

QSA 570

Going Concern

778

Step 1 → Risk assessment procedure & related activities

Auditors will consider whether there are event or condition which may cast significant doubt on the entity's ability to continue as going concern.

Event / Conditions or Indicators

- | <u>Financial Indicators</u> | <u>Operating Indicators</u> | <u>Other Indicators</u> |
|---------------------------------------|-----------------------------------|--------------------------------------|
| → Negative net worth | → Loss of key rel. | → Pending legal proceedings |
| → Arrear / discontinuance of dividend | → Loss of major market / supplies | → Changes in govt. policy |
| → Adverse financial ratios | → Labour unrest / strikes etc | → Non-compliance with statutory req. |
| → Operating losses | → Loss of major licence | |
| → Borrowing matured but no re-payment | | |
| → Non-compliance with loan terms | | |
| → Negative cash flow | | |

The Auditor should ask mgt. for preliminary assessment of entity for going concern.

Assessment performed by mgt.

- whether mgt. identify any significant event? *
 - If yes, mgt. plans to address them
- 1-4 21/3 31/313Y

Auditor's Responsibility

- Evaluate mgt. assessment for 12 months or if mgt. did it for less than 12 months ask mgt. to extend the period till 12 months

- Inquire for the period beyond 12 months

Assessment not performed by mgt.

- How / what basis mgt. intended to use going concern
- Inquiry of mgt. for significant risk
- Ask mgt. to perform its assessment

* # Audit procedure when event or condition identified?

- Auditor should obtain all A audit evidence to determine whether a significant doubt exist?
- Consider mitigating factors
- ASK mgt. to perform risk assessment
- Evaluate mgt. future plans
- Evaluate assumptions, Base data for mgt. forecast of future cash flow
- Request WR for future Action

Step-2 → Auditor conclusion in relation to financial statement

- Evaluate S4A Audit evidence obtained?
- Whether a material uncertainty exist?

Situation 1

- Disclosure \rightarrow Condition identified & in FS \rightarrow material uncertainty exist
- Disclose in F.S. with mgt. Plans
- Disclose that company may be unable to realize its assets & discharge its liabilities in the normal course of business

Situation 2

- Disclosure \rightarrow Condition identified & in FS \rightarrow No material uncertainty exist
- Auditor should check applicable FRF requirement & check that financial statements provide adequate disclosure about the events or conditions

Step 3 → Implications in Audit Report

- Case I \rightarrow Going Concern accounting is inappropriate \rightarrow Adverse opinion
- Case II \rightarrow Going Concern accounting is appropriate BUT Material uncertainty exist
 - Adequate disclosure made in F.S. \rightarrow
 - Unmodified opinion
 - Mention in going concern paragraph in audit Report
 - Adequate disclosure not made in F.S. \rightarrow
 - Qualified / Adverse
 - Basis for qualified/ Adverse opinion - free detailed

→ Mgt. unwilling to make assessment \rightarrow Implication on Audit opinion