

**In 2015 the IAASB issued revisions to ISA 570, *Going Concern*. The revised Standard will become applicable for all audits of financial statements ending on or after 15 December 2016**

## **Requirement**

Enhanced audit effort is required in going concern “close call” situations as well as an increased focus on disclosures where a material uncertainty exists.

The going concern basis of accounting means that the financial statements are prepared on the assumption that the entity is a going concern and will continue its operations for the foreseeable future.

## **What is a Material Uncertainty?**

A material uncertainty is one relating to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern and that may, therefore, indicate that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

## **What must the auditor do?**

The following is required:

- Consider during the risk assessment whether events or conditions exist that may cast significant doubt on the entity’s ability to continue as a going concern
- Evaluate the entity’s own assessment of going concern as follows:
  - Consider all relevant information including all available information that management used to make their assessment as well as any knowledge obtained during the audit.
  - The assessment should cover the same period as what the management used to make their assessment – this period should be at least 12 months from the date of approval of the financial statements.
  - If the period of the assessment is less than 12 months from the date of approval of the financial statements, consider whether it is necessary to provide a modified audit opinion or to disclose this fact in the auditor’s report.
- Consider whether there are any events or conditions – either identified by management as part of their assessment or in addition to those – that may cast significant doubt on the company’s ability to continue to adopt the going concern basis of accounting. Where such events or conditions are identified, evaluate whether, in view of the requirements of the financial reporting framework, the financial statements provide adequate disclosures about those events and conditions, even where it has been concluded no material uncertainty exists.

## **Disclosures**

When evaluating disclosures the following is required:

- Consider any disclosures relating to solvency and liquidity risk, and the going concern basis of accounting made in the annual report.
- Where the directors have concluded that there is a material uncertainty, consider the relevant disclosures, including the principal events or conditions that may cast significant doubt on the company’s ability to continue to adopt the going concern basis of accounting and the directors’ plans to deal with those events or conditions.
- Where it is concluded that a material uncertainty related to the going concern basis of accounting exists, determine whether the financial statements disclose clearly that there is a material uncertainty relating to going concern.

## **Reporting**

### **Use of Going Concern Basis of Accounting Is Inappropriate**

- Issue an Adverse Opinion

### **Use of Going Concern Basis of Accounting Is Appropriate but a Material Uncertainty exists**

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| <p>Adequate Disclosure of a Material Uncertainty Is Made in the Financial Statements</p>     | <p>Draw attention to the note in the financial statements that discloses the matters</p> <p>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</p>  |
| <p>Adequate Disclosure of a Material Uncertainty Is Not Made in the Financial Statements</p> | <p>Express a qualified opinion or adverse opinion, as appropriate, in accordance with ISA 705</p> <p>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</p> |



**Matters relating to going concern, including “close calls” may be determined to be key audit matters to be reported as required by ISA 701.**