Standard

Audit and Assurance

Financial Reporting Council

June 2016

International Standard on Auditing (UK) 570 (Revised June 2016)

Going Concern

The FRC's mission is to promote transparency and integrity in business. The FRC sets the UK Corporate Governance and Stewardship Codes and UK standards for accounting and actuarial work; monitors and takes action to promote the quality of corporate reporting; and operates independent enforcement arrangements for accountants and actuaries. As the Competent Authority for audit in the UK the FRC sets auditing and ethical standards and monitors and enforces audit quality.

INTERNATIONAL STANDARD ON AUDITING (UK) 570 (REVISED JUNE 2016)

GOING CONCERN

(Effective for audits of financial statements for periods commencing on or after 17 June 2016)

CONTENTS

International Standard on Auditing (UK) (ISA (UK)) 570 (Revised June 2016), *Going Concern*, should be read in conjunction with ISA (UK) 200 (Revised June 2016), *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)*.

Interpreting the term "going concern" in this ISA (UK)

The financial reporting frameworks applicable in the UK generally require the adoption of the ***going concern basis of accounting*** in financial statements, except in circumstances where management intends to liquidate the entity or to cease trading, or has no realistic alternative to liquidation or cessation of operations. In effect, an entity that does not meet the threshold for that exception is described as a ***going concern***. This requirement applies even when there are uncertainties about events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern in the future. Such uncertainties are required to be disclosed in the financial statements when they are material.

The term ***going concern assumption*** is the defining assumption about the condition of an entity for which adoption of the going concern basis of accounting is appropriate: that the entity is, and will be able to continue as, a going concern. Accordingly, as used in this ISA (UK):

A. The term "going concern" applies to any entity unless its management intends to liquidate the entity or to cease trading, or has no realistic alternative to liquidation or cessation of operations; and

B. The term "ability to continue as a going concern" is equivalent to the term "ability to continue to adopt the going concern basis of accounting" in the future.

Introduction

Scope of this ISA (UK)

1. This International Standard on Auditing (UK) (ISA (UK)) deals with the auditor's responsibilities in the audit of financial statements relating to going concern and the implications for the auditor's report. (Ref: Para. A1)

Going Concern Basis of Accounting

2. Under the going concern basis of accounting, the financial statements are prepared on the assumption that the entity is a going concern and will continue its operations for the foreseeable future. General purpose financial statements are prepared on a going concern basis of accounting, unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so. Special purpose financial statements may or may not be prepared in accordance with a financial reporting framework for which the going concern basis of accounting is relevant (e.g., the going concern basis is not relevant for some financial statements prepared on a tax basis in particular jurisdictions). When the use of the going concern basis of accounting 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. (Ref: Para. A2)

Responsibility for Assessment of the Entity's Ability to Continue as a Going Concern

3. Some financial reporting frameworks contain an explicit requirement for management[1a] 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 requires management to make an assessment of an entity's ability to continue as a going concern.[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 also be set out in law or regulation.

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, where the going concern basis of accounting is a fundamental principle in the preparation of financial statements as discussed in paragraph 2, the preparation of the financial statements requires management 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 future outcomes of events or conditions. 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 the

[1a] In the UK, those charged with governance are responsible for the preparation of the financial statements and the assessment of the entity's ability to continue as a going concern.

[1] IAS 1, *Presentation of Financial Statements*, paragraphs 25–26.

outcome 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 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 result in outcomes that are inconsistent with judgments that were reasonable at the time they were made.

Responsibilities of the Auditor

6. The auditor's responsibilities are to obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, and to conclude, based on the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern. These responsibilities exist 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.

7. However, as described in ISA (UK) 200 (Revised June 2016),[2] the potential effects of inherent limitations on the auditor's ability to detect material misstatements are greater for future events or conditions that may cause an entity to cease to continue as a going concern. The auditor cannot predict such future events or conditions. Accordingly, the absence of any reference to a material uncertainty about the entity's ability to continue as a going concern 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 (UK) is effective for audits of financial statements for periods commencing on or after 17 June 2016. Earlier adoption is permitted.

Objectives

9. The objectives of the auditor are:

   (a) To obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements;

   (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

   (c) To report in accordance with this ISA (UK).

---

[2] ISA (UK) 200 (Revised June 2016), *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)*, paragraphs A53–A54.

Requirements

Risk Assessment Procedures and Related Activities

10. When performing risk assessment procedures as required by ISA (UK) 315 (Revised June 2016),[3] the auditor shall consider whether events or conditions exist 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, and: (Ref: Para. A2–A6)

    (a) If such an assessment has been performed, the auditor shall discuss the assessment with management and determine whether management has identified events or conditions that, individually or 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

    (b) 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 basis of accounting, 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.

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. A7)

Evaluating Management's Assessment

12. The auditor shall evaluate management's assessment of the entity's ability to continue as a going concern. (Ref: Para. A8–A10, A12–A13)

12D-1. In accordance with ISA (UK) 200 (Revised June 2016),[3a] the auditor shall maintain professional skepticism throughout the audit and in particular when reviewing future cash flow relevant to the entity's ability to continue as a going concern.

13. In evaluating management's assessment of the entity's ability to continue as a going concern, the auditor shall cover the same period as that used by management to make its assessment 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 date of the financial statements as defined in ISA (UK) 560,[4] the auditor shall request management to extend its assessment period to at least twelve months from that date.[4a] (Ref: Para. A11–A13)

---

[3] ISA (UK) 315 (Revised June 2016), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraph 5.

[3a] ISA (UK) 200 (Revised June 2016), paragraph 15.

[4] ISA (UK) 560, *Subsequent Events*, paragraph 5(a).

[4a] In the UK, the period used by those charged with governance in making their assessment is usually at least one year from the date of approval of the financial statements.

14. 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.

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 that may cast significant doubt on the entity's ability to continue as a going concern. (Ref: Para. A14–A15)

Additional Audit Procedures When Events or Conditions Are Identified

16. If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall obtain sufficient appropriate audit evidence to determine whether or not 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 (hereinafter referred to as "material uncertainty") through performing additional audit procedures, including consideration of mitigating factors. These procedures shall include: (Ref: Para. A16)

    (a) 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.

    (b) 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. (Ref: Para. A17)

    (c) 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 actions: (Ref: Para. A18–A19)

        (i) Evaluating the reliability of the underlying data generated to prepare the forecast; and

        (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.

    (e) Requesting written representations from management and, where appropriate, those charged with governance, regarding their plans for future actions and the feasibility of these plans. (Ref: Para A20)

Auditor Conclusions

17. The auditor shall evaluate whether sufficient appropriate audit evidence has been obtained regarding, and shall conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

18. 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: (Ref: Para. A21–A22)

(a) In the case of a fair presentation financial reporting framework, the fair presentation of the financial statements, or

(b) In the case of a compliance framework, the financial statements not to be misleading.

18-1. If the period to which those charged with governance have paid particular attention in assessing going concern is less than one year from the date of approval of the financial statements, and those charged with governance have not disclosed that fact, the auditor shall do so within the auditor's report.[4b] (Ref: Para. A21-1–A21-2)

18-2. For entities that are required,[4c] and those that choose voluntarily, to report on how they have applied the UK Corporate Governance Code, or to explain why they have not, the auditor shall read and consider in light of the auditor's knowledge obtained in the audit, including that obtained in the evaluation of management's assessment of the entity's ability to continue as a going concern:

(a) The directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;

(b) The disclosures in the annual report that describe those risks and explain how they are being managed or mitigated;

(c) The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and

(d) The director's explanation in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

The auditor shall determine whether the auditor has anything material to add or to draw attention to in the auditor's report on the financial statements in relation to these disclosures, and shall report in accordance with the requirements of paragraph 21-2 and ISA (UK) 720 (Revised June 2016).[4d]

[4b] If the non-disclosure of the fact in the financial statements is a departure from the requirements of the applicable financial reporting framework, the auditor would give a qualified opinion ("except for").

[4c] In the UK, these include companies with a premium listing of equity shares regardless of whether they are incorporated in the UK or elsewhere.

[4d] ISA (UK) 720 (Revised June 2016), *The Auditor's Responsibilities Relating to Other Information*, paragraph 22-4.

18-3. Matters the auditor considers when determining whether there is anything to add or to draw attention to in the auditor's report on the financial statements shall include, based on the auditor's knowledge obtained in the audit, including that obtained in the evaluation of management's assessment of the entity's ability to continue as a going concern:

- Whether the auditor is aware of information that would indicate that the annual report and accounts taken as a whole are not fair, balanced and understandable in relation to the principal risks facing the entity including those that would threaten its business model, future performance, solvency or liquidity; and
- Matters relating to the robustness of the directors' assessment of the principal risks facing the entity and its outcome, including the related disclosures in the annual report and accounts, that the auditor communicated to the audit committee[4e] and that are not appropriately addressed in the section of the annual report that describes the work of the audit committee.

Adequacy of Disclosures When Events or Conditions Have Been Identified and a Material Uncertainty Exists

19. If the auditor concludes that management's use of the going concern basis of accounting is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether the financial statements: (Ref: Para. A22–A23)

    (a) Adequately disclose 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.

Adequacy of Disclosures When Events or Conditions Have Been Identified but No Material Uncertainty Exists

20. If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained the auditor concludes that no material uncertainty exists, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework, the financial statements provide adequate disclosures about these events or conditions. (Ref: Para. A24–A25)

Implications for the Auditor's Report

Use of Going Concern Basis of Accounting Is Inappropriate

21. If the financial statements have been prepared using the going concern basis of accounting but, in the auditor's judgment, management's use of the going concern

[4e] ISA (UK) 260 (Revised June 2016), *Communication with Those Charged with Governance*, paragraph 16-1(e).

basis of accounting in the preparation of the financial statements is inappropriate, the auditor shall express an adverse opinion. (Ref: Para. A26–A27)

Use of Going Concern Basis of Accounting is Appropriate and no Material Uncertainty has been Identified

21-1. When the auditor is required[4f] or decides to communicate key audit matters in accordance with ISA (UK) 701, where the auditor concludes that management's use of the going concern basis of accounting is appropriate in the circumstances and no material uncertainty has been identified, the auditor shall:

(a) Determine in accordance with ISA (UK) 701, in light of the audit evidence obtained and the conclusions reached in the audit and having particular regard to any evaluation the auditor undertakes in accordance with paragraph 20, whether a key audit matter relating to going concern exists that should be communicated in the auditor's report; and

(b) Where a key audit matter exists that should be communicated, communicate the key audit matter in the auditor's report in accordance with ISA (UK) 701.

21-2. Where the auditor concludes that management's use of the going concern basis of accounting is appropriate in the circumstances and no material uncertainty has been identified, the auditor shall report by exception in accordance with paragraph 43-1 of ISA (UK) 700 (Revised June 2016) in a separate section in the auditor's report with the heading "Conclusions relating to Going Concern", or other appropriate heading, as to whether: (Ref: Para A27-1–A27-2)

(a) For entities that are required, and those that choose voluntarily, to report on how they have applied the UK Corporate Governance Code, or to explain why they have not, the auditor has anything material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements, and the directors' identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; or

(b) In other cases, the auditor concludes that:

(i) Management's use of the going concern basis of accounting in the preparation of the entity's financial statements is not appropriate; or

(ii) Management has not disclosed in the entity's financial statements any identified material uncertainties that may cast significant doubt about the entity's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorized for issue.

[4f] ISA (UK) 700 (Revised June 2016), *Forming an Opinion and Reporting on Financial Statements*, paragraphs 30–31 set out the requirements to apply ISA (UK) 701, *Communicating Key Audit Matters in the Independent Auditor's Report*.

Use of Going Concern Basis of Accounting Is Appropriate but a Material Uncertainty Exists

Adequate Disclosure of a Material Uncertainty Is Made in the Financial Statements

22. If adequate disclosure about the material uncertainty is made in the financial statements, the auditor shall express an unmodified opinion and the auditor's report shall include a separate section under the heading "Material Uncertainty Related to Going Concern" to: (Ref: Para. A28–A31, A34–A34-2)

    (a) Draw attention to the note in the financial statements that discloses the matters set out in paragraph 19; and

    (b) 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.

Adequate Disclosure of a Material Uncertainty Is Not Made in the Financial Statements

23. If adequate disclosure about the material uncertainty is not made in the financial statements, the auditor shall: (Ref: Para. A32–A34-2)

    (a) Express a qualified opinion or adverse opinion, as appropriate, in accordance with ISA (UK) 705 (Revised June 2016)[5]; and

    (b) 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.

Management Unwilling to Make or Extend Its Assessment

24. If management is unwilling to make or extend its assessment when requested to do so by the auditor, the auditor shall consider the implications for the auditor's report. (Ref: Para. A35)

Communication with Those Charged with Governance

25. Unless all those charged with governance are involved in managing the entity,[6] the auditor shall communicate with those charged with governance events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern. Such communication with those charged with governance shall include the following: (Ref: Para. A35-1)

    (a) Whether the events or conditions constitute a material uncertainty;

    (b) Whether management's use of the going concern basis of accounting is appropriate in the preparation of the financial statements;

    (c) The adequacy of related disclosures in the financial statements; and

    (d) Where applicable, the implications for the auditor's report.

---

5 ISA (UK) 705 (Revised June 2016), *Modifications to the Opinion in the Independent Auditor's Report*.

6 ISA (UK) 260 (Revised June 2016), *Communication with Those Charged with Governance*, paragraph 13.

Significant Delay in the Approval of Financial Statements

26. If there is significant delay in the approval of the financial statements by management or those charged with governance after the date of the financial statements, the auditor shall inquire as to the reasons for the delay. If 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 18.

***

Application and Other Explanatory Material

Scope of this ISA (UK) (Ref: Para 1)

A1. ISA (UK) 701[7] deals with the auditor's responsibility to communicate key audit matters in the auditor's report. That ISA (UK) acknowledges that, when ISA (UK) 701 applies, matters relating to going concern may be determined to be key audit matters, and explains that a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern is, by its nature, a key audit matter.[8]

Going Concern Basis of Accounting (Ref: Para. 2)

Considerations Specific to Public Sector Entities

A2. Management's use of the going concern basis of accounting is also relevant to public sector entities. For example, International Public Sector Accounting Standard (IPSAS) 1 addresses the issue of the ability of public sector entities to continue as going concerns.[9] 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.

Risk Assessment Procedures and Related Activities

Events or Conditions That May Cast Significant Doubt on the Entity's Ability to Continue as a Going Concern (Ref: Para. 10)

A3. The following are examples of events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern. 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.

---

7 ISA (UK) 701, *Communicating Key Audit Matters in the Independent Auditor's Report*.

8 See paragraphs 15 and A41 of ISA (UK) 701.

9 IPSAS 1, *Presentation of Financial Statements*, paragraphs 38–41.

- 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.
- 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 or regulatory requirements, such as solvency or liquidity requirements for financial institutions.
- 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.

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 disposing of assets, rescheduling 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.

A4. The risk assessment procedures required by paragraph 10 help the auditor to determine whether management's use of the going concern basis of accounting is likely to be an important issue and its impact on planning the audit. These procedures also allow for more timely discussions with management, including a discussion of management's plans and resolution of any identified going concern issues.

Considerations Specific to Smaller Entities (Ref: Para. 10)

A5. The size of an entity may affect its ability to withstand adverse conditions. Small entities may be able to respond quickly to exploit opportunities, but may lack reserves to sustain operations.

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 possible loss of a principal supplier, major customer, key employee, or the right to operate under a license, franchise or other legal agreement.

Remaining Alert throughout the Audit for Audit Evidence about Events or Conditions (Ref: Para. 11)

A7. ISA (UK) 315 (Revised June 2016) 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.[10] If events or conditions 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 (UK) 330 (Revised July 2017)[11] establishes requirements and provides guidance on this issue.

Evaluating Management's Assessment

Management's Assessment and Supporting Analysis and the Auditor's Evaluation (Ref: Para. 12)

A8. Management's assessment of the entity's ability to continue as a going concern is a key part of the auditor's consideration of management's use of the going concern basis of accounting.

A8-1. In the UK, applicable financial reporting frameworks generally specify that management takes into account all available information about the future.[11a] In evaluating management's assessment of the entity's ability to continue as a going concern, it is likely to be relevant for the auditor: to inquire as to what information is available about the future to management and those charged with governance; and determine whether this has been appropriately considered as part of management's assessment. For example, relevant information may be available to management through business planning activities, risk management processes, and for regulated entities, through regulatory reporting, planning or communications with regulatory, enforcement or supervisory authorities. For entities that are required, and those that

[10] ISA (UK) 315 (Revised June 2016), paragraph 31.

[11] ISA (UK) 330 (Revised July 2017), *The Auditor's Responses to Assessed Risks*.

[11a] For example, IAS 1, paragraph 26 and FRS 102, *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, paragraph 3.8 both require that management takes into account all available information about the future.

choose voluntarily, to report on how they have applied the UK Corporate Governance Code, or to explain why they have not, there may also be information available that has been developed to support reporting about the entity's business model, principal risks and the entity's longer term viability statement.

A9. It is not the auditor's responsibility to rectify the lack of analysis by management. In some circumstances, however, the lack of detailed analysis by management to support its assessment may not prevent the auditor from concluding whether management's use of the going concern basis of accounting is appropriate in the circumstances. For example, when there is a history of profitable operations and a ready access to financial resources, management may make its assessment without detailed analysis. In this case, the auditor's evaluation of the appropriateness of management's assessment may be made without performing detailed evaluation procedures if the auditor's other audit procedures are sufficient to enable the auditor to conclude whether management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate in the circumstances.

A10. In other circumstances, evaluating management's assessment of the entity's ability to continue as a going concern, as required by paragraph 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.

The Period of Management's Assessment (Ref: Para. 13)

A11. Most financial reporting frameworks requiring an explicit management assessment specify the period for which management is required to take into account all available information.[12]

A11-1. If the future period to which those charged with governance have paid particular attention has been limited, for example, to a period of less than one year from the date of approval of the financial statements, those charged with governance will have determined whether, in their opinion, the financial statements require any additional disclosures to explain adequately the assumptions that underlie the adoption of the going concern basis of accounting.

A11-2. If the future period to which those charged with governance have paid particular attention is less than the minimum required by the financial reporting framework, the auditor considers whether to express a modified opinion in accordance with ISA (UK) 705 (Revised June 2016).[12a]

---

[12] Accounting frameworks do not normally specify a maximum period that should be reviewed as part of the assessment of going concern. However, IAS 1 and FRS 102 both require that management takes into account all available information about the future.

For example, IAS 1 defines this as a period that should be at least, but is not limited to, twelve months from the end of the reporting period.

FRS 102 requires that in assessing whether the going concern basis of accounting 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 date when the financial statements are authorized for issue.

[12a] ISA (UK) 705 (Revised June 2016), *Modifications to the Opinion in the Independent Auditor's Report*.

A11-3. The auditor assesses whether to concur with the judgments of those charged with governance regarding the need for additional disclosures and their adequacy. Disclosure, however, does not eliminate the need to make appropriate judgments about the suitability of the future period as an adequate basis for assessing the going concern position. Paragraph 18-1 requires the auditor to disclose in the auditor's report if the period to which those charged with governance have paid particular attention in assessing going concern is less than one year from the date of approval of the financial statements, and those charged with governance have not disclosed that fact. The auditor through discussion with those charged with governance of their plans and expectations may be able to obtain satisfaction that those charged with governance have in fact paid particular attention to a period of one year from the date of approval of the financial statements.

Procedures to Identify Material Matters Indicating Concern

A11-4. Having regard to the future period to which those charged with governance have paid particular attention in assessing going concern, the auditor plans and performs procedures specifically designed to identify any material matters which could indicate concern about the entity's ability to continue as a going concern.

A11-5. The extent of the auditor's procedures is influenced primarily by the excess of the financial resources available to the entity over the financial resources that it requires. The entity's procedures (and the auditor's procedures) need not always be elaborate in order to provide sufficient appropriate audit evidence. A determination of the sufficiency of the evidence supplied to the auditor by those charged with governance will depend on the particular circumstances. For example, to be sufficient the evidence may not require formal cash flow forecasts and budgets to have been prepared for the period ending one year from the date of approval of the financial statements. Although such forecasts and budgets are likely to provide the most persuasive evidence, alternative sources of evidence may also be acceptable. This is particularly likely to be the case in respect of entities with uncomplicated circumstances. Many smaller companies fall into this category.

Considerations Specific to Smaller Entities (Ref: Para. 12–13)

A12. In many cases, the management of smaller entities may not have prepared a detailed assessment of the entity's ability to continue as a going concern, but instead may rely on in-depth knowledge of the business and anticipated future prospects. Nevertheless, in accordance with the requirements of this ISA (UK), the auditor needs to evaluate management's assessment of the entity's ability to continue as a going concern. For smaller entities, it may be appropriate to discuss the medium and long-term financing of the entity 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, for example, orders received for future supply, evaluated as to their feasibility or otherwise substantiated.

A13. 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 request written confirmation of the terms and conditions attaching to such support and the owner-manager's intention or understanding.

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

A14. As required by paragraph 11, the auditor 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 basis of accounting in preparing the financial statements. 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. 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.

A15. Other than inquiry of management, the auditor does not have a responsibility to perform any other audit procedures to identify events or conditions 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 date of the financial statements.

Additional Audit Procedures When Events or Conditions Are Identified (Ref: Para. 16)

A16. Audit procedures that are relevant 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 legal counsel 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.

Evaluating Management's Plans for Future Actions (Ref: Para. 16(b))

A17. Evaluating management's plans for future actions 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.

The Period of Management's Assessment (Ref: Para. 16(c))

A18. In addition to the procedures required in paragraph 16(c), the auditor may 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.

A19. Where management's assumptions include continued support by third parties, whether through the subordination of loans, commitments to maintain or provide additional funding, or guarantees, and such support is important to an entity's ability to continue as a going concern, the auditor may need to consider requesting written confirmation (including of terms and conditions) from those third parties and to obtain evidence of their ability to provide such support.

Written Representations (Ref: Para. 16(e))

A20. The auditor may consider it appropriate to obtain specific written representations beyond those required in paragraph 16 in support of audit evidence obtained regarding management's plans for future actions in relation to its going concern assessment and the feasibility of those plans.

Auditor Conclusions

Material Uncertainty Related to Events or Conditions that May Cast Significant Doubt on the Entity's Ability to Continue as a Going Concern (Ref: Para. 18–19)

A21. 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 the phrase "significant uncertainty" is used in similar circumstances.

A21-1. Where, in forming their opinion, the auditor's assessment of going concern is based on a period to which those charged with governance have paid particular attention which is less than one year from the date of approval of the financial statements, it is appropriate for the auditor to disclose that fact within the basis of the audit opinion, unless it is disclosed in the financial statements or accompanying information (for example, a Corporate Governance Statement). In deciding whether to disclose the fact, the auditor assesses whether the evidence supplied by those charged with governance is sufficient to demonstrate that those charged with governance have, in assessing going concern, paid particular attention to a period of one year from the date of approval of the financial statements (see paragraph A11-3).

A21-2. In complying with the requirements of ISA (UK) 230 (Revised June 2016) to document significant matters arising during the audit,[12b] the auditor documents concerns (if any) about the entity's ability to continue as a going concern.

Adequacy of Disclosure when Events or Conditions Have Been Identified and a Material Uncertainty Exists

A22. Paragraph 18 explains that a material uncertainty exists when the magnitude of the potential impact of the events or conditions and the likelihood of occurrence is such that appropriate disclosure is necessary to achieve fair presentation (for fair presentation frameworks) or for the financial statements not to be misleading (for compliance frameworks). The auditor is required by paragraph 18 to conclude whether such a material uncertainty exists regardless of whether or how the applicable financial reporting framework defines a material uncertainty.

A23. Paragraph 19 requires the auditor to determine whether the financial statement disclosures address the matters set forth in that paragraph. This determination is in addition to the auditor determining whether disclosures about a material uncertainty, required by the applicable financial reporting framework, are adequate. Disclosures required by some financial reporting frameworks that are in addition to matters set forth in paragraph 19 may include disclosures about:

- Management's evaluation of the significance of the events or conditions relating to the entity's ability to meet its obligations; or
- Significant judgments made by management as part of its assessment of the entity's ability to continue as a going concern.

Some financial reporting frameworks may provide additional guidance regarding management's consideration of disclosures about the magnitude of the potential impact of the principal events or conditions, and the likelihood and timing of their occurrence.

Adequacy of Disclosures When Events or Conditions Have Been Identified but No Material Uncertainty Exists (Ref: Para. 20)

A24. Even when no material uncertainty exists, paragraph 20 requires the auditor to evaluate whether, in view of the requirements of the applicable financial reporting framework, the financial statements provide adequate disclosure about events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. Some financial reporting frameworks may address disclosures about:

- Principal events or conditions;

[12b] ISA (UK) 230 (Revised June 2016), *Audit Documentation*, paragraph 8(c).

- Management's evaluation of the significance of those events or conditions in relation to the entity's ability to meet its obligations;
- Management's plans that mitigate the effect of these events or conditions; or
- Significant judgments made by management as part of its assessment of the entity's ability to continue as a going concern.

A25. When the financial statements are prepared in accordance with a fair presentation framework, the auditor's evaluation as to whether the financial statements achieve fair presentation includes the consideration of the overall presentation, structure and content of the financial statements, and whether the financial statements, including the related notes, represent the underlying transactions and events in a manner that achieves fair presentation.[13] Depending on the facts and circumstances, the auditor may determine that additional disclosures are necessary to achieve fair presentation. This may be the case, for example, when events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained, the auditor concludes that no material uncertainty exists, and no disclosures are explicitly required by the applicable financial reporting framework regarding these circumstances.

Implications for the Auditor's Report

Use of Going Concern Basis of Accounting is Inappropriate (Ref: Para. 21)

A26. If the financial statements have been prepared using the going concern basis of accounting but, in the auditor's judgment, management's use of the going concern basis of accounting in the financial statements is inappropriate, the requirement in paragraph 21 for the auditor to express an adverse opinion applies regardless of whether or not the financial statements include disclosure of the inappropriateness of management's use of the going concern basis of accounting.

A27. When the use of the going concern basis of accounting is not appropriate in the circumstances, management may be required, or may elect, to prepare the financial statements on another 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 other basis of accounting is acceptable in the circumstances. The auditor may be able to express an unmodified opinion on those financial statements, provided there is adequate disclosure therein about the basis of accounting on which the financial statements are prepared, but may consider it appropriate or necessary to include an Emphasis of Matter paragraph in accordance with ISA (UK) 706 (Revised June 2016)[14] in the auditor's report to draw the user's attention to that alternative basis and the reasons for its use.

Use of Going Concern Basis of Accounting is Appropriate and no Material Uncertainty has been Identified (Ref: Para. 21-2)

A27-1. Paragraph 43-1 of ISA (UK) 700 (Revised June 2016) requires that if the auditor is required to report on certain matters by exception the auditor includes a description of

[13] ISA (UK) 700 (Revised June 2016), *Forming an Opinion and Reporting on Financial Statements*, paragraph 14.

[14] ISA (UK) 706 (Revised June 2016), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*.

the auditor's responsibilities with respect to those matters in the auditor's report. When describing the auditor's responsibilities relating to management's use of the going concern basis of accounting and the disclosure of material uncertainties, the auditor may choose to include this description either:

(a) in the Conclusions Relating to Going Concern section of the auditor's report; or

(b) in the Auditor's Responsibilities for the Audit of the Financial Statements section of the auditor's report,

and cross-refer from the respective section as appropriate.

A27-2. Auditor's reports which include a description of the auditor's responsibilities relating to management's use of the going concern basis of accounting and the disclosure of material uncertainties in the Conclusions Relating to Going Concern section of the auditor's report will include the minimum elements of an auditor's report required by paragraph 50(k) of ISA 700 (Revised) and therefore the auditor is not precluded from being able to assert compliance with International Standards on Auditing issued by the IAASB.

Use of Going Concern Basis of Accounting Is Appropriate but a Material Uncertainty Exists (Ref: Para. 22–23)

A28. The identification of a material uncertainty is a matter that is important to users' understanding of the financial statements. The use of a separate section with a heading that includes reference to the fact that a material uncertainty related to going concern exists alerts users to this circumstance.

A29. The Appendix[14a] to this ISA (UK) provides illustrations of the statements that are required to be included in the auditor's report on the financial statements when International Financial Reporting Standards (IFRSs) is the applicable financial reporting framework. If an applicable financial reporting framework other than IFRSs is used, the illustrative statements presented in the Appendix to this ISA may need to be adapted to reflect the application of the other financial reporting framework in the circumstances.

A30. Paragraph 22 establishes the minimum information required to be presented in the auditor's report in each of the circumstances described. The auditor may provide additional information to supplement the required statements, for example to explain:

- That the existence of a material uncertainty is fundamental to users' understanding of the financial statements;[15] or
- How the matter was addressed in the audit. (Ref: Para. A1)

A30-1. In the UK, the requirement in legislation[15a] to include a statement on any material uncertainty relating to events or conditions that may cast significant doubt about the

[14a] The examples in the Appendix have not been tailored for the UK. Illustrative auditor's reports tailored for use with audits conducted in accordance with ISAs (UK) are given in the current version of the FRC's Compendium of Illustrative Auditor's Reports.

[15] ISA (UK) 706 (Revised June 2016), paragraph A2.

[15a] In the UK, Section 495(4) establishes this requirement.

entity's ability to continue as a going concern is met by the requirements of paragraph 22.

Adequate Disclosure of a Material Uncertainty Is Made in the Financial Statements (Ref: Para. 22)

A31. Illustration 1 of the Appendix[15b] to this ISA is an example of an auditor's report when the auditor has obtained sufficient appropriate audit evidence regarding the appropriateness of management's use of the going concern basis of accounting but a material uncertainty exists and disclosure is adequate in the financial statements. The Appendix of ISA (UK) 700 (Revised June 2016) also includes illustrative wording to be included in the auditor's report for all entities in relation to going concern to describe the respective responsibilities of those responsible for the financial statements and the auditor in relation to going concern.

Adequate Disclosure of a Material Uncertainty Is Not Made in the Financial Statements (Ref: Para. 23)

A32. Illustrations 2 and 3 of the Appendix[15b] to this ISA (UK) are examples of auditor's reports containing qualified and adverse opinions, respectively, when the auditor has obtained sufficient appropriate audit evidence regarding the appropriateness of the management's use of the going concern basis of accounting but adequate disclosure of a material uncertainty is not made in the financial statements.

A33. In situations involving multiple uncertainties that are significant to the financial statements as a whole, the auditor may consider it appropriate in extremely rare cases to express a disclaimer of opinion instead of including the statements required by paragraph 22. ISA (UK) 705 (Revised June 2016) provides guidance on this issue.[16]

Communication with Regulators (Ref: Para. 22−23)

A34. When the auditor of a regulated entity considers that it may be necessary to include a reference to going concern matters in the auditor's report, the auditor may have a duty to communicate with the applicable regulatory, enforcement or supervisory authorities.

In the UK, in such cases the regulatory, enforcement or supervisory authority might, if it has not already done so, specify corrective action to be taken by the entity.

A34-1. At the time at which the auditor formulates the audit report, the auditor takes account of matters such as:

- Any views expressed by the regulatory, enforcement or supervisory authority.
- Any legal advice obtained by those charged with governance.
- The actual and planned corrective action.

15b The examples in the Appendix have not been tailored for the UK. Illustrative auditor's reports tailored for use with audits conducted in accordance with ISAs (UK) are given in the current version of the FRC's Compendium of Illustrative Auditor's Reports.

16 ISA (UK) 705 (Revised June 2016), paragraph 10.

A34-2. For audits of public interest entities, ISA (UK) 250 Section B (Revised June 2016)[16a] requires the auditor to report to the relevant regulatory, enforcement or supervisory authority any information about the public interest entity (or an undertaking having close links with the public interest entity) that may bring about a material threat or doubt concerning the continuous functioning of the entity.

Management Unwilling to Make or Extend Its Assessment (Ref: Para. 24)

A35. In certain circumstances, 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 management's use of the going concern basis of accounting 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.

Communication with Those Charged with Governance (Ref: Para. 25)

A35-1. For audits of financial statements of public interest entities, ISA (UK) 260 (Revised June 2016)[16b] requires the auditor to:

- explain the judgments about events or conditions identified in the course of the audit that may cast significant doubt on the entity's ability to continue as a going concern and whether they constitute a material uncertainty; and
- provide a summary of all guarantees, comfort letters, undertakings of public intervention and other support measures that have been taken into account when making a going concern assessment,

in the additional report to the audit committee.

[16a] ISA (UK) 250 (Revised June 2016), *Section B—The Auditor's Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector*, paragraph 13R-1(a)(ii).

[16b] ISA (UK) 260 (Revised June 2016), *Communication with Those Charged with Governance*, paragraph 16R-2(i).

Appendix

(Ref: Para. A29, A31–A32)

Illustrations of Auditor's Reports Relating to Going Concern

The examples in the Appendix have not been tailored for the UK. Illustrative auditor's reports tailored for use with audits conducted in accordance with ISAs (UK) are given in the current version of the FRC's Compendium of Illustrative Auditor's Reports.

- Illustration 1: An auditor's report containing an unmodified opinion when the auditor has concluded that a material uncertainty exists and disclosure in the financial statements is adequate.
- Illustration 2: An auditor's report containing a qualified opinion when the auditor has concluded that a material uncertainty exists and that the financial statements are materially misstated due to inadequate disclosure.
- Illustration 3: An auditor's report containing an adverse opinion when the auditor has concluded that a material uncertainty exists and the financial statements omit the required disclosures relating to a material uncertainty.

<u>Illustration 1 – Unmodified Opinion When a Material Uncertainty Exists and Disclosure in the Financial Statements Is Adequate</u>

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a listed entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600[1] does not apply).
- The financial statements are prepared by management of the entity in accordance with IFRSs (a general purpose framework).
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in ISA 210.[2]
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit are those of the jurisdiction.
- Based on the audit evidence obtained, the auditor has concluded that 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. The disclosure of the material uncertainty in the financial statements is adequate.
- Key audit matters have been communicated in accordance with ISA 701.
- The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Financial Statements[3]

Opinion

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

---

1 ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*.

2 ISA 210, *Agreeing the Terms of Audit Engagements*.

3 The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

In our opinion, the accompanying 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, 20X1, and (*of*) its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in [*jurisdiction*], and we have fulfilled *our* other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 6 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. As stated in Note 6, these events or conditions, along with other matters as set forth in Note 6, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate *opinion* on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

[*Description of each key audit matter in accordance with ISA 701.*]

Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

[*Reporting in accordance with the reporting requirements in ISA 720 (Revised) – see Illustration 1 in Appendix 2 of ISA 720 (Revised).*]

Responsibilities of Management and Those Charged with Governance for the Financial Statements[4]

[*Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).*[5]]

Auditor's Responsibilities for the Audit of the Financial Statements

[*Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised)*.]

Report on Other Legal and Regulatory Requirements

[*Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised)*.]

The engagement partner on the audit resulting in this independent auditor's report is [*name*].

[*Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction*]

[*Auditor Address*]

[*Date*]

4 Throughout these illustrative auditor's reports, the terms management and those charged with governance may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction.

5 Paragraphs 34 and 39 of ISA 700 (Revised) require wording to be included in the auditor's report for all entities in relation to going concern to describe the respective responsibilities of those responsible for the financial statements and the auditor in relation to going concern.

Illustration 2 – Qualified Opinion When a Material Uncertainty Exists and the Financial Statements Are Materially Misstated Due to Inadequate Disclosure

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a listed entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 does not apply).
- The financial statements are prepared by management of the entity in accordance with IFRSs (a general purpose framework).
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in ISA 210.
- The relevant ethical requirements that apply to the audit are those of the jurisdiction.
- Based on the audit evidence obtained, the auditor has concluded that 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. Note yy to the financial statements discusses the magnitude of financing arrangements, the expiration and the total financing arrangements; however the financial statements do not include discussion on the impact or the availability of refinancing or characterize this situation as a material uncertainty.
- The financial statements are materially misstated due to the inadequate disclosure of the material uncertainty. A qualified opinion is being expressed because the auditor concluded that the effects on the financial statements of this inadequate disclosure are material but not pervasive to the financial statements.
- Key audit matters have been communicated in accordance with ISA 701.
- The auditor has obtained all of the other information prior to the date of the auditor's report and the matter giving rise to the qualified opinion on the financial statements also affects the other information
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Financial Statements[6]

Qualified Opinion

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the

[6] The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the incomplete disclosure of the information referred to in the *Basis for Qualified Opinion* section of our report, the accompanying 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, 20X1, and (*of*) its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Qualified Opinion

As discussed in Note yy, the Company's financing arrangements expire and amounts outstanding are payable on March 19, 20X2. The Company has been unable to conclude re-negotiations or obtain replacement financing. This situation indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. The financial statements do not adequately disclose this matter.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in [*jurisdiction*], and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

[*Reporting in accordance with the reporting requirements in ISA 720 (Revised) – see Illustration 6 in Appendix 2 of ISA 720 (Revised). The last paragraph of the other information section in Illustration 6 would be customized to describe the specific matter giving rise to the qualified opinion that also affects the other information.*]

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Qualified Opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

[*Descriptions of each key audit matter in accordance with ISA 701*.]

Responsibilities of Management and Those Charged with Governance for the Financial Statements[7]

[*Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised)*.[8]]

7 Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

8 Paragraphs 34 and 39 of ISA 700 (Revised) require wording to be included in the auditor's report for all entities in relation to going concern to describe the respective responsibilities of those responsible for the financial statements and the auditor in relation to going concern.

Auditor's Responsibilities for the Audit of the Financial Statements

[*Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised)*.[25]]

Report on Other Legal and Regulatory Requirements

[*Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised)*.]

The engagement partner on the audit resulting in this independent auditor's report is [*name*].

[*Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction*]

[*Auditor Address*]

[*Date*]

<u>Illustration 3 – Adverse Opinion When a Material Uncertainty Exists and Is Not Disclosed in the Financial Statements</u>

For purposes of the illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of an entity other than a listed entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 does not apply).
- The financial statements are prepared by management of the entity in accordance with IFRSs (a general purpose framework).
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in ISA 210.
- The relevant ethical requirements that apply to the audit are those of the jurisdiction.
- Based on the audit evidence obtained, the auditor has concluded that 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 the Company is considering bankruptcy. The financial statements omit the required disclosures relating to the material uncertainty. An adverse opinion is being expressed because the effects on the financial statements of such omission are material and pervasive.
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA 701.
- The auditor has obtained all of the other information prior to the date of the auditor's report and the matter giving rise to the qualified/adverse opinion on the consolidated financial statements also affects the other information.
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Financial Statements[9]

Adverse Opinion

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, because of the omission of the information mentioned in the *Basis for Adverse Opinion* section of our report, the accompanying financial statements do not present fairly

[9] The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

(or *do not give a true and fair view of*), the financial position of the Company as at December 31, 20X1, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Adverse Opinion

The Company's financing arrangements expired and the amount outstanding was payable on December 31, 20X1. The Company has been unable to conclude re-negotiations or obtain replacement financing and is considering filing for bankruptcy. This situation indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. The financial statements do not adequately disclose this fact.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in [*jurisdiction*], and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

[*Reporting in accordance with the reporting requirements in ISA 720 (Revised) – see Illustration 7 in Appendix 2 of ISA 720 (Revised). The last paragraph of the other information section in Illustration 7 would be customized to describe the specific matter giving rise to the qualified opinion that also affects the other information.*]

Responsibilities of Management and Those Charged with Governance for the Financial Statements[10]

[*Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised)*.[11]]

Auditor's Responsibilities for the Audit of the Financial Statements

[*Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).*[28]]

Report on Other Legal and Regulatory Requirements

[*Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).*]

[*Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction*]

[*Auditor Address*]

[*Date*]

[10] Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

[11] Paragraphs 34 and 39 of ISA 700 (Revised) require wording to be included in the auditor's report for all entities in relation to going concern to describe the respective responsibilities of those responsible for the financial statements and the auditor in relation to going concern.

Financial Reporting Council
8th Floor
125 London Wall
London
EC2Y 5AS

+44 (0)20 7492 2300

www.frc.org.uk