

# **SA 570 (Revised)**

## **GOING CONCERN**



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**Shared at**

**Auditing & Assurance Standards Board of ICAI**

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# **FUNDAMENTAL ASSUMPTIONS**

- ❖ **AS 1 – Disclosure necessary when not followed**
- ❖ **Consistency**
- ❖ **Accrual**
- ❖ **Going Concern**
  - ❖ **The enterprise is normally viewed as a going concern, that is, as continuing in operation for the foreseeable future. It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the operations.**

# **SA 570 - OVERVIEW**

- ❖ **SA 570 (Revised) - effective for audits of financial statements (FS) for periods beginning on or after 1<sup>st</sup> April 2017.**
- ❖ **Scope:**
  - ❖ **Deals with Auditor's Responsibilities in audit of FS relating to Going Concern (GC); and**
  - ❖ **Implications for the Auditor's Report.**
- ❖ **ICAI - Implementation Guide to Standard on Auditing (SA) 570 (Revised) – August 2019**

# **RESPONSIBILITY FOR GC ASSESSMENT**

**Management**



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graph TD; Management[Management] --> Auditor[Auditor to evaluate Management assessment];
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**Auditor to evaluate  
Management  
assessment**

# REVISED SA 700

- ❖ **Management Responsibility:**
  - ❖ **In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.**

# REVISED SA 700

- ❖ **Auditor's Responsibility:**
  - ❖ **Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.**
  - ❖ **If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the FS or, if such disclosures are inadequate, to modify our opinion.**
  - ❖ **Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.**

# **MANAGEMENT ASSESSMENT**

- ❖ **Involves making judgment about inherently uncertain future outcome of events / conditions**
- ❖ **Period - at least 12 months from date of FS.**
- ❖ **Based on – information available at the time at which the judgment is made.**
- ❖ **Affected by – size & complexity of entity, Nature & Condition of its business.**

# **MANAGEMENT ASSESSMENT**

- ✘ **Cash flow projections - ability to pay debts as and when they fall due after factoring realistic assumptions in the current market conditions.**
- ✘ **Detailed business plans covering period under consideration - If current conditions deteriorate further.**
- ✘ **Support for entity's ability to obtain new funding upon maturity of existing funding arrangements.**
- ✘ **Evidence that debt covenants have been assessed & any risk of breaching them has been managed, such that they do not provide significant risk.**
- ✘ **'Support Letter' from the parent company for financial support for the next 12 months. !! – Auditor to evaluate financial strength of giver.**



# **AUDITOR RESPONSIBILITY**

- ❖ **Obtain Sufficient Appropriate Audit Evidence (SAAE) & Conclude :**
  - **Regarding appropriateness of Mgt's use of GC basis of accounting in preparation of FS.**
- ❖ **Conclude, based on audit evidence obtained:**
  - **Whether a material uncertainty exists that may cast significant doubt on entity's ability to continue as GC.**
- ❖ **Report - In accordance with this SA.**
- ❖ **However, absence of any reference to a material uncertainty about the entity's ability to continue as GC in auditor's report cannot be viewed as guarantee to entity's ability to continue as GC**

# **RISK ASSESSMENT PROCEDURES**

- ❖ **When performing risk assessment procedures as per SA 315, consider whether events/conditions exist that may cast significant doubt on entity's ability to continue as GC - Financial, Operating, Others**
- ❖ **Determine if Mgt. has performed preliminary assessment of GC**
  - **If Yes - Discuss with Mgt. & determine whether Mgt. has identified events/conditions that may cast significant doubt on entity's ability to continue as GC, and if so, Mgt.'s plans to address them**
  - **If No - discuss with Mgt. the basis for intended use of GC basis of accounting & inquire of Mgt. whether events/conditions exists that may cast significant doubt on entity's ability to continue as GC**
- ❖ **Remain alert throughout audit for audit evidence of events /conditions that may cast significant doubt on the entity's ability to continue as GC.**

## **EVALUATING MANAGEMENT'S ASSESSMENT**

- ❖ **Assessment period:**
  - **Cover same period as that used by management as per applicable financial reporting framework (FRF); or longer period if required by law/regulation.**
  - **If period covers less than 12 months from the date of FS then request management to extend it to at least 12 months from that date.**
- ❖ **Consider whether mgt. assessment includes all relevant information of which auditor is aware as result of audit.**

## **PERIOD BEYOND MANAGEMENT'S ASSESSMENT**

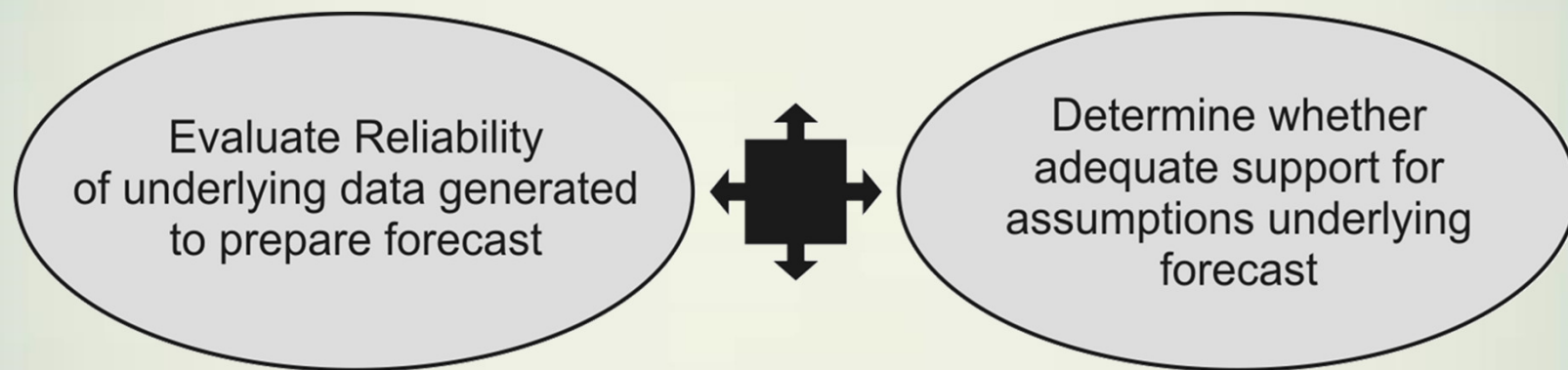
- **Inquire of management as to its knowledge of events/conditions beyond period of management's assessment that may cast significant doubt on the entity's ability to continue as GC:**
  - **If events/conditions identified, auditor may need to request management to evaluate potential significance of the event/conditions on its assessment.**
  - **No responsibility to perform any other audit procedure except inquiry of management.**
- **What about a company under CIRP?**

## **ADDITIONAL AUDIT PROCEDURES WHEN EVENTS/CONDITIONS ARE IDENTIFIED - I**

- ❖ If events or conditions identified that may cast significant doubt on entity's ability to continue as GC, obtain SAAE to determine whether or not a material uncertainty exists through performing additional audit procedures e.g.
  - Request mgt. to make GC assessment if not yet performed.
  - Evaluate mgt's plans for future actions (e.g., restructure debt, delay expenditures etc.):
    - \* Whether outcome of plans likely to improve situation?
    - \* Whether plans are feasible in the circumstances?
- ❖ Consider whether any additional facts/information have become available since date of management's assessment.

## ADDITIONAL AUDIT PROCEDURES WHEN EVENTS/CONDITIONS ARE IDENTIFIED - II

- ❖ **Analysis of cash flow forecast prepared by the entity.**



- ❖ **Request written representations from mgt. and those charged with governance (TCWG) regarding their plans for future actions and their feasibility.**

# **CHECKLIST FOR EVALUATING MGT ASSESSMENT**

- ❖ **Going Concern Considerations:**
  - ❖ Financial Indicators – Losses, Negative NW, Negative Cash flows...
  - ❖ Operating Indicators – Loss of - KMP or staff, License, Franchise...
  - ❖ Other Indicators - Statutory Non- Compliances, Govt. Policy...
- ❖ **Consideration of Management's Assessment**
- ❖ **Consideration of Management Plans**
- ❖ **Management Representation**
- ❖ **Consideration of Effects on Financial Statements**
- ❖ **Internal Consultation**
- ❖ **Accounting Policies and Disclosures**
- ❖ **Conclusion**



## **EVENTS/CONDITIONS WHICH INDICATE GC EFFECTED - EXAMPLES**

- ❖ **Company has passed a resolution to wind up its operations, and still used going concern basis of accounting for preparation of the FS, without disclosing the facts in FS.**
- ❖ **Company's financing arrangements expire & amounts outstanding are payable on 30 August 20XX. Company has been unable to re-negotiate or obtain replacement financing.**



# **SIGNIFICANT DELAY IN FS APPROVAL**

Significant delay in approval of FS by  
Mgt. or TCWG after date of FS



Auditor to inquire reasons for delay



If delay related to events / conditions  
relating to GC assessment – perform  
additional audit procedures to conclude  
rgd. Existence of material uncertainty

# ADEQUACY OF DISCLOSURES WHEN MATERIAL UNCERTAINTY EXISTS

- ❖ **Determine whether FS**
  - **Adequately disclose the principal events / conditions that may cast significant doubt on entity's ability to continue as a GC & Mgt's plans to deal with these events/conditions.**
  - **Disclose clearly that there is a material uncertainty and the entity may be unable to realise its assets and discharge its liabilities in the normal course of business.**

## **ADEQUACY OF DISCLOSURES WHEN MATERIAL UNCERTAINTY EXISTS**

- ❖ **If events/conditions identified that may cast significant doubt on entity's ability to continue as a GC, but based on audit evidence obtained auditor concludes that no material uncertainty exists, auditor shall evaluate:**
  - **Whether in view of requirements of applicable FRF, FS provide adequate disclosures about these events/conditions.**

# IMPLICATIONS - AUDITOR'S REPORT

- ❖ Use of GC Basis of Accounting is **Inappropriate**
  - If FS are prepared on a GC basis of accounting but, in auditor's judgment, Mgt's use of GC basis of accounting in preparation of the FS is inappropriate: Express an adverse opinion.
- ❖ Use of GC basis of Accounting **is appropriate but a Material Uncertainty Exists**
  - If adequate disclosure of material uncertainty is made in FS: Express unmodified opinion and include a separate section in auditor's report with heading "Material Uncertainty relating to Going Concern"
  - If adequate disclosure of material uncertainty is not made in FS: Express a qualified opinion or adverse opinion as appropriate in accordance with SA 705

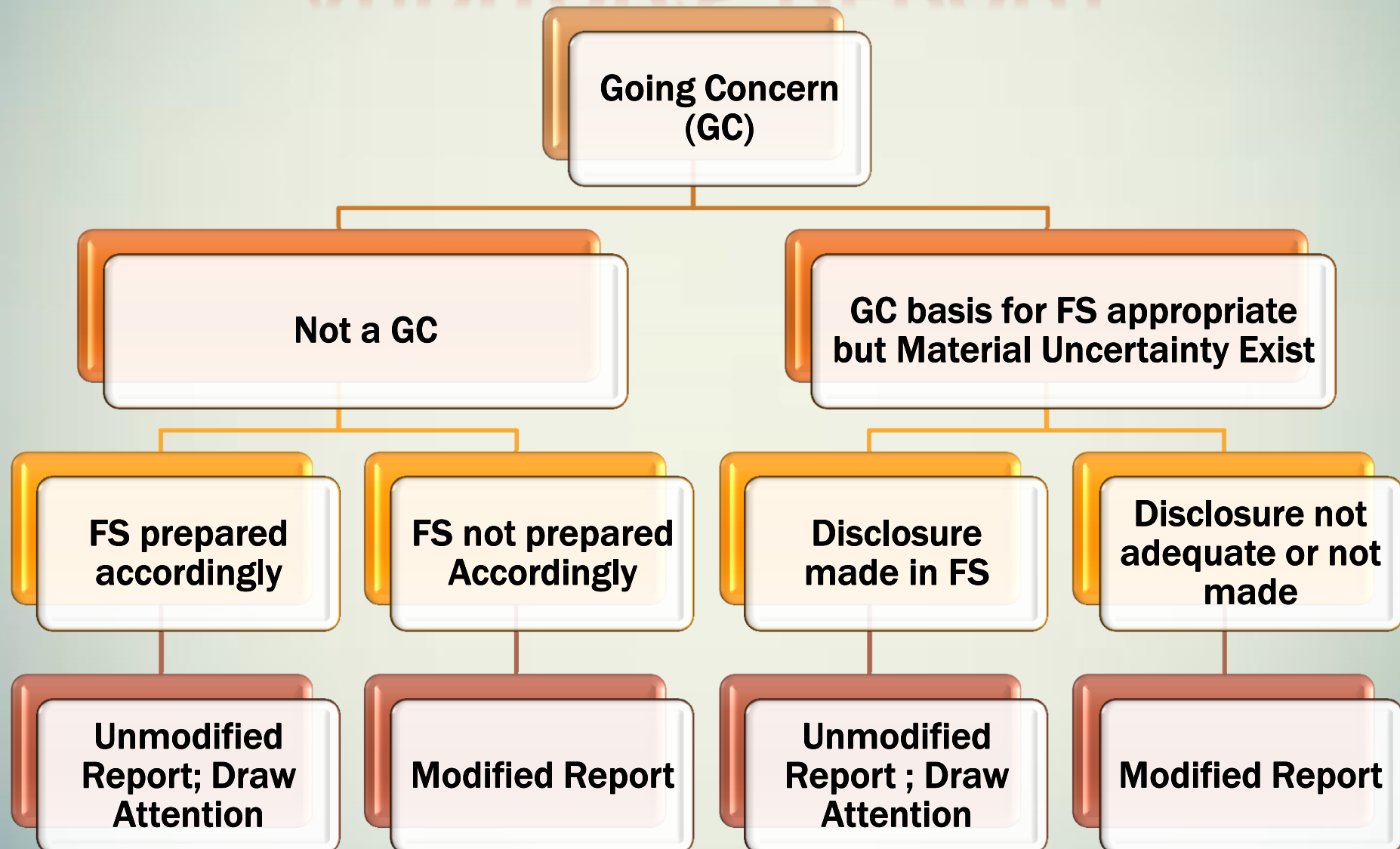
# **MANAGEMENT UNWILLING TO MAKE OR EXTEND ITS ASSESSMENT**

- ❖ If management is unwilling to make or extend its assessment of entity's ability to continue as GC, when requested to do so by auditor:
  - Consider implications for the auditor's report.
  - Qualified opinion or Disclaimer of opinion may be appropriate in circumstances.

# **COMMUNICATION WITH TCWG**

- ❖ Unless all TCWG involved are in managing entity, communicate with TCWG, events/conditions that may cast significant doubt on entity's ability to continue as GC:
  - Whether events/conditions constitute material uncertainty?
  - Whether Mgt's use of GC Basis of Accounting is appropriate in preparation of FS?
  - Adequacy of related disclosures in FS; and
  - Where applicable, the implications for Auditor's Report.

# AUDITOR'S REPORT



# AUDITOR'S REPORT - 1

- ❖ **Unmodified Opinion** when material uncertainty exists & disclosure in FS is Adequate
- ❖ In – ‘Material Uncertainty Related to Going Concern’ Para after Basis of Opinion:
  - ❖ We draw attention to Note X of the financial statements which indicates that the Company's net worth has got eroded as of March 31, 20XX and the Company's current liabilities exceeded its current assets. As stated in Note No. \_\_ these conditions, along with other matters as stated in said note, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our report is not modified in respect of this matter.



# **AUDITOR'S REPORT - 1**

- ❖ In – ‘Report on Other Legal and Regulatory Requirements’ Para [S. 143(3)(h)]:
  - ❖ The matter described under material uncertainty related to Going Concern may have an adverse effect on the functioning of the company

# AUDITOR'S REPORT - 2

- ❖ **Qualified Opinion** when a material uncertainty exists and FS are materially misstated due to inadequate disclosure
- ❖ In – ‘Qualified Opinion’ Para:
  - ❖ .....
  - ❖ In our opinion and to the best of our information & according to the explanations given to us **except for inadequate disclosure of ‘Material Uncertainty Related to Going Concern’ referred to in the “Basis for Qualified Opinion” section** of this report, the aforesaid FS give a true and fair view in conformity with AS prescribed u/s 133 of the Companies Act, 2013 and other accounting principles generally accepted in India, of the state of affairs of the Company as at March 31, 20XX, the profit/loss for the year ended on that date and its cash flows for the year ended on that date.

# AUDITOR'S REPORT - 2

- ❖ In – 'Basis of Qualified Opinion' Para:
  - ❖ As discussed in Note YY, the Company's financing arrangements expired and the amount outstanding to the tune of Rs. ...was payable on March 31, 20XX. The Company has been unable to re-negotiate or obtain replacement financing and is considering filing an application under IBC 2016. These events indicate a material uncertainty 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 FS (and notes thereto) do not adequately disclose this fact.
  - ❖ .....

# **AUDITOR'S REPORT - 2**

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- ❖ In – ‘Report on Other Legal and Regulatory Requirements’ Para [S. 143(3)(h)]:
  - ❖ The matter described under Basis of Qualified Opinion Para related to Going Concern may have an adverse effect on the functioning of the company

# AUDITOR'S REPORT - 3

- ❖ **Adverse Opinion** when a material uncertainty exists and is not disclosed in FS
- ❖ In – ‘Adverse Opinion’ Para :
  - ❖ .....
  - ❖ In our opinion and to the best of our information and according to the explanations given to us due to **incomplete assessment and disclosure of ‘Material Uncertainty Related to Going Concern’** referred to in the “Basis for Adverse Opinion” **section of this report**, the aforesaid FS do not give a true and fair view in conformity with AS prescribed u/s 133 of the Companies Act, 2013 and other accounting principles generally accepted in India, of the state of affairs of the Company as at March 31, 2019, the profit/ loss for the year ended on that date and its cash flows for the year ended on that date.

# AUDITOR'S REPORT - 3


- ❖ In – 'Basis of Adverse Opinion' Para:
  - ❖ The Company's financing arrangements expired and the amount outstanding to the tune of Rs. ...was payable on March 31, 20XX. The Company has been unable to re-negotiate or obtain replacement financing and is considering filing an application under Insolvency and Bankruptcy Code 2016. These events indicate a material uncertainty 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.
  - ❖ .....


# **AUDITOR'S REPORT - 3**

- ❖ In – ‘Report on Other Legal and Regulatory Requirements’ Para [S. 143(3)(h)]:
  - ❖ The matter described under Basis of Adverse Opinion Para related to Going Concern may have an adverse effect on the functioning of the company

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