KAEG-I [INTL VERSION 2024]: ISA 570 (Revised) Going Concern

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ISA 570 (Revised) Going Concern

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ISA 570 (Revised) *Going Concern*

(Effective for audits of financial statements for periods ending on or after December 15, 2016)

Introduction and Objectives

International Standards on Auditing: ISA 570.01-09

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's responsibilities in the audit of financial statements relating to going concern and the implications for the auditor's report. (Ref: Para. A1)

Going Concern Basis of Accounting

2. 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. (Ref: Para. A2)

Responsibility for Assessment of the Entity's Ability to Continue as a Going Concern

3. Some financial reporting frameworks contain an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern, and standards regarding matters to be considered and disclosures to be made in connection with going concern. For example, International Accounting Standard (IAS) 1 requires management to make an assessment of an entity's ability to continue as a going concern.[1] The detailed requirements regarding management's responsibility to assess the entity's ability to continue as a going concern and related financial statement disclosures may also be set out in law or regulation.

1 IAS 1, *Presentation of Financial Statements* , paragraphs 25 - 26

4. In other financial reporting frameworks, there may be no explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern. Nevertheless, where the going concern basis of accounting is a fundamental principle in the preparation of financial statements as discussed in paragraph 2, the preparation of the financial statements requires management to assess the

entity's ability to continue as a going concern even if the financial reporting framework does not include an explicit requirement to do so.

5. Management's assessment of the entity's ability to continue as a going concern involves making a judgment, at a particular point in time, about inherently uncertain future outcomes of events or conditions. The following factors are relevant to that judgment:

- The degree of uncertainty associated with the outcome of an event or condition increases significantly the further into the future an event or condition or the outcome occurs. For that reason, most financial reporting frameworks that require an explicit management assessment specify the period for which management is required to take into account all available information.
- The size and complexity of the entity, the nature and condition of its business and the degree to which it is affected by external factors affect the judgment regarding the outcome of events or conditions.
- Any judgment about the future is based on information available at the time at which the judgment is made. Subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made.

Responsibilities of the Auditor

6. The auditor's responsibilities are to obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, and to conclude, based on the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern. These responsibilities exist even if the financial reporting framework used in the preparation of the financial statements does not include an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern.

7. However, as described in ISA 200,[2] the potential effects of inherent limitations on the auditor's ability to detect material misstatements are greater for future events or conditions that may cause an entity to cease to continue as a going concern. The auditor cannot predict such future events or conditions. 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.

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2 ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing* , paragraphs A53 - A54

Effective Date

8. This ISA is effective for audits of financial statements for periods ending on or after December 15, 2016.

Objectives

9. The objectives of the auditor are:

(a) To obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements;

(b) To conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; and

(c) To report in accordance with this ISA.

ISA Application and Other Explanatory Material: ISA 570.A1-A2

Application and Other Explanatory Material

Scope of this ISA (Ref: Para 1)

A1. ISA 701[7] deals with the auditor's responsibility to communicate key audit matters in the auditor's report. That ISA acknowledges that, when ISA 701 applies, matters relating to going concern may be determined to be key audit matters, and explains that 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.[8]

7 ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

8 See paragraphs 15 and A41 of ISA 701.

Going Concern Basis of Accounting (Ref: Para. 2)

Considerations Specific to Public Sector Entities

A2. Management's use of the going concern basis of accounting is also relevant to public sector entities. For example, International Public Sector Accounting Standard (IPSAS) 1 addresses the issue of the ability of public sector entities to continue as going concerns.[9] Going concern risks may arise, but are not limited to, situations where public sector entities operate on a for-profit basis, where government support may be reduced or withdrawn, or in the case of privatization. Events or conditions that may cast significant doubt on an entity's ability to continue as a going concern in the public sector may include situations where the public sector entity lacks funding for its continued existence or when policy decisions are made that affect the services provided by the public sector entity.

9 IPSAS 1, *Presentation of Financial Statements,* paragraphs 38 - 41

Risk Assessment Procedures and Related Activities, Evaluating Management's Assessment, Period beyond Management's Assessment

International Standards on Auditing: ISA 570.10-15

Requirements

Risk Assessment Procedures and Related Activities

10. When performing risk assessment procedures as required by ISA 315 (Revised),[3] the auditor shall consider whether events or conditions exist that may cast significant doubt on the entity's ability to continue as a going concern. In so doing, the auditor shall determine whether management has already performed a preliminary assessment of the entity's ability to continue as a going concern, and: (Ref: Para. A3 - A6)

(a) If such an assessment has been performed, the auditor shall discuss the assessment with management and determine 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 so, management's plans to address them; or

(b) If such an assessment has not yet been performed, the auditor shall discuss with management the basis for the intended use of the going concern basis of accounting, and inquire 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.

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3 ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment* , paragraph 5

11. The auditor shall remain alert throughout the audit for audit evidence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. (Ref: Para. A7)

Evaluating Management's Assessment

12. The auditor shall evaluate management's assessment of the entity's ability to continue as a going concern. (Ref: Para. A8 - A10, A12 - A13)

13. In evaluating management's assessment of the entity's ability to continue as a going concern, the auditor shall cover the same period as that used by management to make its assessment as required by the applicable financial reporting framework, or by law or regulation if it specifies a longer period. 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 as defined in ISA 560,[4] the auditor shall request management to extend its assessment period to at least twelve months from that date. (Ref: Para. A11 - A13)

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4 ISA 560, *Subsequent Events* , paragraph 5(a)

14. In evaluating management's assessment, the auditor shall 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

15. The auditor shall inquire of management as to its knowledge of events or conditions beyond the period of management's assessment that may cast significant doubt on the entity's ability to continue as a going concern. (Ref: Para. A14 - A15)

ISA Application and Other Explanatory Material: ISA 570.A3-A15

Risk Assessment Procedures and Related Activities

Events or Conditions That May Cast Significant Doubt on the Entity's Ability to Continue as a Going Concern (Ref: Para. 10)

A3. The following are examples of events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern. This listing is not all-inclusive nor does the existence of one or more of the items always signify that a material uncertainty exists.

Financial

- Net liability or net current liability position.
- Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment; or excessive reliance on short-term borrowings to finance long-term assets.
- Indications of withdrawal of financial support by creditors.
- Negative operating cash flows indicated by historical or prospective financial statements.
- Adverse key financial ratios.
- Substantial operating losses or significant deterioration in the value of assets used to generate cash flows.
- Arrears or discontinuance of dividends.
- Inability to pay creditors on due dates.
- Inability to comply with the terms of loan agreements.
- Change from credit to cash-on-delivery transactions with suppliers.
- Inability to obtain financing for essential new product development or other essential investments.

Operating

- Management intentions to liquidate the entity or to cease operations.
- Loss of key management without replacement.
- Loss of a major market, key customer(s), franchise, license, or principal supplier(s).
- Labor difficulties.
- Shortages of important supplies.
- Emergence of a highly successful competitor.

Other

- Non-compliance with capital or other statutory or regulatory requirements, such as solvency or liquidity requirements for financial institutions.
- Pending legal or regulatory proceedings against the entity that may, if successful, result in claims that the entity is unlikely to be able to satisfy.
- Changes in law or regulation or government policy expected to adversely affect the entity.
- Uninsured or underinsured catastrophes when they occur.

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 counter-balanced 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.

A4. The risk assessment procedures required by paragraph 10 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.

Considerations Specific to Smaller Entities (Ref: Para. 10)

A5. The size of an entity may affect its ability to withstand adverse conditions. Small entities may be able to respond quickly to exploit opportunities, but may lack reserves to sustain operations.

A6. Conditions of particular relevance to small entities include the risk that banks and other lenders may cease to support the entity, as well as the possible loss of a principal supplier, major customer, key employee, or the right to operate under a license, franchise or other legal agreement.

Remaining Alert throughout the Audit for Audit Evidence about Events or Conditions (Ref: Para. 11)

A7. ISA 315 (Revised) requires the auditor to revise the auditor's risk assessment and modify the further planned audit procedures accordingly when additional audit evidence is obtained during the course of the audit that affects the auditor's assessment of risk.[10] If events or conditions that may cast significant doubt on the entity's ability to continue as a going concern are identified after the auditor's risk assessments are made, in addition to performing the procedures in paragraph 16, the auditor's assessment of the risks of material misstatement may need to be revised. The existence of such events or conditions may also affect the nature, timing and extent of the auditor's further procedures in response to the assessed risks. ISA 330[11] establishes requirements and provides guidance on this issue.

10 ISA 315 (Revised), paragraph 31

11 ISA 330, *The Auditor's Responses to Assessed Risks*

Evaluating Management's Assessment

Management's Assessment and Supporting Analysis and the Auditor's Evaluation (Ref: Para. 12)

A8. Management's assessment of the entity's ability to continue as a going concern is a key part of the auditor's consideration of management's use of the going concern basis of accounting.

A9. 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.

A10. In other circumstances, evaluating management's assessment of the entity's ability to continue as a going concern, as required by paragraph 12, 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.

The Period of Management's Assessment (Ref: Para. 13)

A11. Most financial reporting frameworks requiring an explicit management assessment specify the period for which management is required to take into account all available information.[12]

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12 For example, IAS 1 defines this as a period that should be at least, but is not limited to, twelve months from the end of the reporting period.

Considerations Specific to Smaller Entities (Ref: Para. 12 - 13)

A12. 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, in accordance with the requirements of this ISA, 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, the requirement in paragraph 13 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.

A13. Continued support by owner-managers is often important to smaller entity's ability to continue as a going concern. Where a small entity is largely financed by a loan from the owner-manager, it may be important that these funds are not withdrawn. For example, the continuance of a small entity in financial difficulty may be dependent on the owner-manager subordinating a loan to the entity in favor of banks or other creditors, or the owner-manager supporting a loan for the entity by providing a guarantee with his or her personal assets as collateral. In such circumstances, the auditor may obtain appropriate documentary evidence of the subordination of the owner-manager's loan or of the guarantee. Where an entity is dependent on additional support from the owner-manager, the auditor may evaluate the owner-manager's ability to meet the obligation under the support arrangement. In addition, the auditor may request written confirmation of the terms and conditions attaching to such support and the owner-manager's intention or understanding.

Period beyond Management's Assessment (Ref: Para. 15)

A14. As required by paragraph 11, 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. If such events or conditions are identified, 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. In these circumstances, the procedures in paragraph 16 apply.

A15. Other than inquiry of management, the auditor does not have a responsibility to perform any other audit procedures to identify events or conditions that may cast significant doubt on the entity's ability to continue as a going concern beyond the period assessed by management, which, as discussed in paragraph 13, would be at least twelve months from the date of the financial statements.

How do we comply with the Standards?

[ISA | KAEGHDWC]

1 Evaluate matters relating to the going concern basis of accounting [ISA | 4030]

What do we do?

Evaluate whether there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time AND determine whether the use of the going concern basis of accounting is appropriate.

Why do we do this?

Whether an entity is a going concern is fundamental to the basis of preparation of the financial statements. Additionally, our evaluation of whether substantial doubt exists related to the entity's ability to continue as a going concern impacts the disclosures and may even result in a modification to our auditor's report. These disclosures and our auditor's report can help to provide an early warning to financial statement users when substantial doubt exists.

Execute the Audit

What does it mean for an entity to be considered a 'going concern'? [ISA | 4030.1300]

The definition of 'going concern' is specific to the applicable financial reporting framework, but generally it means that the financial statements are prepared on the assumption that the entity will continue operations for the foreseeable future and will be able to meet its obligations as they become due.

In other words, an entity is considered to be a going concern when it is not expected to be liquidated, cease trading or go out of business.

What is 'substantial doubt' in relation to the entity's ability to continue as a going concern? [ISA | 4030.15207]

For the purposes of KPMG's methodology, we use the term 'substantial doubt' to refer to the degree of likelihood that an entity is not a going concern, which is defined within the applicable financial reporting framework. The use of the term "substantial doubt" is intended to convey the same meaning as the term "significant doubt".

Below are some examples of commonly used financial reporting frameworks and the going concern terminology used:

Applicable financial reporting framework	Terminology	Definition
U.S. GAAP (ASC 205-40)	Substantial doubt about an entity's ability to continue as a going concern	Substantial doubt about an entity's ability to continue as a going concern exists when conditions and events, considered in the aggregate, indicate that it is probable that the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued, when applicable). The term probable is used consistently with its use in ASC Topic 450, *Contingencies*.
IFRS (IAS 1)	Material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern	Material uncertainties and significant doubt are not specifically defined in IFRS. A material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern exists when the magnitude of its potential impact and likelihood of occurrence is such that, in our judgment, appropriate disclosure of the nature and implications of the uncertainty is necessary for the fair presentation of the financial statements.

GASB | How does the GASB codification define substantial doubt about a governmental entity's ability to continue as a going concern? [ISA | 4030.1500]

Substantial doubt about a governmental entity's ability to continue as a going concern exists when information significantly contradicts the going concern assumption. Information that may significantly contradict the going concern assumption possibly relates to a governmental entity's inability to continue to meet its obligations as they become due without substantial disposition of assets outside the ordinary course of governmental operations, restructuring of debt, submission to the oversight of a separate fiscal assistance authority or financial review board, or similar actions.

How do the auditing standards define a 'reasonable period of time' in relation to the entity's ability to continue as a going concern? [ISA | 4030.1600]

Auditing Standard	"Reasonable period of time" definition
AS 2415	We have a responsibility to evaluate whether there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time, not to exceed one year beyond the date of the financial statements being audited.
ISA 570	The period of time required by the applicable financial reporting framework, but at least twelve months from the date of the financial statements.
AU-C 570	The period of time required by the applicable financial reporting framework or, if no such requirement exists, within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued, when applicable).

How do we evaluate whether there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time? [ISA | 4030.1900]

We:

(1) determine whether there are events or conditions that raise substantial doubt; and
(2) assess management's plans if we believe there is substantial doubt.

Is evaluating whether there is substantial doubt the same as determining whether the use of the going concern basis of accounting is appropriate? [ISA | 4030.2000]

No. The use of the going concern basis of accounting and whether substantial doubt exists are separate issues. An entity can still prepare its financial statements on a going concern basis when substantial doubt exists about its ability to continue as a going concern. We make a separate conclusion regarding the appropriateness of the going concern basis of accounting from our evaluation of whether substantial doubt exists in the activity, 'Evaluate and conclude on the appropriateness of using the going concern basis of accounting'.

Can the financial statements be prepared on a basis other than going concern? [ISA | 4030.11993]

Sometimes. The going concern basis of accounting is not appropriate when the entity meets the conditions to apply the liquidation basis of accounting under the financial reporting framework.

Even less frequently, special purpose financial statements may be prepared in accordance with a financial reporting framework that explicitly describes the financial statements as not being prepared as if the entity is a going concern. This situation is expected to be rare.

What if the entity's financial statements are prepared on a basis other than going concern? [ISA | 4030.11994]

When the use of the going concern basis of accounting is not appropriate in the circumstances, management may be required, or may elect, to prepare the financial statements on another basis (e.g. liquidation basis). We may be able to perform an audit of those financial statements provided that we determine that the other basis of accounting is acceptable in the circumstances. We may be able to express an unmodified opinion on those financial statements, provided there is adequate disclosure about the basis of accounting on which the financial statements are prepared, but may consider it appropriate or necessary to include an emphasis of matter paragraph in the auditor's report to draw the user's attention to that alternative basis of accounting and the reasons for its use.

When do we start discussions about going concern uncertainties in the audit engagement? [ISA | 4030.9047]

Discussions regarding going concern uncertainties and the potential implication on the auditor's report take place as soon as possible between the engagement team, the engagement quality control review partner, management and those charged with governance.

Are there any specific considerations relevant to evaluating matters relating to going concern when performing a group audit? [ISA | 4030.2300]

There are two scenarios in a group audit where specific considerations apply:

(1) There is substantial doubt about a subsidiary's ability to continue as a going concern. The subsidiary prepares statutory financial statements that include disclosure of the substantial doubt, but such a doubt may be addressed by the group providing a commitment to support the subsidiary.

(2) There is substantial doubt about the group's ability to continue as a going concern that may be disclosed in both the group's financial statements and the subsidiary's statutory financial statements.

We establish effective and timely two-way communications on issues relating to going concern between the group auditor and the statutory auditor(s), especially when the following situations apply:

Situation	Considerations
A separate auditor's report will be issued on the financial statements of a subsidiary and the subsidiary's ability to continue as a going concern is based on continued financial support by the group.	Generally a letter of support from a group to a subsidiary is not legally enforceable. Therefore the statutory auditor assesses the intent and ability of the group to provide support (see activity, 'Obtain evidence about the intent and ability of supporting parties' for additional information). The statutory auditor may ask the group auditor for assistance in obtaining evidence regarding the group's intent and ability to continue to provide that support. The group auditor assists the subsidiary auditor in obtaining the necessary information, when appropriate.

	In certain circumstances the statutory auditor may be able to assess the ability of the group to provide support with little input from the group auditor. However, where we expect that our conclusion on going concern will be based on additional evidence provided by the group auditor, it may be appropriate, to the extent practicable, for the statutory auditor to encourage subsidiary management to prepare the statutory financial statements at the same time as the group financial statements. If not, there may be challenges in asking the group auditor to gather evidence after the group opinion has been signed.
There are events or conditions that may cast substantial doubt on the ability of the group to continue as a going concern.	The group and statutory auditors may, in conjunction with group and subsidiary management, establish protocols that will enable them to communicate information to each other about any matters that they come across that they believe may be relevant to group's going concern. When appropriate, the group auditor and statutory auditor co-operate, to provide information to each other that they believe is relevant to going concern matters for the group. This includes communication in relation to the disclosures included in the group's financial statements and the subsidiary's statutory financial statements and the group and statutory auditors audit reports.

1.1 Determine whether there are events or conditions that raise substantial doubt [ISA | 4031]

What do we do?

Determine whether there are events or conditions that raise substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time.

Why do we do this?

Our first step in identifying whether substantial doubt exists is to determine whether there are events or conditions that raise substantial doubt about an entity's ability to continue as a going concern.

Execute the Audit

How do we determine whether there are events or conditions that raise substantial doubt about an entity's ability to continue as a going concern? [ISA | 4031.1300]

We:

- consider whether our procedures identify events or conditions that may raise substantial doubt;

- determine whether management has performed a going concern evaluation and perform certain procedures; and
- inquire of management about events or conditions after the period of evaluation.

What are some examples of events or conditions that may raise substantial doubt about an entity's ability to continue as a going concern? [ISA | 4031.1400]

There are many different events or conditions that may raise substantial doubt about an entity's ability to continue as a going concern. Some examples of events or conditions that we may identify are included in the following table:

Type of event or condition	Examples
Negative financial trends	• recurring operating losses • net liability or net current liability position (e.g., working capital deficiency) • negative cash flows from operating activities • substantial operating losses • other adverse key financial ratios
Other indications of possible financial difficulties	• defaults on bonds, loans or similar agreements • arrears or discontinuance of dividends • proximity to debt and tax limitations (for government entities) • denial of usual trade credit from suppliers • a need to restructure debt to avoid default • excessive reliance on short-term borrowings to finance long-term assets • greater reliance on non-traditional financing arrangements • indications of withdrawal of financial support by creditors • noncompliance with capital or other statutory or regulatory requirements • a need to seek new sources or methods of financing or to dispose of substantial assets • significant deterioration in the value of assets used to generate cash flows • inability to pay creditors on due dates • inability to comply with terms of loan agreements (i.e. debt covenant compliance) • inability to obtain financing for essential new product development or other essential investments • significant increase in the level of bad debts or insolvency of significant customers • adverse changes in credit risk ascribed to transaction counterparties • greater restrictions on access to capital and credit

	• downward revisions to credit agency ratings
Internal matters	• work stoppages or other labor difficulties • substantial dependence on the success of a particular project • uneconomic long-term commitments • a need to significantly revise operations • loss of key management without replacement • management intentions to liquidate the entity or cease operations
External matters	• legal proceedings, legislation, or similar matters that might jeopardize the entity's ability to operate • changes in law or regulation or government policy expected to adversely affect the entity • unstable or changing regulatory environments, including more proactive regulatory oversight • loss of a key franchise, license, or patent • loss of a principal customer or supplier • significant decline in demand by existing customers • technical obsolescence of products • shortages of important supplies • emergence of a highly successful competitor • an uninsured or underinsured catastrophe such as a hurricane, tornado, earthquake, or flood • fundamental and significant changes in the industry in which the entity operates • significant operations in regions that are economically unstable, such as countries with significant currency devaluation or highly inflationary economies • significant operations exposed to volatile markets

If we identify one or more indicators of substantial doubt about an entity's ability to continue as a going concern, do we always conclude that substantial doubt exists? [ISA | 4031.1500]

No, the existence of one or more of these events or conditions does not automatically result in our determination that there is substantial doubt about the entity's ability to continue as a going concern. Similarly, the absence of these specific events or conditions does not necessarily lead us to determine that there is no substantial doubt.

Determining whether there is substantial doubt depends on an assessment of relevant events or conditions, in aggregate, that are known or reasonably knowable at the date that the financial statements are issued or available to be issued. We weigh the likelihood and magnitude of the potential effects of the relevant events or conditions and consider their anticipated timing.

What does 'reasonably knowable' mean in the context of management's going concern evaluation? [ISA | 4031.12078]

"Reasonably knowable" means those matters that an entity may not know otherwise but would be able to identify without a significant amount of cost or effort.

For example, a sharp and significant decline in broader economic conditions subsequent to the issuance of the financial statements may be a condition that was not reasonably knowable prior to their issuance. However, an entity's estimated operating losses for the upcoming look-forward period is a condition that is reasonably knowable as of the assessment date.

Where do we document our identification and evaluation of events or conditions? [ISA | 4031.8880]

We document the identification and evaluation of events or conditions that may raise substantial doubt in the [Going Concern - Identification of Events or Conditions - Required Work Paper](https://alex.kpmg.com/AROWeb/DocumentWindow.aspx?ref=US_INTL_GC_Identification_WP&from=attach) https://alex.kpmg.com/AROWeb/DocumentWindow.aspx?ref=US_INTL_GC_Identification_WP&from=attach, when applicable.

1.1.1 Consider whether our procedures identify events or conditions that may raise substantial doubt [ISA | 4032]

What do we do?

Consider whether the results of procedures performed identify events or conditions that may raise substantial doubt about the entity's ability to continue as a going concern.

Why do we do this?

Events or conditions that raise substantial doubt about the entity's ability to continue as a going concern may arise or may be identified at any point during the audit. For this reason, we remain alert for evidence of events or conditions throughout the audit and consider whether the results of our audit procedures identify events or conditions that raise substantial doubt. Without remaining alert for evidence of these events or conditions, substantial doubt may not be identified, resulting in the financial statements being inappropriately prepared on a going concern basis or material omissions of required disclosures.

Execute the Audit

Do we design audit procedures solely to identify events or conditions that may raise substantial doubt about an entity's ability to continue as a going concern? [ISA | 4032.1300]

No. We identify events or conditions by considering the results of procedures designed and performed to achieve other audit objectives. This includes risk assessment procedures, as well as audit procedures designed to address risks of material misstatement in the audit.

How do we consider whether our procedures identify events or conditions that may raise substantial doubt about an entity's ability to continue as a going concern? [ISA | 4032.1400]

We consider the results of all our audit procedures and whether they tell us about possible events or conditions that exist and raise substantial doubt. The following list illustrates examples of procedures where we may identify events or conditions that may raise substantial doubt:

Example procedure	Example event or condition
Risk assessment procedures, including planning analytical procedures	Working capital deficiencies, negative cash flows from operating activities, or other adverse key financial ratios
Review of compliance with the terms of debt and loan agreements	A need to restructure debt to avoid default or noncompliance with debt covenants
Reading the minutes of meetings of stockholders, board of directors, and relevant committees of the board	Substantial dependence on the success of a particular project, work stoppages or other labor or operational difficulties
Inquiry of an entity's legal counsel about litigation, claims and assessments	Legal proceedings, litigation, or similar matters that might jeopardize the entity's ability to operate
Confirmations with related and third parties of the details of arrangements to provide or maintain financial support	A need to seek new sources or methods of financing
Review of going concern evaluation prepared by management	Loss of a key franchise, license, patent, or principal customer or supplier Dependency on successful contract negotiation

Do we document our consideration of specific events or conditions? [ISA | 4032.8709]

Yes. We document our consideration of whether specific events or conditions occurred and if so, whether the event or condition may raise substantial doubt.

When do we consider whether our procedures identify events or conditions that may raise substantial doubt about an entity's ability to continue as a going concern? [ISA | 4032.1500]

Given the importance of identifying events or conditions that may raise substantial doubt, we consider the results of our risk assessment procedures and the impact it has on planning and performing the audit early in the audit. Early consideration also allows for more timely discussions with management, including a discussion of management's plans to address any potential going concern matters identified.

While we consider going concern early in the audit, we also remain alert throughout the audit for evidence of other events or conditions that raise substantial doubt.

What do we do if a significant risk of material misstatement is identified related to going concern? [ISA | 4032.157923]

We consult with DPP if we identify a significant risk of material misstatement related to going concern and we conclude that substantial doubt is not raised.

If substantial doubt is raised (whether alleviated by management's plans or if it remains at the time of our report) we follow the consultations in 'Who do we consult with when we identify events or conditions that may raise substantial doubt about the entity's ability to continue as a going concern, but we conclude that a material uncertainty does not exist?', 'Who do we consult with before issuing an auditor's report with a separate material uncertainty section?' or 'Modify the audit opinion and consult if adequate disclosure about a material uncertainty is not made'.

What if we identify events or conditions after we have completed our initial risk assessment that may raise substantial doubt about an entity's ability to continue as a going concern? [ISA | 4032.1600]

If events or conditions that raise substantial doubt about the entity's ability to continue as a going concern are identified after our initial risk assessments are made, we revise our risk assessment (as discussed in activity, 'Continue to assess RMMs, and revise audit approach as necessary') and evaluate management's plans (refer to activity 'Evaluate management's plans' for additional information) to address the identified event or condition. The existence of such events or conditions may also affect the nature, timing, and extent of our procedures in response to the assessed risks.

1.1.2 Determine whether management has performed a going concern evaluation and perform certain procedures [ISA | 4033]

What do we do?

Determine whether management has performed a going concern evaluation and perform certain procedures.

Why do we do this?

Management's evaluation of whether there are events or conditions that raise substantial doubt about the entity's ability to continue as a going concern is a relevant consideration with respect to our conclusion on management's use of the going concern basis of accounting and whether substantial doubt exists. Management's evaluation provides us with information that is relevant to identifying events or conditions that raise substantial doubt as well as can assist us in understanding management's plans to address any events or conditions that exist.

Execute the Audit

Do all financial reporting frameworks require management to perform a going concern evaluation? [ISA | 4033.1300]

Many financial reporting frameworks explicitly require management to evaluate the entity's ability to continue as a going concern and include standards regarding matters to be considered and disclosures to be made in connection with going concern. Specific laws or regulations may also set out requirements regarding management's responsibility to evaluate the entity's ability to continue as a going concern.

The following table includes a summary of requirements from certain commonly used financial reporting frameworks:

Financial reporting framework	Management requirement to perform a going concern evaluation
US GAAP	FASB ASC 205-40 requires management to evaluate whether there are conditions and events, considered in the aggregate, that raise substantial doubt about an entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued, when applicable).
IFRS	IAS 1 requires management to make an assessment of an entity's ability to continue as a going concern. The detailed requirements regarding management's responsibility to assess the entity's ability to continue as a going concern and related financial statement disclosures may also be set out in law or regulation.

GASB | Does the GASB codification require management to perform a going concern evaluation? [ISA | 4033.11977]

GASB Statement No. 56 requires financial statement preparers to evaluate whether there is substantial doubt about a governmental entity's ability to continue as a going concern for 12 months beyond the date of the financial statements. GASB Statement No. 56 further requires that, if information is currently known to the governmental entity that may raise substantial doubt shortly thereafter (for example, within an additional three months), the governmental entity considers such information also.

How often does management perform a going concern evaluation when it is required under their financial reporting framework? [ISA | 4033.11978]

It depends, but generally each reporting period. For entities that prepare interim financial statements, we consider whether the applicable financial reporting framework requires management to perform a going concern evaluation for interim periods. We may consider management's interim evaluation(s) when completing our risk assessment procedures.

What do we do when management has performed a going concern evaluation? [ISA | 4033.1400]

When management has performed an evaluation, we:

- obtain the evaluation, even if they were not required to perform one under the applicable financial reporting framework;

- review and discuss the evaluation with management to (1) determine whether they have identified any events or conditions that may raise substantial doubt about the entity's ability to continue as a going concern and (2) understand management's plans to alleviate substantial doubt, if applicable; and
- evaluate management's evaluation.

Who do we discuss management's going concern evaluation with? [ISA | 4033.11980]

Members of management relevant to discuss the going concern evaluation with may include the CFO, Controller, Treasurer, and business strategists (key players in the business development or sales functions).

How do we evaluate management's going concern evaluation? [ISA | 4033.1500]

We consider whether management's evaluation includes all relevant information of which we are aware. If management has identified events or conditions that raise substantial doubt, we also understand management's plans to address them.

What is the extent of our evaluation of management's going concern evaluation? [ISA | 4033.11981]

The extent of our procedures over management's evaluation varies based on the risk we have assessed around whether substantial doubt exists. As the likelihood that substantial doubt exists increases, based on our (or management's identification of events or conditions, the extent of our procedures over management's evaluation also increases.

What procedures might we perform to evaluate management's going concern evaluation? [ISA | 4033.11982]

Our procedures are driven by the specific events or conditions an information that is relevant to the evaluation. For example:

Scenario	Potential procedures to perform our evaluation
The entity has a history of profitable operations and ready access to financial resources. Management has performed its evaluation without performing a detailed analysis.	Our evaluation of the appropriateness of management's evaluation may be made without performing detailed evaluation procedures if our other audit procedures are sufficient to enable us to conclude whether there is substantial doubt in the circumstances.
A wide range of factors relating to current and expected profitability, timing of cash flows, debt repayment and potential sources of financing are considered by management in order to conclude on their evaluation of substantial doubt.	In this case, our evaluation may include various detailed procedures, including evaluation of: • the process management followed to make its evaluation, including whether it involved the use of a management's specialist; • the assumptions on which the evaluation is based, including whether the assumptions:

	- are realistic and achievable in view of the entity's circumstances, - are consistent with the general economic environment, - are internally consistent, and - are consistent with other matters relating to the financial statements, e.g. impairment of assets. • we may also determine whether management has carried out sensitivity analysis on significant assumptions, and consider appropriateness of the sensitivity analysis ranges applied; • management's plans, and whether management's plans are feasible in the circumstances; • the data used, including whether the data is relevant to the evaluation and from a reliable source; • the ability to comply with debt covenants, if relevant; and • cash flow forecasts in accordance with the chapter on auditing accounting estimates (ISA 540, AU-C 540, AS 2501)

What time period does our evaluation of the entity's ability to continue as a going concern cover? [ISA | 4033.11983]

We cover the same time period as that used by management in its going concern evaluation, as required by the applicable financial reporting framework. If the applicable financial reporting framework does not specify a time period, or if management's evaluation covers less than twelve months from the date of the financial statements, we request management to extend its assessment period to at least twelve months from the date of the financial statements.

What might we think about in relation to management's judgments in their going concern evaluation? [ISA | 4033.11986]

We might think about the following factors relating to management's judgments in their going concern evaluation when performing our evaluation:

- The degree of uncertainty associated with the outcome of an event or condition increases significantly the further into the future the event or condition or the outcome occurs.
- The size and complexity of the entity, the nature and condition of its business, and the degree to which it is affected by external factors affect the judgments regarding the outcome of events or conditions.
- Any judgment about the future is based on events or conditions that are known and reasonably knowable at the date that the financial statements are issued (or at the date that the financial statements are available to be issued, when applicable). Subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made.

How do we exercise professional skepticism as part of our evaluation? [ISA | 4033.11987]

Given the judgmental nature of the evaluation and its potential impact on the financial statements and our report, this is an area where we exercise professional skepticism. A few ways we can do this is by:

- applying our knowledge of the particular client, its circumstances and the industry within which it operates;
- objectively challenging management's plans and significant assumptions to determine whether management has realistically factored in the effects of events and conditions affecting the entity and its industry;
- thoughtfully evaluating the evidence management uses to support their assertions;
- maintaining professional skepticism when evaluating management representations and of not relying solely on such representations, but seeking evidence that either confirms or challenges such representations; and
- maintaining awareness that the entity's past experience in dealing with counterparties and obtaining necessary financing generally will not provide sufficient appropriate audit evidence.

What do we do if management has not performed a going concern evaluation? [ISA | 4033.11988]

If management has not performed a going concern evaluation, we:

- determine whether the applicable financial reporting framework requires management to perform a going concern evaluation;
- inquire of management whether they intend to perform an evaluation;
- discuss with management the basis for the intended use of the going concern basis of accounting; and
- inquire of management whether events or conditions exist that, individually or collectively, may raise substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time.
- Our responsibility to evaluate the entity's ability to continue as a going concern applies even if the applicable financial reporting framework does not explicitly require management to make a specific evaluation of the entity's ability to continue as a going concern.

Can we conclude that substantial doubt does not exist when management have not performed a detailed going concern evaluation? [ISA | 4033.1800]

It depends.

In some circumstances, we may be able to conclude that substantial doubt does not exist in the circumstances despite the lack of a detailed analysis by management.

> For example, when a history of profitable operations and a ready access to financial resources exists, management may make its evaluation without a detailed analysis. In this case, our evaluation of the appropriateness of management's evaluation may be made without performing detailed evaluation procedures if our other audit procedures are sufficient to enable us to conclude whether there is substantial doubt in the circumstances.

Additionally, if management fails to perform an appropriately detailed assessment, we may perform additional inquiries to allow us to make an assessment of whether the going concern basis of accounting is acceptable.

However, if the applicable financial reporting framework requires management to perform a going concern evaluation and we believe a detailed analysis is necessary, management's lack of a detailed analysis as part of their evaluation may be an indicator of a control deficiency or fraud risk factor. In addition, it may be appropriate to issue a qualified or adverse opinion in the auditor's report.

In other cases, we may not be able to obtain sufficient appropriate audit evidence to conclude that substantial doubt does not exist in the circumstances. Management's failure to perform an appropriately detailed assessment could constitute a scope limitation resulting in a qualified opinion or disclaimer of opinion.

1.1.3 Inquire of management about events or conditions after the period of evaluation [ISA | 4034]

What do we do?

Inquire of management about their knowledge of events or conditions beyond the period of their evaluation that may raise substantial doubt about the entity's ability to continue as a going concern.

Why do we do this?

While management is not required to extend its evaluation beyond the period of time required by the financial reporting framework, it is possible that they are aware of events or conditions in the future that could impact the going concern evaluation. Because determining whether the entity will continue as a going concern is judgmental, we inquire of management so we capture all relevant information in our evaluation and the most useful information, including early warnings, is provided to the users of the financial statements.

Execute the Audit

Which members of management might we inquire of, regarding events or conditions beyond the period of management's going concern evaluation? [ISA | 4034.1300]

Members of management relevant to inquire of regarding events or conditions beyond the period of management's going concern evaluation may include the CFO, Controller, Treasurer, and business strategists (key players in the business development or sales functions).

Who else might we inquire of, regarding events or conditions beyond the period of management's going concern evaluation in addition to management? [ISA | 4034.1400]

We may make additional inquiries about events or conditions beyond the period of management's going concern evaluation of those charged with governance, appropriate individuals within the internal audit function and others within the entity that have knowledge of the entity's strategy and financing.

When do we inquire of management about events or conditions beyond the period of their going concern evaluation? [ISA | 4034.1500]

We make these inquires when performing our evaluation of management's going concern evaluation. However, we also think about whether to make additional inquiries near our report issuance date, depending on the specific facts and circumstances at the entity.

Is it necessary for management to extend its going concern evaluation beyond the time period required by the applicable financial reporting framework? [ISA | 4034.1600]

No, this inquiry is not intended to ask management to extend its evaluation beyond the requirements of the applicable financial reporting framework. However, if management is aware of events that may impact the entity's ability to continue as a going concern beyond the period of their evaluation, those events may be relevant to their evaluation and/or represent necessary disclosures in the financial statements.

Do we have a responsibility to perform additional procedures other than inquiry of management about events or conditions beyond the period of their going concern evaluation? [ISA | 4034.1700]

No, however, we remain alert to the possibility that there may be events, scheduled or otherwise, or conditions that will occur beyond the period of management's evaluation that may have an effect on the entity's ability to continue as a going concern.

How do events or conditions that occur after the period required by the financial reporting framework impact the evaluation of whether substantial doubt exists as to going concern? [ISA | 4034.1800]

If we identify events or conditions that may occur after the period required by the financial reporting framework, we think about whether the event or condition could occur earlier than anticipated and could affect our conclusions about the entity's ability to continue as a going concern for a reasonable period of time. We also think about whether the applicable financial reporting framework provides specific guidance about whether or how events or conditions that occur after the required evaluation period affect management's evaluation and whether additional disclosure is necessary to fairly present 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, we consider taking further action when the indications of going concern issues are significant. If such events or conditions are identified, we may request that management evaluate the potential significance of the event or condition on its assessment of the entity's ability to continue as a going concern.

Examples

How might we think about an event or condition that occurs after the period required by the financial reporting framework? [ISA | 4034.1900]

Fact Pattern

An entity's principal customer (a major domestic automobile manufacturer) advised management that it will not renew its existing purchase contract that expires 13 months after the date of the financial statements. Management, in turn, advised the engagement team that a substantial portion of the entity's operating assets will need to be disposed of unless replacement customer relationships are secured. Potential replacement customers are limited in number and operate in an industry sector currently facing significant economic challenges. To date, management has been unable to identify likely replacement customers.

The entity's going concern assessment period is at least, but not limited to, 12 months after the date of the financial statements in accordance with the applicable financial reporting framework.

Analysis

In this example, the event that may cast significant doubt on the entity's ability to continue as a going concern (expiration of a significant purchase contract) is expected to occur 1 month after the going concern assessment period ends. Nevertheless, management and the engagement team consider this event in the assessment of the entity's ability to continue as a going concern as the framework defines the relevant period of time as at least, but not limited to, one year from the end of the reporting period. Management's indication of the significance and likelihood of occurrence of this event is such that management and the engagement team may conclude that substantial doubt exists even though the event is outside the minimum evaluation period required by the financial reporting framework.

Additional Audit Procedures When Events or Conditions Are Identified, Auditor Conclusions, Use of Going Concern Basis of Accounting Is Inappropriate

International Standards on Auditing: ISA 570.16-21

Additional Audit Procedures When Events or Conditions Are Identified

16. If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (hereinafter referred to as "material uncertainty") through performing additional audit procedures, including consideration of mitigating factors. These procedures shall include: (Ref: Para. A16)

(a) Where management has not yet performed an assessment of the entity's ability to continue as a going concern, requesting management to make its assessment.

(b) Evaluating management's plans for future actions in relation to its going concern assessment, whether the outcome of these plans is likely to improve the situation and whether management's plans are feasible in the circumstances. (Ref: Para. A17)

(c) Where the entity has prepared a cash flow forecast, and analysis of the forecast is a significant factor in considering the future outcome of events or conditions in the evaluation of management's plans for future actions: (Ref: Para. A18 - A19)

(i) Evaluating the reliability of the underlying data generated to prepare the forecast; and

(ii) Determining whether there is adequate support for the assumptions underlying the forecast.

(d) Considering whether any additional facts or information have become available since the date on which management made its assessment.

(e) Requesting written representations from management and, where appropriate, those charged with governance, regarding their plans for future actions and the feasibility of these plans. (Ref: Para. A20)

Auditor Conclusions

17. The auditor shall evaluate whether sufficient appropriate audit evidence has been obtained regarding, and shall conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

18. Based on the audit evidence obtained, the auditor shall conclude whether, in the auditor's judgment, a material uncertainty exists related to events or conditions that, individually or collectively, 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, in the auditor's judgment, appropriate disclosure of the nature and implications of the uncertainty is necessary for: (Ref: Para. A21 - A22)

(a) In the case of a fair presentation financial reporting framework, the fair presentation of the financial statements, or

(b) In the case of a compliance framework, the financial statements not to be misleading.

Adequacy of Disclosures When Events or Conditions Have Been Identified and a Material Uncertainty Exists

19. If the auditor concludes that management's use of the going concern basis of accounting is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether the financial statements: (Ref: Para. A22 - A23)

(a) Adequately disclose the principal events or conditions 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 or conditions; and

(b) Disclose clearly that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business.

Adequacy of Disclosures When Events or Conditions Have Been Identified but No Material Uncertainty Exists

20. If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained the auditor concludes that no material uncertainty exists, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework, the financial statements provide adequate disclosures about these events or conditions. (Ref: Para. A24 - A25)

Implications for the Auditor's Report

Use of Going Concern Basis of Accounting Is Inappropriate

21. If the financial statements have been prepared using the going concern basis of accounting but, in the auditor's judgment, management's use of the going concern basis of accounting in the preparation of the financial statements is inappropriate, the auditor shall express an adverse opinion. (Ref: Para. A26 - A27)

ISA Application and Other Explanatory Material: ISA 570.A16-A27

Additional Audit Procedures When Events or Conditions Are Identified (Ref: Para.16)

A16. Audit procedures that are relevant to the requirement in paragraph 16 may include the following:

- Analyzing and discussing cash flow, profit and other relevant forecasts with management.
- Analyzing and discussing the entity's latest available interim financial statements.
- Reading the terms of debentures and loan agreements and determining whether any have been breached.
- Reading minutes of the meetings of shareholders, those charged with governance and relevant committees for reference to financing difficulties.
- Inquiring of the entity's legal counsel regarding the existence of litigation and claims and the reasonableness of management's assessments of their outcome and the estimate of their financial implications.
- Confirming the existence, legality and enforceability of arrangements to provide or maintain financial support with related and third parties and assessing the financial ability of such parties to provide additional funds.
- Evaluating the entity's plans to deal with unfilled customer orders.
- Performing audit procedures regarding subsequent events to identify those that either mitigate or otherwise affect the entity's ability to continue as a going concern.
- Confirming the existence, terms and adequacy of borrowing facilities.
- Obtaining and reviewing reports of regulatory actions.
- Determining the adequacy of support for any planned disposals of assets.

Evaluating Management's Plans for Future Actions (Ref: Para. 16(b))

A17. Evaluating management's plans for future actions may include inquiries of management as to its plans for future action, including, for example, its plans to liquidate assets, borrow money or restructure debt, reduce or delay expenditures, or increase capital.

The Period of Management's Assessment (Ref: Para. 16(c))

A18. In addition to the procedures required in paragraph 16(c), the auditor may compare:

- The prospective financial information for recent prior periods with historical results; and
- The prospective financial information for the current period with results achieved to date.

A19. Where management's assumptions include continued support by third parties, whether through the subordination of loans, commitments to maintain or provide additional funding, or guarantees, and such support is important to an entity's ability to continue as a going concern, the auditor may need to consider requesting written confirmation (including of terms and conditions) from those third parties and to obtain evidence of their ability to provide such support.

Written Representations (Ref: Para. 16(e))

A20. The auditor may consider it appropriate to obtain specific written representations beyond those required in paragraph 16 in support of audit evidence obtained regarding management's plans for future actions in relation to its going concern assessment and the feasibility of those plans.

Auditor Conclusions

Material Uncertainty Related to Events or Conditions that May Cast Significant Doubt on the Entity's Ability to Continue as a Going Concern (Ref: Para. 18)

A21. The phrase "material uncertainty" is used in IAS 1 in discussing the uncertainties related to events or conditions which may cast significant doubt on the entity's ability to continue as a going concern that should be disclosed in the financial statements. In some other financial reporting frameworks the phrase "significant uncertainty" is used in similar circumstances.

Adequacy of Disclosure when Events or Conditions Have Been Identified and a Material Uncertainty Exists

A22. Paragraph 18 explains that a material uncertainty exists when the magnitude of the potential impact of the events or conditions and the likelihood of occurrence is such that appropriate disclosure is necessary to achieve fair presentation (for fair presentation frameworks) or for the financial statements not to be misleading (for compliance frameworks). The auditor is required by paragraph 18 to conclude whether such a material uncertainty exists regardless of whether or how the applicable financial reporting framework defines a material uncertainty.

A23. Paragraph 19 requires the auditor to determine whether the financial statement disclosures address the matters set forth in that paragraph. This determination is in addition to the auditor determining whether disclosures about a material uncertainty, required by the applicable financial reporting framework, are adequate. Disclosures required by some financial reporting frameworks that are in addition to matters set forth in paragraph 19 may include disclosures about:

- Management's evaluation of the significance of the events or conditions relating to the entity's ability to meet its obligations; or
- Significant judgments made by management as part of its assessment of the entity's ability to continue as a going concern.

Some financial reporting frameworks may provide additional guidance regarding management's consideration of disclosures about the magnitude of the potential impact of the principal events or conditions, and the likelihood and timing of their occurrence.

Adequacy of Disclosures When Events or Conditions Have Been Identified but No Material Uncertainty Exists (Ref: Para. 20)

A24. Even when no material uncertainty exists, paragraph 20 requires the auditor to evaluate whether, in view of the requirements of the applicable financial reporting framework, the financial statements provide adequate disclosure about events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. Some financial reporting frameworks may address disclosures about:

- Principal events or conditions;
- Management's evaluation of the significance of those events or conditions in relation to the entity's ability to meet its obligations;
- Management's plans that mitigate the effect of these events or conditions; or
- Significant judgments made by management as part of its assessment of the entity's ability to continue as a going concern.

A25. When the financial statements are prepared in accordance with a fair presentation framework, the auditor's evaluation as to whether the financial statements achieve fair presentation includes the consideration of the overall presentation, structure and content of the financial statements, and whether the financial statements, including the related notes, represent the underlying transactions and events in a manner that achieves fair presentation.[13] Depending on the facts and circumstances, the auditor may determine that additional disclosures are necessary to achieve fair presentation. This may be the case, for example, when events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained, the auditor concludes that no material uncertainty exists, and no disclosures are explicitly required by the applicable financial reporting framework regarding these circumstances.

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13 ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements,* paragraph 14

Implications for the Auditor's Report

Use of Going Concern Basis of Accounting is Inappropriate (Ref: Para. 21)

A26. If the financial statements have been prepared using the going concern basis of accounting but, in the auditor's judgment, management's use of the going concern basis of accounting in the financial statements is inappropriate, the requirement in paragraph 21 for the auditor to express an adverse opinion applies regardless of whether or not the financial statements include disclosure of the inappropriateness of management's use of the going concern basis of accounting.

A27. When the use of the going concern basis of accounting is not appropriate in the circumstances, management may be required, or may elect, to prepare the financial statements on another basis (e.g., liquidation basis). The auditor may be able to perform an audit of those financial statements provided that the auditor determines that the other basis of accounting is acceptable in the circumstances. The auditor may be able to express an unmodified opinion on those financial statements, provided there is adequate disclosure therein about the basis of accounting on which the financial statements are prepared, but may consider it appropriate or necessary to include an Emphasis of Matter paragraph in accordance with ISA 706 (Revised)[14] in the auditor's report to draw the user's attention to that alternative basis of accounting and the reasons for its use.

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14 ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

How do we comply with the Standards? [ISA | KAEGHDWC]

1 Assess management's plans if we believe there is substantial doubt [ISA | 4035]

What do we do?

IF we believe there is substantial doubt about the entity's ability to continue as a going concern, THEN obtain information about management's plans that are intended to mitigate the effect of such events or conditions AND assess the likelihood that such plans can be effectively implemented.

Why do we do this?

Management's plans may mitigate the adverse effects of the events or conditions that raise substantial doubt. Therefore, our evaluation of the entity's ability to continue as a going concern includes evaluation of management's plans.

Execute the Audit

How do we assess management's plans if we believe there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time? [ISA | 4035.1300]

We perform the following procedures:

- request that management perform a going concern evaluation if they haven't done so ;
- evaluate management's plans ;
- perform additional procedures when prospective financial information is significant to management's plans ; and
- perform additional procedures over financial support that is critical to management's going concern assertions .

1.1 Request that management perform a going concern evaluation if they haven't done so [ISA | 4036]

What do we do?

IF management has not performed a going concern evaluation when we have identified events or conditions that we believe result in substantial doubt about the entity's ability to continue as a going concern, THEN request that they perform an evaluation.

Why do we do this?

When we have identified events or conditions that raise substantial doubt about the entity's ability to continue as a going concern, we first understand what management's plans are, if any, to mitigate those events or conditions in order to allow us to make a conclusion about whether we believe the entity will continue as a going concern for a reasonable period of time. For us to understand management's plans and the ability to mitigate the events and conditions identified, management first performs its own evaluation.

Execute the Audit

What do we request from management when we have identified events or conditions that raise substantial doubt about the entity's ability to continue as a going concern? [ISA | 4036.1300]

We request a going concern evaluation from management that includes a description of management's plans to mitigate any events or conditions identified, regardless of whether that evaluation is required under the applicable financial reporting framework.

What if management does not perform or refuses to perform a going concern evaluation? [ISA | 4036.1400]

This could impair our ability to evaluate the entity's ability to continue as a going concern. If management is unwilling to provide an evaluation, we perform the activity, 'Consider effect on report if management will not perform or extend its evaluation.'

Does management's going concern evaluation have to be written? [ISA | 4036.1500]

Not necessarily. However, a written evaluation is better evidence for how management supports its own financial statements and the assertions made when preparing the financial statements. Member firms may have templates to be used to facilitate this communication.

1.2 Evaluate management's plans [ISA | 4037]

What do we do?

Evaluate whether it is likely that management's plans would mitigate the events or conditions that raise substantial doubt for a reasonable period of time and that such plans can be effectively implemented AND perform audit procedures over the significant elements of management's plans.

Why do we do this?

Management's plans may be able to mitigate the adverse effects of the events or conditions that raise substantial doubt if successfully implemented. Therefore, our evaluation of the entity's ability to continue as a going concern includes evaluation of management's plans and the likelihood of their successful implementation.

Execute the Audit

What do we mean by 'management's plans' in relation to its going concern evaluation? [ISA | 4037.1300]

Management's plans are activities that management has the intent and ability to perform that will mitigate the adverse effects of the events or conditions that raise substantial doubt if successfully implemented.

What are some examples of management's plans in relation to its going concern evaluation? [ISA | 4037.12052]

Management may have plans to:

- liquidate assets;
- borrow money or restructure debt, including plans to remediate a covenant breach;

- reduce or delay expenditures;
- increase capital;
- involve support by third parties, a parent company, the entity's owner manager or other related parties; or
- grow revenue or increase gross margins.

How do we evaluate management's plans in relation to its going concern evaluation? [ISA | 4037.12059]

We evaluate management's plans through a three step process:

(1) Obtain information about management's plans to mitigate the adverse effects of the events or conditions that raise substantial doubt.

(2) Identify the elements of management's plans that we consider significant to overcoming the adverse effects of the conditions or events.

(3) Perform audit procedures to obtain evidential matter about those significant elements, and evaluate whether it is likely (i.e., probable) that:

   (i) management's plans can be effectively implemented and

   (ii) the plans would mitigate the relevant conditions or events that raise substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time.

How do we exercise professional skepticism as part of our evaluation? [ISA | 4037.1500]

Given the judgmental nature of the evaluation and its potential impact on the financial statements and our report, this is an area where we exercise professional skepticism. A few ways we can do this is by:

- applying our knowledge of the particular client, its circumstances and the industry within which it operates;
- objectively challenging management's plans and significant assumptions to determine whether management has realistically factored in the effects of events and conditions affecting the entity and its industry;
- thoughtfully evaluating the evidence management uses to support their assertions;
- maintaining professional skepticism when evaluating management representations and of not relying solely on such representations, but seeking evidence that either confirms or challenges such representations; and
- maintaining awareness that the entity's past experience in dealing with counterparties and obtaining necessary financing generally will not provide sufficient appropriate audit evidence.

How do we identify the significant elements of management's plans in relation to its going concern evaluation? [ISA | 4037.1600]

Management may list various plans to mitigate substantial doubt, but not all will be significant. We consider the elements of their plans that are necessary to mitigate the adverse effects of the events or conditions for a reasonable period of time. Said another way, we ask ourselves "what elements of management's plans need to be realized in order to support a conclusion that substantial doubt is alleviated?" These represent the elements that are significant. Some examples might be prospective financial information, financial support from supporting parties and 'other' such as plans to:

- liquidate assets
- borrow money
- restructure debt including plans to remediate a covenant breach
- reduce or delay expenditures

- increase capital
- grow revenue significantly; or
- increase gross margins.

How do we determine whether management's plans in relation to its going concern evaluation can be effectively implemented? [ISA | 4037.1700]

Our evaluation of whether it is likely (i.e., probable) that management's plans can be effectively implemented is based on the feasibility of implementation of management's plans in light of the entity's specific facts and circumstances.

What do we think about when determining whether it is feasible for management to implement its plans in relation to its going concern evaluation? [ISA | 4037.12053]

Generally, a precondition of an effective implementation is that the plan is approved before the date that the financial statements are issued.

Additionally, whether, and to what extent, management controls the outcome of the critical elements of its plans (i.e. its intent and ability to carry out a particular course of action) is relevant to feasibility. Where the success of management's plans depends on events outside of management's control (e.g. renegotiation of financing arrangements, waiver of covenant violations, reversal of a regulatory judgment), management may not be able to demonstrate that it is probable its plans can be effectively implemented.

Things we might consider when evaluating whether management has the intent and ability to implement its plans include:

- The entity's past history of carrying out its stated intentions;
- The reasons for choosing a particular course of action;
- Written plans or other relevant documentation, such as, formally approved budgets, and authorized minutes of the entity;
- Whether the entity has the financial resources or other means to carry out the action;
- Whether there are any legal, regulatory, or contractual restrictions that impacts the ability to carry out management's stated intentions;
- Whether there are required actions of third parties that impacts the ability to carry out management's stated intentions, including those parties commitment to those actions; and
- Subsequent events that provide positive or disconfirming audit evidence.

How do we think about the past actions of a third party when determining whether it is feasible for management to implement its plans in relation to its going concern evaluation? [ISA | 4037.12054]

When evaluating the probability of management successfully implementing its plans, we recognize that a counterparty's past actions (e.g. previous waivers of covenant violations, periodic refinancing of operating lines) may not be indicative of future intentions.

For example, past experience in obtaining the necessary financing often will not provide sufficient appropriate audit evidence of an entity's future ability to obtain such financing and to meet the terms and conditions.

How do we evaluate whether management's plans mitigate the relevant events or conditions that raise substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time?

[ISA | 4037.1800]

When evaluating whether it is probable that management's plans mitigate the relevant events or conditions that raise substantial doubt, a variety of factors may influence our evaluation, including:

- whether management's plans, if effectively implemented, will satisfactorily address the events and conditions that raise substantial doubt about the entity's ability to continue as a going concern;
- how significant the effect of management's plans will be in relation to the significance of the events and conditions identified that raise substantial doubt; and
- the timing of when their plans will affect the entity's operations in relation to the timing of the events and conditions identified that raise substantial doubt.

What procedures might we perform over significant elements of management's plans in relation to its going concern evaluation? [ISA | 4037.1900]

We design our audit procedures to appropriately respond to the risks related to management's plans, specifically including the significant elements of management's plans and considering the applicable accounting framework.

It may be helpful to involve specific team members or use the work of specialists to assist with our evaluation, especially when it involves the use of complex forecasting models or financing plans. See activity, 'Involve specific team members and specialists as appropriate' for additional information.

Type of management's plans	Example audit procedures
Plans to liquidate assets	• evaluate the adequacy of support for any planned disposals of assets • consider restrictions on disposal of assets, such as covenants limiting such transactions in loan or similar agreements or encumbrances against assets • evaluate apparent marketability of the assets that management plans to sell • evaluate possible direct or indirect effects of disposal of assets • obtain sufficient appropriate audit evidence relating to management's ability and intent to sell such assets at the values included in the plans • evaluate sufficiency and timing of cash expected to be raised from the asset disposition(s) • evaluate inability to terminate leases on acceptable terms

	• consider cash flow impacts of the costs of disposal, related taxes and foregone future cash flows from the disposal of cash generating assets.
Plans to borrow money or restructure debt, including plans to remediate a covenant breach	• read the terms of financing arrangements or other executory contracts (including material and technical covenants) and determine whether any have been breached or may be breached in a reasonable period of time. • understand the implications of the unique provisions and restrictive covenants of the associated financing arrangements when addressing a going concern uncertainty. • confirm the existence, terms and adequacy of borrowing facilities • establish that guarantees by related parties or agreement by lenders to waive non-compliance with covenants are obtained in writing, and that they cover at least a 12 month and one day period from the date the financial statements are issued (or the financial statements are available to be issued, when applicable) • determine availability of debt financing, including existing or committed credit arrangements, such as lines of credit or arrangements for factoring receivables or sale-leaseback of assets • consider existing or committed arrangements to restructure or subordinate debt or guarantee loans to the entity • consider possible effects on management's borrowing plans of existing restrictions on additional borrowing or the sufficiency of available collateral • consider the ability of the entity to be in compliance with covenants for the year subsequent to the date the financial statements are issued (or available to be issued, when applicable), in light of

	the prospective financial information presented as part of management's plans • consider whether the existence of on-demand clauses in term loans affect the classification of such liabilities on an entity's balance sheet and whether the lenders may in fact invoke such clauses, rather than continuing a practice of granting waivers • obtain written representation/confirmation from the parties to the agreement (management and the counterparty) evidencing their mutual understanding of the appropriate interpretation of specific provisions of financing arrangements and other executory contracts that require interpretation in order to conclude on compliance with the related restrictive covenants. In some instances, it is necessary for the parties to the agreement to come to a mutual understanding of the appropriate interpretation and it is not sufficient for us to rely solely on management's representations as to the appropriate interpretation. • determine whether cross-default provisions exist within the entity's agreements whereby a default under one agreement results in a default in a separate agreement. In other words, in certain circumstances, the violation of covenants in respect of one debt instrument could have a cascading effect on an entity's compliance with covenants in other debt instruments. • evaluate whether it is likely that the uncommitted funding sources necessary to meet the entity's financing requirements will be made available to the entity without experiencing a substantive disruption of operations when management's financing plans to address future liquidity needs include venture capital, private equity, commercial paper

	vehicles, factoring or securitizations, unfunded loan commitments, and/or auction rate securities, and other uncommitted funding sources • review existing or committed funding arrangements for a "material adverse change" clause or similar provisions in the loan commitment that enables the funding to be rescinded by the counterparty • evaluate whether currently uncommitted financing sources will be made available to the entity in sufficient amounts and at appropriate times. • inspect communications and agreements with financial institutions regarding the prospects of renewal or repayment of fixed term borrowings.
Plans to reduce or delay expenditures	• consider apparent feasibility of plans to reduce overhead (e.g. existence of labor agreement restrictions) or administrative expenditures, to postpone maintenance or research and development projects, or to lease rather than purchase assets • determine possible direct or indirect effects of reduced or delayed expenditures • consider the level of detail of management's plans including identification of triggering events, nature of costs that will be subject to reduction, and execution method of the cost containment or reduction plan.
Plans to increase capital	• consider apparent feasibility of plans to increase ownership equity, including existing or committed arrangements to raise additional capital • consider existing or committed arrangements to reduce current dividend requests or to accelerate cash distributions from affiliates or other investors

	• determine effects of increased ownership equity on the entity • determine availability of authorized shares to issue and potential shareholder approval requirements.
Plans that involve support by third-parties or the entity's owner-manager	• confirm the existence (e.g. written confirmation or contractual agreement), legality and enforceability of arrangements to provide or maintain financial support with related and third parties; • In addition to inquiry of management, in order to obtain sufficient appropriate audit evidence of the solvency of the supporting party, we perform additional procedures to assess the ability and intent of third-parties or the entity's owner-manager to fulfill the commitment, to assess whether the commitment is enforceable and covers at least a 12 month and one day period from the date the financial statements are issued (or available to be issued, when applicable) and to assess the sufficiency of the commitment. • When evaluating management's plans, the term "financial support" means providing capital, loans, direct or indirect guarantees of loans or other direct or indirect injections of funds into the entity, such as through long-term commitments for purchases of goods or services.
Plans involving significant revenue growth or increases in gross margins	• analyze and discuss cash flow, profit and other relevant forecasts with management • consider availability of financing alternatives to fund growth initiatives (i.e. procure inventory) • consider historical evidence of growth and profitability (adjusting historical evidence for current economic climate)

	• determine reliability of sales forecasts (extent of current sales backlog) • consider inability to finance significant marketing campaigns including any significant discounting activities • consider industry developments, and current economic climate.

What other procedures we might perform over management's plans in relation to its going concern evaluation? [ISA | 4037.12055]

Other audit procedures we might perform may include:

- read minutes and other records of the meetings of shareholders, those charged with governance and relevant committees for reference to financing difficulties and management's plans to address them, including their ability to be implemented and mitigate the related risks
- inquire of the entity's legal counsel regarding the existence of litigation and claims and the reasonableness of management's evaluations of their outcome and the estimate of their financial implications.
- evaluate the entity's plans to deal with unfilled customer orders
- perform audit procedures regarding subsequent events to identify those that either mitigate or otherwise affect the entity's ability to continue as a going concern
- analyze and discuss the entity's latest available interim financial statements or other relevant financial information
- obtain and review reports of regulatory actions
- inspect communications and agreements with debtors and creditors for indications of withdrawal of financial support by debtors and creditors.

What might we consider when evaluating whether currently uncommitted financing sources will be made available to the entity in sufficient amounts and at appropriate times? [ISA | 4037.12056]

When an entity is experiencing significant financial trouble, it is unlikely that management will be able to demonstrate an ability to renew, restructure or refinance outstanding obligations without evidencing committed funding arrangements.

Our focus is on evidence that confirms or disconfirms management's assertions regarding its plans and on the sufficiency of that evidence. The determination as to whether currently uncommitted funding is likely to become available in sufficient amounts, at reasonable terms, and at appropriate times may depend on more than one relevant consideration noted and on the interrelationship of those considerations.

Considerations	For example
history of successful refinancing	• does management have a history of successfully refinancing or renewing the entity's debt obligations as they come due?

	• is the entity pursuing its initial debt restructuring?
entity's financial health	• has the entity's financial health deteriorated significantly or its operations changed significantly since consummating the current financing arrangements?
forecasted cash flows	• do reasonable forecasts of cash flows from relevant assets (e.g. in a real estate entity, cash flows from the underlying property and other cash flows a potential funding source would look to) meet necessary debt coverage ratios? • is the planned funding reasonable considering relevant financing factors including, but not limited to, loan-to-value ratios, timing, term, interest rates, and financial and other covenants?
conditions of the credit markets	• what is the general condition of the credit markets within which the entity intends to pursue funding? • what is the current lending profile of the sources management is speaking with relative to the specific type of credit?
status of management's negotiations with planned funding sources	• has management made sufficient progress in negotiating with the planned funding source(s) and has management provided evidence to support its assertions relative to progress? • is there sufficient time to consummate the financing relative to the due date(s) of existing debt arrangements? • what financial covenants would be attached to the proposed funding? • is it likely that the entity will be able to comply with such covenants?
quality and value of available collateral	• has the value of the assets collateralizing the existing obligation declined

	subsequent to origination of the debt or the previous renewal? • has the quality of the assets otherwise deteriorated as a result of a catastrophic event or neglect?

Examples

When management has highlighted more than one specific action in its plans to mitigate events and conditions in relation to its going concern evaluation, are all actions considered significant? [ISA | 4037.2000]

Fact Pattern

Entity A has a payment on its debt financing that is due 3 months after year-end and it does not have sufficient liquid assets as of year end to make that payment. Management has identified this as a condition that raises substantial doubt about the entity's ability to continue as a going concern, but plans to mitigate this through refinancing the debt and reducing certain overhead and administrative expenditures.

Analysis

While management plans to both refinance the debt and reduce certain overhead and administrative expenses, these elements are not equally weighted. The debt refinancing is a significant element of management's plans because, without it, the entity does not have the cash to meet its existing debt obligation when it comes due. This refinancing is necessary to mitigate the adverse effects of the liquidity issues that the entity is facing.

The planned reductions in overhead and administrative expenditures are determined not to be a significant element of management's plans, because the entity's ability to meet the debt obligation that is due is not impacted by their success in achieving these expense reductions. That is, if they achieve the expense reductions and do not succeed in refinancing the debt, the entity will still not have sufficient funds to meet the debt payment that is due.

1.3 Perform additional procedures when prospective financial information is significant to management's plans [ISA | 7738]

What do we do?

IF prospective financial information is significant to management's plans in relation to its going concern evaluation, THEN perform additional procedures.

Why do we do this?

Management's preparation of prospective financial information often involves a high level of judgment. When prospective financial information is significant to management's plans to mitigate events or conditions that may raise substantial doubt about the entity's ability to continue as a going concern, we perform audit procedures over the prospective financial information in order to evaluate its reasonableness.

Execute the audit

What is prospective financial information? [ISA | 7738.6258]

Prospective financial information is financial information about the future. It often includes forecasted/ projected cash flows, income statement and/or balance sheet.

Where do we document procedures performed when prospective financial information used in a going concern evaluation is significant to management's plans? [ISA | 7738.6259]

We document the procedures performed, results obtained and conclusions on the prospective financial information in the Going Concern - Prospective Financial Information - Required Work Paper (KCw) https://alex.kpmg.com/AROWeb/DocumentWindow.aspx?ref=US_INTL_WP_KAEG_GC_PFI&from=attach.

What do we obtain an understanding of in relation to management's preparation of the prospective financial information? [ISA | 7738.6260]

We obtain an understanding of how management determines which is the appropriate model to use for the preparation of the prospective financial information, as well as how they determine the relevant assumptions and data sources to use.

What are examples of items that we may document as part of our understanding? [ISA | 7738.6261]

Based on the understanding obtained, some examples of what we may document are:

- whether this is the first time the entity is developing prospective financial information,
- how often the entity develops / updates the prospective financial information,
- the individuals and groups that are responsible for developing the prospective financial information,
- the individual models, assumptions and data that comprise the prospective financial information, their source, and which are significant,
- whether any IT systems, management specialists or service organizations are relevant.

Why do we gain an understanding of how management prepares the prospective financial information? [ISA | 7738.6262]

We gain this understanding to enable us to appropriately design the nature, timing and extent of our further audit procedures and to help identify the significant assumptions and significant data sources to perform audit procedures over.

What overall procedures do we perform when prospective financial information is significant to management's plans in relation to its going concern evaluation? [ISA | 7738.6263]

We:

- read the prospective financial information and the underlying assumptions;
- compare the prospective financial information (forecasted cash flows, income statement and/or balance sheet) for the current period with actual results achieved to date; and
- compare prior period's prospective financial information to actual results in prior periods.

Additionally, we perform procedures over the model, the significant assumptions used and the relevance and reliability of the significant data or information sources.

What if there is no prospective financial information from prior periods? [ISA | 7738.6264]

If management has not prepared prospective financial information in prior periods (e.g. because there were no events or conditions that may raise substantial doubt on the entity's ability to continue as a going concern and the entity did not use prospective financial information in other estimates, or the entity did not prepare financial statements in prior periods), we cannot compare prior period prospective financial information with the actual results and therefore we have less relevant information available regarding the effectiveness of management's forecasting process.

It may therefore be necessary to obtain more persuasive audit evidence regarding the reliability of the current year's prospective financial information

What if prior period's prospective financial information was developed for a purpose other than for preparing the financial statements? [ISA | 7738.6265]

Management may develop prospective financial information for purposes other than for preparing the financial statements (e.g. prospective financial information may be prepared for inclusion in a management report or reporting to those charged with governance and/or banks).

In this case, we can compare the prospective financial information that was prepared by management in prior periods with the actual results, to assist with evaluating the effectiveness of management's forecasting process. We can consider this understanding when planning our audit procedures for the current period's prospective financial information.

What procedures do we perform over the model used for the preparation of the prospective financial information? [ISA | 7738.6266]

We evaluate the model used by management by considering the following:

- whether the model selected by management is appropriate based on our understanding of the entity;
- any changes from the model used in prior periods (if applicable);
- if alternative models were considered by management (if applicable);
- the period the assessment covers and whether there are events in the period after the assessment period to be taken into account (e.g. maturing debt);
- whether the prospective financial information, including cash flow forecasts is calculated in accordance with the model and using the appropriate assumptions; and
- mathematical accuracy of management's prospective financial information including cash flow forecasts.

What are significant assumptions when auditing prospective financial information, including cash flow forecasts, in a going concern evaluation? [ISA | 7738.6267]

Significant assumptions are a subset of assumptions that are:

- material to the prospective financial information;
- especially sensitive, or susceptible to change; or
- inconsistent with historical trends

Why do we identify significant assumptions? [ISA | 7738.6268]

We identify significant assumptions in order to appropriately design the nature, timing and extent of our procedures to determine whether there is adequate support for the significant assumptions underlying the prospective financial information.

How do we identify significant assumptions? [ISA | 7738.6269]

We identify significant assumptions based on knowledge gained through obtaining an understanding of the development of the prospective financial information and the overall procedures we perform over the prospective financial information.

How do we determine whether there is adequate support for the significant assumptions underlying the prospective financial information? [ISA | 7738.6270]

We evaluate whether each significant assumption is:

- reasonable and achievable in view of the entity's circumstances;
- consistent with the general economic environment; and
- internally consistent with other data points (e.g. other related assumptions used by the entity in the prospective financial information, including cash flow forecasts, in estimates, or other assumptions used in other areas of the entity's business activities).

How might we determine if a significant assumption is internally consistent? [ISA | 7738.8615]

We might consider whether each significant assumption used in the preparation of the prospective financial information, including cash flow forecasts, is internally consistent by comparing it with other assumptions used for other purposes, such as board presentations, press releases, information provided to banks and other lenders, information contained in other prospective financial information, cash flow projections, and analysts' presentations.

> For example, management may use prospective financial information to evaluate the recoverability of deferred tax assets and potential impairment of goodwill or other long-lived assets. If we find that the assumptions used in the prospective financial information differ from those used in other evaluations based on prospective financial information, this could be contradictory evidence.

What is a significant data or information source? [ISA | 7738.6271]

Significant data or information sources are a subset of data and information sources that are material to the prospective financial information.

What procedures do we perform over the relevance and reliability of the significant data or information sources used in the preparation of the prospective financial information? [ISA | 7738.6272]

For significant data or information sources used in the preparation of the prospective financial information, we perform the activity, 'Evaluate the relevance and reliability of information used as audit evidence'. We utilize the risk level that was assigned to the RMM related to the going concern evaluation in our process understanding.

What additional procedures might we perform over the prospective financial information? [ISA | 7738.6273]

When management's plans involve the preparation of prospective financial information, we may consider performing the following procedures:

- considering how the prospective financial information reflects expected payment patterns (e.g. quarterly cash outflows such as tax installments, and variable cash inflows such as expected proceeds from the sale of assets) when the forecasts have been prepared on a monthly basis;
- evaluating whether prospective financial information has been prepared at a sufficiently disaggregated basis (e.g. monthly) to detect potential cash flow mismatches that might result in shortfalls that are not able to be detected in more aggregated information (e.g. quarterly cash flows);
- determining whether the prospective financial information indicates months of insufficient cash and, if so, management's plans to deal with any shortfalls;
- evaluating the entity's historical experience regarding management's ability to reasonably forecast operating and financial information, and reviewing liquidity status, contract compliance status and actions of the entity through the date of the auditors' report; and
- analyzing whether management has performed an appropriate sensitivity analysis considering "what if" scenarios, such as the effect of the loss of key customers or key suppliers due to bankruptcies. We may consider the outcome illustrated by a baseline case (for example, what if the status quo is maintained and revenues do not grow and costs are not reduced as expected?).

What do we do to conclude whether the prospective financial information is reasonable? [ISA | 7738.6274]

We perform the following to conclude whether the prospective financial information is reasonable.:

- Determine if we have obtained adequate support that the model used is appropriate, the significant assumptions are supportable and that the significant data and information sources used in the preparation of the prospective financial information are relevant and reliable;
- If we have identified contradictory audit evidence as a result of the procedures performed, we perform activity at 'Evaluate our risk assessment and modify planned substantive procedures for contradictory evidence'.
- Discuss with management any factors, the effects of which are not reflected in the prospective financial information, including cash flow forecasts, and if necessary, request a revision of the prospective financial information and reperform procedures; and
- if we determine that there is management bias (either intentional or unintentional), we document the impact on the audit. If intentional, we
  - determine if an illegal act was identified;
  - evaluate the implications on the integrity of management or employees and the possible effect on other aspects of the audit, particularly the reliability of management representations; and
  - whether the circumstances indicate possible collusion and, if so, its effect on the reliability of evidence obtained.

1.4 Perform additional procedures over financial support that is critical to management's going concern assertions [ISA | 4039]

What do we do?

IF management's plans include financial support by third parties, a parent company, the entity's owner manager or other related parties AND such support is necessary to support management's assertions about the entity's ability to continue as a going concern, THEN perform additional procedures.

Why do we do this?

When management's plans depend on financial support by supporting parties, we perform audit procedures over the supporting party's intent and ability to provide such support. This is because management does not have control over whether or not the supporting parties will provide the support promised.

Execute the Audit

What is financial support? [ISA | 4039.1300]

Financial support is financial resources provided to fund, or help fund, the operations of an entity. Financial support by third parties, a parent company, the entity's owner manager or other related parties (i.e. supporting parties)can be provided through many different avenues, such as: subordination of loans, commitments to maintain or provide additional funding, or guarantees.

What procedures do we perform when management's plans over its going concern evaluation depend on financial support by supporting parties? [ISA | 4039.1400]

When management's plans depend on supporting parties, we:

- obtain evidence about the intent and ability of supporting parties;
- inquire of management about historical actions of the supporting parties; and
- analyze why the supporting parties may or may not support the entity.

1.4.1 Obtain evidence about the intent and ability of supporting parties [ISA | 4040]

What do we do?

IF financial support is necessary to support management's assertions about the entity's ability to continue as a going concern, THEN obtain audit evidence about the intent and ability of the supporting parties to provide financial support.

Why do we do this?

When management's plans depend on financial support by supporting parties, we obtain audit evidence of the supporting party's intent and ability in order to conclude that the support will be received and will mitigate the substantial doubt about an entity's going concern. Because management's plans in this instance rely on the actions of a third party, it's relevant to determine that the third party's intentions align with management's assertions.

Execute the Audit

How might we obtain sufficient appropriate evidence of a supporting party's intent to provide support? [ISA | 4040.1300]

The intent of supporting parties to provide the necessary financial support may be evidenced by either of the following:

- Obtaining from management written evidence of a commitment from the supporting party to provide or maintain the necessary financial support. This is sometimes referred to as a "support letter"; or
- Confirming directly with the supporting parties the existence of commitments to provide or maintain the necessary financial support.

When the financial support is provided by an owner-manager, the written evidence regarding intent may be in the form of a support letter or a written confirmation.

What do we think about when evaluating written evidence of a supporting party's intent to provide support?

Our evaluation of the support letter or written confirmation includes thinking about the terms and conditions of the commitment and may include, as applicable, considerations of the legality and enforceability of the commitments.

The support letter or written confirmation defines the date through which the supporting party intends to provide support. We think about whether this date lines up with the assessment period required by the applicable financial reporting framework.

Can a support letter or written confirmation cover a period of time shorter than a 'reasonable period of time'?

Generally no. However, the period covered by the support letter or written confirmation could be shorter when there is another source of support that management intends to use to continue as a going concern through the assessment period. When the entity intends to use more than one source of support, we perform this activity for each source.

What information is in a support letter addressed to the entity?

Support letters are letters provided by the supporting party to the entity that is being supported and include:

- the name of the supporting party;
- the name of the entity;
- a statement of the supporting party's intent to support the entity;
- the amount of financial support that will be provided, if a fixed amount;
- through what date they will provide that support; and
- any conditions or covenants relating to their support.

What if a support letter includes conditions or covenants?

We consider the conditions or covenants and their impact to our evaluation of whether substantial doubt exists about the entity's ability to continue as a going concern.

For example, if a parent's support is contingent on the achievement of certain cash flow performance levels at the subsidiary, we may take those conditions into account when evaluating management's evaluation and concluding on whether substantial doubt exists.

What if a support letter does not include the right content?

If a support letter does not include the right content, it does not represent sufficient appropriate audit evidence. In that instance, we may instead confirm directly with the supporting parties the existence of commitments to provide or maintain the necessary financial support.

What might an example support letter look like?

The following is an illustration of a support letter that may be requested from the supporting parties.

The illustrative wording also includes an assertion about the supporting party's ability to provide financial support, but such wording does not, by itself, provide sufficient appropriate audit evidence regarding ability.

(*Supporting party name*) will, and has the ability to, fully support the operating, investing, and financing activities of (*entity name*) through at least one year and a day beyond [insert date] (*the date the financial statements are issued or available for issuance, when applicable*).

Depending on the facts and circumstances, this written support letter may be adapted, for example, by adding the following wording:

This also applies to any amounts that may ultimately be due to the Internal Revenue Service as a result of the recent judgment against (*entity name*) and also applies should (*entity name's*) debt not be refinanced when the debt becomes due in the next year

When might we request a written confirmation in addition to a support letter?

We may request a written confirmation regarding the contents of a support letter when we consider it appropriate to do so, based on our professional judgment.

For example, we may determine that, based on our professional judgment, we request a written confirmation to determine the validity of the support letter as well as the accuracy, completeness or clarification of the related terms and conditions.

What if we are unable to obtain written evidence of the supporting parties' intent to provide the necessary financial support? [ISA | 4040.1400]

If we cannot obtain written evidence of the supporting parties' intent to provide the necessary financial support from either a support letter or confirmation, we may consider other procedures to obtain appropriate evidence of the supporting parties' intent to provide the necessary financial support. Following these procedures, we then determine whether management's plans are sufficient and consider any impact on management's disclosures and our audit report.

What procedures may we perform to evaluate the intent of a supporting party?

We may observe the structure of the entity and it's interaction with the entity providing support to determine whether there is a sufficient business relationship such that the entity providing support is motivated to provide the support as part of their business strategy (e.g. a broker-dealer within a bank holding company).

What may we consider when evaluating a supporting party's ability to provide support? [ISA | 4040.1500]

We may consider:

- audit evidence of past support obtained from the supporting party when such support was needed;
- the solvency of the supporting party and the sufficiency of the evidence supporting the solvency assertion;
- the ability to provide the needed support in a timely manner for the reporting entity to meet its obligations; and
- when the entity and supporting party are in different countries, the ability of the supporting party to transfer the necessary funds (or other financial support) to the entity.

Given the nature of these matters, we may consult with the Risk Management Partner and/or Legal, as appropriate.

What procedures may we perform to evaluate the solvency, liquidity and/or borrowing ability of a supporting party?

We may:

- obtain financial statements of the supporting party,
- review them to determine whether they were audited by a reputable auditor, and
- evaluate the financial statements to determine whether the supporting party has sufficient solvency, liquidity and/or borrowing ability to be able to provide financial support.

If the financial statements have not been audited, we may perform other procedures, such as obtaining bank statements and evidence regarding the valuation of assets held by the supporting party that may be used to provide the needed support.

We evaluate the solvency of the supporting party and their ability to provide financial support based on the information obtained. However, these procedures might not provide evidence regarding other claims on the pledged assets that may limit the ability of the supporting party to use the assets to provide the support to the reporting entity.

How might we determine whether the auditor of a supporting party's financial statements is reputable? [ISA | 4040.1600]

In many cases, we already know the professional reputation and standing of the auditor.

> For example, we know that the other Big 4 accounting firms, Deloitte, PricewaterhouseCoopers, and Ernst & Young are well known and are reputable and competent. Other auditors may meet the same criteria.

We use our judgment to determine the extent of further procedures appropriate to determine their reputation and competence.

If we do not already know the professional reputation and standing of the auditor, we may perform research of the auditor to help determine if they are reputable and competent. We can determine the service auditor's professional reputation and competence by making inquiries using the following resources:

- The applicable professional organization
- Other practitioners
- Bankers and other credit grantors
- Other appropriate sources, including professional organizations

What factors may impact the supporting party's ability to transfer financial support to the entity when the entity and supporting party are in different countries?

Factors such as trade embargos, financial transfer restrictions, and war may limit the ability to transfer the necessary financial support.

1.4.2 Inquire of management about historical actions of the supporting parties [ISA | 4042]

What do we do?

IF financial support is necessary to support management's assertions about the entity's ability to continue as a going concern, **THEN** inquire of management regarding historical actions of the supporting parties and obtain evidence of the historical actions, if any.

Why do we do this?

When management's plans depend on financial support by supporting parties, we can gain some insight as to whether the third parties will perform in line with management's expectations by evaluating past actions of the supporting parties.

Execute the Audit

What do we ask management about relating to the supporting parties? [ISA | 4042.1300]

We may ask the CFO, Controller, Financial Reporting Manager, or anyone else in management that has knowledge about the entity's relationship with the supporting parties, the following:

- Has the supporting party provided financial support to the entity in the past?
- If the supporting party has provided financial support in the past, what were the terms of the transaction?
- Have there been any instances where the entity has requested financial support from the supporting party and been denied? If so, what were the circumstances?
- Are there any other actions taken by the supporting party in the past with respect to the entity that may be relevant to consider when evaluating whether they will provide financial support now?

When do we obtain evidence of the historical actions of the supporting parties? [ISA | 4042.1400]

If we determine through our inquiry of management that the supporting party has previously provided financial support, declined to provide financial support, or performed any other relevant historical action, we obtain audit evidence to corroborate management's response.

What kind of evidence might we obtain?

Some examples of evidence we may obtain include:

- executed agreements between the entity and the supporting party;
- communications between the entities regarding previous requests for financial support; and
- proof of payment if funding was previously provided.

1.4.3 Analyze why the supporting parties may or may not support the entity [ISA | 4043]

What do we do?

IF financial support is necessary to support management's assertions about the entity's ability to continue as a going concern, **THEN** analyze the underlying business reasons why the supporting parties may or may not support the entity.

Why do we do this?

Thinking critically about the business reasons that the supporting parties may or may not provide the financial support needed by the entity helps us determine whether it is likely that the supporting parties will provide what management plans them to. If we think about what the financial support transaction may look like, and it does not make sense in the context of the supporting party's business and current operations, it is a good indicator that management's plans may not be able to be effectively implemented.

Execute the Audit

How do we analyze the underlying business reasons why the supporting parties may or may not support the entity? [ISA | 4043.1300]

We think holistically about whether it makes sense for the supporting party to provide financial support. This may include thinking about:

- whether and how the supporting party will benefit from providing the financial support;
- whether providing the financial support will present obstacles or issues for the supporting party, and if so, whether the benefits outweigh them; and
- whether there is any driving force outside of the entity or supporting party that may influence whether or not the third party provides the financial support like a pending transaction or mutual owner.

2 Conclude on the going concern basis of accounting and whether a material uncertainty exists [ISA | 4046]

What do we do?

Conclude on the appropriateness of the going concern basis of accounting and whether a material uncertainty exists.

Why do we do this?

Concluding on whether management's use of the going concern basis of accounting is appropriate and whether substantial doubt remains or was alleviated helps us to conclude on whether the financial statements are fairly presented and to determine appropriate next steps, including evaluating the adequacy of disclosures and reporting implications.

Execute the Audit

How do we conclude on the appropriateness of the going concern basis of accounting and whether a material uncertainty exists? [ISA | 4046.1300]

We perform the following procedures:

- Consider any additional information available since management's evaluation;
- Evaluate and conclude on the appropriateness of using the going concern basis of accounting; and
- Conclude whether a material uncertainty exists.

What is a material uncertainty? [ISA | 4046.1400]

The phrase "material uncertainty" is used in IAS 1 in discussing the uncertainties related to events or conditions which may raise substantial doubt about the entity's ability to continue as a going concern that should be disclosed in the financial statements.

In some other financial reporting frameworks, the phrase "significant uncertainty" is used in similar circumstances.

What do we communicate to those charged with governance? [ISA | 4046.1500]

If we conclude there is substantial doubt about an entity's ability to continue as a going concern, we communicate specific matters to those charged with governance by performing the activity, 'Communicate going concern matters.' We make this communication unless all those charged with governance are involved in managing the entity.

2.1 Consider any additional information available since management's evaluation [ISA | 4047]

What do we do?

Consider whether any additional facts or information have become available since the date of management's evaluation.

Why do we do this?

Our going concern evaluation continues through the end of the audit and, therefore, we remain alert for conditions or events that indicate there may be substantial doubt.

Execute the Audit

How may we determine whether any additional facts or information has become available since the date of management's going concern evaluation? [ISA | 4047.1300]

We may determine whether any additional facts or information has become available since the date of management's evaluation by performing the following:

- Inquiry of management near the conclusion of the audit about its knowledge of conditions or events beyond the period of management's evaluation that may have an effect on the entity's ability to continue as a going concern, and
- Consider the results of other audit procedures performed to determine whether any conditions or events exist that indicate there may be substantial doubt that were not considered in management's evaluation.

What if we have identified additional facts or information that have become available since the date of management's going concern evaluation? [ISA | 4047.1400]

We think about how any of the new facts identified impact our conclusions around whether there is substantial doubt about the entity's ability to continue as a going concern and adjust our conclusion, as applicable.

Example

When might additional facts or information affect our conclusions as to whether there is substantial doubt about the entity's ability to continue as a going concern? [ISA | 4047.1500]

Fact Pattern

Management of Entity X, a December 31, 20X8 year end entity, performed their going concern evaluation during October 20X8 concluding that there is not substantial doubt about the entity's ability to continue as a going concern. The engagement team inquired of management in January 20X9 regarding its knowledge of conditions or events beyond the date of management's evaluation that may have an effect on the entity's ability to continue as a going concern, noting that management received notice from its largest customer that they will no longer be purchasing from Entity X. This customer accounts for 50% of Entity X revenue. Entity X has no outstanding debt and significant positive cash flows from operations.

Analysis

The engagement team asked management to update their analysis to reflect their consideration of the new information. The team considered the significant decline in revenue anticipated as a result of the loss of the entity's largest customer within their going concern evaluation. Given the entity has no outstanding debt, positive working capital and cash flows from operations would still be positive after excluding that customer's revenue for the year, the engagement team concluded that there is not substantial doubt about the entity's ability to continue as a going concern despite the loss of the customer.

2.2 Evaluate and conclude on the appropriateness of using the going concern basis of accounting [ISA | 4048]

What do we do?

Evaluate whether sufficient appropriate audit evidence has been obtained AND conclude on the appropriateness of the use of the going concern basis of accounting AND consult as necessary.

Why do we do this?

If management's use of the going concern basis of accounting is inappropriate, this represents a departure from GAAP that we address in the audit and affects our auditor's report.

Execute the Audit

How do we conclude whether using the going concern basis of accounting is appropriate? [ISA | 4048.1300]

We take a step back and evaluate all the evidence obtained to determine whether there are any circumstances or events that indicate the entity will not continue as a going concern and using another basis of accounting is appropriate. Remember that the definition of 'going concern' is specific to the applicable financial reporting framework.

The going concern basis of accounting is not appropriate when management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

How does our conclusion regarding the appropriateness of using the going concern basis of accounting differ from our conclusion about substantial doubt? [ISA | 4048.12039]

The concluding on the appropriateness of using the going concern basis of accounting relates to whether the financial statements as a whole have been prepared using the appropriate basis of accounting, whereas concluding on whether there is substantial doubt about the entity to continue its operations for the foreseeable future primarily impacts disclosures and our reporting. An entity can still prepare its financial statements on a going concern basis when substantial doubt exists about its ability to continue as a going concern and appropriate disclosures are made.

For example, when circumstances result in management concluding it is probable the entity will be unable to meet its obligations as they become due (and therefore substantial doubt exists) but liquidation is not imminent, the entity continues preparing its financial statements under the going concern basis of accounting but includes the relevant going concern disclosures.

Therefore, we conclude on whether the basis of accounting under which the financial statements are prepared is appropriate, keeping in mind what we have learned throughout the audit and the requirements of the applicable financial reporting framework, and separately conclude on whether substantial doubt exists about whether the entity will continue as a going concern.

What if we determine that management's use of the going concern basis of accounting is inappropriate?

[ISA | 4048.1400]

We consult and issue an adverse opinion.

Who do we consult with if we determine that management's use of the going concern basis of accounting is inappropriate? [ISA | 4048.12040]

The following table summarizes the parties we consult with based upon the KPMG member firm performing the audit and the characteristics of the client and the engagement.

When the audit is performed by:	Involving:	Consult with:
U.S. firm	All PCAOB engagements	DPP
	All US GAAS engagements	BUPPP - audit
	Top Tier and Tier 1 audit clients and global accounts	RPPP is informed but is not a consulted party
Non-U.S. firms	All clients and engagements	DPP Risk Management Partner

Where can we find information on the structure and content of an adverse opinion in the auditor's report? [ISA | 4048.6278]

See International Standards Reports Manual paragraphs 7.260 - 7.275 https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_7 and example report 7.7 for information on adverse opinions.

2.3 Conclude whether a material uncertainty exists

[ISA | 4050]

What do we do?

Conclude whether a material uncertainty exists related to events or conditions that, individually or collectively, may raise substantial doubt on the entity's ability to continue as a going concern.

Why do we do this?

After consideration of management's plans, reaching a conclusion on whether a material uncertainty exists related to events or conditions that may raise substantial doubt about the entity's ability to continue as a going concern allows us to determine next steps in terms of evaluating the adequacy of disclosures, determining the implications for our auditor's report, and determining impacts to other areas of the audit.

Execute the Audit

What is a material uncertainty? [ISA | 4050.1300]

The phrase "material uncertainty" is used in IAS 1 in discussing the uncertainties related to events or conditions which may raise substantial doubt about the entity's ability to continue as a going concern that should be disclosed in the financial statements.

In some other financial reporting frameworks the phrase "significant uncertainty" is used in similar circumstances.

How do we reach the conclusion about whether a material uncertainty exists? [ISA | 4050.1400]

We take a holistic approach and consider the results of our audit procedures, including those relating to management's plans to mitigate the events or conditions identified, to determine whether a material uncertainty exists related to events or conditions, considered individually or in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time.

A material uncertainty exists when the magnitude of the potential impact of the events or conditions and the likelihood of occurrence is such that, in our judgment, appropriate disclosure is necessary to achieve fair presentation (for fair presentation frameworks) or for the financial statements not to be misleading (for compliance frameworks). Since there is significant judgment applied in reaching this conclusion, we use professional skepticism and include evidence of our considerations in the audit file to provide a clear trail of how we reached our conclusions. If we believe it is probable that management's plans will be realized, but that there is still a reasonable possibility that they may not be realized, then we likely have a material uncertainty.

However, if management's plans have either subsequently been realized (in a subsequent event) or are at such an advanced stage that they are virtually certain, we will likely not have a material uncertainty.

> For example, if management plans to raise capital or refinance, and this has either happened before we sign off and is disclosed as a subsequent event, or we conclude that management's plans are at such a highly advanced stage that we are almost certain they are going to occur (draft agreements in place with formalities only left), then we may conclude that a material uncertainty does not exist (although relevant financial statement disclosures would likely still need to be presented).

What is the effect on the auditor's report when we identify events or conditions that may raise substantial doubt about the entity's ability to continue as a going concern, but we conclude that a material uncertainty does not exist? [ISA | 4050.1500]

When we have identified events or conditions but conclude that a material uncertainty does not exist, we may still think about whether the going concern evaluation represents a Key Audit Matter (where Key Audit Matters are required to be included in the auditor's report) and include a separate section under the heading 'Key Audit Matters' in our auditor's report to highlight the liquidity issues related to management disclosures.

Refer to chapter 3A of the International Standards Reporting Manual https://alex.kpmg.com/AROWeb/document/lfc/UN_IISRM_ISRM2018_1/toc/UN_IISRM_ISRM2018_3A?tocref=UN_IISRM_ISRM2018_1&x=0 for additional information about 'Key Audit Matters.'

Who do we consult with when we identify events or conditions that may raise substantial doubt about the entity's ability to continue as a going concern, but we conclude that a material uncertainty does not exist? [ISA | 4050.12063]

If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained we conclude that no material uncertainty exists, then we consult with the risk management partner about our conclusion.

What are the reporting implications when we conclude that a material uncertainty exists? [ISA | 4050.1700]

When we conclude that a material uncertainty exists, we consider the effects on our auditor's report (see activity 'Consider the effects on the auditor's report if a material uncertainty exists' for additional information.

3 Request written representations if we believe there is substantial doubt [ISA | 4052]

What do we do?

IF we believe there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time before consideration of management's plans, THEN request written representations.

Why do we do this?

While written representations aren't a substitute for audit procedures, they complement our audit procedures by confirming the representations that management has explicitly or implicitly provided to us.

Execute the Audit

Who do we request written representations from in relation to going concern? [ISA | 4052.1300]

We request written representations from management. We may also request written representations from those charged with governance, if it is appropriate in the circumstances.

What written representations related to going concern do we request from management? [ISA | 4052.1400]

We request, at a minimum, the following written representations:

- A description of management's plans that are intended to mitigate the adverse effects of events or conditions that indicate there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time and the probability that those plans can be effectively implemented, if applicable; and
- That the financial statements disclose all the matters of which management is aware that are relevant to the entity's ability to continue as a going concern for a reasonable period of time, including principal events or conditions and management's plans.

These representations will be included in the management representation letter as discussed in the chapter on representations (ISA 580, AU-C 580, AS 2805).

What additional representations related to going concern may we consider requesting from management? [ISA | 4052.1500]

We may consider it appropriate to obtain additional specific written representations in support of audit evidence obtained regarding management's plans related to its going concern evaluation and the feasibility of those plans.

Examples of such written representations may include:

- reasonableness of prospective financial information used to support management's plans, if any
- feasibility of implementing the significant assumptions critical to the realization of management's plans (e.g. the ability to reduce discretionary spending)
- acknowledgement of intended approvals necessary to implement management's plans, if applicable
- acknowledgement of triggering events that require management to implement plans. For example, a specified amount of negative operating cash flow that possibly necessitates a headcount reduction, plant closure, etc.

What if management does not provide a requested written representation related to going concern? [ISA | 4052.1600]

If management does not provide one or more of the requested written representations, then we perform the activity, 'Perform additional procedures if management does not provide representations'.

Are management representations alone sufficient for us to conclude that there is no substantial doubt related to going concern, or that substantial doubt is alleviated? [ISA | 4052.1700]

No. Representations are something we obtain in addition to our other audit evidence and performing the steps and evaluations necessary under the auditing standards.

4 Evaluate the adequacy of disclosures when events or conditions have been identified [ISA | 4054]

What do we do?

IF events or conditions have been identified that may raise substantial doubt about the entity's ability to continue as a going concern, THEN evaluate the adequacy of the financial statement disclosures.

Why do we do this?

When events or conditions have been identified that may raise substantial doubt about the entity's ability to continue as a going concern, appropriate disclosures are necessary to adequately inform financial statement users of the possible effects of the events or conditions on the financial statements. Even when we conclude a material uncertainty does not exist, providing disclosure of the principal events or conditions that initially raised substantial doubt and management's plans to mitigate those events is a requirement under many financial reporting frameworks and can serve as an early warning to financial statement users.

Execute the Audit

How do we determine whether disclosures about the entity's ability to continue as a going concern are adequate when we have identified events or conditions that may cast substantial doubt on the entity's ability to continue as a going concern? [ISA | 4054.1300]

We determine which disclosures are required and then determine whether the disclosures adequately meet the requirements.

How do we determine which disclosures are required when we have identified events or conditions that may cast substantial doubt on the entity's ability to continue as a going concern? [ISA | 4054.1500]

We look to the disclosure requirements of the applicable financial reporting framework, and we perform the activity, 'Complete the accounting disclosure checklist'.

Do we consider whether a material uncertainty exists when determining which disclosures are required related to the entity's ability to continue as a going concern?

Yes. When, primarily because of our consideration of management's plans, we conclude that a material uncertainty does not exist, we consider whether the financial reporting framework requires the disclosure of:

- the principal conditions and events that initially caused us to believe there was substantial doubt;
- the possible effects of such conditions and events, and any mitigating factors, including management's plans.

Additionally, some financial reporting frameworks include explicit requirements about financial statement disclosures when a material uncertainty exists.

For example, some financial reporting frameworks may address disclosures about:

- Principal events or conditions;
- Management's evaluation of the significance of those events or conditions in relation to the entity's ability to meet its obligations;
- Management's plans that mitigate the effect of these events or conditions; or
- Significant judgments made by management as part of its assessment of the entity's ability to continue as a going concern.

What if the applicable financial reporting framework does not include explicit going concern disclosure requirements?

If the financial reporting framework is a fair presentation framework and does not include explicit disclosure requirements that address management's going concern evaluation, we may consider the disclosure requirements for other frameworks.

How do we evaluate the adequacy of management's disclosures when we have concluded there is substantial doubt about the entity's ability to continue as a going concern? [ISA | 4054.1700]

We evaluate whether the disclosures are adequate by determining whether they represent the substance of the underlying transactions and events in a manner that achieves fair presentation. The extent of disclosure in the financial statements about substantial doubt about the entity's ability to continue as a going concern is commensurate with the complexity of an entity's operations and financing arrangements, significance of the uncertainty, and complexity of management's plans. Depending on the facts and circumstances, we may determine that additional disclosures are necessary to achieve fair presentation.

> For example, disclosures required by some financial reporting frameworks may include disclosures about:
>
> - Management's evaluation of the significance of the events or conditions relating to the entity's ability to meet its obligations; or
> - Significant judgments made by management as part of its assessment of the entity's ability to continue as a going concern.

How do we evaluate the adequacy of management's disclosures when we have concluded that a material uncertainty exists?

We determine whether the financial statements:

- adequately disclose the principal events or conditions that may cast substantial doubt on the entity's ability to continue as a going concern and management's plans to deal with these events or conditions; and
- disclose clearly that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business.

We read the financial statement disclosures to evaluate whether material information has been completely and accurately disclosed and is presented in a clear and organized way to users.

Use of Going Concern Basis of Accounting Is Appropriate but a Material Uncertainty Exists

International Standards on Auditing: ISA 570.22-24

Use of Going Concern Basis of Accounting Is Appropriate but a Material Uncertainty Exists

Adequate Disclosure of a Material Uncertainty Is Made in the Financial Statements

22. If adequate disclosure about the material uncertainty is made in the financial statements, the auditor shall express an unmodified opinion and the auditor's report shall include a separate section under the heading "Material Uncertainty Related to Going Concern" to: (Ref: Para. A28 - A31, A34)

(a) Draw attention to the note in the financial statements that discloses the matters set out in paragraph 19; and

(b) State that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the auditor's opinion is not modified in respect of the matter.

Adequate Disclosure of a Material Uncertainty Is Not Made in the Financial Statements

23. If adequate disclosure about the material uncertainty is not made in the financial statements, the auditor shall: (Ref: Para. A32 - A34)

(a) Express a qualified opinion or adverse opinion, as appropriate, in accordance with ISA 705 (Revised)[5] ; and

(b) In the Basis for Qualified (Adverse) Opinion section of the auditor's report, state that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the financial statements do not adequately disclose this matter.

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5 ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

Management Unwilling to Make or Extend Its Assessment

24. If management is unwilling to make or extend its assessment when requested to do so by the auditor, the auditor shall consider the implications for the auditor's report. (Ref: Para. A35)

ISA Application and Other Explanatory Material: ISA 570.A28-A35

Use of the Going Concern Basis of Accounting Is Appropriate but a Material Uncertainty Exists (Ref: Para. 22 - 23)

A28. The identification of a material uncertainty is a matter that is important to users' understanding of the financial statements. The use of a separate section with a heading that includes reference to the fact that a material uncertainty related to going concern exists alerts users to this circumstance.

A29. The Appendix to this ISA provides illustrations of the statements that are required to be included in the auditor's report on the financial statements when International Financial Reporting Standards (IFRSs) is the applicable financial reporting framework. If an applicable financial reporting framework other than IFRSs is used, the illustrative statements presented in the Appendix to this ISA may need to be adapted to reflect the application of the other financial reporting framework in the circumstances.

A30. Paragraph 22 establishes the minimum information required to be presented in the auditor's report in each of the circumstances described. The auditor may provide additional information to supplement the required statements, for example to explain:

- That the existence of a material uncertainty is fundamental to users' understanding of the financial statements;[15] or
- How the matter was addressed in the audit (see also paragraph A1).

15 ISA 706 (Revised), paragraph A2

Adequate Disclosure of a Material Uncertainty Is Made in the Financial Statements (Ref: Para. 22)

A31. Illustration 1 of the Appendix to this ISA is an example of an auditor's report when the auditor has obtained sufficient appropriate audit evidence regarding the appropriateness of management's use of the going concern basis of accounting but a material uncertainty exists and disclosure is adequate in the financial statements. The Appendix of ISA 700 (Revised) also includes illustrative wording to be included in the auditor's report for all entities in relation to going concern to describe the respective responsibilities of those responsible for the financial statements and the auditor in relation to going concern.

Adequate Disclosure of a Material Uncertainty Is Not Made in the Financial Statements (Ref: Para. 23)

A32. Illustrations 2 and 3 of the Appendix to this ISA are examples of auditor's reports containing qualified and adverse opinions, respectively, when the auditor has obtained sufficient appropriate audit evidence regarding the appropriateness of the management's use of the going concern basis of accounting but adequate disclosure of a material uncertainty is not made in the financial statements.

A33. In situations involving multiple uncertainties that are significant to the financial statements as a whole, the auditor may consider it appropriate in extremely rare cases to express a disclaimer of opinion instead of including the statements required by paragraph 22. ISA 705 (Revised) provides guidance on this issue.[16]

16 ISA 705 (Revised), paragraph 10

Communication with Regulators (Ref: Para. 22 - 23)

A34. When the auditor of a regulated entity considers that it may be necessary to include a reference to going concern matters in the auditor's report, the auditor may have a duty to communicate with the applicable regulatory, enforcement or supervisory authorities.

Management Unwilling to Make or Extend Its Assessment (Ref: Para. 24)

A35. In certain circumstances, the auditor may believe it necessary to request management to make or extend its assessment. If management is unwilling to do so, a qualified opinion or a disclaimer of opinion in the auditor's report may be appropriate, because it may not be possible for the auditor to obtain sufficient appropriate audit evidence regarding management's use of the going concern basis of accounting in the preparation of the financial statements, such as audit evidence regarding the existence of plans management has put in place or the existence of other mitigating factors.

How do we comply with the Standards? [ISA | KAEGHDWC]

1 Consider the effects on the auditor's report if a material uncertainty exists [ISA | 4057]

What do we do?

IF we conclude that a material uncertainty exists, THEN consider the effects on the auditor's report.

Why do we do this?

If a material uncertainty exists, our auditor's report, in addition to the entity's disclosures, can help to serve as an early warning to alert financial statement users and investors that there are concerns about the entity's ability to continue as a going concern.

Execute the Audit

What are the effects on the auditor's report when the use of the going concern basis of accounting is appropriate but we conclude that a material uncertainty exists? [ISA | 4057.1300]

How our audit report is affected depends on our conclusion around whether substantial doubt remains and the adequacy of management's disclosures:

Circumstances	Audit report effect	Activity
Adequate disclosure about the material uncertainty is made in the financial statements.	We express an unmodified opinion and include a separate section under the heading "Material Uncertainty Related to Going Concern."	Determine the reporting implications and consult if a material uncertainty exists and disclosures are adequate
Adequate disclosure about the material uncertainty is not made in the financial statements.	We express a qualified or adverse opinion, as appropriate.	Modify the audit opinion and consult if adequate disclosure about a material uncertainty is not made
Multiple uncertainties exist on the financial statements as a whole due to the interaction and possible cumulative effects of the uncertainties, so we disclaim an opinion.	We include in our auditor's report all substantive reasons for our disclaimer of opinion.	Take specific actions if we disclaim our opinion due to uncertainties

1.1 Determine the reporting implications and consult if a material uncertainty exists and disclosures are adequate [ISA | 4059]

What do we do?

IF we conclude that disclosures about a material uncertainty are adequate, THEN express an unmodified opinion AND include a separate section in the auditor's report under the heading 'Material Uncertainty Related to Going Concern' AND consult.

Why do we do this?

The identification of a material uncertainty is a matter that is relevant to users' understanding of the financial statements. Our report includes a separate section that draws attention to the fact that a material uncertainty related to going concern exists to alert users to this circumstance.

Execute the Audit

What is the effect on the auditor's report when we have concluded a material uncertainty exists in relation to going concern, and adequate disclosures have been made? [ISA | 4059.1300]

If adequate disclosure about the material uncertainty is made in the financial statements, the auditor expresses an unmodified opinion and includes a separate section under the heading "Material Uncertainty Related to Going Concern" to:

- Draw attention to the note in the financial statements that discloses the matters set out in ISA 570.18; and
- State that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the auditor's opinion is not modified in respect of the matter.

We may also provide additional information in our report in a key audit matter, for example to explain:

- That the existence of a material uncertainty is fundamental to users' understanding of the financial statements; or
- How the matter was addressed in the audit.

Who do we consult with before issuing an auditor's report with a separate material uncertainty section? [ISA | 4059.1400]

If we determine that the material uncertainty is adequately disclosed and we plan to express an unmodified opinion and include a separate section in our auditor's report under the heading "Material Uncertainty Related to Going Concern", we consult with the risk management partner about our conclusion.

Where can we find additional guidance on the appropriate auditor's report to use when a material uncertainty exists and disclosures are adequate? [ISA | 4059.1500]

Refer to [paragraphs 7.155 - 7.205 in the International Standards Reports Manual](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_7) https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_7 for reporting considerations to be applied and additional information.

1.2 Modify the audit opinion and consult, if adequate disclosure about a material uncertainty is not made [ISA | 4061]

What do we do?

IF adequate disclosure about the material uncertainty is not made in the financial statements, THEN express a qualified or adverse opinion, as appropriate AND consult.

Why do we do this?

When a material uncertainty exists and adequate disclosure is not made in the financial statements, we express a qualified or adverse opinion.

Execute the Audit

How do we determine whether to issue a qualified or adverse opinion if adequate disclosure about a material uncertainty is not made? [ISA | 4061.1300]

Refer to [paragraphs 7.215-7.220 of the International Standards Reports Manual (ISRM)](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_4) https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_4 for reporting considerations to be applied and additional information.

Where can we find examples of qualified and adverse opinions relating to material uncertainty over going concern? [ISA | 4061.1400]

[Chapter 7 of the ISRM](https://alex.kpmg.com/AROWeb/document/lfc/UN_IISRM_ISRM2018_1/toc/UN_IISRM_ISRM2018_7/tocsearch/disclaim) https://alex.kpmg.com/AROWeb/document/lfc/UN_IISRM_ISRM2018_1/toc/UN_IISRM_ISRM2018_7/tocsearch/disclaim provides information on the form and content of our report when the opinion is modified as well as examples of qualified and adverse opinions.

When we issue a qualified or adverse opinion because of inadequate disclosure about a material uncertainty, in the Basis for Qualified (or Adverse) Opinion section of our auditor's report, we state that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the financial statements do not adequately disclose this matter.

1.3 Take specific actions if we disclaim our opinion due to uncertainties [ISA | 4062]

What do we do?

IF we disclaim an opinion in cases involving uncertainties, THEN consider the adequacy of management's disclosures AND include in our auditor's report all substantive reasons for our disclaimer of opinion AND consult.

Why do we do this?

When we disclaim an opinion due to uncertainties relating to going concern, we provide the user of the financial statements with enough information about why we disclaimed an opinion.

Execute the Audit

When do we disclaim an opinion relating to going concern? [ISA | 4062.6315]

We disclaim an opinion when, in extremely rare circumstances involving multiple uncertainties that are significant to the financial statements as a whole, we conclude that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements.

Do we include the separate section under the heading "Material Uncertainty Related to Going Concern" when we disclaim an opinion? [ISA | 4062.6316]

No. When we disclaim an opinion in extremely rare circumstances involving multiple uncertainties that are significant to the financial statements as a whole, we do not include in the auditor's report a separate section under the heading "Material Uncertainty Related to Going Concern".

What do we do when we plan to disclaim an opinion relating to going concern? [ISA | 4062.1400]

We evaluate the adequacy of the disclosures of the uncertainties and their possible effects on the financial statements (see activity 'Evaluate the adequacy of disclosures when events or conditions have been identified' for additional information), include all substantive reasons for our disclaimer of opinion in our auditor's report, and consult.

With whom do we consult when we plan to disclaim an opinion relating to going concern? [ISA | 4062.12171]

The following table summarizes the parties we consult with based upon the KPMG member firm performing the audit and the characteristics of the client and the engagement.

When the audit is performed by:	Involving:	Consult:
U.S. firm	All clients and engagements	DPP
	Top Tier and Tier 1 audit clients and audits of global accounts	RPPP is informed but is not a consulted party
International firms	All clients and engagements	DPP and the Risk Management Partner Local member firms may request consultation with additional parties based on local risk

		management policies and procedures.

2 Consider effect on report if management will not perform or extend its evaluation [ISA | 4063]

What do we do?

IF management is unwilling to perform or extend its going concern evaluation when we request to do so, THEN consider the implications for the auditor's report.

Why do we do this?

Management's unwillingness to perform or extend their evaluation may represent a departure from the financial reporting framework (when the framework requires management to perform an evaluation) or may prevent us from obtaining sufficient appropriate audit evidence. Accordingly, we consider the implications on the auditor's report.

Execute the Audit

When might we ask management to perform or extend its going concern evaluation? [ISA | 4063.1300]

We may ask management to perform or extend its going concern assessment when:

- management has not performed an analysis (and is not required to perform an analysis under the financial reporting framework) and the lack of a detailed analysis prevents us from concluding about going concern, or
- management has performed an assessment, but that assessment is insufficient or doesn't cover an appropriate period of time.

What are the implications for the auditor's report when management is unwilling to perform or extend its going concern evaluation? [ISA | 4063.1400]

When management is unwilling to perform or extend its going concern evaluation, the auditor's report may be affected in different ways depending on the circumstances:

1) a qualified opinion or disclaim an opinion may be appropriate because it may not be possible for us to obtain sufficient appropriate audit evidence regarding management's use of the going concern basis of accounting.

> For example, we may not be able to obtain sufficient appropriate audit evidence regarding the existence of plans management has put in place, the existence of other mitigating factors or the effects of a significant new event or condition that occurred since management's initial evaluation.

2) a qualified opinion or adverse opinion may be appropriate when the assessment is required by the applicable financial reporting framework.

For example, management may be unwilling to extend its evaluation because it believes it has satisfied the requirements to conclude about the entity's ability to continue as a going concern under the applicable financial reporting framework. If, in our judgment, management's conclusion is not adequately supported, we may conclude that a qualified or adverse opinion for a departure from the applicable financial reporting framework is appropriate in these circumstances.

Where can we find additional guidance on these types of modifications and example reports? [ISA | 4063.6293]

See paragraphs 4.160 - 4. 200 and Appendix B of the International Standards Reports Manual https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_4 for information on qualified opinions, adverse opinions and disclaimer of opinions and example reports.

Are there any other implications for the audit, other than the auditor's report, when management is unwilling to perform or extend its going concern evaluation? [ISA | 4063.1500]

Management's unwillingness to make or extend its evaluation may be an indicator of:

1) a control deficiency and/or

2) a fraud risk factor that could affect our fraud risk assessment.

Communication with Those Charged with Governance

International Standards on Auditing: ISA 570.25

Communication with Those Charged with Governance

25. Unless all those charged with governance are involved in managing the entity,[6] the auditor shall communicate with those charged with governance events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern. Such communication with those charged with governance shall include the following:

(a) Whether the events or conditions constitute a material uncertainty;

(b) Whether management's use of the going concern basis of accounting is appropriate in the preparation of the financial statements;

(c) The adequacy of related disclosures in the financial statements; and

(d) Where applicable, the implications for the auditor's report.

6 ISA 260 (Revised), *Communication with Those Charged with Governance*, paragraph 13

How do we comply with the Standards? [ISA | KAEGHDWC]

1 Communicate going concern matters [ISA | 1251]

What do we do?

Communicate going concern matters to those charged with governance.

Why do we do this?

Communicating to those charged with governance going concern matters helps them to exercise their oversight responsibilities.

Execute the Audit

What do we communicate to those charged with governance regarding going concern matters? [ISA | 1251.1300]

Unless all those charged with governance are involved in managing the entity, we communicate with those charged with governance events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern. This communication includes:

- whether the events or conditions constitute a material uncertainty;
- whether management's use of the going concern basis of accounting is appropriate in the preparation of the financial statements;
- the adequacy of related disclosures in the financial statements; and
- where applicable, the implications for the auditor's report.

When do we communicate going concern matters to those charged with governance? [ISA | 1251.1700]

We communicate to those charged with governance timely. Due to the nature of the going concern matters, we may consider it necessary to communicate them as soon as possible after we identify them.

What is the form of our communication to those charged with governance regarding going concern matters? [ISA | 1251.1800]

We communicate to those charged with governance either orally or in writing. In the case of our communication of going concern matters, we may consider that communicating in writing is more appropriate. Some member firms may have specific templates to be used to facilitate this communication.

Significant Delay in the Approval of Financial Statements

International Standards on Auditing: ISA 570.26

Significant Delay in the Approval of Financial Statements

26. If there is significant delay in the approval of the financial statements by management or those charged with governance after the date of the financial statements, the auditor shall inquire as to the reasons for the delay. If the auditor believes that the delay could be related to events or conditions relating to the going concern assessment, the auditor shall perform those additional audit procedures

necessary, as described in paragraph 16, as well as consider the effect on the auditor's conclusion regarding the existence of a material uncertainty, as described in paragraph 18.

How do we comply with the Standards? [ISA | KAEGHDWC]

1 Respond to any expected significant delay in issuing the financial statements [ISA | 4055]

What do we do?

IF there is a significant delay in the expected issuance of the financial statements by management or those charged with governance, THEN inquire about the reasons for the delay AND perform additional audit procedures as necessary.

Why do we do this?

A significant delay in the approval or expected issuance of the financial statements may be an indicator that there are going concern issues. Accordingly, we take steps to determine the reason for the delay and perform specific audit procedures when the delay is related to going concern.

Execute the Audit

How do we respond if there is a significant delay in management or those charged with governance approving the financial statements? [ISA | 4055.1400]

We first inquire about the reasons for the delay. If we believe that the delay could be related to the going concern assessment, we perform additional audit procedures as necessary, and consider the effect on our conclusion regarding the existence of a material uncertainty.

Who do we inquire of if there is a significant delay in the approval of the financial statements? [ISA | 4055.1500]

When there is a significant delay expected in the issuance of the financial statements, we inquire of management and/or those charged with governance, as appropriate. Members of management that may be appropriate to inquire of include the CFO and Controller.

What additional procedures do we perform if we believe a significant delay in issuing the financial statements could be related to the going concern evaluation? [ISA | 4055.1600]

If we believe a significant delay in issuing the financial statements could be related to the going concern evaluation, this represents events or conditions that may raise substantial doubt about the entity's ability to continue as a going concern, and we perform the activity, 'Evaluate matters relating to the going concern basis of accounting'.

Appendix - Illustrations of Auditor's Reports Relating to Going Concern

International Standards on Auditing: ISA 570.Appendix

Appendix illustrations of Auditor's Reports Relating to Going Concern

(Ref: Para. A29, A31 - A32)

- Illustration 1: An auditor's report containing an unmodified opinion when the auditor has concluded that a material uncertainty exists and disclosure in the financial statements is adequate.
- Illustration 2: An auditor's report containing a qualified opinion when the auditor has concluded that a material uncertainty exists and that the financial statements are materially misstated due to inadequate disclosure.
- Illustration 3: An auditor's report containing an adverse opinion when the auditor has concluded that a material uncertainty exists and the financial statements omit the required disclosures relating to a material uncertainty.

Illustration 1 - Unmodified Opinion When a Material Uncertainty Exists and Disclosure in the Financial Statements Is Adequate

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- **Audit of a complete set of financial statements of a listed entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised)** [17] **does not apply).**
- **The financial statements are prepared by management of the entity in accordance with IFRSs (a general purpose framework).**
- **The terms of the audit engagement reflect the description of management's responsibility for the financial statements in ISA 210.18**
- **The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.**
- **The relevant ethical requirements that apply to the audit are those of the jurisdiction.**
- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. The disclosure of the material uncertainty in the financial statements is adequate.**
- **Key audit matters have been communicated in accordance with ISA 701.**
- **The auditor has obtained all of the other information prior to the date of the auditor's report and has not yet identified a material misstatement of the other information.**
- **Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.**
- **In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.**

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17 ISA 600 (Revised), *Special Considerations - Audits of Group Financial Statements (Including the Work of Component Auditors)*

18 ISA 210, *Agreeing the Terms of Audit Engagements*

Appendix INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Financial Statements [19]

Opinion

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of the Company as at December 31, 20X1, and (*of*) its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in [*jurisdiction*], and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note XXX in the financial statements, which indicates that the Company incurred a net loss of ZZZ during the year ended December 31, 20X1 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 6, 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 judgment, 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 ISA 701.*]

Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

[*Reporting in accordance with the reporting requirements in ISA 720 (Revised) - see Illustration 1 in Appendix* 2 *of ISA 720 (Revised).*]

Responsibilities of Management and Those Charged with Governance for the Financial Statements [20]

[Reporting in accordance with ISA 700 (Revised) - see Illustration 1 in ISA 700 (Revised).[21]]

Auditor's Responsibilities for the Audit of the Financial Statements

[*Reporting in accordance with ISA 700 (Revised) - see Illustration 1 in ISA 700 (Revised)*.[21]]

Report on Other Legal and Regulatory Requirements

[*Reporting in accordance with ISA 700 (Revised) - see Illustration 1 in ISA 700 (Revised)*.]

The engagement partner on the audit resulting in this independent auditor's report is [*name*].

[*Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction*]

[*Auditor Address*]

[*Date*]

Illustration 2 - Qualified Opinion When a Material Uncertainty Exists and the Financial Statements Are Materially Misstated Due to Inadequate Disclosure

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- **Audit of a complete set of financial statements of a listed entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).**
- **The financial statements are prepared by management of the entity in accordance with IFRSs (a general purpose framework).**
- **The terms of the audit engagement reflect the description of management's responsibility for the financial statements in ISA 210.**
- **The relevant ethical requirements that apply to the audit are those of the jurisdiction.**
- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. Note yy to the financial statements discusses the magnitude of financing arrangements, the expiration and the total financing arrangements; however the financial statements do not include discussion on the impact or the availability of refinancing or characterize this situation as a material uncertainty.**
- **The financial statements are materially misstated due to the inadequate disclosure of the material uncertainty. A qualified opinion is being expressed because the auditor concluded that the effects on the financial statements of this inadequate disclosure are material but not pervasive to the financial statements.**
- **Key audit matters have been communicated in accordance with ISA 701.**
- **The auditor has obtained all of the other information prior to the date of the auditor's report and the matter giving rise to the qualified opinion on the financial statements also affects the other information.**
- **Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.**

- **In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.**

Report on Other Legal and Regulatory Requirements - INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Financial Statements [22]

Qualified Opinion

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the incomplete disclosure of the information referred to in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects (or *give a true and fair view of*), the financial position of the Company as at December 31, 20X1, and (*of*) its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Qualified Opinion

As discussed in Note yy, the Company's financing arrangements expire and amounts outstanding are payable on March 19, 20X2. The Company has been unable to conclude re-negotiations or obtain replacement financing. This situation indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. The financial statements do not adequately disclose this matter.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in [*jurisdiction*], and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

[*Reporting in accordance with the reporting requirements in ISA 720 (Revised) - see Illustration 6 in Appendix 2 of ISA 720 (Revised). The last paragraph of the other information section in Illustration 6 would be customized to describe the specific matter giving rise to the qualified opinion that also affects the other information.*]

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, 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 *Basis for Qualified Opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

[*Descriptions of each key audit matter in accordance with ISA 701*.]

Responsibilities of Management and Those Charged with Governance for the Financial Statements [23]

[*Reporting in accordance with ISA 700 (Revised) - see Illustration 1 in ISA 700 (Revised)*. [24]]

Auditor's Responsibilities for the Audit of the Financial Statements

[*Reporting in accordance with ISA 700 (Revised) - see Illustration 1 in ISA 700 (Revised)*.[24]]

Report on Other Legal and Regulatory Requirements

[*Reporting in accordance with ISA 700 (Revised) - see Illustration 1 in ISA 700 (Revised)*.]

The engagement partner on the audit resulting in this independent auditor's report is [*name*].

[*Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction*]

[*Auditor Address*]

[*Date*]

Illustration 3 - Adverse Opinion When a Material Uncertainty Exists and Is Not Disclosed in the Financial Statements

For purposes of the illustrative auditor's report, the following circumstances are assumed:

- **Audit of a complete set of financial statements of an entity other than a listed entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).**
- **The financial statements are prepared by management of the entity in accordance with IFRSs (a general purpose framework).**
- **The terms of the audit engagement reflect the description of management's responsibility for the financial statements in ISA 210.**
- **The relevant ethical requirements that apply to the audit are those of the jurisdiction.**
- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, and the Company is considering bankruptcy. The financial statements omit the required disclosures relating to the material uncertainty. An adverse opinion is being expressed because the effects on the financial statements of such omission are material and pervasive.**
- **The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA 701.**
- **The auditor has obtained all of the other information prior to the date of the auditor's report and the matter giving rise to the adverse opinion on the financial statements also affects the other information.**
- **Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.**
- **In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.**

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Financial Statements [25]

Adverse Opinion

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, because of the omission of the information mentioned in the *Basis for Adverse Opinion* section of our report, the accompanying financial statements do not present fairly (or *do not give a true and fair view of*), the financial position of the Company as at December 31, 20X1, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Adverse Opinion

The Company's financing arrangements expired and the amount outstanding was payable on December 31, 20X1. The Company has been unable to conclude re-negotiations or obtain replacement financing and is considering filing for bankruptcy. This situation indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. The financial statements do not adequately disclose this fact.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in [*jurisdiction*], and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

[*Reporting in accordance with the reporting requirements in ISA 720 (Revised) - see Illustration 7 in Appendix 2 of ISA 720 (Revised). The last paragraph of the Other Information section in Illustration 7 would be customized to describe the specific matter giving rise to the adverse opinion that also affects the other information.*]

Responsibilities of Management and Those Charged with Governance for the Financial Statements [26]

[*Reporting in accordance with ISA 700 (Revised) - see Illustration 1 in ISA 700 (Revised)*. [27]]

Auditor's Responsibilities for the Audit of the Financial Statements

[*Reporting in accordance with ISA 700 (Revised) - see Illustration 1 in ISA 700 (Revised).* [27]]

Report on Other Legal and Regulatory Requirements

[*Reporting in accordance with ISA 700 (Revised) - see Illustration 1 in ISA 700 (Revised).*]

[*Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction*]

[*Auditor Address*]

[*Date*]

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19 The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

20 Throughout these illustrative auditor's reports, the terms management and those charged with governance may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction.

21 Paragraphs 34 and 39 of ISA 700 (Revised) require wording to be included in the auditor's report for all entities in relation to going concern to describe the respective responsibilities of those responsible for the financial statements and the auditor in relation to going concern.

22 The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

23 Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

24 Paragraphs 34 and 39 of ISA 700 (Revised) require wording to be included in the auditor's report for all entities in relation to going concern to describe the respective responsibilities of those responsible for the financial statements and the auditor in relation to going concern.

25 The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

26 Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

27 Paragraphs 34 and 39 of ISA 700 (Revised) require wording to be included in the auditor's report for all entities in relation to going concern to describe the respective responsibilities of those responsible for the financial statements and the auditor in relation to going concern.

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