International
Auditing
and Assurance
Standards Board

Exposure Draft
February 2007
Comments are requested by May 31, 2007

Proposed Redrafted International Standard on Auditing

ISA 570, Going Concern

International Federation
of Accountants

REQUEST FOR COMMENTS

The International Auditing and Assurance Standards Board (IAASB), an independent standard-setting body within the International Federation of Accountants (IFAC), approved the exposure draft, proposed International Standard on Auditing (ISA) 570 (Redrafted), "Going Concern," for publication in February 2007. This proposed ISA may be modified in light of comments received before being issued in final form.

Please submit your comments, preferably by email, so that they will be received by **May 31, 2007**. All comments will be considered a matter of public record. Comments should be addressed to:

International Auditing and Assurance Standards Board
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, New York 10017 USA

Comments should be emailed to Edcomments@ifac.org. They may also be faxed to +1-212-286-9570 or mailed to the above address.

Copies of the exposure draft may be downloaded free-of-charge from the IFAC website at http://www.ifac.org.

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EXPLANATORY MEMORANDUM

Introduction

This memorandum provides background to proposed International Standard on Auditing (ISA) 570 (Redrafted), "Going Concern." The proposed ISA has been redrafted in accordance with conventions agreed by the International Auditing and Assurance Standards Board (IAASB) to be applied to all ISAs. The IAASB approved the proposed redrafted ISA for exposure in February 2007.

Background

As part of its project to improve the clarity of its International Standards, the IAASB has undertaken to redraft all of its ISAs in accordance with its new clarity drafting conventions. This approach responds to the desire for all ISAs to be consistently drafted, and subject to a single statement of their authority and effect. The IAASB has agreed, in response to the general call for the Clarity project to be completed within a reasonable time, that while a significant number of the ISAs are under substantive revision as well as redrafting to reflect the new conventions, others will be subject to a limited redrafting to reflect only the conventions and matters of clarity generally. ISA 570 is in the latter category.

The conventions used by the IAASB in redrafting ISA 570 for exposure, and the authority and obligation attaching to those conventions, are established in the amended "Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services"[1] (Preface), approved by the IAASB in September 2006.

Effective Date

The current timetable envisages that all ISAs will have been revised and redrafted, or redrafted only, by late 2008 and the IAASB has provisionally agreed that the complete set of ISAs will be effective for audits of financial statements for periods beginning on or after December 15, 2008. This date will depend on satisfactory progress being made, and will be amended to a later date should that prove necessary. The IAASB believes that it is in the interests of auditors and others who use the ISAs that the standards should be released as soon as they are approved so as to facilitate their implementation.

Guide for Respondents

The IAASB is seeking comments **only** on changes resulting from applying the clarity drafting conventions and their effect on the content of the ISA. Respondents are asked to respond in particular to the following questions:

1. Are the objectives to be achieved by the auditor, stated in the proposed redrafted ISA, appropriate?

[1] The Preface can be accessed at http://web.ifac.org/download/IAASB_Preface.pdf.

2. Have the criteria identified by the IAASB for determining whether a requirement should be specified been applied appropriately and consistently, such that the resulting requirements promote consistency in performance and the use of professional judgment by auditors?[2]

Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, where appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in the exposure draft, it will be helpful for the IAASB to be made aware of this view.

Translations

Recognizing that many respondents intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues noted in reviewing the proposed redrafted ISA.

Supplement to the Exposure Draft

To assist respondents in tracking changes, IAASB staff has prepared an analysis of the decisions that have been made by the IAASB with respect to the treatment of the present tense in the explanatory paragraphs of the extant ISA. This analysis also demonstrates how the material in the extant ISA has been reflected in the proposed redrafted ISA. In particular, the analysis:

- Identifies existing sentences in the present tense and whether they are now treated as a requirement or as application material;
- Maps the material of the extant ISA to the proposed redrafted ISA; and
- Identifies explanatory material that is proposed to be eliminated as a result of redrafting.

These staff-prepared mapping documents are available on the IAASB website at http://www.ifac.org/Guidance/EXD-Details.php?EDID=0078. They are for information purposes only and do not form part of the exposure draft.

To be considered, responses should be emailed to Edcomments@ifac.org. They may also be faxed to +1-212-286-9570 or mailed to 545 Fifth Avenue, 14th Floor, New York, NY 10017, USA.

[2] The IAASB has identified the following criteria for determining the requirements of a Standard:

- The requirement is necessary to achieve the objective stated in the Standard;
- The requirement is expected to be applicable in virtually all engagements to which the Standard is relevant; and
- The objective stated in the Standard is unlikely to have been met by the requirements of other Standards.

In determining the requirements of a Standard, the IAASB will consider whether the requirements are proportionate to the importance of the subject matter of the Standard in relation to the overall objective of the engagement.

The criteria, which are intended only to assist the IAASB in appropriately and consistently determining requirements, may be refined as further experience is gained.

PROPOSED INTERNATIONAL STANDARD ON AUDITING 570 (REDRAFTED)

GOING CONCERN

(Effective for audits of financial statements for periods beginning on or after [date])*

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* See footnote 4.

International Standard on Auditing (ISA) 570 (Redrafted), "Going Concern" should be read in the context of the "Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services," which sets out the authority of ISAs.

Introduction (Ref: Para. A1-A3)

Scope of this ISA

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

The Going Concern Assumption

2. Under the going concern assumption, an entity is viewed as continuing in business for the foreseeable future. Financial statements and, in particular, all general purpose financial statements, are therefore 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. 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. There may be some circumstances where special purpose financial statements are prepared in accordance with a financial reporting framework for which the going concern basis is not relevant (e.g., some financial statements prepared on a tax basis in particular jurisdictions).

Responsibilities of the Auditor and of Management

3. Some financial reporting frameworks contain an explicit requirement[1] for management 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, "Presentation of Financial Statements" requires management to make an assessment of an entity's ability to continue as a going concern.[2]

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[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 the financial reporting framework, law or regulation.

[2] International Accounting Standard (IAS) 1 as at 31 December 2005, "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 reason why the entity is not regarded as a going concern.

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."

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 the financial statements as described in paragraph 2, management 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 requirement to do so.

5. Management's assessment of the entity's ability to continue as a going concern involves making a judgment, at a particular point in time, about the future outcome of events or conditions which are inherently uncertain. 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 a judgment is being made about the outcome of an event or condition. 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 all 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 be inconsistent with a judgment which was reasonable at the time it was made.

6. The auditor's responsibility is to evaluate the appropriateness of management's use of the going concern assumption in the preparation of the financial statements and conclude whether there is a material uncertainty[3] about the entity's ability to continue as a going concern that need to be disclosed in the financial statements. The auditor evaluates 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.

7. 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.

[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 entity'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 ISAs, the phrase "significant uncertainty" is used in similar circumstances.

Effective Date

8. This ISA is effective for audits of financial statements for periods beginning on or after [date].[4]

Objectives

9. The objectives of the auditor are:

   (a) To obtain sufficient appropriate audit evidence about whether management's use of the going concern assumption in the preparation and presentation of the financial statements is appropriate in the circumstances; and

   (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, if such a material uncertainty exists, to consider the implications for the auditor's report.

Requirements

Performing Risk Assessment Procedures (Ref: Para. A4-A7)

10. When performing risk assessment procedures to obtain an understanding of the entity, the auditor shall:

    (a) Inquire of management as to whether events or conditions exist that, individually or collectively, may cast significant doubt about the going concern assumption; and either

    (b) Consider management's assessment of the entity's ability to continue as a going concern, if such an assessment has been performed, to determine whether management has identified events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans to address them; or

    (c) Discuss with management the basis for its intended use of the going concern assumption, if management has not yet performed such an assessment.

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.

Evaluating Management's Assessment (Ref: Para. A8-A15)

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

13. The auditor's evaluation shall cover the same period as that used by management to make its assessment under the applicable financial reporting framework. If management's

[4] This date will be not be earlier than December 15, 2008.

assessment of the entity's ability to continue as a going concern covers less than twelve months from the balance sheet date, the auditor shall request management to extend its assessment period to twelve months from the balance sheet date.

14. In evaluating management's assessment, the auditor shall consider whether management has taken into account all relevant information of which the auditor is aware as a result of the audit.

Period Beyond Management's Assessment (Ref: Para. A16)

15. The auditor shall inquire of management as to its knowledge of events or conditions beyond the period of assessment used by management that may cast significant doubt on the entity's ability to continue as a going concern.

Further Audit Procedures when Events or Conditions are Identified (Ref: Para. A17-A20)

16. 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 shall:

    (a) Obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists through performing additional audit procedures, including consideration of other mitigating factors. When analysis of a cash flow forecast is a significant factor in considering the future outcome of events or conditions the auditor shall:

        (i) Evaluate the reliability of the entity's information system for generating such information; and

        (ii) Determine whether there is adequate support for the assumptions underlying the forecast.

    (b) Evaluate management's plans for future actions based on its going concern assessment and whether the outcome of these plans will improve the situation, and obtain sufficient appropriate audit evidence that management's plans are feasible in the circumstances.

    (c) Determine whether any additional facts or information have become available since the date on which management made its assessment.

    (d) Request specific written representations from management regarding its plans for future action.

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 is such that, in the auditor's judgment, appropriate disclosure of the nature and implications of the uncertainty is necessary for the fair presentation of the financial statements in accordance

with a fair presentation financial reporting framework, or in the case of a compliance framework, for the financial statements not to be misleading.

Use of Going Concern Assumption Appropriate but a Material Uncertainty Exists (Ref: Para. A21-A25)

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

    (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 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.

19. If adequate disclosure is made in the financial statements, the auditor shall express an unmodified opinion but shall 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 706 (Revised), "Emphasis of Matter Paragraphs and Other Matter(s) Paragraphs in the Independent Auditor's Report."

20. If adequate disclosure is not made in the financial statements, the auditor shall express a qualified or adverse opinion, as appropriate (See ISA 705 (Revised), "Modifications to the Opinion in the Independent Auditor's Report"). The auditor shall include specific reference in the auditor's report 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.

Going Concern Assumption Inappropriate (Ref: Para. A26)

21. If, in the auditor's judgment, the entity will not be able to continue as a going concern, the auditor shall express an adverse opinion if the financial statements have been prepared on a going concern basis, regardless of whether or not appropriate disclosure has been made.

Management Unwilling to Make or Extend Its Assessment (Ref: Para. A27)

22. If management is unwilling to make or extend its assessment when requested to do so by the auditor, the auditor shall consider whether there is a need to modify the opinion in the auditor's report as a result of the auditor's inability to obtain sufficient appropriate audit evidence. It is not the auditor's responsibility to rectify the lack of analysis by management. In some circumstances, however, 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.

23. When the auditor is unable to obtain sufficient appropriate audit evidence to enable the auditor to determine, in the absence of management's assessment, whether or not events or conditions exist that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall qualify the opinion or disclaim the auditor's opinion as appropriate as discussed in ISA 705 (Revised).

Significant Delay in the Approval of Financial Statements

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

Communication with Those Charged with Governance

25. When the auditor has identified events or conditions that may cast significant doubt on the entity's ability to continue as a going concern the auditor shall communicate with those charged with governance about the matter. Such communication with those charged with governance shall include a discussion of 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 of the financial statements; and

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

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Application and Other Explanatory Material

Introduction (Ref: Para. 1-7)

Considerations Specific to Smaller Entities

A1. The size of an entity affects its ability to withstand adverse conditions. Small entities can respond quickly to exploit opportunities, but may lack reserves to sustain operations.

A2. Conditions of particular relevance to small entities include the risk that banks and other lenders may cease to support the entity, the possibility of the loss of a principal supplier, major customer or key employee, and the possible loss of the right to operate under a license, franchise or other legal agreement.

Considerations Specific to Public Sector Entities

A3. 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 becomes relevant. As governments privatize government entities, going concern issues are becoming more common to the public sector.

Performing Risk Assessment Procedures (Ref: Para. 10-11)

A4. 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-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 debtors and other 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 other 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

- Loss of key management without replacement.
- Loss of a major market, franchise, license, or principal supplier.
- Labor difficulties.
- Shortages of important supplies.

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 law or regulation or government policy expected to adversely affect the entity.

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.

A5. Paragraph 10 requires the auditor to consider events and conditions relating to the going concern assumption when performing risk assessment procedures. This allows for more timely discussions with management, including a discussion of management's plans and resolution of any identified going concern issues.

A6. When management has not performed an assessment of the entity's ability to continue as a going concern 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.

A7. ISA 315 (Redrafted), "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment" 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. If events or conditions which may cast significant doubt on the entity's ability to continue as a going concern are identified after the auditor's risk assessments are made, in addition to performing the procedures in paragraph 16, the auditor's assessment of the risks of material misstatement may need to be revised. The existence of such events or conditions may also affect the nature, timing and extent of the auditor's further procedures in response to the assessed risks. ISA 330 (Redrafted), "The Auditor's Responses to Assessed Risks" establishes requirements and provides guidance on this issue.

Evaluating Management's Assessment (Ref: Para. 12-14)

A8. Management's assessment of the entity's ability to continue as a going concern is a key part of the auditor's consideration of the application of the going concern assumption.

A9. When there is a history of profitable operations and a ready access to financial resources, management may make its assessment without detailed analysis. In such circumstances, the auditor's conclusion about the appropriateness of this assessment may also be made without the need for performing detailed procedures, as the auditor's other procedures may be sufficient to assess whether management's use of the going concern assumption in the preparation of the financial statements is appropriate in the circumstances.

A10. In other circumstances, evaluating management's assessment of the entity's ability to continue as a going concern, as required by paragraph 14, 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.

A11. Most financial reporting frameworks requiring an explicit management assessment specify the period for which management is required to take into account all available information.[5]

A12. Other than inquiry of management, the auditor does not have a responsibility to design audit procedures to test for indications of events or conditions which may cast significant doubt on the entity's ability to continue as a going concern beyond the period assessed by management, which, as discussed in paragraph 13, would be at least twelve months from the balance sheet date.

A13. Nevertheless, 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 that may bring into question the appropriateness of management's use of the going concern assumption in preparing the financial statements.

Considerations Specific to Smaller Entities

A14. The management of smaller entities is less likely to have a detailed analysis of its assessment of the entity's ability to continue as a going concern. In some cases, management may not have prepared a detailed assessment, but instead rely on in-depth knowledge of the business and anticipated future prospects. Nevertheless, in accordance with the requirements of this ISA the auditor needs to be satisfied as to the entity's ability to continue as a going concern. Discussion with, and inquiry of, management in particular, of the financing of the entity in the medium and long-term may be appropriate in a small entity environment, 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, e.g., orders received for future supply, evaluated as to their feasibility or otherwise substantiated.

A15. 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. In such circumstances the auditor may obtain appropriate documentary evidence of the subordination of the owner-manager's loan. 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 ask for a specific written representation confirming the owner-manager's intention or understanding.

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

A16. 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

5 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.

conditions further in the future, the indications of going concern issues need to be significant before the auditor needs to consider taking further action. As part of the auditor's evaluation required by paragraph 15, 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.

Further Audit Procedures when Events or Conditions are Identified (Ref: Para. 16)

A17. When the auditor considers that identified 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.

A18. Evaluating management's plans for future actions, as required by paragraph 16(b) 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.

A19. Audit procedures that are relevant in this regard 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 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.
- 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.

A20. In addition to the procedures required in paragraph 16(a), the auditor may consider it appropriate to 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.

Use of Going Concern Assumption Appropriate but a Material Uncertainty Exists (Ref: Para. 18-20)

A21. The determination of the adequacy of the financial statement disclosure, as required by paragraph 18, 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.

A22. The following is an illustration of an Emphasis of Matter paragraph when the auditor is satisfied as to the adequacy of the note disclosure:

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 which may cast significant doubt about the Company's ability to continue as a going concern."

A23. 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. ISA 705 (Revised) establishes requirements and provides guidance on this issue.

A24. The following is an illustration of the relevant paragraphs when a qualified opinion is to be expressed:

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 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 fully disclose this fact.

Qualified Opinion

In our opinion, except for the incomplete disclosure 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 of its financial performance and its cash flows for the year then ended in accordance with …"

A25. The following is an illustration of the relevant paragraphs when an adverse opinion is to be expressed:

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 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.

Adverse Opinion

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, in all material respects) 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… (and do not comply with…) …"

Going Concern Assumption Inappropriate (Ref: Para. 21)

A26. If the entity's management 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 (e.g., 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 require 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 Unwilling to Make or Extend Its Assessment (Ref: Para. 22-23)

A27. In certain circumstances, such as those described in paragraphs 10, 12, 15, A7 and A17, the auditor may believe it necessary to request management to make or extend its assessment. If management is unwilling to do so, a qualified opinion or a disclaimer of opinion in the auditor's report may be appropriate, because it may not be possible for the auditor to obtain sufficient appropriate audit evidence regarding 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.

International Federation of Accountants
545 Fifth Avenue, 14th Floor, New York, NY 10017 USA
Tel +1 (212) 286-9344 Fax +1 (212) 286-9570 www.ifac.org