

PROPOSED INTERNATIONAL STANDARD ON AUDITING 570

(REDRAFTED)

GOING CONCERN

(MARK-UP)

(Effective for audits of financial statements for periods beginning on or after December 15, 2009)

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International Standard on Auditing (ISA) 570 (Redrafted), “Going Concern” should be read in the context of the “Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services,” which sets out the authority of ISAs.

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's responsibility in the audit of financial statements with respect to management's use of the going concern assumption in the preparation and presentation of the financial statements.

The Going Concern Assumption

2. Under the going concern assumption, an entity is viewed as continuing in business for the foreseeable future. ~~Financial~~ Most financial statements ~~— and,~~ in particular, all general purpose financial statements, ~~—~~ are therefore 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. 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. There may be some circumstances where special purpose financial statements are prepared in accordance with a financial reporting framework for which the going concern basis is not relevant (e.g., some financial statements prepared on a tax basis in particular jurisdictions). (Ref: Para. ~~A1~~ A2)

Responsibilities of ~~the Auditor and of~~ Management

3. Some financial reporting frameworks contain an explicit requirement¹ for management to make a specific assessment of the entity's ability to continue as a going concern, and standards regarding matters to be considered and disclosures to be made in connection with going concern. For example, International Accounting Standard (IAS) 1, "Presentation of Financial Statements" requires management to make an assessment of an entity's ability to continue as a going concern.²

¹ The detailed requirements regarding management's responsibility to assess the entity's ability to continue as a going concern and related financial statement disclosures may be set out in the financial reporting framework, law or regulation.

² International Accounting Standard (IAS) 1 as at ~~31 December 2005~~ 1 January 2007, "Presentation of Financial Statements," paragraphs 23 and 24 state: "When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. Financial statements shall be prepared 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, those uncertainties shall be disclosed. When financial statements are not prepared on a going concern basis, that fact shall be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern."

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 balance sheet date. 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, a conclusion that the going concern basis of accounting is appropriate may be

4. In other financial reporting frameworks, there may be no explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern. Nevertheless, since the going concern assumption is a fundamental principle in the preparation of ~~the most~~ financial statements as ~~described-discussed~~ in paragraph 2, management has a responsibility to assess the entity's ability to continue as a going concern even if the financial reporting framework does not include an explicit requirement to do so.
5. Management's assessment of the entity's ability to continue as a going concern involves making a judgment, at a particular point in time, about inherently uncertain ~~the~~ future outcomes of events or conditions ~~which are inherently uncertain~~. The following factors are relevant to that judgment:
 - The degree of uncertainty associated with the outcome of an event or condition increases significantly the further into the future an event or condition or a judgment is being made about the outcome ~~of an event or condition occurs~~. For that reason, most financial reporting frameworks that require an explicit management assessment specify the period for which management is required to take into account all available information.
 - The size and complexity of the entity, the nature and condition of its business and the degree to which it is affected by external factors ~~all~~ affect the judgment regarding the outcome of events or conditions.
 - Any judgment about the future is based on information available at the time at which the judgment is made. Subsequent events may be result in outcomes that are inconsistent with a judgment that were ~~which was~~ reasonable at the time ~~it was they were~~ made.

Responsibilities of the Auditor

6. The auditor's responsibility is to ~~evaluate-obtain sufficient appropriate audit evidence about~~ the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and, conclude whether there is a material uncertainty³ about the entity's ability to continue as a going concern ~~that need to be disclosed in the financial statements~~. This responsibility exists ~~The auditor evaluates the appropriateness of management's use of the going concern assumption~~ even if the financial reporting framework used in the preparation of the financial statements does not include an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern.

reached 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."

³ 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, ~~and elsewhere in the ISAs~~, the phrase "significant uncertainty" is used in similar circumstances.

7. The auditor cannot predict future events or conditions that may cause an entity to cease to continue as a going concern. Accordingly, the absence of any reference to going concern uncertainty in an auditor's report cannot be viewed as a guarantee as to the entity's ability to continue as a going concern.

Effective Date

8. This ISA is effective for audits of financial statements for periods beginning on or after ~~{date}~~December 15, 2009.⁴

Objectives

9. The objectives of the auditor are:
- (a) To obtain sufficient appropriate audit evidence about ~~whether the appropriateness of~~ management's use of the going concern assumption in the preparation and presentation of the financial statements ~~is appropriate in the circumstances; and~~
 - (b) To conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; and, if such a material uncertainty exists, to consider the implications for the auditor's report. [Text moved to (c) below]
 - (c) To ~~consider-determine~~ the implications for the auditor's report. [Text moved from (b)]

Requirements

Performing Risk Assessment Procedures and Related Activities

10. When performing risk assessment procedures ~~to obtain an understanding of the entity as required by ISA 315 (Redrafted)~~⁵, the auditor shall consider whether there are events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. In so doing, the auditor shall determine whether management has already performed an assessment of the entity's ability to continue as a going concern, and:
- ~~(a) Inquire of management as to whether events or conditions exist that, individually or collectively, may cast significant doubt about the going concern assumption; and either~~
 - (ba) If such an assessment has been performed, the auditor shall discuss the assessment with management and Consider management's assessment of the entity's ability to continue as a going concern, if such an assessment has been performed, to determine whether management has identified events or conditions—that, individually or

⁴ ~~This date will be not be earlier than December 15, 2008.~~

⁵ ISA 315 (Redrafted), "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment"

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

- (eb) If such an assessment has not yet been performed, the auditor shall discuss Discuss with management the basis for ~~its~~the intended use of the going concern assumption, 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~~if management has not yet performed such an assessment~~. (Ref: Para. ~~A3A2-~~A7A6)

11. The auditor shall remain alert throughout the audit for audit evidence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. (Ref: Para. ~~A5A4~~)

Evaluating Management's Assessment

12. The auditor shall evaluate management's assessment of the entity's ability to continue as a going concern. It is not the auditor's responsibility to rectify the lack of analysis by management. In some circumstances, however, the lack of analysis by management may not preclude the auditor from concluding whether management's use of the going concern assumption is appropriate in the circumstances~~being satisfied about the entity's ability to continue as a going concern~~. [~~Moved from paragraphs 22.2 and 22.3.~~] (Ref: Para. ~~A8A7-~~A10A11, A13)
13. In evaluating management's assessment of the entity's ability to continue as a going concern, the auditor ~~The auditor's evaluation~~ shall cover the same period as that used by management to make its assessment under as required by the applicable financial reporting framework, or by law or regulation if it specifies a longer period. If management's assessment of the entity's ability to continue as a going concern covers less than twelve months from the ~~balance sheet~~date of the financial statements, the auditor shall request management to extend its assessment period to at least twelve months from ~~the~~at ~~balance sheet~~date. (Ref: Para. ~~A11A10-~~A13A11)
14. In evaluating management's assessment, the auditor shall consider whether management's assessment includes ~~has taken into account~~ all relevant information of which the auditor is aware as a result of the audit. (Ref: Para. ~~A12A11-~~A13)

Period Beyond Management's Assessment

15. The auditor shall inquire of management as to its knowledge of events or conditions beyond the period of management's assessment ~~used by management~~ that may cast significant doubt on the entity's ability to continue as a going concern. 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. [~~Moved from paragraph A16.1~~] (Ref: Para. ~~A14A12-~~A13)

Further Additional Audit Procedures when Events or Conditions are Identified

16. When events or conditions have been identified ~~which that~~ may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall ~~Obtain-obtain~~ sufficient appropriate audit evidence to determine whether or not a material uncertainty exists through performing additional audit procedures, including consideration of ~~other~~ mitigating factors. [Moved from (a) below] These procedures shall include:
- (a) ~~When management has not yet performed an assessment of the entity's ability to continue as a going concern, the auditor may requesting management to begin makingmake its assessment. , particularly when the auditor has already identified events or conditions relating to the going concern assumption. [Moved from paragraph A6] Obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists through performing additional audit procedures, including consideration of other mitigating factors. [Moved to opening sentence prior to (a) above]. When analysis of a cash flow forecast is a significant factor in considering the future outcome of events or conditions the auditor shall:~~
- (i) ~~Evaluate the reliability of the entity's information system for generating such information; and~~
- (ii) ~~Determine whether there is adequate support for the assumptions underlying the forecast. [Moved to (c) below]~~
- (b) ~~Evaluate~~ Evaluating management's plans for future actions ~~based on~~ in relation to its going concern assessment and whether the outcome of these plans ~~will is likely to~~ improve the situation, and obtain sufficient appropriate audit evidence that management's plans are feasible in the circumstances.
- (c) ~~When the entity has prepared a cash flow forecast, and analysis of a cash flow the forecast is a significant factor in considering the future outcome of events or conditions in the evaluation of management's plans for future action the auditor shall~~
- (i) ~~Evaluating~~ Evaluating the reliability of the underlying data generated to prepare the forecast ~~entity's information system for generating such information; and~~
- (ii) ~~Determining~~ Determine whether there is adequate support for the assumptions underlying the forecast. [Moved from (a) above]
- (e)(d) ~~Determine~~ Considering whether any additional facts or information have become available since the date on which management made its assessment.
- (d)(e) ~~Requesting specific~~ Requesting written representations from management, or, where appropriate those charged with governance, regarding ~~its their~~ their plans for future action and the feasibility of these plans. (Ref: Para. ~~A15~~ A14 ~~A20~~ A19)

Audit Conclusions and Reporting

17. ~~If management is unwilling to make or extend its assessment when requested to do so by the auditor, the auditor shall consider whether there is a need to modify the opinion in the~~

~~auditor's report as a result of the auditor's inability to obtain sufficient appropriate audit evidence. When~~ and the auditor is unable to obtain sufficient appropriate audit evidence ~~by other means, to enable the auditor to determine, in the absence of management's assessment, whether or not events or conditions exist that may cast significant doubt on the entity's ability to continue as a going concern,~~ the auditor shall qualify the opinion or disclaim the auditor's opinion as appropriate as ~~required by discussed in~~ [Proposed] ISA 705 (Revised)⁶. ~~[Moved from paragraphs 22.1 and 23]~~ (Ref: Para. ~~A21~~A20)

178. 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 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:
- (a) ~~In the case of a fair presentation financial reporting framework,~~ the fair presentation of the financial statements, ~~statements in accordance with a fair presentation financial reporting framework~~ or
 - (b) ~~In~~ the case of a compliance framework, for the financial statements not to be misleading.

Use of Going Concern Assumption Appropriate but a Material Uncertainty Exists

198. When the ~~auditor concludes that the~~ use of the going concern assumption is appropriate in the circumstances but a material uncertainty exists, the auditor shall ~~conclude~~ 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. (Ref: Para. ~~A22~~A21)
1920. If adequate disclosure is made in the financial statements, the auditor shall express an unmodified opinion but shall include an Emphasis of Matter paragraph in the auditor's report to:
- (a) Highlight the existence of a material uncertainty relating to the event or condition that may cast significant doubt on the entity's ability to continue as a going concern; and to

⁶ [Proposed] ISA 705 (Revised), "Modifications to the Opinion in the Independent Auditor's Report"

- (b) Draw attention to the note in the financial statements that discloses the matters set out in paragraph 1819. (See [Proposed] ISA 706 (Revised)⁷, “Emphasis of Matter Paragraphs and Other Matter(s) Paragraphs in the Independent Auditor’s Report.” (Ref: Para. A23A22))

2021. If adequate disclosure is not made in the financial statements, the auditor shall express a qualified or adverse opinion, as appropriate (See [Proposed] ISA 705 (Revised); “Modifications to the Opinion in the Independent Auditor’s Report”). The auditor shall ~~include specific reference to~~ state in the auditor’s report ~~to the fact~~ that there is a material uncertainty that may cast significant doubt about the entity’s ability to continue as a going concern. (Ref: Para. A24A23-A26A25)

Going Concern Assumption Inappropriate

2122. 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 entity will not be able to continue as a going concern, the auditor shall express an adverse opinion, if the financial statements have been prepared on a going concern basis, regardless of whether or not appropriate disclosure has been made.~~ [Moved to accompanying application material new A26] (Ref: Para. A27A26-A28A27)

~~Management Unwilling to Make or Extend Its Assessment~~ (Ref: Para. A27)

22. ~~If management is unwilling to make or extend its assessment when requested to do so by the auditor, the auditor shall consider whether there is a need to modify the opinion in the auditor’s report as a result of the auditor’s inability to obtain sufficient appropriate audit evidence. [Moved to form new paragraph 17] It is not the auditor’s responsibility to rectify the lack of analysis by management. In some circumstances, however, the lack of analysis by management may not preclude the auditor from being satisfied about the entity’s ability to continue as a going concern. [Moved to paragraph 12]~~

23. ~~When the auditor is unable to obtain sufficient appropriate audit evidence to enable the auditor to determine, in the absence of management’s assessment, whether or not events or conditions exist that may cast significant doubt on the entity’s ability to continue as a going concern, the auditor shall qualify the opinion or disclaim the auditor’s opinion as appropriate as discussed in ISA 705 (Revised). [Moved to form new paragraph 17]~~

~~Significant Delay in the Approval of Financial Statements~~

24. ~~When there is significant delay in the approval of the financial statements by management or those charged with governance after the balance sheet date, the auditor shall inquire as to the reasons for the delay. When 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~~

⁷ [Proposed] ISA 706 (Revised), “Emphasis of Matter Paragraphs and Other Matter(s) Paragraphs in the Independent Auditor’s Report.”

~~effect on the auditor's conclusion regarding the existence of a material uncertainty, as described in paragraph 17. [Moved to new paragraph 24 below]~~

Communication with Those Charged with Governance

~~2523.~~ Unless all those charged with governance are involved in managing the entity, ~~When the auditor has identified events or conditions that may cast significant doubt on the entity's ability to continue as a going concern~~ the auditor shall communicate with those charged with governance ~~about events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern~~ the matter. Such communication with those charged with governance shall include a discussion of the following:

- (a) Whether the events or conditions constitute a material uncertainty;
- (b) Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and
- (c) The adequacy of related disclosures in the financial statements.

Significant Delay in the Approval of Financial Statements

24. When there is significant delay in the approval of the financial statements by management or those charged with governance after the ~~balance sheet date~~ of the financial statements, the auditor shall inquire as to the reasons for the delay. When 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 ~~17~~ 18. ~~[Moved from former paragraph 24 above]~~

Application and Other Explanatory Material

Introduction (Ref: Para. 2)

Considerations Specific to Smaller Entities

~~A1. — The size of an entity affects its ability to withstand adverse conditions. Small entities can respond quickly to exploit opportunities, but may lack reserves to sustain operations. [Moved to A5]~~

~~A2. — Conditions of particular relevance to small entities include the risk that banks and other lenders may cease to support the entity, the possibility of the loss of a principal supplier, major customer or key employee, and the possible loss of the right to operate under a license, franchise or other legal agreement. [Moved to A6]~~

Considerations Specific to Public Sector Entities

A3A1. Management's use of the going concern assumption is also relevant to public sector entities. For example, International Public Sector Accounting Standard (IPSAS) 1 "Presentation of Financial Statements"⁸ addresses the issue of the ability of public sector entities to continue as a going concern. Going concern risks may arise, but are not limited to, situations where public sector entities operate on a for-profit basis, where government support may be reduced or withdrawn, or in the case of privatization. Events or conditions that may cast significant doubt on an entity's ability to continue as a going concern in the public sector may include situations where the public sector entity lacks funding for its continued existence or when policy decisions are made that affect the services provided by the public sector entity. The appropriateness of the use of the going concern assumption in the preparation of the financial statements is generally not in question when auditing either a central government or those public sector entities having funding arrangements backed by a central government. However, where such arrangements do not exist, or where central government funding of the entity may be withdrawn and the existence of the entity may be at risk, this ISA becomes relevant. As governments privatize government entities, going concern issues are becoming more common to the public sector.

Performing Risk Assessment Procedures and Related Activities (Ref: Para. 10-11)

A2. The following are examples of events or conditions that, individually or collectively, may cast significant doubt about the going concern assumption. 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 ~~debtors and other~~ 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 generate cash flows.
- Arrears or discontinuance of dividends.
- Inability to pay creditors on due dates.
- Inability to comply with ~~other the~~ terms of loan agreements.

⁸ IPSAS 1 "Presentation of Financial Statements" as at 1 January 2007, paragraphs 38 to 41.

- Change from credit to cash-on-delivery transactions with suppliers.
- Inability to obtain financing for essential new product development or other essential investments.

Operating

- Management intentions to liquidate the entity or to cease operations.
- Loss of key management without replacement.
- Loss of a major market, key customer(s), franchise, license, or principal supplier(s).
- Labor difficulties.
- Shortages of important supplies.
- Emergence of a highly successful competitor.

Other

- Non-compliance with capital or other statutory requirements.
- Pending legal or regulatory proceedings against the entity that may, if successful, result in claims that are the entity is unlikely to be able to satisfied 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 disposal-disposing of assets, rescheduling ~~of~~ 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.

A5A3. Paragraph 10 requires the auditor to consider events and conditions relating to the going concern assumption when performingThe risk assessment procedures required by paragraphs 10 and 11 help the auditor to determine whether management's use of the going concern assumption is likely to be an important issue and its impact on planning the audit. These procedures also. This allows for more timely discussions with management, including a discussion of management's plans and resolution of any identified going concern issues.

A6. When management has not performed an assessment of the entity's ability to continue as a going concern the auditor may request management to begin making its assessment, particularly when the auditor has already identified events or conditions relating to the going concern assumption. [Moved to paragraph 16]

A7A4. ISA 315 (Redrafted), "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment" 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. If events or conditions ~~which 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 (Redrafted)⁹; ~~"The Auditor's Responses to Assessed Risks"~~ establishes requirements and provides guidance on this issue.

Considerations Specific to Smaller Entities

- A5. The size of an entity may affects its ability to withstand adverse conditions. Small entities ~~can may be able to~~ respond quickly to exploit opportunities, but may lack reserves to sustain operations. [Moved from A1]
- 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 ~~possibility possible of the~~ loss of a principal supplier, major customer, ~~or~~ key employee, ~~and the possible loss of or~~ the right to operate under a license, franchise or other legal agreement. [Moved from A2]

Evaluating Management's Assessment (Ref: Para. 12-14)

- A8A7. Management's assessment of the entity's ability to continue as a going concern is a key part of the auditor's consideration of ~~the application management's use~~ of the going concern assumption.
- A9A8. When there is a history of profitable operations and a ready access to financial resources, management may make its assessment without detailed analysis. In ~~such circumstances this case~~, the auditor's ~~conclusion about evaluation of~~ the appropriateness of ~~this management's~~ assessment may ~~also~~ be made without ~~the need for~~ performing detailed evaluation procedures, ~~as because~~ the auditor's other audit procedures may be sufficient to ~~assess enable the auditor to conclude~~ whether management's use of the going concern assumption in the preparation of the financial statements is appropriate in the circumstances.
- A10A9. In other circumstances, evaluating management's assessment of the entity's ability to continue as a going concern, as required by paragraph ~~14~~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.

A11A10.

M

ost financial reporting frameworks requiring an explicit management assessment specify

⁹- ISA 330 (Redrafted), "The Auditor's Responses to Assessed Risks"

the period for which management is required to take into account all available information.¹⁰

~~A12. Other than inquiry of management, the auditor does not have a responsibility to design audit procedures to test for indications of events or conditions which 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 balance sheet date. [Moved to new A12]~~

~~A13. Nevertheless, the auditor is 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 assumption in preparing the financial statements. [Moved to new A13]~~

Considerations Specific to Smaller Entities

~~A114. In many cases the~~The management of smaller entities ~~is less likely to~~may not have prepared a detailed ~~analysis of its~~assessment of the entity's ability to continue as a going concern.~~In some cases, management may not have prepared a detailed assessment, 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 ~~be satisfied as to~~ the entity's ability to continue as a going concern. ~~Discussion with, and inquiry of, management in particular, of~~For smaller entities it may be appropriate to discuss the medium and long-term financing of the entity ~~in the medium and long term may be appropriate in a small entity environment~~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 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, ~~e.g. for example~~, orders received for future supply, evaluated as to their feasibility or otherwise substantiated.

~~A15. 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. In such circumstances the auditor may obtain appropriate documentary evidence of the subordination of the owner manager's loan. 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 ask for a specific written representation confirming the owner manager's intention or understanding. [Moved to A19]~~

¹⁰ For example, IAS 1 defines this as a period that should be at least, but is not limited to, twelve months from the balance sheet date.

Period Beyond Management's Assessment (Ref: Para. 15)

A126. Other than inquiry of management, the auditor does not have a responsibility to ~~design~~perform any other audit procedures to ~~test for indications of~~identify events or conditions ~~which~~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 ~~balance sheet date~~of the financial statements. [Moved from A12]

A13. ~~Nevertheless, However, as required by paragraph 11,~~ the auditor ~~is~~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 assumption in preparing the financial statements. [Moved from A13] [Formerly A16]~~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.~~[Moved to paragraph 15] ~~As part of the auditor's evaluation required by paragraph 15, 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.

Further Additional Audit Procedures when Events or Conditions are Identified (Ref: Para. 16)

A147. When the auditor ~~considers~~believes that identified events or conditions may cast significant doubt on the entity's ability to continue as a going concern, certain audit procedures may take on added significance.

A15. In addition to the procedures required in paragraph 16(c), the auditor may consider it appropriate to compare:

- The prospective financial information for recent prior periods with historical results; and
- The prospective financial information for the current period with results achieved to date. [Moved from A20]

A168. Evaluating management's plans for future actions, as required by paragraph 16(b) 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.

A179. Audit procedures that are relevant ~~in this regard~~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 lawyer 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 borrowing facilities.
- Obtaining and reviewing reports of regulatory actions.
- Determining the adequacy of support for any planned disposals of assets.

A18. [New text based on para A15] Where continued support by a third party, whether through the subordination of loans, commitments to maintain or provide additional funding, or guarantees, is important to an entity's ability to continue as a going concern, the auditor may need to consider requesting written confirmation from those third parties of such continued support (including its terms and conditions) and to obtain evidence of their ability to provide such support.

Considerations Specific to Smaller Entities

A19. 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 ~~ask for request a specific~~ written confirmation representation of the terms and conditions attaching to such support confirming and the owner-manager's intention or understanding. [moved from A15]

~~A20. In addition to the procedures required in paragraph 16(a), the auditor may consider it appropriate to compare:~~

• The prospective financial information for recent prior periods with historical results; and

• The prospective financial information for the current period with results achieved to date. **[Moved to A15]**

Audit Conclusions and Reporting (Ref: Para. 17 - 18)

A20. In certain circumstances, ~~such as those described in paragraphs 10, 12, 15, A7 and A17,~~ 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 the use of the going concern assumption in the preparation of the financial statements, such as audit evidence regarding the existence of plans management has put in place or the existence of other mitigating factors. **[Moved from A27]**

Use of Going Concern Assumption Appropriate but a Material Uncertainty Exists (Ref: Para. 19-21)

A214. The determination of the adequacy of the financial statement disclosure, as required by paragraph 198, may involve determining whether the information explicitly draws the reader's attention to the possibility that the entity may be unable to continue realizing its assets and discharging its liabilities in the normal course of business.

A222. The following is an illustration of an Emphasis of Matter paragraph when the auditor is satisfied as to the adequacy of the note disclosure:

Emphasis of Matter

"Without qualifying our opinion, we draw attention to Note X in the financial statements which indicates that the Company incurred a net loss of ZZZ during the year ended December 31, 20X1 and, as of that date, the Company's current liabilities exceeded its total assets by YYY. These conditions, along with other matters as set forth in Note X, indicate the existence of a material uncertainty ~~which that~~ may cast significant doubt about the Company's ability to continue as a going concern."

A233. In ~~extremely rare circumstances—eases~~, such as situations involving multiple material uncertainties that are significant to the financial statements as a whole, the auditor may consider it appropriate to express a disclaimer of opinion instead of adding an Emphasis of Matter paragraph. **[Proposed]** ISA 705 (Revised) establishes requirements and provides guidance on this issue.

A244. The following is an illustration of the relevant paragraphs when a qualified opinion is to be expressed:

Basis for Qualified Opinion

“The Company’s financing arrangements expire and amounts outstanding are payable on March 19, 20X1. The Company has been unable to re-negotiate or obtain replacement financing. This situation indicates the existence of a material uncertainty ~~which that~~ may cast significant doubt on the Company’s ability to continue as a going concern and therefore ~~it the Company~~ 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 fully disclose this fact.

Qualified Opinion

In our opinion, except for the incomplete disclosure of the information included in the preceding paragraph, the financial statements ~~give a true and fair view of~~ (present fairly, in all material respects) ~~(or “give a true and fair view of”)~~ the financial position of the Company at December 31, 20X0 and of its financial performance and its cash flows for the year then ended in accordance with ...”

A255. The following is an illustration of the relevant paragraphs when an adverse opinion is to be expressed:

Basis for Adverse Opinion

“The Company’s financing arrangements expired and the amount outstanding was payable on December 31, 20X0. The Company has been unable to re-negotiate or obtain replacement financing and is considering filing for bankruptcy. These events indicate a material uncertainty ~~which 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. The financial statements (and notes thereto) do not disclose this fact.

Adverse Opinion

In our opinion, because of the omission of the information mentioned in the preceding paragraph, the financial statements do not ~~give a true and fair view of~~ (or do not present fairly, ~~in all material respects~~) ~~(or “give a true and fair view of”)~~ the financial position of the Company as at December 31, 20X0, and of its financial performance and its cash flows for the year then ended in accordance with... ~~(and do not comply with...)-...~~”

Going Concern Assumption Inappropriate (Ref: Para. 22)

A26. The requirement of paragraph 22 for the auditor to express an adverse opinion if, in the auditor’s judgment, the entity will not be able to continue as a going concern, but the financial statements have been prepared on a going concern basis apply regardless of whether or not appropriate disclosure of the inappropriateness of management’s use of the going concern assumption in the financial statements has been made in those financial statements. [Moved from paragraph 21]

A276. 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 (e.g., 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 **require ~~an~~ 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.

Management Unwilling to Make or Extend Its Assessment (Ref: Para. 22-23)

~~A27.—In certain circumstances, such as those described in paragraphs 10, 12, 15, A7 and A17, 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 the use of the going concern assumption in the preparation of the financial statements, such as audit evidence regarding the existence of plans management has put in place or the existence of other mitigating factors. [Moved to A20]~~

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