SA 570: Going Concern (G.C.) [V. Imp. + V. Easy]

Mgt.
↓
Assess G.C. ✓

Auditor Resp.
↓
- G.C. Appt.?
- M.U. exist? ✓

Flow of Auditor Resp.?

① R.A.P. [Identify Event / Cond^n exist] → ② Add^n Audit Pro.
- M.U.?
- mitigating factor?

→ ③ Conclusion
- G.C. Appt.?
- M.U. exist?

→ ④ Reporting

[Basics] G.C. Basis of Accounting

- Entity normally is a G.C. i.e. continuing operations for foreseeable future.

(meaning)

- Assumed that entity
  - neither has intention → naam
  - nor necessity → majboori

  of liquidation or materially curtailing (dhande) scale of operations
  cut down / reduce

- G.C Basis of A/c? F.S. are prepared on assumption that entity is G.C. & will continue operations for foreseeable future.

→ General Purpose F.S. (GPFS) are prepared using G.C Basis of A/c.
all users

Farak

• Significance of G.C. Basis of A/c ? It is effect on preparation of F.S.

G.C. is appropriate
Assets & liab. are recorded on Basis entity will
realise assets & discharge liab. in N.C.O.B. [normal course of business]

Entity not a G.C.
F.S. are prepared on liquidation basis.
eg PPE • Book value ₹5L
• Realisable value ₹2L — written down to ₹2L

Drishti [Book → Read] :)

1. Responsibility for G.C. Assessment ? mgt

• Mgt's G.C. assessment involves judgment at point in time about uncertain future outcome of events / condⁿ.

"Factors" relevant to judgment

① [Entity]
Size & complexity of Entity,
• nature & condⁿ of Business &
• degree to which it's affected by external factors.

eg Entity
G.C. Assess
Vedanta Ltd (Listed)
• mining — coal, zinc, silver
• pollution → Env. Acts
• workers safety → factory / Workers Act
Size / External condⁿ

Doodhwala (Sole prop.)
• 2 cows
• Milk

② Degree of uncertainty of outcome of events / condⁿ.
eg Entity → penalty notice [E/Cⁿ] → [₹] Heavy penalty → "uncertainty" → win / lose [outcome]

③ Judgments made at a point in time.
Subsequent events may result in inconsistent outcomes.
eg Entity expect → win
• Court judg. → lose
inconsistent outcome → mgt considers

Memory chart: ① Entity Si Co → Degree — affected external factors

② uncertainty of future events

③ Subsequent Events [inconsistent outcome]

Imp ✓ DAD

Auditor's Responsibility (2 stages)

I [Aaj]: obtain SAAE & conclude on appropriateness of G.C. assumption.

II [Kal]: obtain SAAE & conclude whether Material Uncertainty [M.U.] exists,

Imp
- about Events/ Condⁿ
- that may cast Sig. Doubt
- on Entity's ability to continue as G.C.

5 times: M.U. → Event/Condⁿ [penalty notice]

- Likelihood [% chances] ↑
- \+
- Magnitude [₹] ↑

• SA200, potential effect of I.L.A. to detect M.M. "greater" for future E/Cⁿ that may cease Entity's G.C. after.

• [Why?] Auditor can't predict such future E/Cⁿ. [jyotish]

Conclusion: Absence of reference to M.U. ~~can~~ NOT be viewed as guarantee that entity will continue as G.C.

Imp

→ E/Cⁿ

[understanding → ROMM]

Risk Assess. Procedures [R.A.P]

↓

Identify E/Cⁿ that may cast S.D on Entity's Ability to continue as G.C.

↓

[mgt pueho]

Performed G.C. Assess.

- Discuss assessment with mgt*

&

- Determine if mgt identified "E/Cⁿ that may..... S.D..... G.C" & if yes,

G.C. Assess. "Not" performed

Doubt

- Discuss the Basis of using G.C. Basis of A/C

&

- Inquire whether, "E/Cⁿ exist.... S.D. ..... G.C."

- mgt's "plans" to address them.

Note: Stay "ALERT!" throughout audit for such E/Cⁿ.

* Evaluating G.C. Assessment

- Not Auditor's responsibility to rectify lack of analysis by mgt.

2 Cases

Healthy Entity

- Lack of detailed analysis

↓

will not prevent auditor

↓

to conclude G.C. is appropriate.

{ Eg History of profitable operations & ready access to finance

↓

mgt can make assessment without detailed analysis }

Unhealthy Entity

- Auditor shall evaluate, (3M)

  - Process mgt followed,
  - Assumptions for assessment &
  - mgt 'Plans' for future actions & whether plans feasible in circumstances.

Bas. ki?

• Detailed Evaluation? No

In this case, auditor can avoid detailed evaluation of G.C. assessment, if other procedures are sufficient to conclude, GC is appropriate.

E/Cⁿ identify
↓
Addⁿ Audit Procedures
• M.U.?
• including mitigating factors

① where mgt not yet performed G.C. assessment → request mgt to make assessment.

E/Cⁿ → ② [Plan]
Evaluate mgt's Plans for future actions
• whether outcome likely to improve situation?
• whether plans are feasible in circumstances
↓ Sukha Sukha?

③ where entity has prepared Cash flow forecast & analysis of forecast is significant

Evaluate
- Reliability of data generated to prepare forecast
&
- whether adequate support for assumptions.
  Eg Addⁿ financing Bank → supp → Agreement?

← ④ whether any addⁿ facts/info. available since date of mgt's assessment
↓
⑤ Request W.R. (Mgt & TCWG) regarding
• plans &
• their feasibility

Concept [M.U. + mitigating factor]

Co. → Default → ~~Ca~~ E/Cⁿ [M.U.]
↓
Crs [₹1000 cr] → Insolvency application → NCLT → Resolution Professional [R.P] [Co. mgr]
↓
Crs [R.Plan]

₹700 cr, ₹300 cr
Co. zinda ✓
"mitigating factor"

Conclusion

Responsibility

- SAAE & conclude → (I) G.C. Appropriate?
  → (II) M.U. exist [E/Cⁿ → S.D. → G.C]
  [Likelihood + magnitude]

[E/Cⁿ → S.D. → G.C]

F.S. Disclosures

M.U. ✗
E/Cⁿ

2 min [recall] ✗
(+) Read from Book

M.U. ✓
- B.P↑ E/Cⁿ → cast S.D. → Ability → G.C.
- B.P↓ mgt Plans to deal with E/Cⁿ
- B.P↑ M.U. related to [E/Cⁿ → S.D. → G.C]
- Entity maybe unable to Realise Assets & Discharge Liab. in N.C.O.B.

Reporting

G.C. Inappropriate

F.S. Liquidation Basis → Unmodified opinion

F.S. G.C. Basis [SAAE + pervasive] [poor F.S. khatab] → Adverse opinion [D ✗ / A / Q ✗]

G.C. Appropriate

M.U. Exists ✓

Adequate Disclosures

- Unmodified opinion
  +
- Include a separate section under heading "MURG" [Material Uncertainty Related to Going Concern]
  - Draw attention to Note in FS that discloses matter
  - & state that E/Cⁿ indicate M.U. exists & audit opinion is not modified on this matter.

Inadequate Disclosures [SAAE] ✓

- Express D ✗ / A / Q opinion as per SA 705
- In Basis for AQ opinion state:
  → M.U. exists ✓ &
  → F.S. don't adequately ✗ disclose matter.

Note: mgt → Assessment ✗ → [SAAE ✗] → D / A ✗ / Q opinion

T.Y.U
Ans

CA Varun Aggarwal

Audit → Co. • Labour Shortage [operating]
• Unable to pay crs time [financial]
• Bank help ✗ [Financial]
[E/C^n]

Doubt G.C.
↓
mgt? • plan ✓ < g / f
• Cash flow forecast < Data / Ass. + Add^n fact/info. + W.R < P / f

Auditor?

Solution [Intro] As per SA570, "G.C", significant labour shortages, inability to pay creditors on time etc. are examples of E/C^n that may cast S.D. on entity's ability to continue as G.C.

[mgt?] Mgt should • prepare future plan of action
• Also, cash flow forecast showing inflow & outflows of cash.

This will address concern of liquidity crisis faced by co.

[Auditor?] Auditor shall • Evaluate whether plan is feasible & will improve situation.
• Also evaluate
→ Reliability of data &
→ adequate support of assumptions
underlying cash flow forecast.
• Consider add^n facts/ info. available since date of mgt's G.C. assessment.
• Obtain W.R. for plans & their feasibility.

Spl. points:
• Purpose of A.Pro. [G.C.] → Responsibility / Conclusion [Aaj | kal]
• Significance → Effect on FS [G.C. Appt → A/L ✓
Appt ✗ → Liq. Basis]

SA 580: Written Representation

Written statement
• By mgt → • To Auditor

to confirm certain matters or Support other evidence

eg
• SA501 • L/Cs → completeness

eg SA500 • oral inquiry → written Response

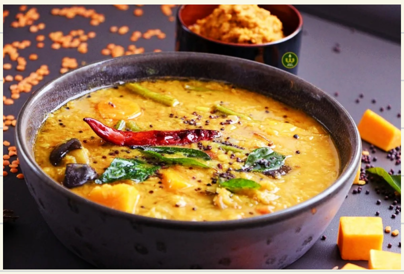
• SA450: Uncorrected mis → immaterial
• SA560: Events → Adj. / Disc. → Adjusted / Disclosed
• SA570: mgt plans + feasibility

Note: W.R. don't include FS. (assertions therein) & books & records.

Q Is WR enough?

• WR provide necessary AE. but don't provide SAAE on matters.
(zaroori) (kafi)

• If mgt provided W.R., it doesn't affect nature / extent of other AE. that auditor obtains.



Fun fact:
"W.R. is just like sambhar. idli ke saath zaroori hai, but akele kaafi nahi"

Objective of Auditor

① To obtain WR from mgt & TCWG [that they fulfilled responsibility (SA210)
• to prepare FS &
• provide complete info. to auditor]
(AAU)

② To Support other evidence relevant to FS or specific assertion.
eg completeness of L/Cs

③ To Respond Appropriately to WR provided or not provided by mgt.
→ coming soon

(whim ••)

Q From whom to take W.R? → mgt & TCWG [CEO/CFO]
- Sales/marketing ✗
- H.R. ✗
- finance ✓ [A/C]

W.R(s) about mgt's Responsibilities

(i) Preparation of FS.

W.R. that mgt fulfilled resp. for P.P.FS as per AFRF.

↓ [why mgt?]

Due to resp. for P.P.FS & conducting business,

mgt is expected to have sufficient knowledge of process followed for P.P.FS.

↓ (Sub areas → knowledge?)

In some cases, mgt may make inquiries of "others" who participated in P.P.FS including individuals having "specialised knowledge"

(II) Info. provided & completeness of Transn (Also)

It has provided All info. ✓✓ & Access ✓ as agreed in terms of engg.

All transn recorded in FS.

Such individuals include:

Responsible for

- Staff Engineers → Environment Liab. measurement {Machines → pollution}
- Actuary → Determining a/c measurements eg SA500 Gratuity Liab.
- Internal Legal Counsel → provisions for legal claims. Eg SA501

Smile :)

Qualifying Language

Notes: 1) W.R. " To Best of our knowledge & Belief "

Auditor accept language? Yes

If made by those having resp. & knowledge [FS].

2) To ensure "informed" W.R. → request mgt include in WR.

that mgt made appt. Enquiries. Eg SAI

3) Why W.R. about mgt's Resp. necessary?

Auditor can't judge Solely on other AE. Eg creditor Hidden, Subsequent Bank st. Sample

Mgt Resp.: whether mgt has P.P. FS. & provided info. to auditor

on basis of agreed (SA 210) acknowledgment (Naam) & understanding of Resp. Sign

Reconfirmation from Mgt {Resp.} (4M)

4 cases?

(Saal Badal)

1) Terms of engg. agreed in Previous Year.

(Log Badal)

2) Those who signed terms of engg. no longer have relevant resp.

(Haalat Badal)

3) change in circumstances

[Reporting requirements ↓ add" procedures Sched III Ratios → Num. Deno. pro.]

4) There's a indication that mgt misunderstands those responsibilities.

Iwith

Other WRs

W.R. in addition to W.R. on mgt Responsibility?

- Selection & Application of A/c Policies appropriate? "A.P."

Whether following matters considered as per AFRF?

- Aspects of Laws, Regulations, Contracts, Agreements
- Plans/Intentions that may affect B.V. or classification of Assets / Lias.
- Liabilities both Actual / Contingent
- Assets Title / pledged as collateral.

Memory Trick:

AP ka LRCA → Plan/Intentions < [achhe] Assets / [gande] Liability

W.R(s) about Specific Assertions

When obtaining evidence about judgments & intentions, consider one/more of following

Entity's

- Past History to carry out intention
- Reasons for particular course of action
- Ability to pursue course of action.

⊕ Existence/Lack of any other info. obtained.

Date & Period of W.R.

Date

- WR(s) are necessary AE, opinion can't be expressed & A/R can't be dated before W.R.

W.R → A/R kitna paas?

SA560
- Auditor is concerned with events upto date of A/R that may require adjustment / disclosure in FS.
- So, WR should be dated as near as practicable but not after date of A/R.

FS. 31.3.24 31.3.23

Period

WRs are for all periods referred in A/R because mgt needs to reaffirm that previous WRs are appropriate.

{SK Masala → mgt Badal}

If current mgt not present during all periods, they may assert that they can't provide W.R.(s) because they were not present during prior period.

2min

[Tab bhi lena hai]

This doesn't diminish their resp. for FS. as whole.

So, auditor shall request W.R. covering all relevant periods.

Form of W.R →

Representation letters addressed to auditor.

Note: L/R requires mgt → Give "Public Statements" [Responsibility]
↓
Include again for W.R.? **No**

Doubt on Reliability of WR

(When?) • If WR is inconsistent with other A.E., [eg ① mgt → W.R → L/Cs completely disclose] [② D.C. → E.L.C → List → incomplete]
↓
perform procedures to resolve matter,
↓
Still if matter remains unresolved,

• Reconsider assessment of "DICE of mgt" [Diligence, Integrity, Competence or Ethical values]
&
• Determine effect on Reliability of → Representations [oral / written] & A.E. in general.
↓
• If auditor concludes W.R not reliable,
take appxt. actions including effect on audit opinion in A/R,
i.e. Disclaimer of opinion as per SA 705.

{ Mgt → W.R. Bharosa x → A.E. Bharosa x → A.E Nila x [poore FS] → concl^n x → opinion x }

2 min :)
DID :)

W.R. not provided

a) Discuss matter with mgt.

b) Re-evaluate integrity of mgt & effect on Reliability of

Repr [written/oral] & A.E. in general.

c) Take appt. actions, including possible effect on audit opinion in A/R i.e. Disclaimer of opinion as per SA 705.

~~Perform alt. audit procedures to get SAAE.~~