarding management’s assessment of the company’s ability to continue as a going concern. ISA 720 ‘The Auditor’s Responsibilities relating to Other Information’ (Revised) requires the auditor to read the Other Information and consider whether there is information that is materially inconsistent with the knowledge obtained during the audit. The Annual Report may contain information about management’s operating plans in the foreseeable future. The other information may provide an extended analysis of management’s assessment and conclusion on the appropriate use of going concern assumption.

5.6.6 However, if management is unwilling to make or extend its assessment of going concern and auditor is not able to use other audit procedures to satisfy himself/herself regarding the appropriateness of management’s use of the going concern basis of accounting, as stated
above, a qualified opinion or disclaimer of opinion due to the limitation of scope is likely to be appropriate.

Given the fact that the use of the going concern basis of accounting is likely to be material and pervasive to the financial statements, it may be more likely that a disclaimer of opinion will be appropriate in the circumstances.
6. COMMUNICATION

Unless all TCWG are involved in managing the company, paragraph 25 of ISA 570 requires the auditor to communicate with TCWG events or conditions identified that may cast significant doubt on the company's ability to continue as a going concern. Such communication with TCWG 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.
Appendix 1 - Summary of Going Concern Reporting

Possible outcome from management’s assessment of going concern and implications on the financial statements:

Management makes assessment of going concern

Based on management’s assessment, is there a material uncertainty that casts significant doubt on the entity’s ability to continue as a going concern?

Yes

Is the use of going concern basis still appropriate?

No

F/S to be prepared on going concern basis:
- No specific disclosures required with regards to going concern.

Yes

F/S to be prepared on alternative basis; and
- disclose that F/S not prepared on going concern basis
- explain the basis of conclusion why entity is not a going concern; and
- describe the basis on which F/S are prepared.

F/S to be prepared on going concern basis:
- describe the material uncertainties related to events or conditions that may cast significant doubt on entity’s ability to continue as going concern, and
- explain why going concern basis is being adopted e.g. management’s plan to deal with these uncertainties.

No
Possible outcome from management’s assessment of going concern and types of audit opinion:

**Management makes assessment of going concern**

- **Yes**
  - Based on management’s assessment, is there a material uncertainty that may cast significant doubt on entity’s ability to continue as going concern?
    - **Yes**
      - Is use of going concern basis still appropriate according to auditors’ judgment?
        - **Yes**
          - F/S prepared on going concern basis, adequate disclosures in F/S
          - Unqualified audit opinion, and modified with emphasis of matter paragraph
          - (ISA 570.21)
        - **No**
          - SCENARIO 7: Impact of multiple material uncertainties is significant to the financial statements as a whole
          - Disclaimer of opinion
          - (ISA 570.A33)
      - **No**
        - SCENARIO 4: If effect of non-disclosure is material and pervasive
        - Adverse opinion
        - (ISA 570.23)
    - **No**
      - SCENARIO 3: If effect of non-disclosure is material not pervasive
      - Qualified opinion
      - (ISA 570.23)
  - SCENARIO 2: F/S prepared on a going concern basis, adequate disclosures in F/S
    - Unqualified audit opinion, and modified with emphasis of matter paragraph
    - (ISA 570.20)
  - SCENARIO 10: Alternative basis is appropriate and adequate disclosures in F/S.
    - Unqualified audit opinion but may require emphasis of matter paragraph
    - (ISA 570.A27)
  - SCENARIO 8: Management is unwilling to make going concern assessment, effect is material but not pervasive
    - Qualified audit opinion
    - (ISA 570.A35)
  - SCENARIO 9: Management is unwilling to make going concern assessment, effect is material and pervasive
    - Disclaimer of opinion
    - (ISA 570.A35)
- **No**
  - Financial statements are prepared on a going concern basis
    - **Yes**
      - Indeterminable as the company has not made assessment and auditor is not able to obtain sufficient and appropriate evidence
    - **No**
      - SCENARIO 8: Management is unwilling to make going concern assessment, effect is material but not pervasive
      - Qualified audit opinion
      - (ISA 570.A35)
      - SCENARIO 9: Management is unwilling to make going concern assessment, effect is material and pervasive
      - Disclaimer of opinion
      - (ISA 570.A35)

**SCENARIO 1**
- F/S prepared on going concern basis
- Unqualified audit report is appropriate
  - (ISA 570.20)

**SCENARIO 2**
- F/S prepared on going concern basis, adequate disclosures in F/S
- Unqualified audit opinion, and modified with emphasis of matter paragraph
  - (ISA 570.21)

**SCENARIO 3**
- If effect of non-disclosure is material not pervasive
- Qualified opinion
  - (ISA 570.23)

**SCENARIO 4**
- If effect of non-disclosure is material and pervasive
- Adverse opinion
  - (ISA 570.23)

**SCENARIO 5 & 6**
- F/S prepared on going concern basis (irrespective of disclosure of material uncertainty)
- Adverse audit opinion
  - (ISA 570.21)

**SCENARIO 7**
- Impact of multiple material uncertainties is significant to the financial statements as a whole
- Disclaimer of opinion
  - (ISA 570.A33)

**SCENARIO 11**
- Inadequate disclosure but appropriate alternative basis used for financial reporting
- Qualified audit opinion

**SCENARIO 12**
- Alternative basis used is not an acceptable financial reporting framework
- Adverse audit opinion
## Appendix 2 - Summary of Reporting Consideration Standards

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Financial Statements have been prepared by the Management</th>
<th>Going Concern Assumption Auditor’s Assessment</th>
<th>Material uncertainties that cast significant doubts</th>
<th>Material uncertainty disclosed</th>
<th>Type of Audit Report</th>
<th>Impact on report other than audit opinion</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Going Concern basis</td>
<td>Other than going concern basis</td>
<td>Appropriate</td>
<td>Inappropriate</td>
<td>Yes</td>
<td>No</td>
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<tr>
<td>1</td>
<td>✓</td>
<td>✓</td>
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<td>✓</td>
<td>✓</td>
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<td>✓</td>
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<td>5</td>
<td>✓</td>
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<td>6</td>
<td>✓</td>
<td>✓</td>
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<td>✓</td>
<td>✓</td>
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<tr>
<td>7</td>
<td>✓</td>
<td>Indeterminable</td>
<td>✓</td>
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</table>
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<table>
<thead>
<tr>
<th>Scenario</th>
<th>Financial Statements have been prepared by the Management</th>
<th>Going Concern Assumption Auditor’s Assessment</th>
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<th>Type of Audit Report</th>
<th>Impact on report other than audit opinion</th>
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<tbody>
<tr>
<td></td>
<td>Going Concern basis</td>
<td>Other than going concern basis</td>
<td>Appropriate</td>
<td>Inappropriate</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>8.</td>
<td>✓</td>
<td></td>
<td>Indeterminable as the company has not made assessment and auditor is not able to obtain sufficient and appropriate evidence.</td>
<td>The management is unwilling to make assessment</td>
<td>No, effect is material but not pervasive</td>
<td>✓</td>
</tr>
<tr>
<td>9.</td>
<td>✓</td>
<td></td>
<td>Indeterminable as the company has not made assessment and auditor is not able to obtain sufficient and appropriate evidence.</td>
<td>The management is unwilling to make assessment</td>
<td>No, effect is material and pervasive</td>
<td>✓</td>
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<tr>
<td>10.</td>
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<td>11.</td>
<td>✓</td>
<td>✓</td>
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<td>12.</td>
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</table>
## Appendix 3 - Checklist of ISA 570 (Revised) Requirements

<table>
<thead>
<tr>
<th>Sr. No</th>
<th>ISA Para ref.</th>
<th>ISA 570 (Revised) Requirements</th>
<th>Reference of Application Guide</th>
<th>Compliance status</th>
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<tbody>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>1.</td>
<td>10</td>
<td>Risk Assessment Procedures and Related Activities</td>
<td></td>
<td></td>
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<tr>
<td>2.</td>
<td>10</td>
<td>Events or Conditions That May Cast Significant Doubt on the Entity’s Ability to Continue as a Going Concern (Ref: Para. 10)</td>
<td></td>
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</table>

### Risk Assessment Procedures and Related Activities

1. When performing risk assessment procedures as required by ISA 315 (Revised), has the auditor considered whether events or conditions exist that may cast significant doubt on the entity’s ability to continue as a going concern?

2. Has the auditor determined whether management already performed a preliminary assessment of the entity’s ability to continue as a going concern, and: (Ref: Para. A3–A6)
   - (a) If such an assessment has been performed, has the auditor discussed the assessment with management and determine whether management 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, did the auditor 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?

### Events or Conditions That May Cast Significant Doubt on the Entity’s Ability to Continue as a Going Concern

A3. The following are examples of events or conditions that, individually or collectively, 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
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<table>
<thead>
<tr>
<th>Sr. No</th>
<th>ISA Para ref.</th>
<th>ISA 570 (Revised) Requirements</th>
<th>Reference of Application Guide</th>
<th>Compliance status</th>
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<tbody>
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<td></td>
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<td>generate cash flows.</td>
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<td>• Arrears or discontinuance of dividends.</td>
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<td>• Inability to pay creditors on due dates.</td>
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<td>• Inability to comply with the terms of loan agreements.</td>
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<td>• Change from credit to cash-on-delivery transactions with suppliers.</td>
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<td>• Inability to obtain financing for essential new product development or other essential investments.</td>
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<td></td>
<td><strong>Operating</strong></td>
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<td>• Management intentions to liquidate the entity or to cease operations.</td>
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<td>• Loss of key management without replacement.</td>
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<td>• Loss of a major market, key customer(s), franchise, license, or principal supplier(s).</td>
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<td>• Labor difficulties.</td>
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<td>• Shortages of important supplies.</td>
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<td>• Emergence of a highly successful competitor.</td>
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<td><strong>Other</strong></td>
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<td>• Non-compliance with capital or other statutory or regulatory requirements, such as solvency or liquidity requirements for financial institutions.</td>
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<td>• Pending legal or regulatory proceedings against the entity that may, if successful, result in claims that the entity is unlikely to be</td>
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</table>
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<table>
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<tr>
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<th>Compliance status</th>
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<td>Yes</td>
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</table>

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 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.

A4. The risk assessment procedures required by paragraph 10 help the auditor to determine whether management's use of the going concern basis of accounting 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 (Ref: Para. 10)

A5. 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.

A6. 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.
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<td>3. 11.</td>
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<td>Has the auditor remained 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. A7)</td>
<td>Remaining Alert throughout the Audit for Audit Evidence about Events or Conditions</td>
<td>Yes</td>
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A7. ISA 315 (Revised) 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.¹ 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. ISA 330 establishes requirements and provides guidance on this issue.

Evaluating Management’s Assessment

4. 12. Has the auditor evaluated management’s assessment of the entity’s ability to continue as a going concern (Ref: Para. A8–A10, A12–A13)

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

A8. 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 basis of accounting.

A9. 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 basis of accounting is appropriate in the circumstances. For example, when there is a history of profitable operations and a ready access to financial

¹ ISA 315 (Revised), paragraph 31
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 basis of accounting in the preparation of the financial statements is appropriate in the circumstances.

A10. 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)

A11. Most financial reporting frameworks requiring an explicit management assessment specify the period for which management is required to take into account all available information.3

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

A12. 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 ISA, 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 entity with

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2 ISA 560, Subsequent Events, paragraph 5(a)
3 For example, IAS 1 defines this as a period that should be at least, but is not limited to, twelve months from the end of the reporting period.
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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, inquiry and inspection of supporting documentation, for example, orders received for future supply, evaluated as to their feasibility or otherwise substantiated.

A13. 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 favor 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.

6. 14. In evaluating management’s assessment, has the auditor considered 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

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<td>7. 15.</td>
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Has the auditor inquired 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. A14–A15)*

A14. As required by paragraph *Error! Reference source not found.*, 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 basis of accounting in preparing the financial statements. 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.

A15. 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, as discussed in paragraph 13, would be at least twelve months from the date of the financial statements.
Additional Audit Procedures When Events or Conditions Are Identified

8. 16. If events or conditions have been identified that may cast significant doubt on the entity’s ability to continue as a going concern, has the auditor obtained 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 (hereinafter referred to as “material uncertainty”) through performing additional audit procedures, including consideration of mitigating factors?

These procedures include: (Ref: Para. A16)

(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. (Ref: Para. A17)

(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: (Ref: Para. A18–A19)

   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.

A16. Audit procedures that are relevant to the requirement in paragraph 16 may include the following:

- 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 have been breached.

- Reading minutes of the meetings of shareholders, those charged with governance and relevant committees for reference to financing difficulties.

- 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.

- 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
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<td>(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. (Ref: Para. A20)</td>
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<td>borrowing facilities.</td>
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<td>• Obtaining and reviewing reports of regulatory actions.</td>
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<td>• Determining the adequacy of support for any planned disposals of assets.</td>
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<td>Evaluating Management's Plans for Future Actions (Ref: Para. 16(b))</td>
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<td>A17. Evaluating management's plans for future actions may include inquiries 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.</td>
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<td>The Period of Management’s Assessment (Ref: Para. 16(c))</td>
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<td>A18. In addition to the procedures required in paragraph 16(c), the auditor may compare:</td>
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<td>• The prospective financial information for recent prior periods with historical results; and</td>
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<td>• The prospective financial information for the current period with results achieved to date.</td>
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<td>A19. 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.</td>
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<td>Written Representations (Ref: Para. 16(e))</td>
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<td>A20. The auditor may consider it appropriate to obtain</td>
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### Auditor Conclusions

9. 17. Has the auditor evaluated whether sufficient appropriate audit evidence has been obtained regarding, and concluded on, the appropriateness of management’s use of the going concern basis of accounting in the preparation of the financial statements?

10. 18. Based on the audit evidence obtained, has the auditor concluded whether, in the auditor’s judgment, 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 judgment, appropriate disclosure of the nature and implications of the uncertainty is necessary for:

- In the case of a fair presentation financial reporting framework, the fair presentation of the financial statements, or
- In the case of a compliance framework, the financial statements not to be misleading.

### Material Uncertainty Related to Events or Conditions that May Cast Significant Doubt on the Entity’s Ability to Continue as a Going Concern (Ref: Para. 18‒19)

A21. The phrase “material uncertainty” is used in IAS 1 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 statements. In some other financial reporting frameworks the phrase “significant uncertainty” is used in similar circumstances.

A22. Paragraph 18 explains that a material uncertainty exists when the magnitude of the potential impact of the events or conditions and the likelihood of occurrence is such that appropriate disclosure is necessary to achieve fair presentation (for fair presentation frameworks) or for the financial statements not to be misleading (for compliance frameworks). The auditor is required by
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 realize its assets and discharge its liabilities in the normal course of business.

A23. Paragraph 19 requires the auditor to determine whether the financial statement disclosures address the matters set forth in that paragraph. This determination is in addition to the auditor determining whether disclosures about a material uncertainty, required by the applicable financial reporting framework, are adequate. Disclosures required by some financial reporting frameworks that are in addition to matters set forth in paragraph 19 may include disclosures about:

- Management's evaluation of the significance of the events or conditions relating to the entity's ability to meet its obligations; or
- Significant judgments made by management as part of its assessment of the entity's ability to continue as a going concern.

Some financial reporting frameworks may provide additional guidance regarding management's consideration of disclosures about the magnitude of the potential impact of the principal events or conditions, and the likelihood and timing of their occurrence.

12. Adequacy of Disclosures When Events or Conditions Have Been Identified but No Material Uncertainty Exists

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, has the auditor evaluated whether, in view of the requirements of the applicable financial reporting framework, the financial statements provide adequate disclosures about these events or conditions? (Ref: Para. A24–A25)

A24. Even when no material uncertainty exists, paragraph 18 to conclude whether such a material uncertainty exists regardless of whether or how the applicable financial reporting framework defines a material uncertainty.
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.

A25. When the financial statements are prepared in accordance with a fair presentation framework, the auditor’s evaluation as to whether the financial statements achieve fair presentation includes the consideration of the overall presentation, structure and content of the financial statements, and whether the financial statements, including the related notes, represent the underlying transactions and events in a manner that achieves fair presentation.\(^4\) Depending on the facts and circumstances, the auditor may determine that additional disclosures are necessary to achieve fair presentation. This may be the case, for example, when 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, and no disclosures are explicitly required by the applicable financial reporting framework regarding these circumstances.

### Implications for the Auditor’s Report

**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

\(^4\) ISA 700 (Revised), Forming an Opinion and Reporting on Financial Statements, paragraph 14
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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, has the auditor expressed an adverse opinion? *(Ref: Para. A26–A27)*

Judgment, management's use of the going concern basis of accounting in the financial statements is inappropriate, the requirement in paragraph 21 for the auditor to express an adverse opinion applies regardless of whether or not the financial statements include disclosure of the inappropriateness of management's use of the going concern basis of accounting.

A27. When the use of the going concern basis of accounting is not appropriate in the circumstances, management may be required, or may elect, to prepare the financial statements on another basis (e.g., liquidation basis). The auditor may be able to perform an audit of those financial statements provided that the auditor determines that the other basis of accounting is acceptable in the circumstances. The auditor may be able to express an unmodified opinion on those financial statements, provided there is adequate disclosure therein about the basis of accounting on which the financial statements are prepared, but may consider it appropriate or necessary to include an Emphasis of Matter paragraph in accordance with ISA 706 (Revised)* in the auditor's report to draw the user's attention to that alternative basis of accounting and the reasons for its use.

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

   Adequate Disclosure of a Material Uncertainty Is Made in the Financial Statements

   If adequate disclosure about the material uncertainty is made in the financial statements, has the auditor expressed an unmodified opinion and the auditor's report include a separate section under the heading "Material Uncertainty Related to Going Concern" to: *(Ref: Para. A28–A31, A34)*

   A28. The identification of a material uncertainty is a matter that is important to users' understanding of the financial statements. The use of a separate section with a heading that includes reference to the fact that a material uncertainty related to going concern exists exists

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*ISA 706 (Revised), Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report*
(a) Draw attention to the note in the financial statements that discloses the matters set out in paragraph 19; and

(b) State that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity’s ability to continue as a going concern and that the auditor’s opinion is not modified in respect of the matter?

alerts users to this circumstance.

A29. The Appendix to this ISA provides illustrations of the statements that are required to be included in the auditor’s report on the financial statements when International Financial Reporting Standards (IFRSs) is the applicable financial reporting framework. If an applicable financial reporting framework other than IFRSs is used, the illustrative statements presented in the Appendix to this ISA may need to be adapted to reflect the application of the other financial reporting framework in the circumstances.

A30. Paragraph 22 establishes the minimum information required to be presented in the auditor’s report in each of the circumstances described. The auditor may provide additional information to supplement the required statements, for example to explain:

• That the existence of a material uncertainty is fundamental to users’ understanding of the financial statements, or

• How the matter was addressed in the audit. (Ref: Para. A1)

Adequate Disclosure of a Material Uncertainty Is Made in the Financial Statements (Ref: Para. 22)

A31. Illustration 1 of the Appendix to this ISA is an example of an auditor’s report when the auditor has obtained sufficient appropriate audit evidence regarding the appropriateness of management’s use of the going concern basis of accounting but a material uncertainty exists and disclosure is adequate in the financial statements. The Appendix of ISA 700 (Revised) also includes illustrative wording to be included in the auditor’s report for all entities in relation to going concern to describe the respective responsibilities of those responsible for the financial statements and the

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6 ISA 706 (Revised), paragraph A2
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<td>If adequate disclosure about the material uncertainty is not made in the financial statements, has the auditor? (Ref: Para. A32–A34)</td>
<td>(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.</td>
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<td>If management is unwilling to make or extend its assessment when requested to do so by the auditor, has the auditor considered the implications for the auditor’s report? (Ref: Para. A35)</td>
<td>A32. Illustrations 2 and 3 of the Appendix to this ISA are examples of auditor’s reports containing qualified and adverse opinions, respectively, when the auditor has obtained sufficient appropriate audit evidence regarding the appropriateness of the management’s use of the going concern basis of accounting but adequate disclosure of a material uncertainty is not made in the financial statements. A33. In situations involving multiple uncertainties that are significant to the financial statements as a whole, the auditor may consider it appropriate in extremely rare cases to express a disclaimer of opinion instead of including the statements required by paragraph 22. ISA 705 (Revised) provides guidance on this issue. Communication with Regulators (Ref: Para. 22–23) A34. 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. A35. 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 management’s</td>
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7 ISA 705 (Revised), Modifications to the Opinion in the Independent Auditor’s Report
8 ISA 705 (Revised), paragraph 10
17. 25. **Communication with Those Charged with Governance**

Unless all those charged with governance are involved in managing the entity,\(^9\) did the auditor 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.

18. 26. **Significant Delay in the Approval of Financial Statements**

If 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. 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.

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\(^9\) ISA 260 (Revised), *Communication with Those Charged with Governance*, paragraph 13
Appendix 4 - Examples of Going Concern Disclosures and Audit Reporting

Example 1: A company with positive business outlook and little or no exposure to economic uncertainties which may impact the going concern assumption

High Flying (Private) Limited’s financial statements for the year ended June 30, 2016 reflect consistent growth and profitability, reflecting an increased sales and profit compared to the previous years. The company’s liquidity position improved with net cash inflow from the operating activities. Further, the loan repayments were made on due dates as per the terms of lending agreements. Furthermore, the financial statements include the company’s mission, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments, and its exposures to credit risk and liquidity risk. The company has considerable financial resources together with long-term contracts with a number of customers and suppliers. As a consequence the directors believe that the company is well placed to manage its business risks successfully despite the current uncertain global economic outlook.

The directors and Chief Executive have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the financial statements.

Auditor conclusion

Unmodified opinion

**Basis of conclusion:** Based on the work performed, which included review of the financial statements and analysis of prior year results and financial position, the auditor noted that the profits and liquidity condition of the company strengthened over the years. Further, the company has diversified portfolio of clients, and has good business relationship with the lenders. The auditor also noted that directors of the company are actively involved in setting the strategic direction and financial risk management activities.

The auditor is satisfied with the appropriateness of management assessment of going concern and concluded that financial statements prepared on going concern basis give a true and fair view.

Example 2: A subsidiary company with net loss and net current liability position and exposure to economic uncertainties which may impact the going concern assumption

Soft Tyres (Private) Limited, a subsidiary of Top Gear Limited, is engaged in the manufacturing and sale of car tyres in Pakistan. Based on the draft financial statements for the year ended December 31, 2016, Soft Tyres (Private) Ltd incurred a net loss of $ 24 million (2015: $ 16 million), and the deficit in shareholder’s funds amounts to $ 18 million (2015: $ 10 million) as at the balance sheet date. Further, the company’s net current liability position at the year-end amounted to $ 10 million (2015: $ 7 million).

The company’s three main customers are Pakistan car manufacturers. However, the company’s market share declined significantly, resulting in decreased sales and net loss position. The management is evaluating business opportunities of opening distribution network in Pakistan and Asian countries. Top Gear Limited, the holding company, is one of the leading manufacturer and supplier of tyres in EU and Asia.

The CEO of Soft Tyres, is aware that the company is deficient in its working capital. However, the CEO has engaged with the holding company to obtain a confirmation that it will continue to provide financial support. This confirmation is evidenced through a letter of financial support issued by Top Gear Limited.

With this confirmation, the directors and CEO of Soft Tyres assessed that there is no material uncertainty that would affect the company at the balance sheet and therefore, concluded that the financial statements can be prepared based on the going concern assumption.
Auditor conclusion

Unmodified opinion

However, a going concern note should be included in the notes to the financial statements.

“The Company incurred a net loss of $24 million for the year ended December 31, 2016 and the deficit in shareholder’s funds amounts to $18 million. Further, the company’s net current liability position at the year ended amounted to $10 million (2015: $7 million). The ability of the Company to continue operations as a going concern depends on the ability of the Company to undertake business which will generate sufficient future income and the continuing financial support from its holding company, Top Gear Limited.”

Basis of conclusion: Based on the work performed, which included review of the financial statements of Top Gear for the past 3 years to assess its ability to provide Soft Tyres continuing financial support up to 12 months from December 31, 2016. The review of Top Gear’s audited financial statements for the year ended December 31, 2014, 2015 and 2016, has been generating incremental revenues over the last 3 years and is in a healthy financial position with net assets of $180 million, $202 million and $212 million, as at December 31, 2014, 2015 and 2016, respectively. In view of the healthy Top Gear’s healthy financial position and sustained financial performance there is no reason to believe that the holding company is not able to render such financial support. The auditor also evaluated the content of the financial support letter to satisfy himself as to the intention and legal enforceability of the letter, and that the financial support covers a period of 12 months from the date of the balance sheet. The auditor also obtained the extract of minutes of the meetings of holding company’s board of directors, allowing the issuance of financial support letter to soft tyers.

The auditor concurs with management’s assessment that the going concern risk is mitigated and that the financial statements disclosure is appropriate, accordingly financial statements can be prepared based on the going concern assumption.

Example 3: A company with net loss and net current liability position and exposure to economic uncertainties which may impact the going concern assumption

Shining Tile (Private) Limited, a medium sized manufacturer and seller of ceramic tiles. Based on the draft financial statements for the year ended June 30, 2016, the company incurred a net loss of Rs. 7 million (2015: Rs. 6 million). Further, as of the balance sheet date the company’s current liabilities exceeded its assets by Rs. 10 million (2015: Rs. 5 million).

The company’s revenue and profit are declining owing to the availability of cheaper range of Chinese tiles in Pakistan market. In view of the current market conditions the directors of company have planned to obtain a long-term loan of Rs. 30 million, for the procurement and installation of new state of the art machinery. Senior management is also evaluating specification and costs of various plants. The new plant will manufacture tiles of latest designs, color combinations and sizes. Management is confident that with the installation of new manufacturing plant the company will be able to effectively compete with Chinese tile manufacturers. The directors have also provided a business plan for five years to the banker in support of their loan application. The loan arrangement has been concluded with the banker, however, signed loan agreement is pending at the banker’s end.

Auditor conclusion

Unmodified opinion, with an emphasis of matter paragraph “Material Uncertainty Related to Going Concern”.

Material Uncertainty Related to Going concern
We draw attention to Note x in the financial statements, which indicates that the company incurred a net loss of Rs. 7 million during the year ended December 31, 2016, and as of that date, the company’s current liabilities exceed its total assets by Rs. 10 million (205: Rs. 5 million). As stated in note x to the financial statements, these events and conditions, indicate 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.

A going concern note should be included in the notes to the financial statements.

“The Company incurred a net loss of Rs. 7 million for the year ended December 31, 2016 and the company’s net current liability position at the year-end amounted to Rs. 10 million (205: Rs. 5 million). These conditions indicate the existence of a material uncertainty which may cast significant doubt about the company’s ability to continue as a going concern. However, the financial statements have been prepared on the going concern basis because, as described in Note xx the company’s management has embarked on a number of initiatives including arrangement of a long-term financing facility, and based on projections, demonstrate increases in revenue, cash flows and profitability of the company, and hence improvement in the financial performance and position of the company, for the year ending December 31, 2017 onwards.”

**Basis of conclusion:** Based on the work performed, including review of the business plan of Shinning Tiles (Private) Limited for the 5 years to evaluate the basis and validity of management plans for future. The business plan, including the underlying assumptions and information appeared reasonable based on the auditor analysis of (a) historical trends of the company (b) historical trends of the industry (c) comparison of prior year’s forecasts with actual results. Further, the auditor also reviewed the current status of loan application filed by the company, and also noted that there are no restrictions on borrowing and company has sufficient assets to offer as collateral.

The auditor also considered the adequacy of the disclosure made in note x to the financial statements.

Notes to financial statements should include an explanation of principal events or conditions that may cast significant doubt on the company’s ability to continue as a going concern, and a discussion of management’s plans and expected course of action to deal with those events or conditions.

The auditor concurs with management’s assessment that there are material uncertainties related to events or conditions that may cast significant doubt about the company’s ability to continue as a going concern but the going concern basis remains appropriate. The auditor included a separate paragraph titled material uncertainty with regard to going concern which refers to that note in the financial statements and draws attention to the existence of a material uncertainty.

**Example 4 - Management intentions to liquidate the company as the operations have ceased prior to financial year end**

The Board of Directors of Rakaposhi in their meeting held on January 15, 2017, resolved to wind up the company since the retail outlet has ceased its business since November 15, 2016. The Directors also instructed the CEO and management to complete the winding up of the company by June 2017.

The CEO and CFO based on the above resolution of the directors concluded that the financial statements should be prepared based on a basis other than the going concern and an alternative basis of accounting would be used.

**Auditor conclusion**

Unmodified opinion, with an emphasis of matter paragraph “Material Uncertainty related to Going Concern”.

An emphasis of matter paragraph should be included in the Independent Auditors’ Report:
“We draw attention to Note x to the financial statements which describes that the going concern basis has not been used in preparation of the financial statements. The Company has ceased operations of its retail outlet prior to December 31, 2016, and the Board of Directors has resolved to dissolve the Company subsequent to the balance sheet date. As a result, the financial statements for the year ended December 31, 2016 have been prepared on the basis described in Note x. Our opinion is not qualified in respect of this matter.”

In addition, a going concern note should be included in the notes to the financial statements:

“The Company has ceased operations in its retail outlet, and the Board of Directors has resolved to dissolve the Company on January 15, 2017. Accordingly, the financial statements have been prepared on the basis provided in the ICAP guidance (detail to be mentioned). The carrying value of the assets as at December 31, 2016 are presented at the estimated net realisable values and all liabilities are presented at estimated settlement amounts.”

**Example 5: Significant level of concern about going concern status that is not disclosed in the financial statements**

Penguin Limited a theater company was established in 2009. In the first year of its operation, the company in addition to equity investment of Rs. 100 million obtained a long-term loan of Rs. 80 million from a local bank. The results of the company for the year ended December 31, 2012 reflected sales of Rs. 60 million, 15 full-time employees, 100 independent contractors, and troupes in 6 cities putting on roughly 1,000 performances a year. However, in ensuing years, the revenue of the company declined owing to increased competition and disagreement among the directors regarding company’s future strategy. The Company faced liquidity problems in year 2015 and 2016, due to which it was unable to pay last two loan installments aggregating to Rs. 24 million. The directors of the company are negotiating with the banker to re-schedule the loan however, the outcome of these negotiations are uncertain. The management is also considering other financing options and have contacted two other bankers, however, these discussions are at an initial stage and inconclusive by the year end. The CEO has also provided a business plan for five years to the bankers in support of the loan application.

The directors of the company, based on the current status of negotiations with the bankers and review of the business plan, concluded that there are no material uncertainties, accordingly financial statements should be prepared on the going concern basis.

**Auditor conclusion**

Adverse Opinion

*The adverse opinion explained in the audit report:*

**Adverse Opinion**
We have audited ……………………………………………………………………………………………………………………………

In our opinion, because of the omission of information mentioned in the Basis for Adverse Opinion section of our report, the accompanying financial statements do not give a true and fair view, of the financial position of the Company as at December 31, 2016, and of its financial performance and its cash flows for the year then ended in accordance with the approved accounting standards as applicable in Pakistan.

Basis of Adverse Opinion

“As explained in note x to the financial statements the company’s financing arrangements expired and the amount outstanding was payable on [a past date]. The company has been unable to re-negotiate or obtain replacement financing and the management is continuously investigating alternative sources of finance. If they are not successful, they will have no alternative but to cease trading. These events indicate a material uncertainty which may cast significant doubt on the company’s ability to continue as a going concern and, therefore, it may be unable to realize its assets and discharge its liabilities in the normal course of business. The financial statements (and notes thereto) do not disclose this fact and have been prepared on the going concern basis.”

Basis of conclusion: Based on the work performed, including the review of the Company’s correspondence with the banker, the auditor assessed that the negotiations are inconclusive and do not provide sufficient evidence as to the commitment and availability of funds. Further, the outcome of business plan is dependent on the arrangement of financing facility and/or rescheduling of the loan.

The auditor considered that the above circumstances lead to a material uncertainty, as the magnitude of potential impact and likelihood of occurrence of liquidity crunch is significant. Accordingly, the possible implications of liquidity problems cast significant doubt on company’s ability to continue as a going concern.

The financial statements and notes do not disclose the material uncertainty, discussed above, and directors have prepared the financial statements on the going concern basis. The auditor concluded that the management’s use of going concern basis is inappropriate, keeping in view the significant level of concern and uncertainty about the company’s ability to continue as a going concern.

As the effect of this disagreement is both material and pervasive to the amounts included within the financial statements the auditor concludes that a qualification of the opinion is not adequate to disclose the misleading and incomplete nature of the financial statements. Accordingly, the auditor issues an adverse audit opinion stating that, because the material uncertainty regarding going concern is not disclosed, the financial statements do not give a true and fair view.
Appendix 5 – Extracts of Going Concern from the International Financial Statements and Audit Reports

A. Emphasis of Matter Paragraph

Going concern appropriate but material uncertainties exist which are properly disclosed

I. Extracts from the financial statements and auditors report of ABC Cement Company Ltd

Disclosure of material uncertainty relating to going concern in the financial statements

“The Group’s current economic environment is challenging and as a result, the Group has reported accumulated losses of $XXX as at 31 December 2011 and operating losses of $XXX for the year then ended. In addition, the Group’s current liabilities have exceeded its current assets by $XXX as at 31 December 2011. The directors consider that the outlook will remain challenging despite some recent positive indicators of growth in the domestic market for cement and plans for expansion into more lucrative export markets. The Group is currently negotiating the supply of a relatively large amount of cement to a new customer under a three year contract. That contract would make a significant contribution to the Group’s forecast turnover and net cash flows over the contract period. Management has pursued a number of new markets and increased market share in existing ones with some level of success.

The Group commenced negotiations with its lenders for a restructuring of its debt portfolio. On 14 January 2011 a moratorium on debt service was declared and thereafter payments were not made as a consequence of which the Group went into default of several loan agreements which continued to year end. However, lenders have not sought to enforce their security and other rights which remain unchanged whilst negotiations are taking place with the Group. By 31 December 2011, the Group and its lenders had reached agreement in principle on the features of the restructuring and its key terms. The agreements to give effect to the debt restructuring are being drafted and signing of these agreements is expected in April 2012. The directors have concluded that the combination of the above circumstances could represent a material uncertainty casting doubt about the Group’s ability to continue as a going concern. Nevertheless, after making enquiries and considering the uncertainties, the directors have a reasonable expectation that the Group will have adequate resources, based on the plans and strategies as outlined in the preceding paragraphs, to generate adequate cash flows and profitability that will allow the Group to continue in operational existence in the foreseeable future. For these reasons, the Directors continue to adopt the going concern basis in preparing these financial statements.”

Emphasis of matter paragraph in the auditor’s report

“We draw attention to Note 5 in the summarized consolidated financial statements which indicates that the Group has reported accumulated losses of $XXX as at 31 December 2011 and operating losses of $XXX for the year then ended. In addition, the Group’s net current liabilities amounted to $XXX as at 31 December 2011. The accumulated losses, operating losses and net current liabilities have not been adjusted for the impact of the matters described in the Opinion paragraph above. These conditions, along with other matters as set forth in Note 5, indicate the existence of a material uncertainty which may cast significant doubt about the Group’s ability to continue as a going concern. The financial statements have been prepared on the going concern basis because, as described in Note 5, the Group’s management has embarked on a number of initiatives that, based on projections, demonstrate increases in revenue, cash flows and profitability of the Group, and hence improvement in the financial performance and position of the Group, for the year ending 31
December 2012 and beyond. In addition, Trinidad Cement Limited (the ultimate parent company), has also embarked on a debt restructuring exercise with the intention to provide the financing necessary to enable the Group to continue in business. Our opinion is not qualified in respect of this matter.”

II. Extracts from the financial statements and auditors report of MNO Refinery Limited

Disclosure of material uncertainty relating to going concern in the financial statements

“As at June 30, 2016, the Company has accumulated losses of Rs. XXX billion (June 30, 2015: Rs. XXX billion) resulting in net negative equity of Rs. XXX billion (June 30, 2015: Rs. XXX billion) and its current liabilities exceed its current assets by Rs. XXX billion (June 30, 2015: Rs. XXX billion). These conditions may cast a doubt on the Company’s ability to continue as a going concern. To address this negative equity situation, the Company issued right shares of Rs. XXX billion during the year (out of total issue of Rs. XXX billion - please refer note 16.3 to the financial statements). In addition, Isomerization Project commissioned in June 2015 also started adding additional revenue by converting Light Naphtha into Motor Gasoline and coupled with other operational measures, the Company earned profit after tax of Rs. XXX million during the year. Based on the above facts and projected profitability and cash flows, the management believes that the current negative equity situation will be overcome in future. Accordingly, these financial statements have been prepared on a going concern basis.

Based on the above facts and projected profitability and cash flows, the management believes that the current negative equity situation will be overcome in future. Accordingly, these financial statements have been prepared on a going concern basis.”

Emphasis of matter paragraph in the auditor’s report

“We draw attention to note 2.1.2 to the financial statements. As stated in the note, as at June 30, 2016 the company has accumulated loss of Rs. XXX billion resulting in net negative equity of Rs. XXX billion. Further, current liabilities of the company exceed its current assets by Rs. XXX billion. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the company’s ability to continue as a going concern. Our report is not qualified in respect of this matter.”

III. Extracts from the financial statements and auditors report of PQR Marine Holdings Limited

Disclosure of material uncertainty relating to going concern in the financial statements

The consolidated financial statements of the Group and the statement of changes in equity of the Company have been prepared in accordance with Singapore Financial Reporting Standards (“FRS”). The financial statements have been prepared on the historical cost basis except as disclosed in the accounting policies below. The financial statements are presented in Singapore Dollar (“SGD” or “$”) and all values in the tables are rounded to the nearest thousand ($’000) except when otherwise indicated. As at 30 June 2016, the Group’s and Company’s total borrowings amounted to $XXX and $XXX (2015: $XXX and $XXX) of which $XXX and $XXX (2015: $XXX and $Nil) were classified as current. Included in this balance is an amount of $100,000,000 (2015: $Nil) in relation to the Multicurrency Debt Issuance Programme comprising fixed rate notes which is due for repayment in March 2017 (Note 19). The Group’s loans and borrowings that are due for repayment in the next 12 months exceed its cash and bank balances as at 30 June 2016 of $XXX (2015: $XXX). Given the persistently low oil prices, companies in the offshore marine sector including oil and gas companies may continue to cut back on their capital expenditure and delay expansion and exploration activities. This may result in decreased activities
and contracts for yards and vessel owners. Combined with over supply of vessels in the industry, the impact of lower vessel utilization, downward pressures on charter rates and slower repayment from customers have brought greater uncertainties to the Group and other similar companies in the offshore marine sector. The continuing weak market conditions will continue to present challenges and greater uncertainties to the Group’s operations. The matters set out in the paragraphs above indicate the existence of a material uncertainty which may affect the validity of the going concern assumption on which the accompanying financial statements are prepared.

**Emphasis of matter in the auditor’s report**

We draw attention to Note 2.1 to the financial statements. As at 30 June 2016, the Group’s and Company’s total borrowings amounted to $XXX and $XXX of which $XXX and $XXX were classified as current. As disclosed in that Note, the Group’s loans and borrowings that are due for repayment in the next 12 months exceed its cash and bank balances of $XXX as at 30 June 2016. This factor together with the others disclosed in that Note indicates the existence of a material uncertainty which may cast significant doubt on the ability of the Group and the Company to continue as going concerns. As disclosed further in that Note, the ability of the Group and the Company to continue as going concern is dependent on the successful completion of the renounceable non-underwritten rights issue, successful completion of the club term loan facility and the ability of the Group to generate sufficient cash flows from operations as forecasted. If the Group and Company are unable to continue in operational existence for the foreseeable future, the Group and Company may be unable to discharge their liabilities in the normal course of business and adjustments may have to be made to reflect the situation that assets may need to be realized other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the balance sheets. In addition, the Group and Company may have to reclassify non-current assets and liabilities as current assets and liabilities. No such adjustments have been made to these financial statements. Our opinion is not qualified in respect of this matter.

**IV. Extracts from the financial statements and auditors report of UVW Group Ltd**

**Disclosure of material uncertainty relating to going concern in the financial statements**

“The Group incurred a net loss of US$XXX (2013: US$XXX) during the financial year ended 30 April 2014 and as at that date, the Group’s current liabilities exceeded its current assets by US$XXX. These factors indicate the existence of a material uncertainty that may cast significant doubt about the Group’s ability to continue as a going concern.

At 30 April 2014, the Group has breached certain banks’ financial covenants as disclosed in Note 23. However, the bank has granted waiver retrospective to its financial year ended 30 April 2014 in relation to the breach of financial covenants subsequent to the reporting period and has not requested for any immediate repayment up to the date of waiver letter, which is 18 July 2014. Due to these breaches of financial covenants, the outstanding non-current bank loan amounting to US$XXX is presented under current liabilities in the statement of financial position as at 30 April 2014.

The financial statements have been prepared on a going concern basis as the Management is satisfied that:

(i) the continuing financial support from the holding company to procure the necessary finance and support for a period of not less than twelve months from the end of the reporting period;

(ii) the banking facilities from its bankers for its working capital requirements for the next twelve months will be available as and when required; and

(iii) the Group is able to generate sufficient cash flows from its operations to meet its current and future obligations.
Management has taken the following measures to improve the Group’s operational performance and financial position:

(i) Source for new customers and held discussions with the Group’s major customers to seek higher sales volume and negotiate for better prices. Management believes that the selling prices for the Group’s products are gradually improving; and

(ii) Continuously seeking improvements in the production efficiency of the Group’s production facilities through technological enhancements and system re-engineering in order to further reduce the costs of production.

Subsequent to the end of the reporting period, the Group has also successfully obtained an import and export credit facility of up to US$12 million from a strategic partner to facilitate the working capital requirement of the Group. The strategic partner has agreed for not demanding repayment of this amount within 12 months from the end of reporting period.

After considering the measures taken described above, the Group believes that it has adequate resources to continue its operations as a going concern. For these reasons, the Group continues to adopt the going concern assumption in the preparation of the financial statements. The financial statements did not include any adjustments that may result in the event that the Group is unable to continue as a going concern. In the event that the Group is unable to continue as a going concern, adjustments may have to be made to reflect the situation that assets may need to be realized other than in the amounts at which they are currently recorded in the statements of financial position. In addition, the Group may have to provide for further liabilities that might arise and to reclassify non-current assets and liabilities as current assets and liabilities.”

**Emphasis of matter in the auditor’s report**

“We draw attention to Note 2(a) to the financial statements with respect to the Group’s ability to continue as a going concern. The Group incurred a net loss of US$XXX (2013: US$XXX) during the financial year ended 30 April 2014 and as at that date, the Group’s current liabilities exceeded its current assets by US$XXX. These factors indicate the existence of a material uncertainty that may cast significant doubt about the Group’s ability to continue as a going concern. The financial statements have been prepared on a going concern basis and did not include any adjustments that may result in the event that the Group is unable to continue as a going concern. The validity of the going concern basis on which the financial statements are prepared depends on management’s assessment of the Group’s ability to operate as a going concern as set forth in Note 2(a) to the financial statements. In the event that the Group is unable to continue as a going concern, adjustments may have to be made to reflect the situation that assets may need to be realized other than in the amounts at which they are currently recorded in the statement of financial position. In addition, the Group may have to provide for further liabilities that might arise and to reclassify non-current assets and liabilities as current assets and liabilities. Our opinion is not modified in respect of this matter.”
B. Disclaimer of Opinion

Significant material uncertainty relating to going concern

I. Extracts from the financial statements and auditor’s report of EFG Co., Ltd

Extracts from the financial statements

“The Group incurred a loss of approximately RMB XXX for the year ended 31 December 2014; and net current liabilities and net liabilities of approximately RMB XXX and RMB XXX respectively in the consolidated statement of financial position of the Group as at 31 December 2014.

These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group’s ability to continue as a going concern. Therefore, the Group may be unable to realize its assets and discharge its liabilities in the normal course of business. The Management is confident that the Group would have sufficient working capital to meet its liabilities as they fall due and for its operation, and in the opinion that it is appropriate to prepare the consolidated financial statements on a going concern basis. Should the Group be unable to continue as a going concern, adjustments would have to be made to the consolidated financial statements to adjust the value of the Group’s assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effect of these adjustments has not been reflected in the consolidated financial statements.”

Extracts from the auditor’s report

Material uncertainty relating to the going concern basis

“The disclosures in note 2 to the consolidated financial statements indicate that the Group incurred a loss of approximately RMB XXX for the year ended 31 December 2014; and net current liabilities and net liabilities of approximately RMB XXX and RMB XXX respectively in the consolidated statement of financial position of the Group as at 31 December 2014. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group’s ability to continue as a going concern. In view of the extent of the uncertainty relating to the future working capital sufficiency of the Group, we disclaim our opinion in respect of the material uncertainty relating to the going concern basis.”

Disclaimer of opinion

“Because of the significance of the matters as described in the basis for disclaimer of opinion paragraphs and the material uncertainty relating to the going concern basis, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the consolidated financial statements. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.”
C. Disclaimer of Opinion

Going concern basis of accounting in the financial statements is inappropriate

I. Extracts from the financial statements and auditor’s report of LMN Holdings Limited

Extract from the financial statements

“The Group incurred a loss of $XXX (2014: $3XXX) for the year ended 31 December 2015 and, as of that date, the Group and the Company were in a net current liability position of $XXX (2014: $XXX) and $XXX (2014: $XXX) respectively, and in a net liability position of $XXX and $XXX respectively. These factors indicate the existence of a material uncertainty which may cast significant doubt about the Group and the Company’s ability to continue as going concern.

The directors of the Company believe that the going concern basis of preparation of financial statements is appropriate, having considered that the Company’s major shareholders have agreed to provide short term shareholders’ loan of $XX million after the balance sheet date (Note 32(a)).

In addition, the Group is implementing new business strategies, including restructuring the Group’s existing business to improve the existing earning base of the Group. The ability of the Group and the Company to continue as going concern also depend on the abilities of the Group and the Company to generate profit and positive cash flows from operations, extend the repayment period of the shareholders’ loan and obtain additional shareholders’ funding for its working capital requirements in the next twelve months. The ability of the Group and the Company to remain as going concern is therefore dependent on the above assumptions, which are premised on future events and market conditions, the outcome of which is inherently uncertain. The financial statements have been prepared on the assumptions that the Group and the Company will continue as going concern. If the Group and the Company are unable to continue in operational existence in the foreseeable future, the Group and the Company may be unable to discharge their liabilities in the normal course of business and adjustments may have to be made to reflect the situation that assets may need to be realized other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded on the balance sheet. In addition, the Group and the Company may have to provide for further liabilities that might arise, and to reclassify non–current assets and liabilities as current assets and liabilities. No such adjustments have been made to these financial statements.”

Extracts from the auditor’s report

“Going concern assumptions

As disclosed in the Note 2(a) to the financial statements, the Group incurred a loss of $XXX for the financial year ended 31 December 2015 and, as of that date, the Group and the Company were in net current liability position of $XXX and $XXX respectively, and in net liability position of $XXX and $XXX respectively. These factors indicate the existence of a material uncertainty which may cast significant doubt about the Group and the Company’s ability to continue as going concern. The directors of the Company believe that the going concern basis of preparation of financial statements is appropriate, having considered that the Company’s major shareholders have agreed to provide short-term shareholders’ loan of approximately $XX million after the balance sheet date. In addition, the Group is implementing new business strategies, including restructuring the Group’s existing business to improve the existing earning base of the Group. The ability of the Group and the Company to continue as going concerns also depend on the abilities of the Group and the Company to generate profit and positive cash flows from operations, extend the repayment period of the shareholders’ loan and obtain additional shareholders’ funding for its working capital requirements in the next twelve months. The ability of the Group and the Company to remain as going concern is
therefore dependent on the above assumptions, which are premised on future events and market conditions, the outcome of which is inherently uncertain.

The financial statements have been prepared on the assumptions that the Group and the Company will continue as going concern. If the Group and the Company are unable to continue in operational existence for the foreseeable future, and the Group and the Company may be unable to discharge their liabilities in the normal course of business, adjustments may have to be made to reflect the situation that assets may need to be realized other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the balance sheet. In addition, the Group and the Company may have to provide for further liabilities that might arise, and to reclassify non-current assets and liabilities as current assets and liabilities. No such adjustments have been made to these financial statements. In view of the material uncertainty in respect of the Group and Company’s ability to continue as going concern and the lack of sufficient appropriate audit evidence in confirming whether the major shareholders would continue to provide additional funding for the Group’s working capital requirements, we were unable to conclude whether the use of the going concern assumptions in the preparation of these financial statements is appropriate.”

**Investment in subsidiary**

As disclosed in Note 11 to the financial statements, the Company’s subsidiary, XYZ has ceased its operations during the year. The unaudited management accounts of XYZ were used to prepare the consolidated financial statements of the Group, as the audited financial statements of XYZ for the financial year ended 31 December 2015 are not available. Total assets and total liabilities of XYZ included in the consolidated balance sheet of the Group as at 31 December 2015 amounted to $XXX and $XXX respectively. Revenue and net loss of XYZ included in the consolidated statement of comprehensive income of the Group for the financial year ended 31 December 2015 amounted to $Nil and $XXX respectively. We were unable to carry out the necessary audit procedures to satisfy ourselves as to the recoverability of the assets, and the validity and completeness of the liabilities of the subsidiary to determine whether any adjustments might be necessary in respect of the consolidated financial statements of the Group for the financial year ended 31 December 2015.

**Disclaimer of Opinion**

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements.”
D. Disclaimer of Opinion

Inappropriate basis of accounting used by a non-going concern company

I. Extracts from the financial statements and auditors report of XYZ Water Management Limited

Extracts from the financial statements

2.1(a) The financial statements of the Company have been prepared in accordance with the Generally Accepted Accounting Principles in India (Indian GAAP) to comply with the Accounting Standards specified under Section 133 of the Companies Act, 2013 read with Rule 7 of the Companies (Accounts) Rule 2014 and relevant provisions of the Companies Act 2013 (the 2013 Act). The financial statements are prepared on accrual basis under the historical cost convention on an accrual basis of accounting. The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the previous year. The matter stated in paragraph 2.1 (a) to (d) indicate the inappropriateness of the use of generally accepted accounting principle that is applicable to a going concern company in preparation of the financial statement of the company for the year ended March 31, 2015.

2.1(b) The Company has, as at the date of the Balance sheet, accumulated losses aggregating to Rs. XXX/- (Previous year Rs. XXX/-) which is in excess of the share capital of the company amounting to Rs. XXX/- (Previous year Rs. XXX/-) thereby eroding the net worth of the company. Further, as at the Balance sheet date, the Company’s current liabilities exceeded its total assets.

2.1(c) The Company has been formed for specific business purpose as described in paragraph 1.1 above. The volume of water sales and its projection was determined to be significantly lower than what had been budgeted at the time of agreement with XYZ Development Authority (XYZDA). The low volume in conjunction with other terms of the concession agreement resulted in significant losses and erosion of net worth in the financial statements of the Company. Considering these, the management considered the existing business to be unviable and had in the previous year concluded the concession agreement with XYZDA to be “Frustrated”. Accordingly, the directors had concluded that the combination of these circumstances represent a material uncertainty that casts significant doubt upon the Company’s ability to continue as a going concern and therefore the Company decided to withdraw from the operations of its business in immediate future and had notified XYZDA of its intention in an earlier year. The operations were then taken over by XYZDA in the previous year.

2.1(d) The formal acceptance of Company’s exit from the business by XYZDA and reconciliation of receivables and payables between the Company and XYZDA has not yet been initiated. As future outcome of the negotiation between the Company and XYZDA cannot be ascertained, all possible liabilities to the best of the knowledge of the management till 31st March 2015 in respect of License fees, electricity charges etc. have been provided in the books of accounts of the Company. Pending final settlement of receivables and payables between the Company and XYZDA, the setting off of adjustable assets and liabilities of the Company have not been given any effect and have been stated at their current carrying values in the financial statements for the year ending March 31, 2015. The eventual reconciliation may necessitate adjustment to recorded assets, liabilities, and contingent liabilities which is presently not ascertainable. In the previous year, the Company had served a notice on XYZDA intimating its intention to enter into Arbitral Tribunal to adjudicate all disputes in terms of the arbitration agreement contained in the Concession Agreement. With respect to the ongoing arbitration, the Company has filed its claim against which XYZDA had also filed its counter claim. The proceedings of the arbitration are in progress as of 31st March 2015.

Based on above reasons, these financial statements are intended to be prepared not on a going concern basis and accordingly, in the financial statement, all assets and liabilities are classified as current. However, the possible material adjustment that may be required to be made to the value of the recorded assets and liabilities could not be made by the management of the company in the
financial statements on accounts of these not being readily ascertainable in view of the pending negotiation, reconciliation and potential arbitration.”

Extracts from the auditor’s report

“Basis for Disclaimer of Opinion

The matters as stated in paragraphs 2.1(a) to 2.1(d) of the notes to financial statements give rise to the inappropriateness of use of generally accepted accounting principles that are applicable to going concern and accordingly financial statements are not prepared on a going concern basis. The said notes also give rise to material uncertainties as regards possible material adjustments that maybe required to be made to the values of recorded assets and liabilities, which could not been recorded in the financial statements on account of these being not readily ascertainable. As a result of these matters, we are unable to determine as to whether any adjustments that would have been necessary and required to be made in respect of receivables, advances, current liabilities, and contingent liabilities, as at 31st March 2015; and in respect of the corresponding possible impact of such items and associated elements on the Statement of Profit and Loss and the Cash Flow Statement for the year ended on that date. This matter was also disclaimed in our report on the financial statements for the year ended 31st March 2014.

Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements.”
E. **Emphasis of matter paragraph**

**Financial statements prepared on basis other than going concern**

**Extracts from the financial statements and auditor’s report of EFG Services (India) Limited**

**Extract from the financial statements**

During the year ended 30 December 2005, the trading activities of the Company were transferred to ABC Steels International India (Public) Limited. It is the intention of the Directors to wind-up the company and as a result the financial statements have not been prepared on going concern.

**Extracts from the auditor’s report**

**Opinion on the financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Company’s affairs as at 31 March 2015 and its results for the year then ended;
- have been properly prepared in accordance with the United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of Companies Act, 2006.

**“Emphasis of matter”**

*In forming our opinion on the financial statements, which is not modified, we have considered the adequacy, of note 1 to the financial statements which explains that the financial statements have been prepared on a basis other than going concern. “*
F. Emphasis on Going Concern along with Disclaimer of Audit Opinion

I. Extracts from the financial statements and auditor’s report of EFG Chemical Group Limited

Extracts from the financial statements

“The Group incurred a loss of approximately HK$XXX for the year ended 30 June 2015 and as at 30 June 2015 the Group had net current liabilities of approximately HK$XXX. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group’s ability to continue as a going concern. Therefore, the Group may be unable to realize its assets and discharge its liabilities in the normal course of business.

The Group has bank loans of approximately HK$XXX which are subject to a repayment on demand clause and therefore are classified as current liabilities as at 30 June 2015. According to the scheduled repayments, an amount of approximately HK$XXX is repayable after one year. The directors do not consider that the banks will exercise their discretion to demand immediate repayment.

The management expects that the operation of certain subsidiaries will be resumed in the near future and will have positive impact to the Group. The management is therefore of the opinion that it is appropriate to prepare the financial statements on a going concern basis. Should the Group be unable to continue as a going concern, adjustments would have to be made to the financial statements to adjust the value of the Group’s assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities respectively.”

Extracts from auditor’s report

Disclaimer of Opinion

“Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements. In all other respects, in our opinion the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Emphasis of matter – material uncertainty relating to the going concern basis

As further set out in note 2 to the consolidated financial statements, the Group incurred a loss of approximately HK$XXX for the year ended 30 June 2015 and as at 30 June 2015 the Group had net current liabilities of approximately HK$XXX. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group’s ability to continue as a going concern. The consolidated financial statements have been prepared on a going concern basis, the validity of which depends on whether the factories would re-commence production in 2016 and generate positive cash flows to finance the operations of the Group.”
G. Multiple Emphasis of Matter Paragraphs

I. Auditor's Report on Consolidated Financial Results of the Company Pursuant to the Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 – PQR Limited (Holding Company) India

Emphasis of Matter

“We draw attention to note no. 14(a) to the consolidated financial results. As at March 31, 2016, accumulated losses of UVW Plant Breeders Management Pty Ltd, a subsidiary company, aggregated to Rs. 2,534.02 lacs (December 31, 2014: Rs. 4,745.23 lacs). The auditor of the subsidiary company has drawn attention in their audit report to the going concern assumption, i.e. the financial statements have been prepared on going concern basis on the basis of representations of financial and operational support from its principal shareholder, a subsidiary of the Company and consequently, no adjustments have been made to the carrying values or classification of balance sheet accounts. Our opinion is not qualified in respect of this matter.

We draw attention to note no. 14(b) to the consolidated financial results. As at March 31, 2016, accumulated losses of ABC Seeds Indonesia, a subsidiary company, aggregating to Rs. XXX lacs (December 31, 2014: Rs. XXX lacs), which has resulted in negative net worth. The auditor of the subsidiary company has drawn attention in their audit report to the going concern assumption, i.e. the financial statements having been prepared on going concern basis on the basis of representation of financial and operational support from the Company and consequently, no adjustments have been made to the carrying values or classification of balances sheet accounts. Our conclusion is not qualified in respect of this matter.

We draw attention to note no. 14(c) to the consolidated financial results. As at March 31, 2016, accumulated losses of XYZ, a subsidiary company, aggregating to Rs. XXX lacs (December 31, 2014: Rs. XXX lacs), which has resulted in net worth. The auditor of the subsidiary company has drawn attention in their audit report to the going concern assumption, i.e. the financial statements having been prepared on going concern basis on the basis of representation of financial and operational support from its principal shareholder, a subsidiary of the Company and consequently, no adjustments have been made to the carrying values or classification of balance sheet accounts. Our conclusion is not qualified in respect of this matter.”
Appendix 6 - ICAP Selected Opinions on Going Concern

1. Technical opinion regarding audit relating to subsequent sale of an entity and all its assets after reporting date (Selected Opinion issued on March 19, 2014)

The Company was a GOING CONCERN as at June 30, 2012 and there was no intention of the management to dispose of the assets of the company. In fact the company earned reasonable profits during the period.

Financial Statements of Company 'A' for the year ended June 30, 2013 have been prepared on historical cost basis. The management concludes that the Going Concern basis is appropriate. No material uncertainties leading to significant doubts about Going Concern have been identified. However, the Auditor does not agree with management conclusion that the Going Concern basis is appropriate due to the fact that the assets of the company have been disposed of in subsequent period.

Due to unavoidable circumstances the company stopped its operations during the period under audit i.e. June 30, 2013. After reporting date i.e. June 30, 2013 the company 'A' disposed all of its assets (including land, building & machinery).

No revaluation of Assets including Land, Building and Plant & Machinery was carried out by the company before the sale of the company 'A' assets. No depreciation has been charged on assets of the company during the period under audit.

Management Opinion

There was no revaluation carried out by the company before the sale of the company 'A' that is why the accounts have been prepared on historical cost basis.

Management of company ‘A’ is of the opinion that as the company has been sold out; there is no need to provide depreciation in the period under audit.

Your opinion is sought for the correct treatment of the afore-stated events in case the Company had not accounted for the afore-stated events in accordance with the IAS, IFRS & ISA.

ICAP OPINION:

The Committee would like to draw your attention to the following paragraph of ISA 570 ‘Going Concern’ which is self-explanatory:

Use of Going Concern Assumption Inappropriate

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

However, where management also concludes or agrees with auditors that the going concern assumption is not appropriate, they should comply with the requirements of para A26 of ISA 570 which is reproduced below for ready reference:

A26. If the entity’s management is required, or elects, to prepare financial statements when the use of the going concern assumption is not appropriate in the
circumstances, the financial statements are prepared on an alternative basis (for example, liquidation basis). The auditor may be able to perform an audit of those financial statements 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 those financial statements, 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.

Further, the management must be apprised of the fact that when a going concern assumption becomes inappropriate, the financial statement must be prepared on an alternative basis (for example, liquidation basis) instead of normal fair value presentation framework.

In conclusion, where the going concern assumption does not remain appropriate, the carrying values of assets and liabilities must be reassessed and stated at their recoverable/realizable and settlement values, respectively.

2. **Auditors’ Report on Going Concern Assumption** *(Selected Opinion issued on July 4, 2013)*

Technical advice is sought on the following matters:

(1) A company ceased its operations since last three years due to adverse economic conditions. The company did not obtain any loan from the financial institutions or otherwise. Liquid funds available with the company cover 73.00 times of current liability. The financial statements of the company show the positive equity although there is accumulated loss. Further, the management has no intention to liquidate the company.

In the perspective of the aforesaid facts, what is the auditors’ responsibility as per International Standard on Auditing—570?

(2) A company was incorporated four years back. The company did not commence its operations due to adverse economic conditions. The company has no long and short term liabilities except immaterial balance payable to the directors against payments made during the last three years for government fee (SECP and miscellaneous) and auditors remuneration etc. Further, the management has no intention to liquidate the company.

In the perspective of the aforesaid facts, what is the responsibility of auditors as per International Standard on Auditing?

**ICAP OPINION:**

The Committee would like to draw your attention to the following: (underline is ours)

**Conceptual framework of financial reporting defines “Going Concern” assumption as:**

4.1 The financial statements are normally prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the entity has neither the intention nor the need to liquidate or curtail materially the scale of its operations; if such an intention or need exists, the financial statements may have to be prepared on a different basis and, if so, the basis used is disclosed.

**IAS 1 ‘Presentation of Financial Statements’ provides the following requirements of Going Concern:**

25 When preparing financial statements, management shall make an assessment of an entity’s ability to continue as a going concern. An entity shall prepare financial
statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity’s ability to continue as a going concern, the entity shall disclose those uncertainties. When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern.

26 In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. The degree of consideration depends on the facts in each case. When an entity has a history of profitable operations and ready access to financial resources, the entity may reach a conclusion that the going concern basis of accounting is appropriate without detailed analysis. In other cases, management may need to consider a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate.

The Committee would also like to draw your attention to the following paragraphs of the ISA 570 ‘Going Concern’: (underline is ours)

2. Under the going concern assumption, an entity is viewed as continuing in business for the foreseeable future. General purpose financial statements 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 statements may or may not be prepared in accordance with a financial reporting framework for which the going concern basis is relevant (for example, the going concern basis is not relevant for some financial statements prepared on a tax basis in particular jurisdictions). 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 realize its assets and discharge its liabilities in the normal course of business. (Ref: Para. A1)

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 of financial statements and to conclude whether there is material uncertainty about the entity’s ability to continue as a going concern… ….

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

17. 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, individually or collectively, may cast 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 judgment, 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 statements…….

18. If the auditor concludes that the use of going concern assumption is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether the financial statements:
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 realize its assets and discharge its
liabilities in the normal course of business.

19. If adequate disclosure is made in the financial statements, the auditor shall express
an unmodified opinion and include an Emphasis of Matter paragraph……”

20. If adequate disclosure is not made in the financial statements, the auditor shall
express a qualified opinion or adverse opinion, as appropriate, in accordance with
ISA 705.

It is apparent from a reading of the above that management has to make an assessment
that the entity will continue as a going concern. The entity may make this assessment
without detailed analysis where the entity has a history of profitable operations and ready
access to financial resources. In other cases, management may need to consider a wider
range of factors.

The auditor’s responsibility is to obtain sufficient appropriate audit evidence about the
appropriateness of management’s assessment of the going concern assumption and to
conclude whether there is material uncertainty about the entity’s ability to continue as a
going concern, or not. Where conditions or events have been identified that may cast a
significant doubt, the auditor may perform additional audit procedures illustrated in
paragraph 16 of the ISA 570 ‘Going Concern’ to obtain sufficient and appropriate audit
evidence.

The Committee is of the view that the going concern assessment by management is
required where the company ceases its operations or does not commence its operations,
both due to adverse economic conditions. Although the company has sufficient liquid
assets to settle its liabilities without incurring losses, ceasing or not starting operations
are an indication that a material uncertainty is present. In both these cases, the auditor’s
responsibility is to obtain sufficient appropriate audit evidence and to conclude whether
there is material uncertainty, or not. In case where auditor’s conclusion is different from
the management’s assessment, appropriate reference in the opinion is required as
illustrated in ISA 570 ‘Going Concern’.

In view of above opinion, the ICAP Selected Opinion No. 2.5 of Volume IX earlier issued by the
Committee on ‘Qualification of Going Concern assumption for a Dormant Company’ stands
withdrawn.