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| --- | --- | --- |
| **Client:** | **$(client)** | |
| **Period end date:** | **$(start) - $(end)** | |
| **Ref. no.:** |  | |
| **Prepared by:** | **$(user)** | **Date:** |
| **Approved by Manager:** |  | **Date:** |
| **Approved by Partner:** |  | **Date:** |

# **Guidance (click to expand):**

Purpose

This template is designed to serve as a documentation template for the engagement team’s consideration of events or conditions that may cast significant doubt on the entity’s ability to continue as going concern; and evaluation of management’s assessment of the entity’s ability to continue as going concern and the conclusions reached in this regard.

Introduction

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.

Events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern

This documentation template contains examples of events or conditions that, individually or collectively, may cast significant doubt on the entity’s ability to continue as a going concern. These examples are not all-inclusive nor does the existence of one or more of the items always signify that a material uncertainty exists. Also, the significant of certain conditions may vary according to the size of an entity and its ability to withstand those conditions.

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. The risk assessment procedures performed help the auditor to determine 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 and resolution of any identified going concern issues.

The risk assessment procedures performed help the auditor to determine 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 and resolution of any identified going concern issues.

Evaluation of management’s assessment

Furthermore, the auditor shall evaluate management’s assessment of the entity’s ability to continue as a going concern as it is a key part of the auditor’s consideration of management’s use of the going concern basis of accounting. It is also important that management’s assessment covers the specified period as required by the applicable financial reporting framework or law or regulation (not less than 12 months).

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, 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. In other circumstances, evaluating management’s assessment of the entity’s ability to continue as a going concern, 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.

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, 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, 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.

Lastly, 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 and 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. The auditor is not required to perform any other audit procedures other than inquiry for beyond the period assessed by management (at least 12 months).

# **Going Concern Assessment**

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| **Events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern** | | | |
| **S. no.** | **Events/Conditions** | **Comments** | **Conclusion** |
| **Financial** | | | |
| 1 | Net liability or net current liability position. | The company has a satisfactory net asset position. | Going Concern assumption valid. |
| 2 | Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment; or excessive reliance on short-term borrowings to finance long-term assets. | None identified. | Going Concern assumption is valid. |
| 3 | Indications of withdrawal of financial support by debtors and other creditors. | None identified. | Going Concern assumption valid. |
| 4 | Negative operating cash flows indicated by historical or prospective financial statements. | The operating cash flows are positive. | Going Concern assumption valid. |
| 5 | Adverse key financial ratios. | The company does not have adverse key financial ratios. | Going Concern assumption valid. |
| 6 | Substantial operating losses or significant deterioration in the value of assets used to generate cash flows. | The company did not incur substantial operating losses or significant deterioration in the value of cash-generating assets. | Going Concern assumption valid. |
| 7 | Arrears or discontinuance of dividends. | No situation of arrears or discontinuance of dividends is identified. | Going Concern assumption valid. |
| 8 | Inability to comply with the terms of loan agreements. | None identified. | Going Concern assumption is valid. |
| 9 | Inability to pay creditors on due dates. | None identified. | Going Concern assumption valid. |
| 10 | Change from credit to cash-on-delivery transactions with suppliers. | None identified. | Going Concern assumption valid. |
| 11 | Inability to obtain financing for essential new product development or other essential investments. | There are no essential developments during the year therefore no such finance is required. | Going Concern assumption valid. |
| **Operating** | | | |
| 1 | Management intentions to liquidate the entity or to cease operations. | None identified. | Going Concern assumption valid. |
| 2 | Loss of key management without replacement. | There has been no significant turnover in key management positions. | Going Concern assumption valid. |
| 3 | Loss of a major market, franchise, license, or principal supplier. | None identified. | Going Concern assumption valid. |
| 4 | Labour difficulties. | None identified. | Going Concern assumption valid. |
| 5 | Shortages of important supplies. | None identified. | Going Concern assumption valid. |
| 6 | Emergence of a highly successful competitor. | None identified. | Going Concern assumption valid. |
| **Other** | | | |
| 1 | Non-compliance with capital or other statutory requirements | No such non-compliance with capital or other statutory requirements were identified which can affect the going concern assumption. | Going Concern assumption valid. |
| 2 | Pending legal or regulatory proceedings against the entity that may, if successful, result in claims that are unlikely to be satisfied | No such pending proceedings identified that may pose a threat of such an outflow of resources from the company which can affect the going concern assumption. | Going Concern assumption valid. |
| 3 | Changes in law or regulation or government policy expected to adversely affect the entity. | No such changes identified which may affect the entity to the extent of affecting the going concern assumption. | Going Concern assumption valid. |
| 4 | Uninsured or underinsured catastrophes when they occur. | None identified. | Going Concern assumption valid. |
| **Evaluation of management’s assessment** | | | |
| Has management performed a preliminary assessment of the entity’s ability to continue as a going concern (checked those that apply): Yes. We discussed the assessment with management and determined 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 applicable, management’s plans to address them (see below).  No. We discussed with management the basis for the intended use of the going concern basis of accounting, and inquired 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 (see below).  AND   1. Is the period over which management’s assessment has been performed appropriate (checked those that apply):   Not applicable. Management has not performed a preliminary assessment.  The period covered by management’s assessment of the entity’s ability to continue as a going concern agreed to be appropriate (i.e., in line with the requirements of the applicable financial reporting framework and for a minimum of twelve months).  The period covered by management’s assessment of the entity’s ability to continue as a going concern agreed to not be appropriate (i.e., in line with the requirements of the applicable financial reporting framework/law or regulation and for a minimum of twelve months) and as a result requested that management extend the period covered (checked those that apply):  Management extended period covered as requested and the extended assessment was used as the basis of our evaluation, or  Management refused to extend period covered by assessment.  AND   1. Does management’s assessment include all relevant information obtained by the engagement team during the audit (checked those that apply):   Not applicable. Management has not performed a preliminary assessment.  Yes  No | | | |
| **Discussion with Management** | | | |
| **S. no.** | **Management inquiry** | **Response** | **Conclusion** |
| 1 | Are there any events or conditions identified that may cast significant doubt on the entity’s ability to continue as going concern, including those beyond the period of assessment? | No such event/condition has been identified to date. | Going Concern assumption valid. |
| 2 | If such events or conditions are identified what are the management’s plans to address them? | Not applicable. | Going Concern assumption valid. |
| **Conclusion** | | | |
| Based on the above checklist, it is concluded that no events or conditions which may cast significant doubt on the entity’s ability to continue as a going concern have been identified and going concern assumption is valid and there are no implications for the audit report.  OR  We shall consider the implications for the audit report for management’s unwillingness to make or extend its assessment.  AND/OR  Based on the above checklist, it is concluded that events or conditions which may cast significant doubt on the entity’s ability to continue as a going concern have been identified and we shall perform further audit procedures to determine whether a material uncertainty exists and whether the going concern basis is appropriate. | | | |