

Agenda Item D.3 For Reference

Please note: This paper includes the IAASB Going Concern Drafting Paragraphs for Proposed ISA 570 (Revised) that will be discussed by the Board at the September 2022 IAASB quarterly meeting (Agenda Item 7-A). This paper is provided to the IAASB CAG Representatives in September 2022 for reference purposes.

Drafting Paragraphs for Proposed ISA 570 (Revised), *Going Concern*

This Agenda Item includes drafting paragraphs prepared by the Going Concern Task Force (GC TF) for the issues discussed in **Agenda Item 7**. The paragraphs for the Board's consideration at the September 2022 meeting have been marked from extant ISA 570 (Revised), except for the text and paragraphs highlighted in yellow that have been marked from [Agenda Item 5-A](#) presented to the Board at the June 2022 meeting. The text and paragraphs highlighted grey are carried over from the extant ISA 570 (Revised)¹ with no modification and may be further considered by the GC TF.

Based on the feedback from the Board in September 2022, the GC TF intends to further develop the drafting for proposed ISA 570 (Revised). It is envisaged that a first full draft standard will be presented to the IAASB for discussion in December 2022.

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's responsibilities in the audit of financial statements relating to going concern and the implications for the auditor's report. Although this ISA applies irrespective of the entity's size or complexity, particular considerations apply only for audits of financial statements of listed entities. (Ref: Para. A1)

Going Concern Basis of Accounting

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

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

3. Some financial reporting frameworks contain an explicit requirement for management 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,

¹ See ISA 570 (Revised) as published in the IAASB 2020 Handbook (Volume I), including (when applicable) conforming and consequential amendments as a result of revision of other approved ISAs which are not yet effective, except for the illustrative auditor's report included in the Appendix to ISA 570 (Revised).

International Accounting Standard (IAS) 1 requires management to make an assessment of an entity's ability to continue as a going concern.² 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. (Ref: Para. A2A)

4. In other financial reporting frameworks, there may be no explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern. Nevertheless, where the going concern basis of accounting is a fundamental principle in the preparation of financial statements as discussed in paragraph 2, the preparation of the financial statements requires management to assess the entity's ability to continue as a going concern even if the financial reporting framework does not include an explicit requirement to do so.
5. Management's assessment of the entity's ability to continue as a going concern involves making a judgment, at a particular point in time, about inherently uncertain future outcomes of events or conditions. The following factors are relevant to that judgment:
 - The degree of uncertainty associated with the outcome of an event or condition increases significantly the further into the future an event or condition or the outcome occurs. For that reason, most financial reporting frameworks that require an explicit management assessment specify the minimum period for which management is required to take into account all available information.
 - The size and complexity of the entity, the nature and condition of its business and the degree to which it is affected by external factors affect the judgment regarding the outcome of events or conditions.
 - Any judgment about the future is based on information available at the time at which the judgment is made. Subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made.

Responsibilities of the Auditor

6. The auditor's responsibilities are to obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, and to conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on ~~about~~ the entity's ability to continue as a going concern. These responsibilities exist even if the financial reporting framework used in the preparation of the financial statements does not include an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern.
7. However, as described in ISA 200,³ the potential effects of inherent limitations on the auditor's ability to detect material misstatements are greater for future events or conditions that may cause an entity to cease to continue as a going concern. The auditor cannot predict such future events or conditions. Accordingly, the absence of any reference to a material uncertainty related to events or conditions that may cast significant doubt on ~~about~~ the entity's ability to continue as a going concern in an

² IAS 1, *Presentation of Financial Statements*, paragraphs 25–26

³ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraphs A53–A54

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 is effective for audits of financial statements for periods ending on or after December 15, 2016.

Objectives

9. The objectives of the auditor are:
- (a) To obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements;
 - (b) To conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; and
 - (c) To report in accordance with this ISA.

Definition

9A. For purposes of the ISAs, the following term has the meaning attributed below:

[Moved from Para. 18]

Material Uncertainty (related to going concern)—~~An material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern exists where~~ when the magnitude of its potential impact and likelihood of occurrence is such that, in the auditor's professional judgment, appropriate disclosure of the nature and implications of the uncertainty is necessary for: (Ref: Para. ~~A2B–A2C4–A22~~)

- (a) In the case of a fair presentation financial reporting framework, the fair presentation of the financial statements, or
- (b) In the case of a compliance framework, the financial statements not to be misleading.

Requirements

Risk Assessment Procedures and Related Activities

10. ~~When performing risk assessment procedures as required by~~ In applying ISA 315 (Revised 2019),⁴ the auditor shall design and perform risk assessment procedures to obtain audit evidence that provides an appropriate basis for the identification of ~~whether events or conditions exist that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern. In so doing, the auditor shall determine whether management has already performed a~~

⁴ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraphs ~~13–14~~ 13–14 ~~19–25~~

~~preliminary assessment of the entity's ability to continue as a going concern, and:~~ (Ref: Para. A3–A4FA6)

- ~~(a) If such an assessment has been performed, the auditor shall discuss the assessment with management and determine whether management has identified events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern and, if so, management's plans to address them; or~~
- ~~(b) If such an assessment has not yet been performed, the auditor shall discuss with management the basis for the intended use of the going concern basis of accounting, and inquire of management whether events or conditions exist that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern.~~

Obtaining an Understanding of the Entity and Its Environment, the Applicable Financial Reporting Framework and the Entity's System of Internal Control

10A. In applying ISA 315 (Revised 2019),⁵ the auditor shall perform risk assessment procedures to obtain an understanding of:

The Entity and Its Environment

- (a) The entity's business model, objectives, strategies and related business risks relevant to identifying events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern. (Ref: Para. A6A)
- (b) Industry conditions, including the competitive environment, technological developments, and other external factors affecting the entity's financing.
- (c) The measures used, internally and externally, to assess the entity's financial performance, including forecasts, future cash flows, and management's budgeting processes. (Ref: Para. A6B)

The Applicable Financial Reporting Framework

- (d) The requirements of the applicable financial reporting framework relating to the going concern basis of accounting, and the related disclosures that are required to be included in the entity's financial statements. (Ref: Para. A6C)
- (e) The basis for management's intended use of the going concern basis of accounting. (Ref: Para. A6D)

The Entity's System of Internal Control

- (f) Unless all of those charged with governance are involved in managing the entity,⁶ how those charged with governance exercise oversight over management's assessment of the entity's ability to continue as a going concern. (Ref: Para. A6E–A6F)
- (g) The entity's risk assessment process to identify, assess and address business risks relating to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern.

⁵ ISA 315 (Revised 2019), paragraphs 19-27

⁶ ISA 260 (Revised), *Communication with Those Charged with Governance*, paragraph 13

- (h) How events or conditions that may cast significant doubt on the entity's ability to continue as a going concern are captured, processed and reflected in the entity's information system. (Ref: Para. A6G)

Remaining Alert Throughout the Audit for New Information about Events or Conditions

11. The auditor shall remain alert throughout the audit for new information ~~audit evidence~~ of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. (Ref: Para. ~~A6H–A7~~)

Identification and Assessment of the Risks of Material Misstatement Associated with Going Concern

- 11A. In applying ISA 315 (Revised 2019),⁷ the auditor shall determine whether the audit evidence obtained from risk assessment procedures and related activities indicates the existence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern that management has not previously identified or disclosed to the auditor. (Ref: Para. A7A–A7B)

Control Deficiencies Within the Entity's System of Internal Control

- 11B. In applying ISA 315 (Revised 2019),⁸ based on the auditor's evaluation of each of the components of the entity's system of internal control, the auditor shall determine whether one or more control deficiencies in respect of management's assessment of going concern have been identified.

Evaluating Management's Assessment

12. The auditor shall design and perform audit procedures to evaluate management's assessment of the entity's ability to continue as a going concern, to obtain sufficient appropriate audit evidence:- (Ref: Para. A8–A9, A10A–A10B, A12–A13)

- (a) To conclude on the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements; and

[Moved from Para. 16]

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

- 12A. The auditor shall design and perform audit procedures to evaluate management's assessment of the entity's ability to continue as a going concern in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory. (Ref: Para. A10C)

⁷ ISA 315 (Revised 2019), paragraph 23

⁸ ISA 315 (Revised 2019), paragraph 27

Requesting Management to Make Its Assessment

[Moved from Para. 16(a)]

- 12B. Where management has not yet performed an assessment of the entity's ability to continue as a going concern, the auditor shall requesting management to make its assessment.

Period of Management's Assessment

13. ~~In evaluating management's assessment of the entity's ability to continue as a going concern, the auditor shall cover the same period as that used by management to make its assessment as required by the applicable financial reporting framework, or by law or regulation if it specifies a longer period. (Ref: Para. A11) [Removed]~~

13A. The auditor shall consider evaluate whether the period used by management to make its assessment is reasonable, based on the nature and circumstances of the entity. (Ref: Para. A11). [Moved from Para. 14A(a)]

13BA. The auditor shall request management to extend its assessment period to at least twelve months from the date of approval of the financial statements as defined in ISA 560,⁹ if or when the applicable financial reporting framework does not specify the period to be covered by management's assessment, the auditor shall request management to extend its assessment period to at least twelve months from that date. (Ref: Para. A11–A13)

- (a) Management's assessment of the entity's ability to continue as a going concern covers less than twelve months from that date, or
- (b) The applicable financial reporting framework does not specify the period to be covered by management's assessment of the entity's ability to continue as a going concern.

Period Beyond Management's Assessment

- 13C. The auditor shall inquire of management as to its knowledge of events or conditions beyond the period of management's assessment that may cast significant doubt on the entity's ability to continue as a going concern. (Ref: Para. A14–A15A13B–A13D) [Moved from para. 15]
14. ~~In evaluating management's assessment, the auditor shall consider whether management's assessment includes all relevant information of which the auditor is aware as a result of the audit. [Moved to Para. 16B]~~

Management Unwilling to Make or Extend Its Assessment

[Moved from Para. 24]

- 14A. If management is unwilling to make or extend its assessment when requested to do so by the auditor, the auditor shall: consider the implications for the auditor's report. (Ref: Para. A35)
- (a) Consider whether the period used by management to make its assessment is reasonable, based on the nature and circumstances of the entity. (Ref: Para. A13A), [Moved to Para. 13A]

⁹ ISA 560, *Subsequent Events*, paragraph 5(a)(b)

Discuss the matter with management, and if appropriate, with those charged with governance.
(Ref: Para. A13EB)

(b) Determine the implications for the audit or the auditor's opinion in accordance with ISA 705 (Revised).¹⁰ (Ref: Para. A13F) [Moved from Para 14B]

14B. If management is still unwilling to make or extend its assessment when requested in circumstances where the auditor believes it is necessary to do so by the auditor, the auditor shall consider determine the implications for the audit or for the auditor's report opinion in accordance with ISA 705 (Revised).⁴⁴ (Ref: Para. A13C) [Moved to Para. 14A(b)]

Period Beyond Management's Assessment

15. ~~The auditor shall inquire of management as to its knowledge of events or conditions beyond the period of management's assessment that may cast significant doubt on the entity's ability to continue as a going concern. (Ref: Para. A14–A15) [Moved to para. 13C]~~

Additional Audit Procedures When Events or Conditions Are Identified

16. ~~If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (hereinafter referred to as "material uncertainty") through performing additional audit procedures, including consideration of mitigating factors. These procedures shall include: (Ref: Para. A16) [Moved to Para. 12(b)]~~
- (a) ~~Where management has not yet performed an assessment of the entity's ability to continue as a going concern, requesting management to make its assessment. [Moved to Para. 12B]~~
 - (b) ~~Evaluating management's plans for future actions in relation to its going concern assessment, whether the outcome of these plans is likely to improve the situation and whether management's plans are feasible in the circumstances. (Ref: Para. A17) [Moved to Para. 16C]~~
 - (c) ~~Where the entity has prepared a cash flow forecast, and analysis of the forecast is a significant factor in considering the future outcome of events or conditions in the evaluation of management's plans for future actions: (Ref: Para. A18–A19) [Removed]~~
 - (i) ~~Evaluating the reliability of the underlying data generated to prepare the forecast; and [Moved to Para. 16A(c)]~~
 - (ii) ~~Determining whether there is adequate support for the assumptions underlying the forecast. [Moved to Para. 16A(b)]~~
 - (d) ~~Considering whether any additional facts or information have become available since the date on which management made its assessment. [Moved to Para. 16D]~~
 - (e) ~~Requesting written representations from management and, where appropriate, those charged with governance, regarding their plans for future actions and the feasibility of these plans. (Ref: Para. A20) [Moved to Para. 24A]~~

¹⁰ ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

⁴⁴ ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

Method, Assumptions and Data Used in Management's Assessment

16A. The audit procedures required by paragraph 12 shall include evaluating: (Ref: Para. A16)

- (a) The method used by management to assess the entity's ability to continue as a going concern, including whether the:
 - (i) Method selected is appropriate in the context of the applicable financial reporting framework, and, if applicable, changes from the method used in prior periods are appropriate; and (Ref: Para. A16A)
 - (ii) Calculations are applied in accordance with the method and are mathematically accurate.
- (b) ~~Determining whether there is adequate support for the assumptions on which management's assessment is based are: (Ref: Para. A16B) underlying the forecast.~~ [Moved from Para. 16(c)(ii)]
 - (i) Appropriate in the context of the applicable financial reporting framework, and, if applicable, changes from prior periods are appropriate; and
 - (ii) Consistent with each other or with related assumptions used in other areas of the entity's business activities, based on the auditor's knowledge obtained in the audit.
- (c) ~~Whether Evaluating the reliability of the underlying data is appropriate in the context of the applicable financial reporting framework, and, if applicable, changes from prior periods are appropriate.~~ generated to prepare the forecast; and [Moved from Para. 16(c)(i)]

Information Used in Management's Assessment

[Moved from Para. 14]

16B. In evaluating management's assessment of the entity's ability to continue as a going concern, the auditor shall consider whether management's assessment includes all relevant information of which the auditor is aware as a result of the audit.

Evaluating Management's Plans for Future Actions

[Moved from Para. 16(b)]

16C. If events or conditions have been identified that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall ~~Evaluate~~ management's plans for future actions in relation to its going concern assessment, including whether: (Ref: Para. A17, A17B)

- (a) ~~The~~ outcome of these plans is likely to improve the situation; and
- (b) ~~whether management's~~ plans are feasible in the circumstances; and. (Ref: Para. A17)
- (c) Management has the intent to carry out specific courses of action and has the ability to do so. (Ref: Para A17A)

Facts or Information Become Available After Management Made Its Assessment

[Moved from Para. 16(d)]

16D. Considering—The auditor shall consider whether any additional facts or information have become available since the date on which management made its assessment. In doing so, the auditor shall determine whether or not such facts or information are related to management’s assessment of the entity’s ability to continue as a going concern.

16E. If additional facts or information have been determined to be related to management’s assessment of the entity’s ability to continue as a going concern in accordance with paragraph 16D, the auditor shall perform the audit procedures required by paragraph 12, as well as consider the effect on the auditor’s conclusion as required by paragraph 18. (Ref: Para. A19B)

Evaluating the Audit Evidence Obtained and Concluding

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

17A. In making the evaluation required by paragraph 17, the auditor shall:

- (a) Evaluate whether the judgments and decisions made by management in making its assessment of the entity’s ability to continue as a going concern, even if they are individually reasonable, are indicators of possible management bias. When indicators of possible management bias are identified, the auditor shall evaluate the implications for the audit. (Ref: Para. A22A–A22C)
- (b) Consider all relevant audit evidence obtained, whether corroborative or contradictory. If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall evaluate the implications for the audit or the auditor’s opinion on the financial statements in accordance with ISA 705 (Revised).

18. Based on the audit evidence obtained, the auditor shall conclude whether, in the auditor’s judgment, a material uncertainty exists related to events or conditions that, individually or collectively, may cast significant doubt on the entity’s ability to continue as a going concern.

[Moved to Para. 9A]

~~A material uncertainty exists when the magnitude of its potential impact and likelihood of occurrence is such that, in the auditor’s judgment, appropriate disclosure of the nature and implications of the uncertainty is necessary for. (Ref: Para. A21–A22)~~

- ~~(a) In the case of a fair presentation financial reporting framework, the fair presentation of the financial statements, or~~
- ~~(b) In the case of a compliance framework, the financial statements not to be misleading.~~

Adequacy of Disclosures

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

[Moved to Para. 20A]

19. ~~If the auditor concludes that management's use of the going concern basis of accounting is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether the financial statements: (Ref: Para. A22–A23) [Moved to Para. 20A]~~
- ~~(a) Adequately disclose the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans to deal with these events or conditions; and~~
- ~~(b) Disclose clearly that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business.~~

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

20. If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained the auditor concludes that no material uncertainty exists, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework, the financial statements provide adequate disclosures about these events or conditions. (Ref: Para. A24–A25A)

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

[Moved from Para. 19]

- 20A. If the auditor concludes that management's use of the going concern basis of accounting is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether the financial statements: (Ref: Para. A22–A25B3)
- (a) Adequately disclose the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans to deal with these events or conditions; and
- (b) Disclose clearly that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business.

Implications for the Auditor's Report

Use of Going Concern Basis of Accounting Is Inappropriate

21. ~~If the financial statements have been prepared using the going concern basis of accounting but, in the auditor's judgment, management's use of the going concern basis of accounting in the preparation of the financial statements is inappropriate, the auditor shall express an adverse opinion. (Ref: Para. A26–A27) [Moved to Para. 23A]~~

Use of Going Concern Basis of Accounting Is Appropriate – No Material Uncertainty Exists

21A. If the auditor concludes that the going concern basis of accounting is appropriate and no material uncertainty exists, the auditor shall include a separate section in the auditor's report with the heading "Going Concern", and state that as part of the audit of the financial statements, based on the audit evidence obtained, the auditor: (Ref: Para. A27A)

- (a) Concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
- (b) Has not identified any material uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

Events or Conditions Have Been Identified – No Material Uncertainty Exists

21B. For audits of financial statements of listed entities, if events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained, the auditor concludes that no material uncertainty exists, the auditor shall in the "Going Concern" section of the auditor's report: (Ref: Para. A27B)

- (a) Draw attention to the note in the financial statements that discloses the matters set out in paragraph 20; and (Ref: Para. A27C)
- (b) Describe how the auditor addressed the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern were addressed in the audit. (Ref: Para. A27D–A27E)

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

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

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

- (a) Draw attention to the note in the financial statements that discloses the matters set out in paragraph 20A 49; and
- (b) State that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the auditor's opinion is not modified in respect of the matter-;
- (c) State that as part of the audit of the financial statements, based on the audit evidence obtained the auditor concluded that management's use of the going concern assumption in the preparation of the financial statements is appropriate; and
- (d) For audits of financial statements of listed entities, describe how the auditor addressed the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern were addressed in the audit. (Ref: Para. A27D–A27E)

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

23. If adequate disclosure about the material uncertainty is not made in the financial statements, the auditor shall: (Ref: Para. A32–A334)
- (a) Express a qualified opinion or adverse opinion, as appropriate, in accordance with ISA 705 (Revised)⁴²; and
 - (b) In the Basis for Qualified (Adverse) Opinion section of the auditor's report, state that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the financial statements do not adequately disclose this matter.

Use of Going Concern Basis of Accounting Is Inappropriate

[Moved from Para. 21]

- 23A. If the financial statements have been prepared using the going concern basis of accounting but, in the auditor's judgment, management's use of the going concern basis of accounting in the preparation of the financial statements is inappropriate, the auditor shall express an adverse opinion. (Ref: Para. ~~A26–A27~~A33A–A33B)

~~Management Unwilling to Make or Extend Its Assessment~~

24. ~~If management is unwilling to make or extend its assessment when requested to do so by the auditor, the auditor shall consider the implications for the auditor's report. (Ref: Para. A35)~~ [Moved to Para. 14A]

Written Representations

[Moved from Para. 16(e)]

- 24A. If events or conditions have been identified that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern the auditor shall request ~~Requesting~~ written representations from management¹³ and, where appropriate, those charged with governance, regarding their plans for future actions, ~~and the feasibility of these plans and whether management has the intent to carry out specific courses of action and has the ability to do so.~~ (Ref: Para. ~~A35~~A20)

Communication with Those Charged with Governance

25. Unless all those charged with governance are involved in managing the entity,¹⁴ the auditor shall communicate with those charged with governance events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern. Such communication with those charged with governance shall include the following: (Ref: Para. A36A–A36C)
- (a) Whether the events or conditions constitute a material uncertainty;
 - (b) Whether management's use of the going concern basis of accounting is appropriate in the preparation of the financial statements;

¹² ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

¹³ ISA 580, *Written Representations*

¹⁴ ISA 260 (Revised), *Communication with Those Charged with Governance*, paragraph 13

- (c) An overview of the audit procedures performed and the basis for the auditor's conclusions, including the consideration of management's plans for future actions;
- (d) The adequacy of related disclosures in the financial statements, including disclosures that describe the significant judgments made by management and the adequacy of the mitigating factors in management's plans that are of significance to overcoming the adverse effects of the events or conditions; and
- (e) Where When applicable, management's unwillingness to make or extend its assessment of the entity's ability to continue as a going concern when requested; and
- (f) When Where applicable, the implications for the audit or the auditor's report.

Reporting to an Appropriate Authority Outside of the Entity

25A. When the auditor considers it necessary to include a "Material Uncertainty Related to Going Concern" paragraph in the auditor's report, or issue a qualified, adverse or disclaimer of modified opinion in respect of matters related to going concern, the auditor shall determine whether law, regulation or relevant ethical requirements: (Ref: Para. A37A–A37D)

- (a) Require the auditor to report to an appropriate authority outside the entity.
- (b) Establish responsibilities under which reporting to an appropriate authority outside the entity may be appropriate in the circumstances.

Significant Delay in the Approval of Financial Statements

26. ~~If there is significant delay in the approval of the financial statements by management or those charged with governance after the date of the financial statements, the auditor shall inquire as to the reasons for the delay. If the auditor believes that the delay could be related to events or conditions relating to the going concern assessment, the auditor shall perform those additional audit procedures necessary, as described in paragraph 16, as well as consider the effect on the auditor's conclusion regarding the existence of a material uncertainty, as described in paragraph 18. [Removed]~~

Application and Other Explanatory Material

Scope of this ISA (Ref: Para 1)

A1. ISA 701¹⁵ deals with the auditor's responsibility to communicate key audit matters in the auditor's report. That ISA acknowledges that, when ISA 701 applies, ~~matters relating to going concern may be determined to be key audit matters, and explains that a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern is, by its nature, a key audit matter.~~¹⁶ However, in such circumstances, the implications for the auditor report are in accordance with this ISA.

¹⁵ ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

¹⁶ See paragraphs 15 and A44 of ISA 701.

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

Considerations Specific to Public Sector Entities

A2. Management's use of the going concern basis of accounting is also relevant to public sector entities. For example, International Public Sector Accounting Standard (IPSAS) 1 addresses the issue of the ability of public sector entities to continue as going concerns.¹⁷ 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.

Responsibility for Assessment of the Entity's Ability to Continue as a Going Concern (Ref: Para. 3)

A2A. The circumstances in which entities prepare financial statements on a going concern basis of accounting may vary. For example, IAS 1 explains that those circumstances could range from when an entity has a history of profitable operations and ready access to financial resources, to when 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.¹⁸

Definitions (Ref: Para. 9A)

[Moved from Para's. A21–A22]

A2B. The applicable financial reporting framework may or may not explicitly use the term "material uncertainty" when describing the uncertainties that are required to be disclosed in the financial statements related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern. For example, ~~the term 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 ~~term phrase~~ "significant uncertainty" is used in similar circumstances. Paragraph 18 ~~explains that a material uncertainty exists when the magnitude of the potential impact of the events or conditions and the likelihood of occurrence is such that appropriate disclosure is necessary to achieve fair presentation (for fair presentation frameworks) or for the financial statements not to be misleading (for compliance frameworks).~~ The auditor is required by paragraph 18 to conclude whether such a material uncertainty exists regardless of whether or how the applicable financial reporting framework defines a "material uncertainty."

A2C. The applicable financial reporting framework may not define a "material uncertainty." For the purposes of this ISA, uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern are considered material when the combination of:

- The likelihood of the events or conditions occurring; and
- Their potential magnitude, should the events or conditions occur,

¹⁷ IPSAS 1, *Presentation of Financial Statements*, paragraphs 38–41

¹⁸ IAS 1, paragraph 26

could reasonably be expected to influence the economic decisions of intended users taken on the basis of the financial statements.

Risk Assessment Procedures and Related Activities

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

- A3. The auditor's identification of events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern in accordance with paragraph 10 is before consideration of any related mitigating factors included in management's plans for future actions. The auditor considers such mitigating factors in accordance with paragraph 16C.

Examples:

The following are examples of events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern. ~~This listing is~~ These examples are 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 creditors.
- Recurring ~~negative operating~~ cash flows from operations or inability to generate cash flows from operations 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.
- Non-compliance or marginal inability to meet debt repayment or other debt covenant requirements or comply with the terms of loan agreements.
- Change from credit to cash-on-delivery transactions with suppliers.
- Inability to obtain additional debt or equity financing to stay competitive, including for financing or major research and development, capital expenditures, ~~for~~ essential new product development ~~or and~~ other essential investments.

Operating

- Management intentions to liquidate the entity or to cease operations.
- Loss of key personnel and management without replacement.

- Significant declines in customer demand.
 - Loss of a major market, ~~key~~ significant customer(s), franchise, license, or principal supplier(s).
 - Labor difficulties.
 - Shortages of important supplies.
 - Emergence of a highly successful competitor.
- Other
- Non-compliance or marginal ability to meet ~~with~~ capital or other statutory or regulatory requirements, such as solvency or liquidity requirements for financial institutions or exchange listing requirements.
 - Pending ~~legal~~ litigation and contingent liabilities arising from matters such as sales warranties, financial guarantees and environmental remediation 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.
 - Substantial decrease in share price.
 - Significant exposures to volatile markets, such as exchange rates, commodities (e.g., crude oil prices), equities or interest rates.
 - Uninsured or underinsured catastrophes when they occur.
 - Changes in the environment such as war, civil unrest or outbreaks of disease expected to adversely affect the entity.

[Moved to Para. A17]

~~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 counterbalanced 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.~~

A3A. In certain circumstances, the auditor may identify fraud risk factors arising from the events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern that are relevant to the identification and assessment of the risks of material misstatement due to fraud in accordance with ISA 240.¹⁹

¹⁹ ISA 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements, paragraph 24

Examples:

- Recurring negative cash flows from operations or an inability to generate cash flows from operations may create a threat of bankruptcy, foreclosure, or hostile takeover that may indicate an incentive or pressure to commit fraud.
- Non-compliance or marginal ability to meet debt covenant requirements may threaten the ability to renew borrowings and indicate an incentive or pressure to improve the business performance or to intentionally misstate the financial statements.

Risk Assessment Procedures and Related Activities (Ref: Para 10)

A4A. ISA 315 (Revised 2019) contains requirements and guidance regarding the auditor's responsibility to obtain an understanding of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control, and the identification and assessment of the risks of material misstatement whether due to fraud or error. The requirements and guidance in this ISA refer to, or expand on, what is required by ISA 315 (Revised 2019).

A4B. The risk assessment procedures and related activities ~~required by paragraph 10~~ assist the auditor in determining whether management's use of the going concern basis of accounting is likely to be an important issue and its impact on planning the audit. These procedures also allow for more timely discussions with management, including a discussion of management's plans for future actions and resolution of any identified going concern issues when events or conditions are identified that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern.

A4C. ISA 315 (Revised 2019)²⁰ requires the auditor to design and perform risk assessment procedures in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory. Designing and performing risk assessment procedures in an unbiased manner may assist the auditor in identifying potentially contradictory information, which may assist the auditor in maintaining professional skepticism when identifying whether the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern give rise to a risk of management bias in the preparation of the financial statements (also see paragraphs A22A–A22C).

A4D. The following are examples of risk assessment procedures that may be relevant:

[Moved from Para. A16]

Examples:

The Entity and its Environment

- Inquiries of financial planning and analysis personnel related to Analyzing and discussing cash flow, profit and other relevant forecasts to understand the sensitivity analysis related to future earnings included in management's assessment of going concern with management.
- Inquiring of Inquiries directed toward the entity's legal counsel regarding about the existence

²⁰ ISA 315 (Revised 2019), paragraph 13

of litigation and claims and the reasonableness of management's assessments of their outcome and the estimate of their financial implications.

- Review of previous forecasts (retrospective review) to obtain information regarding the effectiveness of management's process for assessing going concern.
- Inspecting ~~Reading~~ the terms of debentures and loan agreements and determining whether any have been breached.

The Applicable Financial Reporting Framework

- Inquiries directed toward management related to ~~Analyzing and discussing~~ the entity's latest available interim financial statements.

The Entity's System of Internal Control

- Inspecting the ~~Reading~~ minutes of the meetings of shareholders, those charged with governance and relevant committees for reference to financing difficulties.

Scalability (Ref: Para. 10)

A4E. The nature and extent of the auditor's risk assessment procedures may vary based on the nature and circumstances of the entity.

Examples:

The Entity and its Environment

- The nature and extent of the auditor's risk assessment procedures to obtain an understanding of the measures used, internally and externally, to assess the entity's financial performance are likely to be more extensive for entities with a complex structure and business activities. Such entities may also have complex borrowing arrangements with lenders, suppliers and group entities. By contrast, for smaller or less complex entities whose business activities are simple with few lines of business and with uncomplicated borrowing arrangements the nature of the auditor's risk assessment procedures is likely to be less extensive.

The Applicable Financial Reporting Framework

- When the entity's business activities are affected to a lesser degree by uncertainties related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern, the related disclosures in the entity's financial statements may be straightforward and the applicable financial reporting requirements may be simpler to apply. In such circumstances, the auditor's procedures to obtain an understanding of the basis for management's intended use of the going concern basis of accounting are likely to be less extensive.

The Entity's System of Internal Control

- The nature and extent of the auditor's risk assessment procedures may also depend on the extent to which certain matters apply in the circumstances. Those charged with governance in smaller or less complex entities may not include an independent or outside member, and the role of governance may be undertaken directly by the owner-manager where there are

no other owners. In addition, such entity's risk assessment process and process to monitor the system of internal control may be focused on the direct involvement of the owner-manager in operations. Accordingly, some considerations about the entity's control environment may be less relevant or may not be applicable.

A4F. The following considerations may be relevant for smaller or less complex entities:

[Moved from Paras. A5/A6]

- The size of an entity may affect its ability to withstand adverse conditions. Smaller entities may be able to respond quickly to exploit opportunities, but may lack reserves to sustain operations.
- Conditions of particular relevance to smaller 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.

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

A5. ~~The size of an entity may affect its ability to withstand adverse conditions. Small entities may be able to respond quickly to exploit opportunities, but may lack reserves to sustain operations.~~ [Moved to Para. A4F]

A6. ~~Conditions of particular relevance to small entities include the risk that banks and other lenders may cease to support the entity, as well as the possible loss of a principal supplier, major customer, key employee, or the right to operate under a license, franchise or other legal agreement.~~ [Moved to Para. A4F]

Obtaining an Understanding of the Entity and Its Environment, the Applicable Financial Reporting Framework and the Entity's System of Internal Control

The Entity and Its Environment (Ref: Para 10A(a), 10A(c))

A6A. The entity's business model, objectives, strategies and related business risks may give rise to events or conditions, that individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern. Some business risks may be so significant that they have implications for the conclusion as to the appropriateness of the entity's use of the going concern basis of accounting, and determination as to whether a material uncertainty exists.

Examples:

The following are examples of business risks the auditor may consider:

- Industry developments, such as the lack of access to appropriate personnel or expertise to deal with the changes in the industry or loss of significant customers or market share.
- New products and services that may lead to increased product liability.
- Expansion of the entity's business, and demand that has not been accurately estimated.
- Regulatory requirements resulting in increased legal exposure.
- Current and prospective financing requirements, such as loss of financing due to the entity's

inability to meet certain predetermined revenue metrics.

- Incentives and pressures on management, which may result in management bias, and therefore affect the reasonableness of assumptions used in management's assessment of the entity's ability to continue as a going concern.

A6B. Management will likely use information available about the future as well as historical information from internal and external sources when identifying events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern. Obtaining an understanding of the measures used, internally or externally, may highlight unexpected results or trends that may indicate the existence of events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern.

Examples:

- Internal performance measures may indicate an unusual deterioration in sales volume when compared to that of other entities in the same industry that may be indicative of a significant decline in market share or loss of customers.
- Externally generated information, such as pricing data, comparable data about competitors (benchmarking data) or macro-economic data may indicate competitive, industry, economic and other factors that are relevant for the entity's forecasts, future cash flow and budgeting processes.

The Applicable Financial Reporting Framework (Ref: Para 10A(d), 10A(e))

A6C. Obtaining an understanding of the requirements of the applicable financial reporting framework provides the auditor with information about the recognition, measurement and presentation criteria in the applicable financial reporting framework, and how they apply in the preparation of the financial statements under the going concern basis of accounting. The requirements of the applicable financial reporting framework may include disclosure requirements about the significant judgements and assumptions management makes about the future that may be relevant when events or conditions are identified that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern. Law or regulation may also include disclosure and other detailed requirements when preparing financial statements on the going concern basis of accounting.

A6D. The nature, extent, timing and frequency of management's assessment of the entity's ability to continue as a going concern may vary from entity to entity. In some entities, management may make assessments of the entity's ability to continue as a going concern more frequently as part of continuous monitoring, while in other entities it may be made on an annual basis. If such an assessment has not yet been performed, the auditor may obtain an understanding of the basis for the intended use of the going concern basis of accounting through discussion with management 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.

The Entity's System of Internal Control (Ref: Para 10A(f), 10A(h))

A6E. Obtaining an understanding of the oversight by those charged with governance may be particularly important when the assessment of the entity's ability to continue as a going concern:

- Requires significant judgment by management to assess whether 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; or
- Is complex to make, for example, because of the use of multiple data sources or assumptions with complex interrelationships.

A6F. The effectiveness of management's assessment of the entity's ability to continue as a going concern may be influenced by the oversight exercised by those charged with governance. The auditor may obtain an understanding of whether those charged with governance:

- Have the skills or knowledge to understand the appropriateness of the method used by management in assessing the entity's ability to continue as a going concern.
- Have the skills and knowledge to understand whether management's assessment of the entity's ability to continue as a going concern has been made in accordance with the requirements of the applicable financial reporting framework.
- Are independent from management, have the information required to evaluate on a timely basis how management made the assessment of the entity's ability to continue as a going concern, and the authority to call into question management's actions when those actions appear to be inadequate or inappropriate.
- Oversee management's process for making the assessment of the entity's ability to continue as a going concern.

A6G. The auditor's understanding of the entity's information system and communication may include obtaining an understanding how:

- The financial reporting process used to prepare the entity's financial statements captures disclosures related to the entity's ability to continue as a going concern.
- Other supporting records, such as for management's assessment of going concern, relate to the flows of information in the information system. For example, whether the data and information that is used in management's assessment of going concern is consistent with data and information used for accounting estimates.
- Management identifies the relevant method, assumptions and data that are appropriate in assessing the entity's ability to continue as a going concern, including:
 - How management determines the relevance and accuracy of the method.
 - How management determines that the assumptions are relevant and complete.
 - The nature and source of the method, assumptions and data, including information obtained from an external information source.
 - If alternative methods, assumptions or data were considered by management.
 - Where relevant, the requirements of the applicable financial reporting framework.
 - The period covered by management's assessment.

Remaining Alert Throughout the Audit for ~~Audit Evidence~~ New Information about Events or Conditions
(Ref: Para. 11)

A6H. As explained in ISA 315 (Revised 2019), obtaining an understanding of the entity and its environment, the applicable financial reporting framework and the entity's system of internal control is a dynamic and iterative process of gathering, updating and analyzing information and continues throughout the audit. Therefore, the auditor's evaluation with respect to an entity's ability to continue as a going concern may change as new information is obtained.

Example:

The auditor may identify a risk of a material misstatement associated with the valuation assertion for a lender of medium-term real estate backed loans because of a fall in real estate market values. The same event in combination with a severe economic downturn may have a longer-term consequence, and a greater impact on the assessment of the risk of material misstatement that may also indicate an event or condition that may cast significant doubt on the entity's ability to continue as a going concern.

A7. ISA 315 (Revised 2019) requires the auditor to revise the auditor's identification or assessment of the risks of material misstatement ~~assessment and modify the further planned audit procedures accordingly if the auditor obtains new information which is inconsistent with the~~ when additional audit evidence on which the auditor originally based the identification is obtained during the course of the audit that affects the auditor's or assessment of risk.²¹ 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 identification or assessments are made, in addition to performing the procedures in paragraph 126, the auditor's identification or 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 330²² establishes requirements and provides guidance on this issue.~~

Identification and Assessment of the Risks of Material Misstatement Associated with Going Concern (Ref: Para. 11A)

A7A. If the auditor identifies events or conditions that may cast significant doubt on the entity's ability to continue as a going concern that management failed to identify or disclose to the auditor, this may constitute a deficiency in internal control. ISA 265²³ deals with the auditor's responsibility to communicate appropriately to those charged with governance and management deficiencies in internal control that the auditor has identified in an audit of financial statements.

A7B. When management has intentionally failed to identify or disclose events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, this may raise doubts about their integrity and honesty, such as when the auditor suspects an intention to mislead. ISA 240

²¹ ISA 315 (Revised 2019), paragraph 374

²² ISA 330, *The Auditor's Responses to Assessed Risks*

²³ ISA 265, *Communicating Deficiencies in Internal Control to Management and Those Charged With Governance*, paragraph 8

provides further requirements and guidance in relation to the identification and assessment of the risks of material misstatement due to fraud.²⁴

Evaluating Management's Assessment

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

A8. Management's assessment of the entity's ability to continue as a going concern is a key part of the auditor's evaluation whether:

- consideration Management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- A material uncertainty exists related to events or conditions that may cast a significant doubt on the entity's ability to continue as a going concern.

A9. It is not the auditor's responsibility to rectify the lack of analysis by management. In some circumstances, however, the lack of detailed analysis by management to support its assessment may not prevent the auditor from concluding whether management's use of the going concern basis of accounting is appropriate in the circumstances. For example, in a less complex entity when there is a history of profitable operations and a ready access to financial resources, management may make its assessment without detailed analysis. ~~In this case, the auditor's evaluation of the appropriateness of management's assessment may be made without performing detailed evaluation procedures if the auditor's other audit procedures are sufficient to enable the auditor to conclude whether management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate in the circumstances.~~ However, in situations when, in the auditor's professional judgment, management has not performed an appropriate assessment, this may be an indicator of a deficiency in internal control in accordance with ISA 265.

A10. ~~In other circumstances, evaluating management's assessment of the entity's ability to continue as a going concern, as required by paragraph 12, may include an evaluation of the process management followed to make its assessment, the assumptions on which the assessment is based and management's plans for future action and whether management's plans are feasible in the circumstances.~~ [Removed]

Scalability (Ref: Para. 12)

A10A. The nature and extent of the auditor's procedures to evaluate management's assessment of the entity's ability to continue as a going concern is a matter of the auditor's professional judgement and may vary based on the nature and circumstances of the entity and the complexity of the method used by management to assess the entity's ability to continue as a going concern.

Examples:

- In some instances, the method used by management to assess the entity's ability to continue as a going concern may be a complex method. A complex method may require significant judgements by management and input from multiple sources of historical and forward-looking data or assumptions, with multiple interrelationships between them or from sources

²⁴ ISA 240, paragraphs 26-28

of data external to the entity. The greater the complexity of the method used by management to assess the entity's ability to continue as a going concern, the more likely it is that management may need to apply specialized skills or knowledge in making its assessment of the entity's ability to continue as a going concern. When the method used by management has greater complexity, the auditor's procedures to evaluate management's method will likely be more extensive and it may also be appropriate to involve members of the engagement team with specialized skills and knowledge to assist the auditor to apply the audit procedures or evaluate the results of those procedures.

- In other cases, management's method to assess the entity's ability to continue as a going concern may be uncomplicated because the business activities are simple or the business is affected to a lesser degree by uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern. In such circumstances, management may determine that the most appropriate method is to prepare a simple cash flow forecast and budget or other equivalent analysis covering the appropriate assessment period.

[Moved from Para. A12]

A10B.~~In many some~~ cases, the management of smaller or less complex ~~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, the auditor needs to evaluate management's assessment of the entity's ability to continue as a going concern.~~ For smaller entities, In such circumstances, it may be appropriate to discuss the medium and long-term financing of the entity with management, provided that management's ~~contentions~~ assertions 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, the auditor's procedures to evaluate management's assessment of going concern may be satisfied by discussion, inquiry and inspection of supporting documentation; for example, such as orders received for future supply, evaluated as to their feasibility or otherwise substantiated.~~

Obtaining Relevant Audit Evidence Whether Corroborative or Contradictory (Ref: Para. 12A)

A10C.Obtaining audit evidence in an unbiased manner may involve obtaining evidence from multiple sources within and outside the entity. However, the auditor is not required to perform an exhaustive search to identify all possible sources of audit evidence.

Example:

Contradictory evidence may include when the results of the auditor's procedures to evaluate the assumptions used by management in a cash flow forecast highlight inconsistencies with assumptions used for other purposes, such as forecasts used to evaluate the recoverability of deferred tax assets or potential impairment of goodwill.

Period of Management's Assessment (Ref: Para. 13A–13B)

- A11. Most financial reporting frameworks requiring an explicit management assessment about going concern specify the minimum period for which management is required to take into account all available information.²⁵ Paragraph 13B requires the auditor to request management to extend its assessment period if that period covers less than twelve months from the date of the approval of the financial statements.
- A12. ~~In many cases, the management of smaller entities may not have prepared a detailed assessment of the entity's ability to continue as a going concern, but instead may rely on in-depth knowledge of the business and anticipated future prospects. Nevertheless, in accordance with the requirements of this ISA, 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 13A 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. [Moved to Para. 10B]~~
- A13. ~~Continued support by owner-managers is often important to smaller entity's 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. [Moved to Para. A19A]~~

Period Beyond Management's Assessment (Ref: Para. 13C)

[Moved from Para. A14]

A13B.As required by paragraph 11, the auditor remains alert to the possibility that there may be known events, scheduled or otherwise, or conditions that will occur beyond the period of assessment used by management that may bring into question the appropriateness of management's use of the going concern basis of accounting in preparing the financial statements. Since the degree of uncertainty associated with the outcome of an event or condition increases as the event or condition is further into the future, in considering events or conditions further in the future, the indications of going concern issues need to be significant before the auditor needs to consider taking further action. If such events or conditions are identified, the auditor may need to request management to evaluate the potential significance of the event or condition on its assessment of the entity's ability to continue as a going concern. ~~In these circumstances, the procedures in paragraph 16 apply.~~

²⁵ 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 and IPSAS 1 defines this as a period that should be at least, but is not limited to, twelve months from the approval of the financial statements.

[Moved from Para. A15]

A13C. Other than inquiry of management, the auditor does not have a responsibility to perform any other audit procedures to identify events or conditions that may cast significant doubt on the entity's ability to continue as a going concern beyond the period assessed by management, which, as required by discussed in paragraph 13B, would be at least twelve months from the date of approval of the financial statements.

A13D. When events or conditions have been identified in the period beyond management's assessment, depending on the nature and circumstances of such events or conditions, the auditor may consider requesting management to revise the period of assessment for example, by extending it beyond twelve months from the date of approval of the financial statements.

Management Unwilling to Make or Extend Its Assessment (Ref: Para.24 14A)

A13A. Paragraph 13A requires the auditor to request management to extend its assessment period if that period covers less than twelve months from the date of the approval of the financial statements. In certain circumstances management may be able to provide additional information to support the appropriateness of the period chosen by management based on the nature and circumstances of the entity. For example, management may have chosen an assessment period of twelve months from the date of the financial statements because the entity has a history of profitable operations and no liquidity concerns and it is unlikely that there will be a significant delay between the date of the financial statements and the date of approval of the financial statements and on that basis management has concluded that it is not necessary to extend the period of assessment. [Removed]

A13EB. An unwillingness by management to make or extend its assessment may be a limitation on the audit evidence the auditor is seeking to obtain. Accordingly, the auditor is required to discuss the matter with management, and if appropriate, with those charged with governance, and inquire as to the reasons for management's decision. Management and those charged with governance may also be able to provide additional information to support the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

[Moved from Para. A35]

A13FC. In certain circumstances, the auditor may believe it necessary to request management to make or extend its assessment. If, management is unwilling to do so, following the discussion inquiries required by paragraph 14A(a), the auditor is unable to obtain sufficient appropriate audit evidence that supports management's decision not to make or extend its assessment, the auditor may conclude that it would be appropriate to:

- Revise the assessment of the risks of material misstatement and modify planned audit procedures in accordance with ISA 315 (Revised 2019).²⁶ For example, if management's decision is unreasonable in the circumstances, this may indicate a fraud risk factor that requires evaluation in accordance with ISA 240.²⁷
- Consider management's unwillingness to make or extend its assessment as a limitation on the audit evidence the auditor has obtained. because in such circumstances a qualified opinion or

²⁶ ISA 315 (Revised 2019), paragraph 37

²⁷ ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

~~a disclaimer of opinion in the auditor's report may be appropriate, because it may not be possible for the auditor to obtain sufficient appropriate audit evidence regarding management's use of the going concern basis of accounting in the preparation of the financial statements, such as audit evidence regarding the existence of plans management has put in place or the existence of other mitigating factors.~~ In accordance with ISA 705 (Revised), when the auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement, the auditor expresses a qualified opinion or disclaims an opinion.

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

- A14. ~~As required by paragraph 11, the auditor remains alert to the possibility that there may be known events, scheduled or otherwise, or conditions that will occur beyond the period of assessment used by management that may bring into question the appropriateness of management's use of the going concern basis of accounting in preparing the financial statements. Since the degree of uncertainty associated with the outcome of an event or condition increases as the event or condition is further into the future, in considering events or conditions further in the future, the indications of going concern issues need to be significant before the auditor needs to consider taking further action. If such events or conditions are identified, the auditor may need to request management to evaluate the potential significance of the event or condition on its assessment of the entity's ability to continue as a going concern. In these circumstances, the procedures in paragraph 16 apply.~~ [Moved to Para. A13B]
- A15. ~~Other than inquiry of management, the auditor does not have a responsibility to perform any other audit procedures to identify events or conditions that may cast significant doubt on the entity's ability to continue as a going concern beyond the period assessed by management, which, as discussed in paragraph 13, would be at least twelve months from the date of the financial statements.~~ [Moved to Para. A13C]

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

- A16. ~~Audit procedures that are relevant to the requirement in paragraph 16 may include the following:~~
[Moved to Para. A4D]
- ~~• Analyzing and discussing cash flow, profit and other relevant forecasts with management.~~
 - ~~• Analyzing and discussing the entity's latest available interim financial statements.~~
 - ~~• Reading the terms of debentures and loan agreements and determining whether any have been breached.~~
 - ~~• Reading minutes of the meetings of shareholders, those charged with governance and relevant committees for reference to financing difficulties.~~
 - ~~• Inquiring of the entity's legal counsel regarding the existence of litigation and claims and the reasonableness of management's assessments of their outcome and the estimate of their financial implications.~~
- [Moved to Para. A17B]
- ~~• 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.~~

Method, Assumptions and Data Used in Management's Assessment

Method (Ref: Para. 16A(a))

A16A. Matters that may be relevant to the auditor's evaluation of whether the method selected is appropriate in the context of the applicable financial reporting framework and, if applicable, the appropriateness of changes from the prior period may include:

- Whether management's rationale for the method selected is appropriate;
- When management has determined that different methods result in significantly different outcomes and how management has investigated the reasons for these differences; and
- Whether the changes are based on new circumstances or new information. When this is not the case, the changes may not be reasonable or may be an indicator of possible management bias (also see paragraphs A22A–A22C).

Assumptions (Ref: Para 16A(b))

A16B. Relevant considerations for the auditor's evaluation regarding the assumptions on which management's assessment is based may include:

- Management's rationale for the selection of the assumptions;
- Whether the assumptions used are consistent with those used in other areas of the entity's business activities, for example, business prospects, assumptions in strategy documents and assumptions used in making accounting estimates;
- Whether management considered alternative assumptions to determine the effect of changes in the assumptions on the data used in making the assessment, for example, performing a sensitivity analysis including 'pessimistic' and 'optimistic' scenarios; and
- Whether a change from prior periods in selecting an assumption is based on new circumstances or new information. When it is not the case, the change may not be reasonable or may be an indicator of possible management bias (also see paragraphs A22A–A22C).

Evaluating Management's Plans (Ref: Para. 16C)

A17. ~~Evaluating m~~ Management's plans for future actions may mitigate the significance of identified events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. ~~include inquiries of management as to its~~ Such plans for future actions, may include, for example,

its plans to liquidate assets, borrow money or restructure debt, reduce or delay expenditures, or increase capital.

Examples:

[Moved from Para A3]

- ~~The significance of such events or conditions often can be mitigated by other factors. For example, t~~The risk of an effect of an entity being unable to make its normal debt repayments may be counterbalanced 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, t~~The loss of a principal supplier may be mitigated by the availability of a suitable alternative source of supply.

A17A. The nature and extent of audit evidence to be obtained by the auditor about management's intent and ability to carry out its plans for future actions is a matter of the auditor's professional judgment. The auditor's procedures may include the following:

- Inquiry of management about its reasons for a particular course of action.
- Inquiry of management about the ability to carry out a particular course of action given the entity's economic circumstances, including the implications of its existing commitments and legal, regulatory, or contractual restrictions that could affect the feasibility of management's actions.
- Inspecting management's history of carrying out its stated intentions.
- Inspecting written plans and other documentation, including, when applicable, formally approved budgets, authorizations or minutes.
- Inspecting events occurring subsequent to the date of the financial statements and up to the date of the auditor's report.

A17B. The following Audit procedures that may be ~~are~~ relevant to the requirement in paragraph 16C: ~~may include the following:~~

[Moved from Para. A16]

- 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.
- ~~In addition to the procedures required in paragraph 16(c), the auditor may compare~~ When

prospective financial information is particularly significant to management's plans for future actions, comparing:

[Moved from Para. A18]

- 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.

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

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

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

[Moved to Para. A17B]

Financial Support by Third Parties or the Entity's Owner-Manager

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

A19A. Continued support by owner-managers is often important to smaller entity's 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. [Moved from Para. A13]

Facts or Information Become Available After Management Made Its Assessment (Ref: Para. 16E)

A19B. When the auditor determines that additional facts or information indicate that a material uncertainty related to going concern exists, the auditor may request management to amend its assessment. For example, when the auditor is aware of a significant delay between the date of approval of the financial statements and the date the financial statements are issued, and the auditor believes that the facts indicate that the delay may be related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, the auditor may request management to extend its assessment period beyond the twelve months from the date of approval of the financial statements. ISA 560 may also be applicable in such circumstances.²⁸

²⁸ ISA 560, paragraphs 10-17

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

A20. ~~The auditor may consider it appropriate to obtain specific written representations beyond those required in paragraph 16 in support of audit evidence obtained regarding management's plans for future actions in relation to its going concern assessment and the feasibility of these plans. [Moved to Para. A35A]~~

Evaluating the Audit Evidence Obtained and Concluding

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

[Moved to Para. A2B]

A21. ~~The phrase "material uncertainty" is used in IAS 1 in discussing the uncertainties related to events or conditions which may cast significant doubt on the entity's ability to continue as a going concern that should be disclosed in the financial statements. In some other financial reporting frameworks the phrase "significant uncertainty" is used in similar circumstances.~~

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

[Moved to Para. A2B]

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

Indicators of Possible Management Bias (Ref: Para. 17A(a))

A22A. When the auditor identifies indicators of possible management bias, the auditor may need a further discussion with management and may need to reconsider whether sufficient appropriate audit evidence has been obtained that the method, assumptions and data used by management to make its assessment of the entity's ability to continue as a going concern were appropriate and supported in the circumstances.

Examples:

The susceptibility to management bias, whether intentional or unintentional, may increase with the degree of estimation uncertainty and subjectivity in management's assessment of the entity's ability to continue as a going concern. For example:

- Management may tend to ignore observable marketplace assumptions or data and instead use their own internally-developed assumptions or select data that only yields a favorable outcome.
- There may be subjective changes in the method or assumptions from period to period without a clear and appropriate reason for doing so.

A22B. When such indicators are identified, this may also affect the auditor's conclusion as to whether the auditor's risk assessment and related responses remain appropriate. The auditor may also need to consider the implications for other aspects of the audit, including the need to further question the appropriateness of management's judgments in making its assessment of the entity's ability to continue as a going concern. Further, indicators of possible management bias may affect the auditor's conclusion as to whether the financial statements as a whole are free from material misstatement, as discussed in ISA 700 (Revised).²⁹

A22C. Indicators of possible management bias may also be a fraud risk factor and may cause the auditor to reassess whether the auditor's risk assessment, in particular the assessment of the risks of material misstatement due to fraud, and related responses remain appropriate.³⁰ When there is intention to mislead, management bias is fraudulent in nature and the auditor may need to consider whether the bias may represent a material misstatement due to fraud.

Adequacy of Disclosures

~~Adequacy of Disclosure when Events or Conditions Have Been Identified and a Material Uncertainty Exists (Ref: Para.19)~~

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

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

~~Some financial reporting frameworks may provide additional guidance regarding management's consideration of disclosures about the magnitude of the potential impact of the principal events or conditions, and the likelihood and timing of their occurrence. [Moved to Para. A25B]~~

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

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

- Principal events or conditions;**
- Management's evaluation of the significance of those events or conditions in relation to the entity's ability to meet its obligations;**

²⁹ ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraph 11

³⁰ ISA 240, paragraph 25

- Management's plans that mitigate the effect of these events or conditions; or
- Significant judgments made by management as part of its assessment of the entity's ability to continue as a going concern; or
- The assumptions management makes about the future, and other sources of estimation uncertainty.

A25. When the financial statements are prepared in accordance with a fair presentation framework, the auditor's evaluation as to whether the financial statements achieve fair presentation includes the consideration of the overall presentation, structure and content of the financial statements, and whether the financial statements, including the related notes, represent the underlying transactions and events in a manner that achieves fair presentation.³¹ Depending on the facts and circumstances, the auditor may determine that additional disclosures are necessary to achieve fair presentation. This may be the case, for example, when events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained, the auditor concludes that no material uncertainty exists, and no disclosures are explicitly required by the applicable financial reporting framework regarding these circumstances.

A25A. In accordance with ISA 705 (Revised),³² the auditor is required to express a modified opinion in the auditor's report when the financial statements do not provide the additional disclosures necessary to achieve fair presentation beyond disclosures specifically required by the applicable financial reporting framework.

Adequacy of Disclosure when Events or Conditions Have Been Identified and a Material Uncertainty Exists (Ref: Para.20A)

[Moved from Para. A23]

A25B. Paragraph 20A 49 requires the auditor to determine whether the financial statement disclosures address the matters set forth in that paragraph. This determination is in addition to the auditor determining whether disclosures about a material uncertainty, required by the applicable financial reporting framework, are adequate. Disclosures required by some financial reporting frameworks that are in addition to matters set forth in paragraph 20A 49 may include disclosures about:

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

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

³¹ ISA 700 (Revised), paragraph 14

³² ISA 705 (Revised), paragraphs 6 and A7

Implications for the Auditor's Report

Use of Going Concern Basis of Accounting is Inappropriate (Ref: Para. 24)

- A26. ~~If the financial statements have been prepared using the going concern basis of accounting but, in the auditor's judgment, management's use of the going concern basis of accounting in the financial statements is inappropriate, the requirement in paragraph 21 for the auditor to express an adverse opinion applies regardless of whether or not the financial statements include disclosure of the inappropriateness of management's use of the going concern basis of accounting. [Moved to Para. A33A]~~
- A27. ~~When the use of the going concern basis of accounting is not appropriate in the circumstances, management may be required, or may elect, to prepare the financial statements on another basis (e.g., liquidation basis). The auditor may be able to perform an audit of those financial statements provided that the auditor determines that the other basis of accounting is acceptable in the circumstances. The auditor may be able to express an unmodified opinion on those financial statements, provided there is adequate disclosure therein about the basis of accounting on which the financial statements are prepared, but may consider it appropriate or necessary to include an Emphasis of Matter paragraph in accordance with ISA 706 (Revised)³³ in the auditor's report to draw the user's attention to that alternative basis of accounting and the reasons for its use. [Moved to Para. A33B]~~

Use of Going Concern Basis of Accounting Is Appropriate – No Material Uncertainty Exists (Ref: Para. 21A)

- A27A. ~~Law or regulation may require the auditor to~~ The auditor may provide additional information in the statements required by auditor's report that would supplement the statements required by paragraph 21A. For example, to provide a reference to the relevant accounting policies or the notes in the financial statements. ~~When the statements required by paragraph 21A are supplemented, such information is provided in the Going Concern section of the auditor's report.~~

Events or Conditions Have Been Identified – No Material Uncertainty Exists (Ref: Para. 21B)

- A27B. ~~For an audit of financial statements of an entity other than a listed entity, law or regulation may require the auditor to provide the statements required by paragraph 21B. The auditor also may decide that providing the statements required by paragraph 21B for an entity other than a listed entity would be appropriate to enhance transparency for intended users of financial statements in the auditor's report. For example, the auditor may consider it appropriate to do so when intended users of financial statements rely on the audited financial statements to make economic decisions or because the entity may be of significant public interest, for example, because they have a large number and wide range of stakeholders and considering the nature and size of the business. Examples of such Such entities may include financial institutions (such as banks, insurance companies, and pension funds), and other entities such as charities.~~
- A27C. ~~There may be circumstances when, in the auditor's judgement, the disclosures of management's judgements relating to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern are fundamental to the intended users' understanding of the financial~~

³³—ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

statements. Also, there may be circumstances when the auditor, in addition to drawing attention to the note in the financial statements that discloses the matters set out in paragraph 20, would consider it appropriate to draw attention to key aspects of them. In such circumstances, the statements required by paragraph 21B can be supplemented to include aspects of the identified events or conditions disclosed in the financial statements, such as substantial operating losses, available borrowing facilities and possible debt refinancing, or non-compliance with loan agreements, and related mitigating factors or to draw attention to aspects of the disclosures of management's judgements. When the statements required by paragraph 21B are supplemented, such information is provided in the Going Concern section of the auditor's report.

Description of How the Auditor Addressed the Events or Conditions Were Addressed in the Audit (Ref: Para. 21B(b), 22(d))

A27D. The amount of detail to be provided in the auditor's report to describe how the auditor addressed the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern were addressed in the audit is a matter of professional judgment. The auditor may describe one or more of the following elements:

- Aspects of the auditor's response or approach that were most relevant to the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern;
- A brief overview of procedures performed;
- An indication of the outcome of the auditor's procedures; or
- Key observations with respect to the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

or some combination of these elements.

A27E. In order for intended users to understand the significance of the description in the context of the audit of the financial statements as a whole, care may be necessary so that language used in the description of how the auditor addressed the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern were addressed in the audit:

- Relates the description directly to the specific circumstances of the entity, while avoiding generic or standardized language.
- Takes into account how the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern are addressed in the related disclosure(s) in the financial statements.
- Does not contain or imply discrete opinions on separate elements of the financial statements.
- When applicable, does not obscure that a material uncertainty exists.

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

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

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

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

- ~~• That the existence of a material uncertainty is fundamental to users' understanding of the financial statements;³⁴ or~~
- ~~• How the matter was addressed in the audit (see also paragraph A1). [Removed]~~

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

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

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

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

A33. In situations involving multiple uncertainties that are significant to the financial statements as a whole, the auditor may consider it appropriate in extremely rare cases to express a disclaimer of opinion instead of including the statements required by paragraph 22. ISA 705 (Revised) provides guidance on this issue.³⁵

Use of Going Concern Basis of Accounting is Inappropriate (Ref: Para. 23A4)

[Moved from Para. A26]

A33A. If the financial statements have been prepared using the going concern basis of accounting but, in the auditor's judgment, management's use of the going concern basis of accounting in the financial statements is inappropriate, the requirement in paragraph 23A4 for the auditor to express an adverse opinion applies regardless of whether or not the financial statements include disclosure of the inappropriateness of management's use of the going concern basis of accounting.

³⁴ ISA 706 (Revised), paragraph A2

³⁵ ISA 705 (Revised), paragraph 10

[Moved from Para. A27]

A33B. When the use of the going concern basis of accounting is not appropriate in the circumstances, management may be required, or may elect, to prepare the financial statements on another basis (e.g., liquidation basis). The auditor may be able to perform an audit of those financial statements provided that the auditor determines that the other basis of accounting is acceptable in the circumstances. The auditor may be able to express an unmodified opinion on those financial statements, provided there is adequate disclosure therein about the basis of accounting on which the financial statements are prepared, but may consider it appropriate or necessary to include an Emphasis of Matter paragraph in accordance with ISA 706 (Revised)³⁶ in the auditor's report to draw the user's attention to that alternative basis of accounting and the reasons for its use.

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

~~A34. When the auditor of a regulated entity considers that it may be necessary to include a reference to going concern matters in the auditor's report, the auditor may have a duty to communicate with the applicable regulatory, enforcement or supervisory authorities.~~ [Moved to Para. A37A]

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

~~A35. In certain circumstances, the auditor may believe it necessary to request management to make or extend its assessment. If management is unwilling to do so, a qualified opinion or a disclaimer of opinion in the auditor's report may be appropriate, because it may not be possible for the auditor to obtain sufficient appropriate audit evidence regarding management's use of the going concern basis of accounting in the preparation of the financial statements, such as audit evidence regarding the existence of plans management has put in place or the existence of other mitigating factors.~~ [Moved to Para. A13F]

Written Representations (Ref: Para. 24A16(e))

[Moved from Para. A20]

A35A. The auditor may consider it appropriate to obtain specific written representations beyond those required in paragraph 24A 46 in support of audit evidence obtained regarding management's plans for future actions in relation to its going concern assessment and the feasibility of those plans.

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

A36A. ISA 260 (Revised)³⁷ explains that timely communication throughout the audit contributes to the achievement of robust two-way dialogue between those charged with governance and the auditor. However, the appropriate timing for communications will vary with the circumstances of the engagement, including the significance and nature of the matter, and the action expected to be taken by those charged with governance.

³⁶ ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

³⁷ ISA 260 (Revised), paragraph A49

Example:

~~For example, when~~ When events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, prompt communication with those charged with governance provides them with an opportunity to provide further clarification where necessary. ~~This and~~ also enables ~~them~~ those charged with governance to consider whether new or enhanced disclosures may be necessary (e.g., in relation to the mitigating factors in management's plans for future actions that are of significance to overcoming the adverse effects of the events or conditions).

A36B. Communication with those charged with governance about the audit procedures performed provides an opportunity for those charged with governance to understand the auditor's work that forms the basis for the auditor's conclusions, and where applicable, the implications for the auditor's report.

A36C. ISA 265³⁸ requires the auditor to communicate with management and those charged with governance any significant deficiencies in internal control identified during the audit. ~~For example, if~~ As explained in paragraph A7A, when the auditor ~~identified~~ identifies events or conditions that may cast significant doubt on the entity's ability to continue as a going concern that management failed to identify or disclose to the auditor, the auditor may determine that there is a significant deficiency in internal control with regard to the entity's risk assessment processes.

Reporting to an Appropriate Authority Outside of the Entity (Ref: Para. 25A)

[Moved from Para. A34]

~~A37A. When the auditor of a regulated entity considers that it may be necessary to~~ includes a "Material Uncertainty Related to Going Concern" paragraph in the auditor's report, or issues a ~~qualified, adverse or disclaimer of modified~~ opinion in respect of ~~reference to~~ going concern matters in the auditor's report, the auditor may ~~have a duty~~ be required by law, regulation or relevant ethical requirements to communicate these matters. The reporting may be to ~~with~~ applicable regulatory, enforcement, or supervisory authorities or other appropriate authority outside of the entity.

Example:

~~For example, in~~ In some jurisdictions, statutory requirements exist that provide early warning procedures for the auditor of a public interest entity to report to a supervisory authority when 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.

~~A37B. If law, regulation or relevant ethical requirements do not include requirements to report to an appropriate authority outside the entity when the auditor includes a "Material Uncertainty Related to Going Concern" paragraph in the auditor's report or issues a qualified, adverse or disclaimer of opinion in respect of matters related to going concern, the auditor may consider whether it is appropriate to report the matter in the public interest to an appropriate authority outside the entity, unless precluded by the auditor's duty of confidentiality under law, regulation or relevant ethical requirements.~~²⁴ Law, regulation or relevant ethical requirements may not include requirements for the

³⁸ ISA 265, paragraph 9

auditor to report to an appropriate authority outside the entity as described in paragraph A37A. Nevertheless, law, regulation or relevant ethical requirements may provide the auditor with the right to report the matter to an appropriate authority outside the entity, unless disclosure of the information is precluded by the auditor's duty of confidentiality under law, regulation or relevant ethical requirements.³⁹ In such circumstances, the auditor may also decide to discuss the matter with those charged with governance.

Example:

~~For example, when~~ When auditing the financial statements of financial institutions, the auditor may have the right under law or regulation to discuss with a supervisory authority when 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. ~~In such circumstances, the auditor may also decide to discuss the matter with those charged with governance.~~

A37C. Factors the auditor may consider in determining whether it is appropriate to report the matter ~~in the public interest~~ to an appropriate authority outside the entity, may include:

- Any views expressed by the regulatory, enforcement, supervisory or other appropriate authority outside of the entity.
- ~~Any legal advice obtained by those charged with governance.~~
- The actual and planned actions taken to address or mitigate the situation.

A37D. Reporting going concern matters to an appropriate authority outside of the entity may involve complex considerations and professional judgments. In those circumstances, the auditor may consider consulting internally (e.g., within the firm or a network firm) or on a confidential basis with a regulator or professional body (unless doing so is prohibited by law or regulation or would breach the duty of confidentiality). The auditor may also consider obtaining legal advice to understand the auditor's options and the professional or legal implications of taking any particular course of action.

³⁹ ~~Relevant ethical requirements, for~~ For example, ~~Section 114 of the paragraph R114.1(d) of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) sets out requirements to comply with the principle of confidentiality~~ may permit the disclosure of confidential information when there is a legal or professional duty or right to disclose. Paragraph 114.1 A1(c)(iv) of the IESBA Code explains that there is a professional duty or right to disclose such information to comply with technical and professional standards.