

GOING CONCERN: CAS 570

Risk Assessment Procedures and Related Activities

- The auditor should consider whether there are events or conditions that may cast significant doubt on the entity's ability to continue as a going concern
- Determine **whether management has already performed a preliminary assessment** of the entity's ability to continue as a going concern, and
 1. **If such an assessment has been performed, discuss the assessment with management** and determine whether management has identified events that may cast significant doubt on the entity's ability to continue as a going concern and **management's plans** to address them
 2. **If such an assessment has not yet been performed**, discuss with management the basis for the intended use of the going concern assumption, and **inquire management** whether events or conditions exist that may cast significant doubt on the entity's ability to continue as a going concern
- **Remain alert** throughout the audit for audit evidence of events that may cast significant doubt on the entity's ability to continue as a going concern

Evaluating Management's Assessment

- Evaluate **management's assessment** of the entity's ability to continue as a going concern
 - When there is a **history of profitable operations** and a ready access to financial resources, management may make its assessment without detailed analysis. In this case, the auditor's evaluation of the appropriateness of management's assessment may be made without performing **detailed evaluation procedures** if the auditor's other audit procedures are sufficient to enable the auditor to conclude whether management's use of the going concern assumption is appropriate in the circumstances
- If management's assessment of the entity's ability to continue as a going concern covers **less than twelve months** from the date of the financial statements, request management to extend its assessment period to **at least twelve months** from that date
 - For **smaller clients**, 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 (inspection) evidence and are not inconsistent with the auditor's understanding (i.e. discussion, inquiry and inspection of supporting documentation)
- Consider whether management's assessment **includes all relevant information** of which the auditor is aware as a result of the audit

Period beyond Management's Assessment

- **Inquire management** if it has knowledge of events beyond the period of management's assessment that may cast significant doubt on the entity's ability to continue as a going concern
- If such events or conditions are identified, request management to evaluate the potential significance of the event on its assessment of the entity's ability to continue as a going concern and perform the procedures below

Additional Audit Procedures When Events or Conditions Are Identified

- Perform the following procedures when events have been identified that may cast significant doubt on the entity's ability to continue as a going concern:
 - 1) If management has not yet performed an assessment of the entity's ability to continue as a going concern, **ask management to make its assessment**

- 2) **Evaluate management's plans for future** actions in relation to its going concern assessment, if the outcome of these plans **is likely to improve the situation** and if the plans are **feasible**
- 3) If the entity has prepared a **cash flow forecast** and the analysis of the forecast is a significant factor in considering the future outcome of events in the evaluation of management's plans:
 - a) Evaluate the **reliability of the data** used to prepare the forecast; and
 - b) Determining if there is **adequate support for the assumptions** used in the forecast
- 4) Consider if any **additional facts or information** have become available since the date on which management made its assessment
- 5) Request **written representations** from management and those charged with governance regarding their **plans for future action and the feasibility of these plans**

Audit Conclusions and Reporting

- Conclude whether a **material uncertainty exists** related to events that may cast significant doubt on the entity's ability to continue as a going concern
 - A **material uncertainty** exists when the **magnitude** of its potential impact and **likelihood** of occurrence is such that **appropriate disclosure** of the nature and implications of the uncertainty is necessary for the **fair presentation** of the F/S and the F/S not to be misleading

Use of Going Concern Assumption Appropriate but a Material Uncertainty Exists

- If the auditor concludes that the use of the **going concern assumption is appropriate** but a **material uncertainty exists**, determine whether the F/S:
 - a) Adequately **describe the events** 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; and
 - b) **Disclose clearly** that there is a **material uncertainty** related to events that may cast significant doubt on the entity's ability to continue as a going concern and that it may be **unable to realize its assets and discharge its liabilities** in the normal course of business
- If adequate disclosure is made in the F/S, express an **unmodified opinion** and include an **Emphasis of Matter paragraph** in the auditor's report to:
 - a) **Highlight the existence of a material uncertainty** relating to the event may cast significant doubt on the entity's ability to continue as a going concern; and
 - b) Draw attention to the note in the F/S that discloses the going concern
- If adequate disclosure is not made in the F/S, express a **qualified opinion** or **adverse opinion** and **state in the auditor's report** that there is a **material uncertainty that** may cast significant doubt about the entity's ability to **continue as a going concern**

Use of Going Concern Assumption Inappropriate

- If the F/S have been prepared on a going concern basis but management's use of the going concern assumption in the F/S is inappropriate, express an **adverse opinion**

Management Unwilling to Make or Extend Its Assessment

- If management is unwilling to make or extend its assessment when requested to do so by the auditor consider the implications for the auditor's report
 - A qualified opinion or a disclaimer of opinion may be appropriate as it may not be possible to obtain audit evidence regarding the use of the going concern assumption (i.e. evidence regarding the existence of plans management has put in place)

Communication with Those Charged with Governance

- Communicate with those charged with governance events that may cast significant doubt on the entity's ability to continue as a going concern