

Appendix B

April 2, 2025

0.0.1 Appendix B: Comprehensive Going Concern Risk Assessment Tool

Going Concern Uncertainties & Financial Statement Quality Empirical Analysis of Management vs. Auditors' Disclosures

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Category	Risk Factor	Scoring Criteria
Liquidity Risk	Current ratio < 1.0	1 point (persistent), 2 points (acute)
	Negative operating cash flows	1 point (1 year), 2 points (2+ years)
Profitability	Recurring net losses	1 point (2 years), 2 points (3+ years)
	Declining gross margin (>5% annual drop)	1 point per 5% decline
Debt Burden	Debt-to-equity ratio > 2.0	1 point (2.0–3.0), 2 points (>3.0)
	Covenant breaches	2 points per violation

1. Financial Distress Indicators (*Score 0–3 per item*) Scoring Key:

- **0–4 Points:** Moderate risk (enhanced monitoring recommended).
- **5–8 Points:** High risk (mandatory disclosure required).
- **9+ Points:** Severe risk (immediate auditor consultation and restructuring plans).

Risk Type	Triggering Events
Supply Chain	Loss of key supplier (>20% of inventory)
Legal/Regulatory	Major lawsuits or fines (>5% of revenue)
Leadership	Sudden CEO/CFO departure
Market Position	>15% annual market share decline

2. Operational & Non-Financial Risks (*Binary: Present = 1 point*) Action Threshold:

- **3 Triggers:** Mandatory going concern disclosure, regardless of financial score.

Assessment Area	Best Practice	Risk Adjustment (Score)
Audit Committee	75% independent members	-1 point if independence <50%
Disclosure Timeliness	Filed within 30 days of trigger	+1 point if delayed
Management Plans	Documented turnaround strategy	-2 points if missing

3. Governance & Disclosure Factors **Net Governance Score:**

- **Positive:** Reduces overall risk tier.
 - **Negative:** Elevates risk severity.
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4. Integrated Risk Rating

1. Calculate Total Scores:

- Financial Indicators: _____
- Operational Risks: _____
- Governance Adjustments: _____

2. Final Assessment:

- **Low Risk (0–4):** Routine monitoring.
 - **Moderate Risk (5–8):** Disclose risks with mitigation plans in financial statements.
 - **High Risk (9+):** Immediate auditor consultation, SEC filing amendments, and board-level restructuring.
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Example Application *A firm with:*

- Current ratio = 0.8 (**1 point**)
- 3-year net losses (**2 points**)
- Sudden CEO departure (**1 point**)
- Audit committee independence = 40% (**-1 point**)

Total Score: 3 (Low Risk) → Requires enhanced disclosures but no immediate modification.

Alignment with Standards

- Complies with **ISA 570 (Going Concern)** and **IAS 1 (Financial Statement Presentation)**.
 - Designed for adaptability: Industry-specific weightings (e.g., higher liquidity thresholds for retail).
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This tool operationalizes the study's findings into a practitioner-friendly framework, bridging empirical research and real-world application.

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