

Auditor Reporting on Going Concern – Examples from the United Kingdom and the Netherlands

This supplement includes examples of sections pertaining to auditor's reports from the United Kingdom and the Netherlands as compiled by IAASB Staff, given the developments related to transparency in reporting on going concern in these jurisdictions. These examples are provided for reference purpose and intend to provide the Board with an overview of how auditors apply the existing requirements in these jurisdictions.

United Kingdom (UK)

Example 1¹

CONCLUSIONS RELATING TO GOING CONCERN

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the group and parent company's ability to continue to adopt the going concern basis of accounting included the procedures below:

Going concern modelling	<ul style="list-style-type: none"> We gained an understanding of the approach taken by management to assess going concern, to model cash flows and to measure covenants over the forecast period. We agreed the starting cash position to our audit work and tested the mathematical integrity of this modelling.
Commodity prices	<ul style="list-style-type: none"> With assistance from our valuation specialists we compared management's forecast prices for steel, iron ore and coal to recent externally sourced information, including analyst expectations.
Sales volumes	<ul style="list-style-type: none"> We confirmed the consistency of sales volumes to the forecasts that we have audited as part of our work on impairment (see below).
Financing arrangements and covenants	<ul style="list-style-type: none"> We agreed the terms of financing arrangements modelled to contractual terms and our audit work on related facilities, including related covenants. We confirmed that no new financing that is currently un-committed is assumed in the forecasts.
Base case and pessimistic case	<ul style="list-style-type: none"> We evaluated the pessimistic scenario testing performed by management, noting that the assessment is more sensitive to a reduction in liquidity than remaining in compliance with covenants. We noted that this pessimistic scenario reduced liquidity to minimal operating levels towards the end of the assessment period to 30 June 2023, principally as a result of the repayment of \$750m of bonds maturing in March 2023. This scenario does not assume any mitigating actions and does not take account of actual results in January and February 2022 which are expected to be significantly stronger than the pessimistic scenario. This pessimistic scenario was effectively a reverse stress test. We evaluated potential mitigating actions identified by management and whether these were realistic and within management's control were a significant and sustained reduction in prices to occur. To further challenge the resilience of liquidity to a reduction in prices below the lower end of market expectations, we modelled a further scenario which assumed certain mitigations under management's control are actioned. We then assessed how much further prices could fall over the going concern period under this revised scenario. We considered how climate change related risks could impact management's assessment of going concern.

¹ https://ar2021.evraz.com/download/full-reports/ar_en_annual-report_pages_evraz_2021.pdf

Severe business interruption scenario	<ul style="list-style-type: none">• In the context of the worsening situation with respect to Ukraine, we challenged management and the directors as to how potential actions by international governments could impact EVRAZ's business, including on operations, exports and its ability to service debt.• We assessed the extent of downside reflected in the resulting scenario against the effects of Russian exports outside the CIS being reduced to nil in conjunction with absorbing further downside as a result of other factors.• We evaluated the additional mitigations identified and determined by management to be in their control for reasonableness..
Other considerations	<ul style="list-style-type: none">• We considered the appropriateness of the period of management's going concern assessment, being to 30 June 2023.• We assessed whether management had appropriately considered the potential impacts of COVID-19 on the forecasts and related disclosures.• We evaluated whether there were any events expected to occur beyond the assessment period that should impact conclusions relating to going concern.
Disclosures	<ul style="list-style-type: none">• We assessed the appropriateness of disclosures in the financial statements and elsewhere in the Annual Report, including whether management had disclosed its considerations of the potential effect of climate change risks on going concern.

In forming our conclusion, we considered the uncertainties as a result of potential responses by international governments to the worsening situation with respect to Ukraine. We noted that the Group has considered the effects of a severe and sustained business interruption and has also identified a range of mitigating actions that could be deployed were such a scenario to arise. In addition, this scenario does not reflect any new financing being raised over the going concern period. These mitigations would also be relevant in a scenario where prices were to fall over a sustained period.

Based on the work we have performed, we have not identified material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group and parent company's ability to continue as a going concern for a period of 16 months from the

date the financial statements are authorised for issue, being management's going concern assessment period. Going concern has been determined to be a key audit matter in the current year.

In relation to the group and parent company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Example 2²

3. SUMMARY OF OUR AUDIT APPROACH

KEY AUDIT MATTERS

The key audit matters that we identified in the current period were:

- accounting for the UK store estate programme;
- impairment of UK store assets;
- impairment of per una goodwill;
- inventory provisions for UK Clothing & Home;

- disclosure of adjusting items as part of alternative performance measures; and
- the going concern basis of accounting.

Within this report, key audit matters are identified as follows:

Increased level of risk



Similar level of risk



Decreased level of risk



4. CONCLUSIONS RELATING TO GOING CONCERN

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the Group's and Company's ability to continue to adopt the going concern basis of accounting is discussed in section 5.6.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the Group has applied the UK Corporate

Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

KEY AUDIT MATTERS CONTINUED

5.6 THE GOING CONCERN BASIS OF ACCOUNTING

KEY AUDIT MATTER DESCRIPTION



In undertaking their assessment of going concern for the Group, which is supported by the cash flows of the Group, the Directors reviewed the forecast future performance and anticipated cash flows. In doing so they considered the financing available to the Group and associated debt covenants, including the covenant relaxation that the Group has obtained in relation to its financing facility, and cost saving actions that the Group have taken in their response to the Covid-19 pandemic including certain Government support schemes (including the furlough scheme

and business rates holidays). The Directors have also determined appropriate sensitivities to these forecasts and considered the results in forming their conclusion.

Whilst there continues to be a high level of judgement as a result of the current challenges in the retail property market and the increasing move towards online retail as well as the longer-term wider economic impact of Covid-19, the level of risk associated with the going concern conclusion has reduced as a result of a reduction in the uncertainty associated with forecasting future cash flows.

Taking into account the sensitivity analyses performed by management the Directors have concluded that the Group has sufficient resources available to meet its liabilities as they fall due and have concluded that there are no material uncertainties around the going concern assumptions.

Further details of the Directors' assessment, including the sensitivities applied, are included within the Strategic Report on pages 57 and 109 and in note 1 to the financial statements.

² https://corporate.marksandspencer.com/msar2021/m-and-s_ar21_full_210602.pdf

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER

In responding to the identified key audit matter we completed the following audit procedures:

- obtained an understanding of relevant controls relating to the assessment of going concern models, including the review of the inputs and assumptions used in those models;
 - obtained management’s board approved three-year cash flow forecasts and covenant compliance forecasts, including the sensitivity analyses;
 - assessed the appropriateness of forecast assumptions by:
 - reading analyst reports, industry data and other external information and comparing these with management’s estimates to determine if they provided corroborative or contradictory evidence in relation to management’s assumptions;
 - comparing forecast sales with recent historical financial information to consider accuracy of forecasting;
 - enquiring of management regarding the mitigating actions to reduce costs and manage cash flows and challenging the quantum of those actions with reference to supporting evidence and assessing whether the mitigating actions were within the Group’s control;
 - testing the underlying data generated to prepare the forecast scenarios and determined whether there was adequate support for the assumptions underlying the forecast;
 - reviewing correspondence confirming UK Government support such as indirect tax holidays and staff furlough;
 - reviewing correspondence relating to the availability of the Group’s financing arrangements, including the covenant relaxation obtained by the Group in relation to its financing facility;
 - understanding and challenging the level of further mitigations available to the Group beyond those included within the forecast; and
 - considering the results of the sensitivity analyses performed; and
- evaluated the Group’s disclosures on going concern against the requirements of IAS 1.

Key observations

We are satisfied that the Directors’ conclusion that there are no material uncertainties over the Group and Company’s ability to continue as a going concern is appropriate and the associated disclosures are in accordance with the accounting standards.

Example 3³

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors’ use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors’ assessment of the group’s and parent company’s ability to continue to adopt the going concern basis of accounting included:

- an assessment of whether material uncertainties existed that could cast significant doubt on the entity’s ability to continue as a going concern for at least 12 months after the date of approval of the financial statements;
- an assessment of the financing facilities including nature of facilities, repayment terms and covenants;
- testing of clerical accuracy and appropriateness of the model used to prepare the forecasts;
- an assessment of the assumptions used in the forecasts;
- an assessment of management’s identified potential mitigating actions and the appropriateness of the inclusion of these in the going concern assessment;
- an assessment of the historical accuracy of forecasts prepared by management;
- reperformance of management’s sensitivity analysis; and
- an assessment of the disclosures made within the financial statements

³ <https://www.bp.com/content/dam/bp/business-sites/en/global/corporate/pdfs/investors/bp-annual-report-and-form-20f-2020.pdf>

Based on our assessment, we concluded that the assumptions used by management were in the acceptable range and the disclosures made within the financial statements were appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Netherlands

Example 1⁴

Our audit approach

Overview and context

We designed our audit procedures in the context of our audit of the financial statements as a whole. Our comments and observations regarding individual key audit matters, our audit approach regarding fraud risks and our audit approach regarding going concern should be read in this context and not as a separate opinion or conclusion on these matters.

...

Audit approach going concern

The management board prepared the financial statements on the assumption that the entity is a going concern and that it will continue its operations for the foreseeable future.

Our procedures to evaluate the management board going concern assessment include, amongst others:

- Considering whether the management board going concern assessment includes all relevant information of which we are aware as a result of our audit, inquire with the management board regarding their most important assumptions underlying their going concern assessment and considering whether the management board identified events or conditions that may cast significant doubt on the entity's ability to continue as a going concern including for example Covid-19 and supply chain challenges (hereafter: going concern risks);
- Analysing the financial position per balance sheet date in relation to the financial position per prior year balance sheet date to assess whether events or circumstances exist that may lead to a going concern risk;
- Evaluating the management board current budget including cash flows in comparison with last year, current developments in the industry and all relevant information of which we are aware as a result of our audit;
- Performing inquiries of the management board as to their knowledge of going concern risks beyond the period of management's board assessment.

⁴ <https://alfen.com/sites/default/files/media/documents/Alfen%20Annual%20Report%202021.pdf>

Example 2⁵

audit approach going concern

Our responsibilities, as well as the responsibilities of the Executive Board and the Supervisory Board, are outlined under the prevailing standards in the “Description of responsibilities regarding the financial statements” section below. The Executive Board has assessed the going concern assumption, as part of the preparation of the consolidated financial statements, and as disclosed in the Financial Statements (note 2.1, basis for preparation). The Executive Board believes that no events or conditions, including the COVID-19 pandemic, give rise to doubt about the ability of the group to continue in operation of at least twelve months after the adoption of the financial statements.

We have obtained management’s assessment of the entity’s ability to continue as a going concern, and have assessed the going concern assumption applied. As part of our procedures, we evaluated whether sufficient appropriate audit evidence has been obtained regarding, and have concluded on, the appropriateness of management’s use of the going concern basis of accounting in the preparation of the consolidated financial statements. Based on these procedures, we did not identify any reportable findings related to the entity’s ability to continue as a going concern.

Example 3⁶

Audit response to going concern – no significant going concern risks identified

Management has performed its going concern assessment and has concluded that it is justified that the financial reporting is prepared on a going concern basis. To assess management’s assessment, we have performed, among other things, the following procedures:

- we considered whether management’s assessment of the going concern risks includes all relevant information of which we are aware as a result of our audit;
- we analyzed the Company’s financial position as at year-end and compared it to the previous financial year in terms of indicators that could identify significant going concern risks.

⁵ <https://www.randstad.com/s3fs-media/rscom/public/2022-02/randstad-annual-report-2021.pdf>

⁶ <https://www.asml.com/en>