



A Presentation to-
SLAuS 570 – Going Concern
By Tishan Subasinghe

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Introduction to Going Concern Assumption

What Is Going Concern Assumption

- An entity is viewed as continuing in business operations for the foreseeable future.



Examples

- An oil and gas firm operating in Nigeria is stopped by a Nigerian court from carrying out operations in Nigeria.
- The firm is **not a going concern** in Nigeria, because it has to shut down.



Examples

- A nationalized refinery is facing cash flows problems but the government of the country provided a guarantee to the refinery to help it out with all payments, the refinery is **a going concern** despite poor financial position.



Examples

- A bank is in serious financial troubles and the government is not willing to bail it out.
The Board of Directors has passed a resolution to liquidate the business.
The bank is **not a going concern**.



Examples

- A merchandising company has a current ratio below 0.5.
- A creditor \$1,000,000 demanded payment which the company could not make.
- The creditor requested the court to liquidate the business and recover his debts and the court grants the order.
- The company is **no longer a going concern**.

Accounting Standards perspective

LKAS 1 – Presentation of Financial Statements

- When preparing financial Statements, management shall make an **assessment** of the entity's **ability to continue as going concern (section 25 – LKAS 1)**
- An entity shall prepare Financial Statements on going concern basis **unless management either intend to liquidate the entity or to cease the trading or has no realistic alternative but to do so**

LKAS 1 – Presentation of Financial Statements

- When management is aware, in making its assessment, of **material uncertainties related to the 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 its financial statements in **going concern basis** it shall **disclose the 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**

Objectives of SLAuS 570



- To obtain sufficient appropriate audit evidence regarding the appropriateness of management's use of the going concern assumption in the preparation of the financial statements
- 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
- To determine the implications for the auditor's report.

Responsibilities of the Auditor



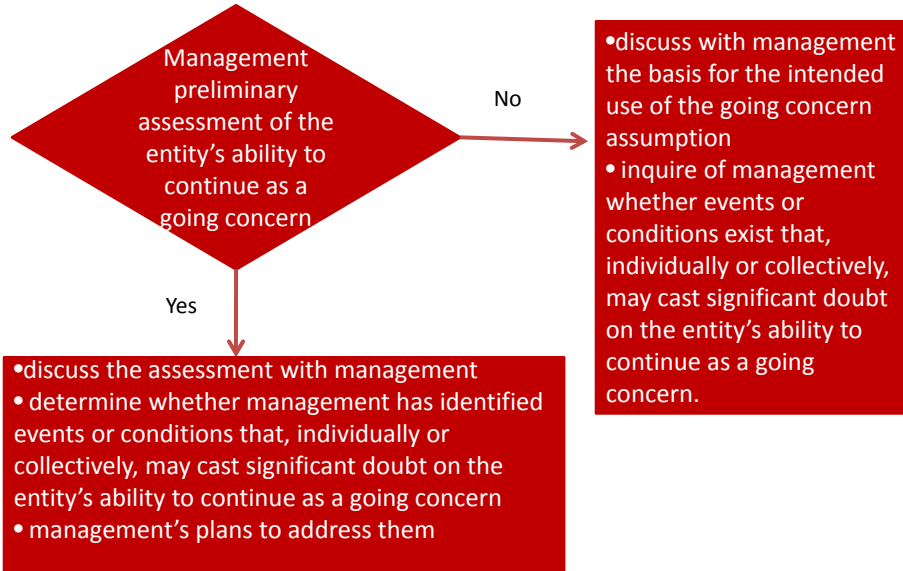
- To obtain sufficient appropriate audit evidence about the **appropriateness of management's use of the going concern assumption** in the preparation and presentation of the financial statements
- To conclude whether there is a **material uncertainty about the entity's ability to continue as a going concern.**

This responsibility exists 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.



Planning, Risk assessment Procedures and Related Activities

SLAuS 560 – Going Concern Risk assessment Procedures and Related Activities



SLAuS 570 – Going Concern Risk assessment Procedures and Related Activities

•When performing risk assessment procedures under planning as required by SLAuS 315, 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 a preliminary assessment of the entity's ability to continue as a going concern

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.



- If such an assessment has not yet been performed, the auditor shall discuss with management the basis for 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.

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.

Events and Conditions that may cast doubt about Going Concern Assumption



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.



Financial (Cont...)

- 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 the terms of loan agreements.
- 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 the entity is unlikely to be able to satisfy.
- Changes in law or regulation or government policy expected to adversely affect the entity.
- Uninsured or underinsured catastrophes when they occur.

Evaluating Management's Assessment

- Shall cover the same period as that used by management to make its assessment
- If management's assessment of the entity's ability to continue as a going concern covers less than twelve months from the date of the financial statements as defined in SLAuS 560, the auditor shall request management to extend its assessment period to at least twelve months from that date.
- In evaluating management's assessment, the auditor shall consider whether management's assessment includes all relevant information of which the auditor is aware as a result of the audit.

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

Period Beyond Management's Assessment

- The auditor shall ***inquire*** 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.

Additional Audit Procedures when Events or Conditions are Identified

- 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
- 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

The auditor shall obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists through performing additional audit procedures, including consideration of mitigating factors



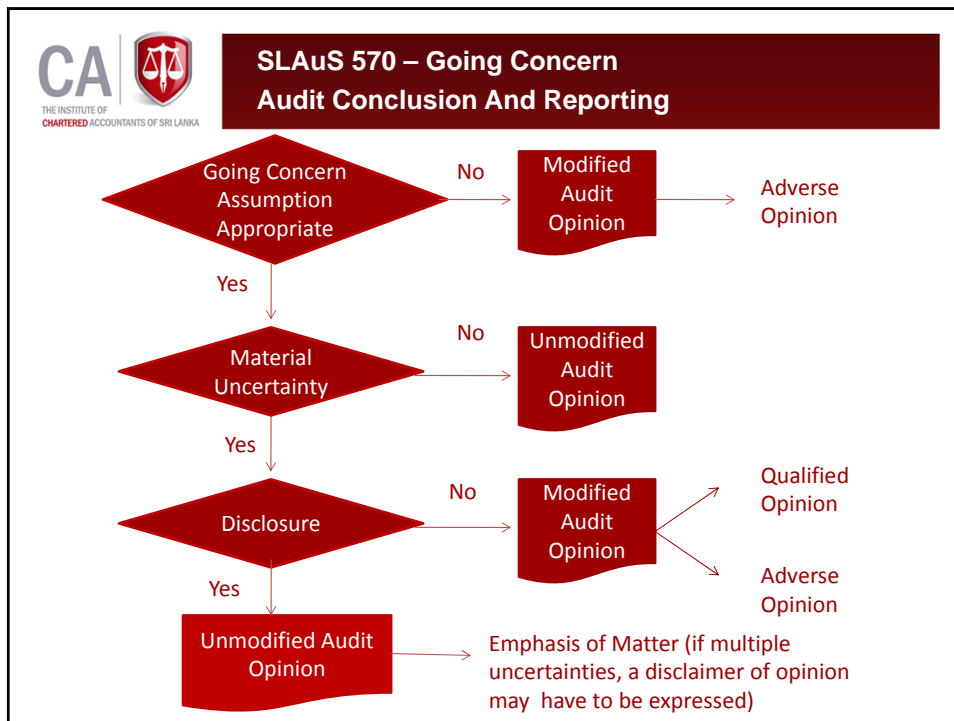
- Where the entity has prepared a cash flow forecast, and analysis of the forecast is a significant factor in considering the future outcome of events or conditions in the evaluation of management's plans for future action
 - (i) Evaluating the reliability of the underlying data generated to prepare the forecast
 - (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.



- Requesting written representations from management and, where appropriate, those charged with governance, regarding their plans for future action and the feasibility of these plans

The auditor shall obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists through performing additional audit procedures, including consideration of mitigating factors

Audit Conclusion And Reporting





Audit Reporting When Disclosure of Material Uncertainty Is Adequate

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 that may cast significant doubt about the Company’s ability to continue as a going concern.”



Audit Reporting When Disclosure of Material Uncertainty Is Inadequate – Qualified Opinion

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 that may cast significant doubt on the Company’s ability to continue as a going concern and therefore 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.”



***Audit Reporting When Disclosure of Material
Uncertainty Is Inadequate – Qualified Opinion (Cont...)***

Qualified Opinion

“In our opinion, except for the incomplete disclosure of the information referred to in the Basis for Qualified Opinion paragraph, the 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, 20X0, and of its financial performance and its cash flows for the year then ended in accordance with ...”



***Audit Reporting When Disclosure of Material
Uncertainty Is Inadequate – Adverse Opinion***

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 that may cast significant doubt on the Company’s ability to continue as a going concern and therefore 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 disclose this fact.”



Audit Reporting When Disclosure of Material Uncertainty Is Inadequate – Adverse Opinion (Cont...)

Adverse Opinion

“In our opinion, because of the omission of the information mentioned in the Basis for Adverse Opinion paragraph, the financial statements do not present fairly (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.. ”



Audit Reporting When going concern assumption is inappropriate and management is unwilling to make any assessment

- If, in the auditor’s judgment, the entity will not be able to continue as a going concern, the auditor should express an adverse opinion if the financial statements have been prepared on a going concern basis.

- If management is unwilling to make or extend its assessment when requested to do so by the auditor, the auditor should consider the need to modify the auditor’s report as a result of the limitation of the scope of the auditors work.

Discussion

Thank you.