This article aims to:
- Provides an overview of the responsibilities of the management and auditors in relation to the going concern assumption.

Summary

Going concern basis of accounting is a fundamental principle in the preparation of financial statements.

Management needs to assess the entity’s ability to continue as a going concern.

An auditor is required to evaluate management’s assessment of the entity’s ability as a going concern.
The Institute of Chartered Accountants of India issued revised Standard on Auditing (SA) 570 (Revised), Going Concern applicable to the audits of financial statements for the periods beginning on or after 1 April 2017.

**What’s new in the revised standard?**

The key changes with respect to going concern include:

- A new requirement to evaluate the adequacy of disclosures when events or conditions have been identified but no material uncertainty exists
- Additional guidance to support the auditor’s evaluation of the adequacy of disclosures when a material uncertainty exists.
- New requirements and guidance on how to refer to going concern in the auditor’s report, including:
  - A new requirement to describe in the auditor’s report the responsibilities of management/ those charged with governance and the auditor related to going concern
  - A new material uncertainty related to going concern section in the auditor’s report, and
  - A requirement to communicate key audit matters related to going concern, if applicable, in the auditor’s report1.

**Scope**

The SA 570 (Revised) deals with the auditor’s responsibility in the audit of financial statements with respect to management’s use of the going concern assumption in the preparation and presentation of the financial statements. It also deals with the implications of going concern assumption for the auditor’s report.

**The going concern concept**

The going concern assumption is a fundamental principle in the preparation of financial statements. Under the going concern basis of accounting an entity would be required to prepare the financial statements on the assumption that:

- An entity is a going concern
- It would continue its operations for an unforeseeable future.

Additionally, the assets and liabilities are recorded on the basis that the entity would be able to realise its assets, discharge its liabilities, and obtain refinancing (if necessary) in the normal course of business.

In case an entity has the intention to liquidate or cease operations or has no realistic alternative but to do so, then in such cases the entity should not prepare financial statements on a going concern basis.

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1. Applicable for the periods beginning on or after 1 April 2018.
Responsibilities of the auditor

The auditor of the entity is required to obtain sufficient appropriate audit evidence to ensure whether a material uncertainty exists about the entity’s ability to continue as a going concern.

However, the auditor cannot predict future events or conditions due to inherent limitations on the auditor’s liability to detect material misstatements. Accordingly, the absence of any reference to a material uncertainty about the entity’s ability to continue as a going concern in an auditor’s report cannot be viewed as a guarantee as to the entity’s ability to continue as a going concern.

The revised standard identifies following three situations in terms of the going concern assumption that impacts an auditor’s opinion:

- Use of the going concern assumption is inappropriate: If the financial statements have been prepared using the going concern basis of accounting but, in the auditor’s judgement, management’s use of the going concern basis of accounting in the preparation of the financial statements is inappropriate, the auditor would express an adverse opinion.

- Use of the going concern assumption is appropriate but a material uncertainty exists: In case an entity considers the going concern assumption to be appropriate, but a material uncertainty exists, then such an entity would have to make disclosure of the fact in the financial statements of presence of uncertain future events or conditions that may result in the entity being unable to continue in business in the foreseeable future.

  The auditor will consider the adequacy of the disclosures made in the financial statements by management and accordingly, modify his/her audit report by including a separate section which would explain that material uncertainty related to going concern exists. In case, the auditor is of the opinion that the disclosure provided is inadequate or in case no disclosure has been provided, the auditor would express a qualified or an adverse opinion.

- Management unwilling to make or extend its assessment: In situations where an auditor has requested management to make an assessment, or extend their original assessment of going concern, however, management has refused to make, or extend such an assessment then the auditor would consider the implications for the report.

Reporting as per SA 701 (Revised) - Going concern as a KAM

SA 701 (Revised), Communicating Key Audit Matters in the Independent Auditor’s Report deals with the auditor’s responsibility to communicate Key Audit Matters (KAM) in the auditors’ report. The revised standard is applicable to the audits of financial statements for the periods beginning on or after 1 April 2018.

The revised standard highlights that a material uncertainty relating to going concern may be considered to be KAM and reported in accordance with SA 570.

Thus, 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.

Extract of auditor’s report

The ICAI issued Frequently Asked Questions on SA 570 (Revised), ‘Going Concern’ (Applicable for audits of financial year 2017-18) on 21 May 2018. The frequently asked questions provides an illustrative paragraph, where use of going concern basis of accounting in financial statements is appropriate, but a material uncertainty exists and adequate disclosure of material uncertainty exists in the financial statements.

Illustrative paragraph for audits of financial statements of financial year 2017-18

Material uncertainty related to going concern

We draw attention to Note XX in the financial statements, which indicates that the company incurred a net loss of ZZZ during the year ended 31 March 201X and, as of that date, the company’s current liabilities exceeded its total assets by YYY.

As stated in Note 6, these events or conditions, along with other matters as set forth in Note XX, indicate that a material uncertainty exists that may cast significant doubt on the company’s ability to continue as a going concern. Our opinion is not modified in respect of this matter.
For the audits of financial statements for the periods beginning on or after 1 April 2018, the following is the illustrative paragraph including reporting requirement under SA 701 (Revised).²

**Material uncertainty related to going concern**

We draw attention to Note XX in the financial statements, which indicates that the company incurred a net loss of ZZZ during the year ended 31 March 201X and, as of that date, the company’s current liabilities exceeded its total assets by YYY. As stated in Note 6, these events or conditions, along with other matters as set forth in Note XX, indicate that a material uncertainty exists that may cast significant doubt on the company’s ability to continue as a going concern. Our opinion is not modified in respect of this matter.

**Key audit matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the material uncertainty related to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

[Description of each key audit matter in accordance with SA 701.]

**Written representation**

The auditor may consider it appropriate to obtain specific written representations beyond the audit evidences obtained regarding management’s plans for future actions in relation to its going concern assessment and the feasibility of those plans.

**Consider this**

- Assessment is required for management’s use of the going concern basis of accounting.
- Appropriateness of disclosures should be evaluated to ensure that financial statements describe the significant judgements and estimates made regarding going concern.
- An auditor would need to determine the implications of the disclosure in relation to going concern while issuing his/her auditor’s report.

2. Illustrations of Auditor’s Reports Relating to Going Concern provided in Appendix to SA 570(Revised).