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International Standard on Auditing (UK and Ireland) 570

Going concern

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**INTERNATIONAL STANDARD ON AUDITING
(UK AND IRELAND) 570 (REVISED SEPTEMBER 2014)**

GOING CONCERN

(Effective for audits of financial statements for periods commencing on or after 1 October 2014)

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

Interpreting the term ‘going concern’ in this ISA (UK and Ireland)

The financial reporting frameworks applicable in the UK and Ireland 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 and Ireland):

- 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 and Ireland)

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

Going Concern Assumption

2. Under the going concern assumption, an entity is viewed as continuing in business for the foreseeable future. General purpose financial statements are prepared on a going concern basis, unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so. Special purpose financial statements may or may not be prepared in accordance with a financial reporting framework for which the going concern basis is relevant for example, 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 assumption is appropriate, assets and liabilities are recorded on the basis that the entity will be able to realize its assets and discharge its liabilities in the normal course of business. (Ref: Para. A1)

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, since the going concern assumption 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^{1a} 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

^{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.

¹ IAS 1, "Presentation of Financial Statements" as at 1 January 2009, paragraphs 25-26.

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 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 responsibility is to obtain sufficient appropriate audit evidence about the appropriateness of management's^{1a} use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern. This responsibility exists even if the financial reporting framework used in the preparation of the financial statements does not include an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern.
7. However, as described in ISA (UK and Ireland) 200,² 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 going concern uncertainty in an auditor's report cannot be viewed as a guarantee as to the entity's ability to continue as a going concern.

Effective Date

8. This ISA (UK and Ireland) is effective for audits of financial statements for periods commencing on or after 1 October 2014.

Objectives

9. The objectives of the auditor are:

² ISA (UK and Ireland) 200, "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing."

- (a) To obtain sufficient appropriate audit evidence regarding the appropriateness of management's^{1a} use of the going concern assumption 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 determine the implications for the auditor's report.

Requirements

Risk Assessment Procedures and Related Activities

10. When performing risk assessment procedures as required by ISA (UK and Ireland) 315 (Revised June 2013),³ the auditor shall consider whether there are events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. In so doing, the auditor shall determine whether management^{1a} has already performed a preliminary assessment of the entity's ability to continue as a going concern, and: (Ref: Para. A2-A5)
 - (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 assumption, and inquire of management whether events or conditions exist that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern.
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. A6)

Evaluating Management's Assessment

12. The auditor shall evaluate management's^{1a} assessment of the entity's ability to continue as a going concern. (Ref: Para. A7-A9; A11-A12)
13. In evaluating management's^{1a} 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

³ ISA (UK and Ireland) 315 (Revised June 2013), "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment," paragraph 5.

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 560,⁴ the auditor shall request management to extend its assessment period to at least twelve months from that date^{4a}. (Ref: Para. A10-A12)

14. In evaluating management's^{1a} 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^{1a} Assessment

15. The auditor shall inquire of management as to its knowledge of events or conditions beyond the period of management's^{1a} assessment that may cast significant doubt on the entity's ability to continue as a going concern. (Ref: Para. A13-A14)

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 through performing additional audit procedures, including consideration of mitigating factors. These procedures shall include: (Ref: Para. A15)
 - (a) Where management^{1a} 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^{1a} 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. A16)
 - (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^{1a} plans for future action: (Ref: Para. A17-A18)
 - (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.

⁴ ISA (UK and Ireland) 560, "Subsequent Events," paragraph 5(a).

^{4a} In the UK and Ireland 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.

- (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 action and the feasibility of these plans^{1a}.

Audit Conclusions and Reporting

17. 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. A19 – A19-2)
- (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.

17-1 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 A19-1)

17-2. In the case of 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 knowledge the auditor has acquired during the audit, including that acquired in the evaluation of management's^{1a} 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;

^{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. In Ireland, these include Irish incorporated companies with a primary or secondary listing of equity shares on the Irish Stock Exchange.

- (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 ISA (UK and Ireland) 700^{4d}.

17-3. Matters the auditor considers when determining whether there is anything to add or to emphasise in the auditor's report on the financial statements shall include, based on the knowledge the auditor has acquired during the audit, including that acquired in the evaluation of management's^{1a} 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.

Use of Going Concern Assumption Appropriate but a Material Uncertainty Exists

18. If the auditor concludes that the use of the going concern assumption is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether the financial statements:

^{4d} ISA (UK and Ireland) 700, "The Independent Auditor's Report on Financial Statements", paragraph 22C.

^{4e} ISA (UK and Ireland) 260, "Communication with Those Charged with Governance", paragraph 16-1(e).

- (a) Adequately describe the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's^{1a} plans to deal with these events or conditions; and
 - (b) Disclose clearly that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business. (Ref: Para. A20)
19. If adequate disclosure is made in the financial statements, the auditor shall express an unmodified opinion and include an Emphasis of Matter paragraph in the auditor's report to:
- (a) Highlight the existence of a material uncertainty relating to the event or condition that may cast significant doubt on the entity's ability to continue as a going concern; and to
 - (b) Draw attention to the note in the financial statements that discloses the matters set out in paragraph 18. (See ISA (UK and Ireland) 706.⁵) (Ref: Para. A21-A22)
20. If adequate disclosure is not made in the financial statements, the auditor shall express a qualified opinion or adverse opinion, as appropriate, in accordance with ISA (UK and Ireland) 705.⁶ The auditor shall state in the auditor's report that there is a material uncertainty that may cast significant doubt about the entity's ability to continue as a going concern. (Ref: Para. A23-A24)

Use of Going Concern Assumption Inappropriate

21. If the financial statements have been prepared on a going concern basis but, in the auditor's judgment, management's^{1a} use of the going concern assumption in the financial statements is inappropriate, the auditor shall express an adverse opinion. (Ref: Para. A25-A26)

Management Unwilling to Make or Extend Its Assessment

22. If management^{1a} 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. A27)

Communication with Those Charged with Governance

23. Unless all those charged with governance are involved in managing the entity,⁷ 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

⁵ ISA (UK and Ireland) 706, "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report."

⁶ ISA (UK and Ireland) 705, "Modifications to the Opinion in the Independent Auditor's Report."

⁷ ISA (UK and Ireland) 260, "Communication with Those Charged with Governance," paragraph 13.

concern. Such communication with those charged with governance shall include the following:

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

Significant Delay in the Approval of Financial Statements

24. 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 17.

Application and Other Explanatory Material

Going Concern Assumption (Ref: Para. 2)

Considerations Specific to Public Sector Entities

- A1. Management's^{1a} use of the going concern assumption 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.⁸ 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 Doubt about Going Concern Assumption (Ref: Para. 10)

- A2. The following are examples of events or conditions that, individually or collectively, may cast significant doubt about the going concern assumption. This listing is not all-

⁸ IPSAS 1, "Presentation of Financial Statements" as at 1 January 2009, paragraphs 38-41.

inclusive nor does the existence of one or more of the items always signify that a material uncertainty exists.

Financial

- Net liability or net current liability position.
- Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment; or excessive reliance on short-term borrowings to finance long-term assets.
- Indications of withdrawal of financial support by 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 requirements.

- Pending legal or regulatory proceedings against the entity that may, if successful, result in claims that the entity is unlikely to be able to satisfy.
- Changes in law or regulation or government policy expected to adversely affect the entity.
- Uninsured or underinsured catastrophes when they occur.

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.

- A3. The risk assessment procedures required by paragraph 10 help the auditor to determine whether management's use of the going concern assumption is likely to be an important issue and its impact on planning the audit. These procedures also allow for more timely discussions with management, including a discussion of management's^{1a} plans and resolution of any identified going concern issues.

Considerations Specific to Smaller Entities

- A4. 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.
- A5. 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)

- A6. ISA (UK and Ireland) 315 (Revised June 2013) 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.⁹ 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

⁹ ISA (UK and Ireland) 315 (Revised June 2013), paragraph 31.

response to the assessed risks. ISA (UK and Ireland) 330¹⁰ establishes requirements and provides guidance on this issue.

Evaluating Management's^{1a} Assessment

Management's^{7a} Assessment and Supporting Analysis and the Auditor's Evaluation (Ref: Para. 12)

- A7. 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 management's use of the going concern assumption.
- A8. It is not the auditor's responsibility to rectify the lack of analysis by management^{1a}. 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 assumption 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 assumption in the preparation of the financial statements is appropriate in the circumstances.
- A9. In other circumstances, evaluating management's^{1a} 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^{1a} Assessment (Ref: Para. 13)

- A10. Most financial reporting frameworks requiring an explicit management^{1a} assessment specify the period for which management is required to take into account all available information.¹¹

¹⁰ ISA (UK and Ireland) 330, "The Auditor's Responses to Assessed Risks."

¹¹ 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 18 both provide 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 18 does not specify a 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.

Guidance issued by the FRC for directors of listed companies in "An Update for Directors of Listed Companies: Going Concern and Liquidity Risk" (November 2008) states that "Where the period considered by the directors has been limited, for example to a period of less than twelve months from the date of the approval of the annual report and accounts, the directors need to consider whether additional disclosures are necessary to explain adequately the assumptions that underlie the adoption of the going concern basis."

- A10-1. 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.
- A10-2. 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 17-1 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

- A10-3. 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.
- A10-4. 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)

- A11. In many cases, the management^{1a} 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 and Ireland), 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.

- A12. 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^{1a} Assessment (Ref: Para. 15)

- A13. 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^{1a} that may bring into question the appropriateness of management's use of the going concern assumption 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.
- A14. 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^{1a}, 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)

- A15. 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^{1a} 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))

A16. Evaluating management's^{1a} 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^{1a} Assessment (Ref: Para. 16(c))

A17. 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.

A18. Where management's^{1a} 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.

Audit Conclusions and Reporting (Ref: Para. 17 – 17-1)

A19. 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.

A19-1 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 A10-3).

A19-2 In complying with the requirements of ISA (UK and Ireland) 230 to document significant matters arising during the audit,^{1a} the auditor documents concerns (if any) about the entity's ability to continue as a going concern.

Use of Going Concern Assumption Appropriate but a Material Uncertainty Exists

Adequacy of Disclosure of Material Uncertainty (Ref: Para. 18)

A20. The determination of the adequacy of the financial statement disclosure may involve determining whether the information explicitly draws the reader's attention to the possibility that the entity may be unable to continue realizing its assets and discharging its liabilities in the normal course of business.

^{1a} ISA (UK and Ireland) 230, "Audit Documentation," paragraph 8(c).

Audit Reporting When Disclosure of Material Uncertainty Is Adequate (Ref: Para. 19)

- A21. The following is an illustration of an Emphasis of Matter paragraph when the auditor is satisfied as to the adequacy of the note disclosure:^{11b}

Emphasis of Matter

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

- A22. In situations involving multiple material 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 adding an Emphasis of Matter paragraph. ISA (UK and Ireland) 705 provides guidance on this issue.

Audit Reporting When Disclosure of Material Uncertainty Is Inadequate (Ref: Para. 20)

- A23. The following is an illustration of the relevant paragraphs when a qualified opinion is to be expressed:^{11b}

Basis for Qualified Opinion

The Company's financing arrangements expire and amounts outstanding are payable on March 19, 20X1. The Company has been unable to re-negotiate or obtain replacement financing. This situation indicates the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and therefore the Company may be unable to realize its assets and discharge its liabilities in the normal course of business. The financial statements (and notes thereto) do not fully disclose this fact.

Qualified Opinion

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

^{11b} Illustrative auditor's reports tailored for use with audits conducted in accordance with ISAs (UK and Ireland) are given in the current versions of the APB Compendia Auditor's Report Bulletins.

- A24. The following is an illustration of the relevant paragraphs when an adverse opinion is to be expressed:^{11b}

Basis for Adverse Opinion

The Company's financing arrangements expired and the amount outstanding was payable on December 31, 20X0. The Company has been unable to re-negotiate or obtain replacement financing and is considering filing for bankruptcy. These events indicate a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and therefore it may be unable to realize its assets and discharge its liabilities in the normal course of business. The financial statements (and notes thereto) do not disclose this fact.

Adverse Opinion

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

Use of Going Concern Assumption Inappropriate (Ref: Para. 21)

- A25. If the financial statements have been prepared on a going concern basis but, in the auditor's judgment, management's use of the going concern assumption in the financial statements is inappropriate, the requirement of 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^{1a} use of the going concern assumption.
- A26. If the entity's management^{1a} is required, or elects, to prepare financial statements when the use of the going concern assumption is not appropriate in the circumstances, the financial statements are prepared on an alternative basis (for example, liquidation basis). The auditor may be able to perform an audit of those financial statements provided that the auditor determines that the alternative basis is an acceptable financial reporting framework in the circumstances. The auditor may be able to express an unmodified opinion on those financial statements, provided there is adequate disclosure therein but may consider it appropriate or necessary to include an Emphasis of Matter paragraph in the auditor's report to draw the user's attention to that alternative basis and the reasons for its use.

Management^{1a} Unwilling to Make or Extend Its Assessment (Ref: Para. 22)

- A27. In certain circumstances, the auditor may believe it necessary to request management^{1a} to make or extend its assessment. If management is unwilling to do so, a qualified opinion or a disclaimer of opinion in the auditor's report may be appropriate, because it may not be possible for the auditor to obtain sufficient appropriate audit evidence regarding the use of the going concern assumption in the preparation of the financial statements, such as audit evidence regarding the

existence of plans management has put in place or the existence of other mitigating factors.

Regulated Entities

A27-1. 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.



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