

Test of Going Concern

The COVID-19 pandemic is likely to have significant implications for global economies and markets for certain industries such as restaurants, entertainment, hospitality, retail and travel especially aviation. The downturn will result in a significant increase in both the volume and severity of events and conditions that may in some instances cast doubt on an entity's ability to continue as a going concern. So this article highlights one of the key assumptions of an Organization i.e Going



Concern. This assumption has become so significant and important for both Auditors and Corporate Boards not only in India but across globe in current environment due to outbreak of COVID-19.

What is going concern concept.

Going is the management assumption that the entity will continue its operations for the foreseeable future which is generally for a period of 12 months from the end of financial year. It is one of the fundamental Accounting Principle. General purpose financial statements are prepared using going concern basis.

Boards Responsibility

The Board of Directors of every company are required to make a statement in the Directors' Responsibility Statement referred to in Section 134(5) of the Companies Act, 2013 that the directors had prepared the annual accounts on a going concern basis. Hence its clear that it is the responsibility of management to assess entity's ability to continue as a going concern. The assessment is based on judgement of management.

Auditors Responsibility

As per SA 570(revised), Auditors responsibility is to evaluate management's assessment and consider whether the assessment includes all relevant information of which auditor is aware. Auditor has to obtain sufficient appropriate audit evidence to express his opinion on Going Concern Assumption of Organization.

Audit Procedures and Techniques

There are various factors that impact the ability of an entity to continue as a going concern. Out of such factors, the auditor as well as the company needs to essentially consider the impact of COVID-19 on going concern evaluation critically

What COVID has done	What Management Should do	What Auditor should do
Impacted ability to Continue	Perform Preliminary Assessment of impact due to COVID-19	Review appropriateness of Management's Assessment, and verify its completeness
Disrupted Supply and production cycles	Design and development of recovery plan	Verify the plan of Management and check whether it will mitigate risk
Disrupted cash flows, Profits, order book and other Key metrics	Design and development of recovery plan	1. Evaluate present and forecasted Cash flows, profits and 2.Review management plan of reviving order book

Financial difficulties i.e credit risks, Defaults in loans repayment, breach of debt covenants etc.	Design and development of recovery plan	1. Read Minutes of meetings of Board, Shareholders and other committees for any mention of financial difficulties 2. Read the covenants attached to debt and assess their impact 3. Check any loan defaults or changes in borrowing facilities
Litigations & Claims (Existing or probable)	Management Assessment of their outcomes and the estimate of their financial impact	1. Inquire with Legal team of Organization 2. Review Managements assessment and evaluate reasonableness on impact

Author
CA. Manoj Kumar

Reach the author at mailus@financediary.in