

**INTERNATIONAL STANDARD ON AUDITING
(UK AND IRELAND) 570
GOING CONCERN
CONTENTS**

	Paragraph
Introduction.....	1 - 2-1
Management’s Responsibility.....	3 - 8
Auditor’s Responsibility	9 - 10
Planning the Audit and Performing Risk Assessment Procedures.....	11 - 16
Evaluating Management’s Assessment.....	17 - 21-3
Period Beyond Management’s Assessment	22 - 25
Further Audit Procedures When Events or Conditions are Identified....	26 - 29
Audit Conclusions and Reporting.....	30 - 38-1
Significant Delay in the Signature or Approval of Financial Statements.....	39
Application to Groups.....	39-1 - 39-2
Effective Date	40
Appendix 1: Preparation of the Financial Statements: Note on Legal and Professional Requirements	
Appendix 2: Illustrative Examples of the Auditor’s Assessment of Whether Evidence Provided by the Those Charged With Governance, Concerning the Attention They Have Paid to the Period One Year From the Date of Approval of the Financial Statements, is Sufficient	

International Standard on Auditing (UK and Ireland) (ISA (UK and Ireland)) 570 “Going Concern” should be read in the context of the Auditing Practices Board’s Statement “The Auditing Practices Board - Scope and Authority of Pronouncements (Revised)” which sets out the application and authority of ISAs (UK and Ireland).

Introduction

1. The purpose of this International Standard on Auditing (UK and Ireland) (ISA (UK and Ireland)) is to establish standards and provide guidance on the auditor's responsibility in the audit of financial statements with respect to the going concern assumption used in the preparation of the financial statements, including considering management's^{1a} assessment of the entity's ability to continue as a going concern.
 - 1-1. This ISA (UK and Ireland) contains standards and guidance for the auditor in relation to the going concern basis that is generally presumed in financial statements which are required to be properly prepared in accordance with the Act^{1b}, and to give a true and fair view. In the absence of specific legal or other provisions to the contrary, the principles and procedures embodied in the ISA (UK and Ireland) apply also to the audit of the financial statements of other entities. This ISA (UK and Ireland) does not establish standards nor provide guidance about going concern in any other context, such as that of an engagement to report on an entity's future viability.
 - 1-2. This ISA (UK and Ireland) uses the terms 'those charged with governance' and 'management'. The term 'governance' describes the role of persons entrusted with the supervision, control and direction of an entity. Ordinarily, those charged with governance are accountable for ensuring that the entity achieves its objectives, and for the quality of its financial reporting and reporting to interested parties. Those charged with governance include management only when they perform such functions.
 - 1-3. In the UK and Ireland, those charged with governance include the directors (executive and non-executive) of a company or other body, the members of an audit committee where one exists, the partners, proprietors, committee of management or trustees of other forms of entity, or equivalent persons responsible for directing the entity's affairs and preparing its financial statements.
 - 1-4. 'Management' comprises those persons who perform senior managerial functions.

^{1a} In the UK and Ireland, 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.

^{1b} For Great Britain, 'the Act' refers to the Companies Act 1985. For Northern Ireland, the equivalent legislation is provided by the Companies (Northern Ireland) Order 1986 and for the Republic of Ireland by the Companies Acts 1963 to 2003.

1-5. In the UK and Ireland, depending on the nature and circumstances of the entity, management may include some or all of those charged with governance (e.g. executive directors). Management will not normally include non-executive directors.

2. **When planning and performing audit procedures and in evaluating the results thereof, the auditor should consider the appropriateness of management's^{1a} use of the going concern assumption in the preparation of the financial statements.**

2-1. **The auditor should consider any relevant disclosures in the financial statements.**

Management's Responsibility^{1a}

3. The going concern assumption is a fundamental principle in the preparation of financial statements. Under the going concern assumption, an entity is ordinarily viewed as continuing in business for the foreseeable future with neither the intention nor the necessity of liquidation, ceasing trading or seeking protection from creditors pursuant to laws or regulations. Accordingly, 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.

4. Some financial reporting frameworks contain an explicit requirement¹ 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 1 (revised 2003), "Presentation of Financial Statements," requires management to make an assessment of an enterprise's ability to continue as a going concern.²

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

² IAS 1, "Presentation of Financial Statements," paragraphs 23 and 24 state: "When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. Financial statements shall be prepared on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, those uncertainties shall be disclosed. When financial statements are not prepared on a going concern basis, that fact shall be disclosed, together with the basis on which the financial statements are prepared and the reasons why the entity is not a going concern."

- 4-1. Appendix 1 to this ISA (UK and Ireland) summarizes, in relation to going concern, the legal and professional accounting requirements in the UK and Ireland with which those charged with governance comply in preparing financial statements.
- 4-2. An important consequence of the legal and professional accounting requirements in the UK and Ireland is that, when preparing financial statements, those charged with governance should satisfy themselves as to whether the going concern basis is appropriate. Even if it is appropriate, it may still be necessary for the financial statements to contain additional disclosures, for instance relating to the adoption of that basis, in order to give a true and fair view.
5. In other financial reporting frameworks, there may be no explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern. Nevertheless, since the going concern assumption is a fundamental principle in the preparation of the financial statements, management^{1a} has a responsibility to assess the entity's ability to continue as a going concern even if the financial reporting framework does not include an explicit responsibility to do so.
6. When there is a history of profitable operations and a ready access to financial resources, management^{1a} may make its assessment without detailed analysis.
7. Management's^{1a} assessment of the going concern assumption involves making a judgment, at a particular point in time, about the future outcome of events or conditions which are inherently uncertain. The following factors are relevant:
- In general terms, the degree of uncertainty associated with the outcome of an event or condition increases significantly the further into the future a judgment is being made about the outcome of an event or condition. For that reason, most financial reporting

In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the balance sheet date. The degree of consideration depends on the facts in each case. When an entity has a history of profitable operations and ready access to financial resources, a conclusion that the going concern basis of accounting is appropriate may be reached without detailed analysis. In other cases, management may need to consider a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate.”

frameworks that require an explicit management assessment specify the period for which management is required to take into account all available information.

- Any judgment about the future is based on information available at the time at which the judgment is made. Subsequent events can contradict a judgment which was reasonable at the time it was made.
 - The size and complexity of the entity, the nature and condition of its business and the degree to which it is affected by external factors all affect the judgment regarding the outcome of events or conditions.
8. Examples of events or conditions, which may give rise to business risks, that individually or collectively may cast significant doubt about the going concern assumption are set out below. This listing is not all-inclusive nor does the existence of one or more of the items always signify that a material uncertainty³ exists.

Financial

- Net liability or net current liability position.
- Necessary borrowing facilities have not been agreed.
- Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment; or excessive reliance on short-term borrowings to finance long-term assets.
- Major debt repayment falling due where refinancing is necessary to the entity's continued existence.
- Major restructuring of debt.
- Indications of withdrawal of financial support by debtors and other creditors.
- Negative operating cash flows indicated by historical or prospective financial statements.
- Adverse key financial ratios.

³ The phrase "material uncertainty" is used in IAS 1 in discussing the uncertainties related to events or conditions which may cast significant doubt on the enterprise's ability to continue as a going concern that should be disclosed in the financial statements. In other financial reporting frameworks, and elsewhere in the ISA's (UK and Ireland), the phrase "significant uncertainties" is used in similar circumstances.

- Substantial operating losses or significant deterioration in the value of assets used to generate cash flows.
- Major losses or cash flow problems which have arisen since the balance sheet date.
- Arrears or discontinuance of dividends.
- Inability to pay creditors on due dates.
- Inability to comply with the terms of loan agreements.
- Reduction in normal terms of trade credit by suppliers.
- Change from credit to cash-on-delivery transactions with suppliers.
- Inability to obtain financing for essential new product development or other essential investments.
- Substantial sales of fixed assets not intended to be replaced.

Operating

- Loss of key management without replacement.
- Loss of key staff without replacement.
- Loss of a major market, franchise, license, or principal supplier.
- Labor difficulties or shortages of important supplies.
- Fundamental changes in the market or technology to which the entity is unable to adapt adequately.
- Excessive dependence on a few product lines where the market is depressed.
- Technical developments which render a key product obsolete.

Other

- Non-compliance with capital or other statutory requirements.
- Pending legal or regulatory proceedings against the entity that may, if successful, result in claims that are unlikely to be satisfied.
- Changes in legislation or government policy expected to adversely affect the entity.

- Issues which involve a range of possible outcomes so wide that an unfavorable result could affect the appropriateness of the going concern basis.

The significance of such events or conditions often can be mitigated by other factors. For example, the effect of an entity being unable to make its normal debt repayments may be counter-balanced by management's plans to maintain adequate cash flows by alternative means, such as by disposal of assets, rescheduling of loan repayments, or obtaining additional capital. Similarly, the loss of a principal supplier may be mitigated by the availability of a suitable alternative source of supply.

Auditor's Responsibility

9. The auditor's responsibility is to consider the appropriateness of management's^{1a} use of the going concern assumption in the preparation of the financial statements, and consider whether there are material uncertainties about the entity's ability to continue as a going concern that need to be disclosed in the financial statements. The auditor considers the appropriateness of management's use of the going concern assumption even if the financial reporting framework used in the preparation of the financial statements does not include an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern.

9-1. The auditor also considers whether there are adequate disclosures regarding the going concern basis in the financial statements in order that they give a true and fair view.

9-2. The auditor's procedures necessarily involve a consideration of the entity's ability to continue in operational existence for the foreseeable future. In turn, that necessitates consideration both of the current and the possible future circumstances of the business and the environment in which it operates.

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

Planning the Audit and Performing Risk Assessment Procedures

11. **In obtaining an understanding of the entity, the auditor should consider whether there are events or conditions and related business risks which may cast significant doubt on the entity's ability to continue as a going concern.**
12. **The auditor should remain alert for audit evidence of events or conditions and related business risks which may cast significant doubt on the entity's ability to continue as a going concern in performing audit procedures throughout the audit. If such events or conditions are identified, the auditor should, in addition to performing the procedures in paragraph 26, consider whether they affect the auditor's assessment of the risks of material misstatement.**
13. The auditor considers events and conditions relating to the going concern assumption when performing risk assessment procedures, because this allows for more timely discussions with management, review of management's plans and resolution of any identified going concern issues.
14. In some cases, management^{1a} may have already made a preliminary assessment when the auditor is performing risk assessment procedures. If so, the auditor reviews that assessment to determine whether management has identified events or conditions, such as those discussed in paragraph 8, and management's plans to address them.
15. If management^{1a} has not yet made a preliminary assessment, the auditor discusses with management the basis for their intended use of the going concern assumption, and inquires of management whether events or conditions, such as those discussed in paragraph 8, exist. The auditor may request management to begin making its assessment, particularly when the auditor has already identified events or conditions relating to the going concern assumption.
16. The auditor considers the effect of identified events or conditions when assessing the risks of material misstatement and, therefore, their existence may affect the nature, timing and extent of the auditor's further procedures in response to the assessed risks.

Evaluating Management's^{1a} Assessment

17. **The auditor should evaluate management's^{1a} assessment of the entity's ability to continue as a going concern.**

17-1. The auditor should assess the adequacy of the means by which the those charged with governance have satisfied themselves that:

- (a) It is appropriate for them to adopt the going concern basis in preparing the financial statements; and**
- (b) The financial statements include such disclosures, if any, relating to going concern as are necessary for them to give a true and fair view.**

For this purpose:

- (i) The auditor should make enquiries of those charged with governance and examine appropriate available financial information; and**
- (ii) Having regard to the future period to which those charged with governance have paid particular attention in assessing going concern (see paragraphs 18 and 18-1 below), the auditor should plan and perform procedures specifically designed to identify any material matters which could indicate concern about the entity's ability to continue as a going concern.**

18. The auditor should consider the same period as that used by management^{1a} in making its assessment under the applicable financial reporting framework. If management's assessment of the entity's ability to continue as a going concern covers less than twelve months from the balance sheet date, the auditor should ask management to extend its assessment period to twelve months from the balance sheet date.

18-1. In the UK and Ireland, if the period used by the those charged with governance in making their assessment is less than one year from the date of approval of the financial statements, and they have not disclosed that fact in the financial statements, the auditor does so within the audit report (see paragraphs 31-4 and 31-5).

18-2. In assessing going concern, those charged with governance take account of all relevant information of which they are aware at the time. The nature of the exercise entails that those charged with governance look forward, and there will be some future period to which they will pay particular attention in assessing going concern. It is not possible to specify a minimum length for this period: it is recognized in any case that any such period would be artificial and arbitrary since in reality there is no 'cut off point' after which

there should be a sudden change in the approach adopted by those charged with governance. The length of the period is likely to depend upon such factors as:

- The entity's reporting and budgeting systems; and
- The nature of the entity, including its size or complexity.

Where the period considered by those charged with governance 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 disclosure to explain adequately the assumptions that underlie the adoption of the going concern basis.

18-3. The basis for the auditor's procedures is the information upon which those charged with governance have based their assessment and the reasoning of those charged with governance. The auditor assesses whether this constitutes sufficient appropriate audit evidence for the purpose of the audit and whether the auditor concurs with the judgment of those charged with governance about the need for additional disclosures.

18-4. The following factors in particular may affect the information available to the auditor, and whether the auditor considers this information constitutes sufficient audit evidence for the purpose of the audit.

(a) *The nature of the entity (its size and the complexity of its circumstances, for instance).* This ISA (UK and Ireland) applies to the audits of the financial statements of all sizes of entity. The larger or more complex the entity the more sophisticated is likely to be the information available and needed to support the assessment of whether it is appropriate to adopt the going concern basis.

(b) *Whether the information relates to future events, and if so how far into the future those events lie.* The information relating to the period falling after one year from the balance sheet date is often prepared in far less detail and subject to a greater degree of estimation than the information relating to periods ending on or before one year from the balance sheet date.

19. Management's^{1a} assessment of the entity's ability to continue as a going concern is a key part of the auditor's consideration of the going concern assumption. As noted in paragraph 7, most financial reporting frameworks

requiring an explicit management assessment specify the period for which management is required to take into account all available information.⁴

19-1. A determination of the sufficiency of the evidence supplied to the auditor by those charged with governance will depend on the particular circumstances. However, 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. Often, the auditor through discussion with those charged with governance of their plans and expectations for that period 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. Appendix 2 illustrates circumstances where formal budgets and forecasts have, with justification, not been provided for the entire twelve month period yet the auditor is able to conclude that those charged with governance have paid particular attention to the period ending one year from the date of approval of the financial statements.

20. In evaluating management's^{1a} assessment, the auditor considers the process management followed to make its assessment, the assumptions on which the assessment is based and management's plans for future action. The auditor considers whether the assessment has taken into account all relevant information of which the auditor is aware as a result of the audit procedures.

20-1. The auditor may need to consider some or all of the following matters:

- Whether the period to which those charged with governance have paid particular attention in assessing going concern is reasonable in the entity's circumstances and in the light of the need for those charged with governance to consider the ability of the entity to continue in operational existence for the foreseeable future.

⁴ For example, IAS 1 defines this as a period that should be at least, but is not limited to, twelve months from the balance sheet date.

FRS 18 does not specify this period but does require that where the foreseeable future considered by the directors has been limited to a period of less than one year from the date of approval of the financial statements, that fact should be disclosed in the financial statements.

- The systems, or other means (formal or informal), for timely identification of warnings of future risks and uncertainties the entity might face.
- Budget and/or forecast information (cash flow information in particular) produced by the entity, and the quality of the systems (or other means, formal or informal) in place for producing this information and keeping it up to date.
- Whether the key assumptions underlying the budgets and/or forecasts appear appropriate in the circumstances.
- The sensitivity of budgets and/or forecasts to variable factors both within the control of those charged with governance and outside their control.
- Any obligations, undertakings or guarantees arranged with other entities (in particular, lenders, suppliers and group companies) for the giving or receiving of support.
- The existence, adequacy and terms of borrowing facilities, and supplier credit.
- The plans of those charged with governance for resolving any matters giving rise to the concern (if any) about the appropriateness of the going concern basis. In particular, the auditor may need to consider whether the plans are realistic, whether there is a reasonable expectation that the plans are likely to resolve any problems foreseen and whether those charged with governance are likely to put the plans into practice effectively.

20-2. The extent of the 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. For example, the auditor may not always need to examine budgets and forecasts for this purpose. This is particularly likely to be the case in respect of entities with uncomplicated circumstances. Many smaller companies fall into this category. Thus for example:

- Regarding the systems or other means for timely identification of warnings of future risks and uncertainties, those charged with governance might consider that it is appropriate simply to keep abreast of developments within their individual business and their

business sector. In the circumstances, the auditor might concur with those charged with governance; or

- Those charged with governance might not, as a matter of course, prepare periodic cash flow and other budgets, forecasts or other management accounts information apart from the accounting records required by law and outline plans for the future. In the view of those charged with governance, this might be acceptable where the business is stable. In the circumstances the auditor might concur with those charged with governance. Hence the auditor's procedures regarding budgets, forecasts and related issues might comprise discussion of the outline plans of those charged with governance in the light of other information available to the auditor.

21. As noted in paragraph 6, when there is a history of profitable operations and a ready access to financial resources, management^{1a} may make its assessment without detailed analysis. In such circumstances, the auditor's conclusion about the appropriateness of this assessment normally is also made without the need for performing detailed procedures. When events or conditions have been identified which may cast significant doubt about the entity's ability to continue as a going concern, however, the auditor performs additional audit procedures, as described in paragraph 26.

The Auditor's Examination of Borrowing Facilities

- 21-1. In examining borrowing facilities the auditor could decide, for example, that it is necessary:

- (a) To obtain confirmations of the existence and terms of bank facilities; and
- (b) To make an own assessment of the intentions of the bankers relating thereto.

The latter assessment could involve the auditor examining written evidence or making notes of meetings which the auditor would hold with those charged with governance and, occasionally, with those charged with governance and the entity's bankers. In making an assessment of the bankers' intentions the auditor ascertains, normally through enquiries of those charged with governance, whether the bankers are aware of the matters that are causing the auditor to decide that such an assessment is necessary. It is also important that the relationships between the auditor, those charged with governance and the bankers are clarified and understood.

- 21-2. The auditor might be more likely to decide that it is necessary to obtain confirmations of the existence and terms of bank facilities, and to make an independent assessment of the intentions of the bankers relating thereto, in cases where, for example:
- There is a low margin of financial resources available to the entity.
 - The entity is dependent on borrowing facilities shortly due for renewal.
 - Correspondence between the bankers and the entity reveals that the last renewal of facilities was agreed with difficulty, or that, since the last review of facilities, the bankers have imposed additional conditions as a prerequisite for continued lending.
 - A significant deterioration in cash flow is projected.
 - The value of assets granted as security for the borrowings is declining.
 - The entity has breached the terms of borrowing covenants, or there are indications of potential breaches.
- 21-3. The auditor considers whether any inability to obtain sufficient appropriate audit evidence regarding the existence and terms of borrowing facilities and the intentions of the lender relating thereto, and/or the factors giving rise to this inability, need to be:
- Disclosed in the financial statements in order that they give a true and fair view; and/or
 - Referred to (by way of an explanatory paragraph or a qualified opinion) in the auditor's report.

Period Beyond Management's^{1a} Assessment

22. **The auditor should inquire of management as to its knowledge of events or conditions and related business risks beyond the period of assessment used by management^{1a} that may cast significant doubt on the entity's ability to continue as a going concern.**
23. The auditor is alert to the possibility that there may be known events, scheduled or otherwise, or conditions that will occur beyond the period of assessment used by management^{1a} that may bring into question the appropriateness of management's use of the going concern assumption in preparing the financial statements. The auditor may become aware of such

known events or conditions during the planning and performance of the audit, including subsequent events procedures.

24. 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 such events or conditions, the indications of going concern issues will need to be significant before the auditor considers taking further action. The auditor may need to ask management^{1a} to determine the potential significance of the event or condition on their going concern assessment.
25. The auditor does not have a responsibility to design audit procedures other than inquiry of management to test for indications of events or conditions which cast significant doubt on the entity's ability to continue as a going concern beyond the period assessed by management^{1a} which, as discussed in paragraph 18, would be at least twelve months from the balance sheet date.

Further Audit Procedures When Events or Conditions are Identified

26. **When events or conditions have been identified which may cast significant doubt on the entity's ability to continue as a going concern, the auditor should:**
 - (a) **Review management's^{1a} plans for future actions based on its going concern assessment;**
 - (b) **Gather sufficient appropriate audit evidence to confirm or dispel whether or not a material uncertainty exists through carrying out audit procedures considered necessary, including considering the effect of any plans of management and other mitigating factors; and**
 - (c) **Seek written representations from management⁵ regarding its plans for future action.**

26-1. The auditor should consider the need to obtain written confirmations of representations from those charged with governance regarding:

- (a) **The assessment of those charged with governance that the company is a going concern;**

⁵ In the UK and Ireland the auditor obtains written representations from those charged with governance.

(b) Any relevant disclosures in the financial statements.

- 26-2. Such written confirmations are necessary in respect of matters material to the financial statements when those representations are critical to obtaining sufficient appropriate audit evidence. In view of their importance, it is appropriate for such confirmations to be provided by those charged with governance, rather than other levels of the entity's management.
- 26-3. If they are unable to obtain such written confirmations of representations as they consider necessary from those charged with governance, the auditor considers whether:
- There is a limitation on the scope of the auditor's work which requires a qualified opinion or disclaimer of opinion; or
 - The failure of those charged with governance to provide the written confirmations could indicate that there is concern.
27. Events or conditions which may cast significant doubt on the entity's ability to continue as a going concern may be identified in performing risk assessment procedures or in the course of performing further audit procedures. The process of considering events or conditions continues as the audit progresses. When the auditor believes such events or conditions may cast significant doubt on the entity's ability to continue as a going concern, certain audit procedures may take on added significance. The auditor inquires of management as to its plans for future action, including its plans to liquidate assets, borrow money or restructure debt, reduce or delay expenditures, or increase capital. The auditor also considers whether any additional facts or information are available since the date on which management^{1a} made its assessment. The auditor obtains sufficient appropriate audit evidence that management's plans are feasible and that the outcome of these plans will improve the situation.
28. Audit procedures that are relevant in this regard may include:
- Analyzing and discussing cash flow, profit and other relevant forecasts with management.
 - Analyzing and discussing the entity's latest available interim financial statements.
 - Reviewing the terms of debentures and loan agreements and determining whether any have been breached.
 - Reading minutes of the meetings of shareholders, those charged with

governance and relevant committees for reference to financing difficulties.

- Inquiring of the entity's lawyer regarding the existence of litigation and claims and the reasonableness of management's assessments of their outcome and the estimate of their financial implications.
- Confirming the existence, legality and enforceability of arrangements to provide or maintain financial support with related and third parties and assessing the financial ability of such parties to provide additional funds.
- Considering the entity's plans to deal with unfilled customer orders.
- Reviewing events after period end to identify those that either mitigate or otherwise affect the entity's ability to continue as a going concern.

29. When analysis of cash flow is a significant factor in considering the future outcome of events or conditions the auditor considers:

- (a) The reliability of the entity's information system for generating such information; and
- (b) Whether there is adequate support for the assumptions underlying the forecast.

In addition the auditor compares:

- (c) The prospective financial information for recent prior periods with historical results; and
- (d) The prospective financial information for the current period with results achieved to date.

Audit Conclusions and Reporting

30. **Based on the audit evidence obtained, the auditor should determine if, in the auditor's judgment, a material uncertainty exists related to events or conditions that alone or in aggregate, may cast significant doubt on the entity's ability to continue as a going concern.**

30-1. **The auditor should document the extent of the auditor's concern (if any) about the entity's ability to continue as a going concern.**

- 30-2. The auditor might be more likely to conclude that there is a significant level of concern about the entity's ability to continue as a going concern if, for example, indications such as those in paragraph 8 are present. However, where such indications are present, the auditor may have obtained sufficient appropriate evidence causing the auditor to conclude that there is not a significant level of concern about the entity's ability to continue as a going concern.
- 30-3. The auditor could consider that there is a significant level of concern about the entity's ability to continue as a going concern, or the auditor could disagree with the preparation of the financial statements on the going concern basis. In such cases (whether or not this is because of potential insolvency) the auditor might decide to write to those charged with governance drawing their attention to the need to consider taking suitable advice. In particular, those charged with governance of an entity may need to obtain advice from specialist accountants or lawyers on the appropriateness and implications of continuing to trade while they know, or ought to know, that the entity is insolvent.
31. A material uncertainty exists when the magnitude of its potential impact is such that, in the auditor's judgment, clear disclosure of the nature and implications of the uncertainty is necessary for the presentation of the financial statements not to be misleading.
- 31-1. **The auditor should consider whether the financial statements are required to include disclosures relating to going concern in order to give a true and fair view.**
- 31-2. In particular, if the future period to which those charged with governance have paid particular attention is, as described in paragraph 18-2, not very long, 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. 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 position.
- 31-3. To avoid repetition, the text in the financial statements might refer readers to specific disclosures located elsewhere in the annual report (for instance in the Operating and Financial Review). The auditor takes account of such

specified disclosures in considering the adequacy of disclosures in the financial statements.

31-4. **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 should do so within the section of the auditor’s report setting out the basis of the audit opinion, unless the fact is clear from any other references in the auditor’s report⁶.**

31-5. 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, the Operating and Financial Review). 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.

31-6. The auditor qualifies the audit opinion if the auditor considers that those charged with governance have not taken adequate steps to satisfy themselves that it is appropriate for them to adopt the going concern basis. This might arise, for example, when the auditor does not consider that the future period to which those charged with governance have paid particular attention in assessing going concern is reasonable in the entity’s circumstances. This is a limitation on the scope of the auditor’s work, as the auditor is unable to obtain all the information and explanations which they consider necessary for the purpose of their audit.

Going Concern Assumption Appropriate but a Material Uncertainty Exists

32. If the use of the going concern assumption is appropriate but a material uncertainty exists, the auditor considers whether the financial statements:

- (a) Adequately describe the principal events or conditions that give rise to the significant doubt on the entity’s ability to continue in operation

⁶ 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”).

and management's plans to deal with these events or conditions; and

- (b) State clearly that there is a material uncertainty related to events or conditions which 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.

33. **If adequate disclosure is made in the financial statements, the auditor should express an unqualified opinion but modify the auditor's report by adding an emphasis of matter paragraph that highlights the existence of a material uncertainty relating to the event or condition that may cast significant doubt on the entity's ability to continue as a going concern and draws attention to the note in the financial statements that discloses the matters set out in paragraph 32.** In evaluating the adequacy of the financial statement disclosure, the auditor considers whether the information explicitly draws the reader's attention to the possibility that the entity may be unable to continue realizing its assets and discharging its liabilities in the normal course of business. The following is an example of such a paragraph when the auditor is satisfied as to the adequacy of the note disclosure:

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

In extreme cases, such as situations involving multiple material uncertainties that are significant to the financial statements, the auditor may consider it appropriate to express a disclaimer of opinion instead of adding an emphasis of matter paragraph.

- 33-1. The emphasis of matter paragraph describes clearly the nature of the matters giving rise to the auditor's concern and refers to the relevant disclosures in the financial statements. The auditor uses judgment to decide the extent to which it is necessary for the description in the auditor's report to repeat information taken from the notes to the financial statements. The extent of the auditor's concern is one factor affecting the nature and extent

of the description in the auditor's report. The prime consideration is clarity of communication. The description is normally identified within the auditor's report through the use of the sub-heading 'Going concern'.

- 33-2. The auditor might have concluded that there is a significant level of concern about the entity's ability to continue as a going concern. In these cases the auditor does not normally regard the disclosures as adequate unless (in addition to any disclosures otherwise required, for example by accounting standards) the following matters are included in the financial statements:
- (a) A statement that the financial statements have been prepared on the going concern basis;
 - (b) A statement of the pertinent facts;
 - (c) The nature of the concern;
 - (d) A statement of the assumptions adopted by those charged with governance, which should be clearly distinguishable from the pertinent facts;
 - (e) (Where appropriate and practicable) a statement regarding the plans of those charged with governance for resolving the matters giving rise to the concern; and
 - (f) Details of any relevant actions by those charged with governance.

The guidance above regarding disclosures in the financial statements does not constitute an accounting standard.

34. **If adequate disclosure is not made in the financial statements, the auditor should express a qualified or adverse opinion, as appropriate (ISA (UK and Ireland) 700, "The Auditor's Report on Financial Statements," paragraphs 45–46). The report should include specific reference to the fact that there is a material uncertainty that may cast significant doubt about the entity's ability to continue as a going concern.** The following is an example of the relevant paragraphs when a qualified opinion is to be expressed:

"The Company's financing arrangements expire and amounts outstanding are payable on March 19, 20X1. The Company has been unable to re-negotiate or obtain replacement financing. This situation indicates the existence of a material uncertainty which 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.

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

Illustrative examples of auditor’s reports tailored for use with audits conducted in accordance with ISAs (UK and Ireland) are given in the most recent version of the APB Bulletin, “Auditor’s Reports on Financial Statements”.

The following is an example of the relevant paragraphs when an adverse opinion is to be expressed:

“The Company’s financing arrangements expired and the amount outstanding was payable on December 31, 20X0. The Company has been unable to re-negotiate or obtain replacement financing and is considering filing for bankruptcy. These events indicate a material uncertainty which 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.

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

Illustrative examples of auditor’s reports tailored for use with audits conducted in accordance with ISAs (UK and Ireland) are given in Appendix 2 and the most recent version of the APB Bulletin, “Auditor’s Reports on Financial Statements”.

Going Concern Assumption Inappropriate

35. **If, in the auditor’s judgment, the entity will not be able to continue as a going concern, the auditor should express an adverse opinion if the financial statements have been prepared on a going concern basis.** If, on the basis of the additional audit procedures carried out and the information obtained, including the effect of management’s plans, the auditor’s judgment is that the entity will not be able to continue as a going concern, the auditor concludes, regardless of whether or not disclosure has been made, that the going concern assumption used in the preparation of the financial statements is inappropriate and expresses an adverse opinion.
36. When the entity’s management^{1a} has concluded that the going concern assumption used in the preparation of the financial statements is not appropriate, the financial statements need to be prepared on an alternative authoritative basis. If on the basis of the additional audit procedures carried out and the information obtained the auditor determines the alternative basis is appropriate, the auditor can issue an unqualified opinion if there is adequate disclosure but may require an emphasis of matter in the auditor’s report to draw the user’s attention to that basis.

36-1. **In rare circumstances, in order to give a true and fair view, those charged with governance may have prepared the financial statements on a basis other than that of going concern. If the auditor considers this other basis to be appropriate in the specific circumstances, and if the financial statements contain the necessary disclosures, the auditor should not qualify the auditor’s report in this respect.**

36-2. Some enterprises are formed for a specific purpose, such as a joint venture to undertake a construction project, and are wound up or dissolved when the purpose is achieved. Under these circumstances the financial statements may be prepared on a basis that reflects the fact that assets may need to be realized other than in the ordinary course of operations. In these circumstances the auditor may wish, without qualifying the audit opinion, to refer in the auditor’s report to the basis on which the financial statements are prepared; the auditor may do this in the introductory paragraph of the report.

Management Unwilling to Make or Extend its Assessment

37. **If management^{1a} is unwilling to make or extend its assessment when requested to do so by the auditor, the auditor should consider the need to modify the auditor’s report as a result of the limitation on the scope**

of the auditor's work. In certain circumstances, such as those described in paragraphs 15, 18 and 24, the auditor may believe that it is necessary to ask management to make or extend its assessment. If management is unwilling to do so, it is not the auditor's responsibility to rectify the lack of analysis by management, and a modified report may be appropriate because it may not be possible for the auditor to obtain sufficient appropriate evidence regarding the use of the going concern assumption in the preparation of the financial statements.

38. In some circumstances, the lack of analysis by management may not preclude the auditor from being satisfied about the entity's ability to continue as a going concern. For example, the auditor's other procedures may be sufficient to assess the appropriateness of management's^{1a} use of the going concern assumption in the preparation of the financial statements because the entity has a history of profitable operations and a ready access to financial resources. In other circumstances, however, the auditor may not be able to confirm or dispel, in the absence of management's assessment, whether or not events or conditions exist which indicate there may be a significant doubt on the entity's ability to continue as a going concern, or the existence of plans management has put in place to address them or other mitigating factors. In these circumstances, the auditor modifies the auditor's report as discussed in ISA (UK and Ireland) 700, "The Auditor's Report on Financial Statements," paragraphs 36–44.

Regulated Entities

- 38-1. When the auditor of a regulated financial entity considers that it might be necessary to either qualify the audit opinion or add an explanatory paragraph to the audit report, the auditor may have a duty to inform the appropriate regulator at an early stage in the audit. In such cases the regulator might, if it has not already done so, specify corrective action to be taken by the entity. At the time at which the auditor formulates the audit report, the auditor takes account of matters such as:
- Any views expressed by the regulator.
 - Any legal advice obtained by those charged with governance.
 - The actual and planned corrective action.

Significant Delay in the Signature or Approval of Financial Statements

39. When there is significant delay in the signature or approval of the financial statements by management^{1a} after the balance sheet date, the auditor considers the reasons for the delay. When the delay could be related to events or conditions relating to the going concern assessment, the auditor considers the need to perform additional audit procedures, as described in paragraph 26, as well as the effect on the auditor's conclusion regarding the existence of a material uncertainty, as described in paragraph 30.

Application to Groups

- 39-1. The principles and procedures set out in this ISA (UK and Ireland) apply also to the audit of consolidated financial statements.
- 39-2. It may be appropriate, on the grounds of materiality, for the group financial statements to be prepared on the going concern basis even though it is inappropriate for the individual financial statements of one or more members of the group to be prepared on the going concern basis.

Effective Date

40. This ISA (UK and Ireland) is effective for audits of financial statements for periods commencing on or after 15 December 2004.


Public Sector Perspective

Additional guidance for auditors of public sector bodies in the UK and Ireland is given in:

- Practice Note 10 “Audit of Financial Statements of Public Sector Entities in the United Kingdom (Revised)”
- Practice Note 10(I) “The Audit of Central Government Financial Statements in Ireland”

1. *The appropriateness of the use of the going concern assumption in the preparation of the financial statements is generally not in question when auditing either a central government or those public sector entities having funding arrangements backed by a central government. However, where such arrangements do not exist, or where central government funding of the entity may be withdrawn and the existence of the entity may be at risk, this ISA (UK and Ireland) will provide useful guidance. As governments*

corporatize and privatize government entities, going concern issues will become increasingly relevant to the public sector.



Appendix 1

Preparation of the Financial Statements: Note on Legal and Professional Requirements

Company Law and Accounting Standards

1. The UK Companies Act 1985 specifies certain accounting principles which should normally be adopted in preparing the financial statements of a company. One of these principles is that:

'the company shall be presumed to be carrying on business as a going concern' (paragraph 10 of Schedule 4 to the Act)⁷.

However such a presumption is not conclusive and may be disregarded if the facts of the particular situation so require. The term 'going concern' is not defined in the Act but, as discussed below, is explained in International Accounting Standard (IAS) 1 'Presentation of Financial Statements' and Financial Reporting Standard (FRS) 18 'Accounting Policies'.
2. Paragraph 15 of Schedule 4 to the UK Companies Act 1985 states that departures from the Act's accounting principles *may* be made if it appears to the directors that there are 'special reasons' for doing so⁸. The financial statements must disclose any such departure, the reasons for it and its effect. 'Special reasons' would include circumstances where the directors conclude, on the basis of the facts as they appear to them, that it is appropriate to depart from the going concern presumption.
3. Furthermore, in addition to that particular provision of the UK Companies Act 1985, section 226 of the Act contains an overriding requirement for directors to prepare financial statements which give a true and fair view of the state of affairs of the company as at the end of the financial year and of its profit or loss for the financial year⁹.
4. If compliance with the provisions of the Act would not be *sufficient* to give a true and fair view, the Act requires the directors to give the necessary additional information in the financial statements. If, in 'special circumstances', compliance with the provisions of the Act is *inconsistent*

⁷ In the Republic of Ireland the equivalent is Section 5(a), Companies (Amendment) Act, 1986.

⁸ In the Republic of Ireland the equivalent is Section 6, Companies (Amendment) Act 1986.

⁹ In the Republic of Ireland the equivalent is Section 3(b), Companies (Amendment) Act 1986.

with the requirement to give a true and fair view, the Act requires the directors to depart from the particular provision to the extent necessary to give a true and fair view. The financial statements must disclose the particulars of any such departure, the reasons for it and its effect.

5. Accordingly, directors cannot assume that preparing the financial statements on the going concern basis and in accordance with the other provisions of the Act will necessarily result in the financial statements giving a true and fair view. Whilst, in general, compliance with accounting standards is also necessary to meet the requirement to prepare financial statements giving a true and fair view, such compliance is not of itself sufficient to ensure that a true and fair view is given in all cases.

Accounting Standards and the Definition of ‘Going Concern’

6. FRS 18 states that “The information provided by financial statements is usually most relevant if prepared on the hypothesis that the entity is able to continue in existence for the foreseeable future. This hypothesis is commonly referred to as the going concern assumption.”
7. FRS 18 requires that:

“An entity should prepare its financial statements on a going concern basis, unless

 - (a) the entity is being liquidated or has ceased trading, or
 - (b) the directors have no realistic alternative but to liquidate the entity or to cease trading,

in which circumstances the entity may, if appropriate, prepare its financial statements on a basis other than that of going concern.”
8. FRS 18 also requires that “When preparing financial statements, directors should assess whether there are significant doubts about an entity’s ability to continue as a going concern.” and, in relation to that assessment, the following information should be disclosed in the financial statements:

“(a) any material uncertainties of which the directors are aware in making their assessment, related to events or conditions that may cast significant doubt upon the entity’s ability to continue as a going concern.

- (b) where the foreseeable future considered by the directors has been limited to a period of less than one year from the date of approval of the financial statements, that fact.
 - (c) when the financial statements are not prepared on a going concern basis, that fact, together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern.”
9. The requirements of IAS 1 are consistent with those of FRS 18 with the exception that, if the foreseeable future considered by the directors has been limited to a period of less than one year from the date of approval of the financial statements, IAS 1 does not require disclosure of that fact. IAS 1 states that “In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the balance sheet date.

Appendix 2**Illustrative Examples of the Auditor's Assessment of Whether Evidence Provided by Those Charged With Governance, Concerning the Attention They Have Paid to the Period One Year From the Date of Approval of the Financial Statements, is Sufficient**

The appendix is illustrative only and does not form part of the Auditing Standards. The purpose of the appendix is to illustrate the application of the Auditing Standards to assist in clarifying their meaning in a number of commercial situations. The examples focus on particular aspects of the situations illustrated and are not intended to be a comprehensive discussion of all the relevant factors that might influence either the directors' or auditor's assessment of the appropriateness of the going concern basis. As the auditor would need to exercise judgment in the circumstances described it is possible that different auditors may arrive at different conclusions. This does not, however, detract from the examples which demonstrate thought process and the implications for an audit report once certain conclusions have been reached by the auditor. These examples neither modify nor override the Auditing Standards.

Example 1 - A small company producing specialized computer application software

Extract from the auditor's risk assessment

This owner managed company employs a few highly trained and highly paid computer system designers to design application software for use by transportation enterprises, such as airlines and bus companies, in preparing their timetables and fare structures. Few companies are engaged in this field and the supply of suitably trained staff is limited. The system designers, who met at University, have been with the company since its formation. They all have an equity interest in the company.

Although the company has only been in existence for five years it has established a reputation for excellence in its field. Its reputation derives from the skill and expertise of its individual employees rather than from anything attaching to the company itself.

A significant amount of time is spent by the designers in pure research activities developing new products. In addition the time needed to develop individual systems relating to an established product can be considerable. In addition to design of new systems the company maintains those systems it has installed on a contractual basis

and undertakes training courses in the use of the systems for the employees of its customers.

The company is thinly capitalized and relies primarily on advances from its customers supplemented by short term bank borrowings for its day to day cash requirements.

The company employs a part time book-keeper to prepare the financial statements, cash flow forecasts and maintain the books of account.

The company has usually been in a position to choose which contracts it accepts and has not had difficulty in recovering its costs. The company is not economically dependent on any one transportation enterprise.

The company updates each month a rolling cash flow projection with a six month time horizon. The company does not prepare projections for a longer period as it perceives its management need is to be able to manage effectively its short term cash flow. The company has negotiated a line of credit with its bankers which it would be able to utilize to overcome short term cash shortages.

Assessment by the auditor of whether there is sufficient evidence that the directors have paid particular attention to a period of twelve months

When the auditor assesses whether the directors have, in assessing going concern, paid particular attention to a period of one year from the expected date of approval of the financial statements the auditor:

- (a) Reviews the cash flow forecasts for the six month period from the expected date of approval of the financial statements; and
- (b) Then enquires of the directors the steps they have taken to assess the appropriateness of the going concern basis for the subsequent six month period.

The directors inform the auditor that they do not consider there is any need for cash flow forecasts to be prepared beyond six months because:

- The cash flow forecasts show a net cash inflow for the period;
- They have reviewed in detail the assumptions implicit in the forecast with the bookkeeper and concur with them;
- The company has a significant back-log of orders which will occupy half of the designers for at least the next year;

- The company is actively tendering for both systems design and maintenance contracts in the United Kingdom and Europe and is considering expanding into the Americas;
- The company has recently renewed its arrangements with its bankers for a further year;
- The design employees seem to be settled and stimulated and there is no reason to believe that they will leave the company in the foreseeable future; and
- In the unlikely event that the company did not win many of the tenders it could modify its existing expansion plans which have been necessitated by an increase in maintenance contracts. Rather than employ new staff to undertake this work existing staff could be reassigned to it.

The auditor concludes that the directors have paid particular attention to the period ending one year after their approval of the financial statements.

Example 2 - An enterprise in the fashion industry

Extract from the auditor's risk assessment

This company employing 1,000 people designs and manufactures ladies fashion wear. Its business is seasonal and it presents two major collections per year: one in the spring and one in the autumn.

The company has attracted established designers and they are regarded as one of the leading manufacturers.

Almost all of the company's sales orders are received from the major retailers when they show their collections. Although some of the garments are manufactured prior to the showing of the collection the majority of them will be manufactured in the four months immediately following the showing.

The company's finance director is a qualified accountant with a staff of 6. Because of the seasonal nature of the business the company prepares its detailed budgets and cash flow forecasts until the end of the next season. The company's year end is 30 June and the directors expect to approve the financial statements during October. Detailed cash flow forecasts are only available to the end of February in the following year a period of only four months from the approval of the financial statements.

The company which has been marginally profitable over the last few years has a small line of credit with its bank but is financed primarily through the factoring of its debtors.

Assessment by the auditor of whether there is sufficient evidence that the directors have paid particular attention to a period of twelve months

When the auditor assesses whether the directors have, in assessing going concern, paid particular attention to a period of one year from the expected date of approval of the financial statements the auditor would:

- (a) Review the cash flow forecasts for the four month period from the expected date of approval of the financial statements; and
- (b) Then enquire of the directors the steps they have taken to assess the appropriateness of the going concern basis for the subsequent eight month period.

The directors inform the auditor that they do not consider there is any need for additional cash flow forecasts to be prepared beyond the end of February in the following year because:

- The cash flow forecasts show a net cash inflow for the period and the present cash position is strong because of a recent sale of debtors from the present collection;
- The directors have reviewed in detail the assumptions implicit in the forecast and concur with them;
- The designers are working on the next collection and they believe, based on discussions with some of the retailers, that they have some good general ideas which will appeal to their customers if translated into imaginative detailed designs;
- Discussions with the major retailers indicate that they expect demand to be high next season;
- The company's relationship with its factor is good and they do not expect any difficulties in selling their debtors in the future;
- The company anticipates no major capital expenditures in the next twelve months. Most of the machinery is less than five years old and in any event is financed by lease arrangements rather than by purchase; and
- The company has recently renewed its arrangements with its bankers for a further year.

The auditor concludes that the directors have paid particular attention to the period ending one year after their approval of the financial statements.

The auditor's options when the auditor concludes that the directors have not paid particular attention to the period ending one year after the approval of the financial statements

The two examples above illustrate that the auditor may conclude that the directors have paid particular attention, to the period ending one year after the approval of the financial statements, even though they have not prepared cash flow forecasts for that period.

The auditor may conclude in slightly different situations that the directors have not paid particular attention to the period ending one year after the approval of the financial statements. If this is the case the auditor needs to consider the impact on the auditor's report which may be either:

- (a) The auditor may conclude that there is a significant level of concern about the entity's ability to continue as a going concern (but the auditor does not disagree with the use of the going concern basis). In which case the directors include a note to the financial statements and the auditor includes an emphasis of matter paragraph when setting out the basis of their opinion (in accordance with paragraph 33 of the ISA (UK and Ireland)); or, less probably;
- (b) The auditor may conclude that the directors have not paid particular attention to the period ending one year from the date of approval of the financial statements but there is no significant level of concern. Then if the directors:
 - (i) Refer to the period paid particular attention to, in the annual report, the auditor need not refer to the period in the basis of opinion (in accordance with paragraph 31-5 of the ISA (UK and Ireland)); however
 - (ii) If the directors do not refer to the period paid particular attention to, the auditor would do so in the auditor's report in accordance with paragraph 31-4 of the ISA (UK and Ireland)¹⁰; or
- (c) The auditor may conclude that the directors have not taken adequate steps to satisfy themselves that it is appropriate to adopt the going concern basis. Accordingly, there is a limitation of scope which gives rise to a qualified auditor's report (in accordance with paragraph 31-6 of the ISA (UK and Ireland)).

¹⁰ If the non-disclosure in the financial statements of the period paid particular attention to is a departure from the requirements of the applicable financial reporting framework, the auditor would give a qualified opinion ("except for").

NOTICE TO READERS

© **The Auditing Practices Board Limited**

This document has been obtained from the website of the Financial Reporting Council (FRC) and its operating Boards, which includes the Auditing Practices Board (APB). Use of the website is subject to the WEBSITE TERMS OF USE, which may be viewed in a separate section of the website. Readers should be aware that although the FRC and its Boards seek to ensure the accuracy of information on the website, no guarantee or warranty is given or implied that such information is free from error or suitable for any given purpose: the published hard copy alone constitutes the definitive text.

The ISAs (UK and Ireland) are based on International Standards on Auditing of the same titles, which have been issued by the International Auditing and Assurance Standards Board and published by the International Federation of Accountants.