

## SA - 570 (Revised) Going Concern

*What do you mean by Going Concern assumption and what is auditor's responsibility in relation to it?*

According to AS-1 Going concern is a fundamental accounting assumption. According to it - The enterprise is normally viewed as a going concern, that is, as continuing in operation for the foreseeable future. It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the operations. General purpose financial statements are prepared on a going concern basis, that means unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so, the entity will go on. In India, Section 217(2AA) of the Companies Act, 1956 *inter alia* requires the directors to make a specific assertion in their Directors' Responsibility Statement under this section that "the directors had prepared the annual accounts on a going concern basis". Hence, it management's responsibility, to consider going concern assumption at the time of preparing and presenting financial statements. According to SA-570(revised ) Auditor's objective in relation to going concern are

- (a) To obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation 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 determine the implications for the auditor's report.

**What are the steps involved in considering the Going Concern Assumption during an audit ?**

**Step-1 :- Enquiry with management:-** the auditor shall determine whether management has already performed a preliminary assessment of the entity's ability to continue as a going concern, and If 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 what are management's plans to address them. If management is assured about the going concern the auditor shall evaluate management's assessment of the entity's ability to continue as a going concern.

**Step-2 When events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern :-** In such case the auditor shall obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists through performing additional audit procedures, including consideration of mitigating factors. These procedures shall include:

- (a) Auditor shall request management to make its assessment about the going concern .
- (b) Auditor shall 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.
- (c) When 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 action :
  - (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 or, where appropriate, those charged with governance, regarding their plans for future action and the feasibility of these plans.

**Step-3 Audit Conclusions and Reporting**

**Case-1 Use of Going Concern Assumption Appropriate but a Material**

**Uncertainty Exists :-** In such case auditor will require a proper disclosure in the financial statement about such uncertainty. The determination of the adequacy of the financial statement disclosure may involve determining whether the information explicitly draws the reader's attention to the possibility that the entity may be unable to continue realising its assets and discharging its liabilities in the normal course of business. If such disclosure is made auditor will issue an **unqualified opinion** but he is required to **imphasize the matter**. On the other hand if above required disclosure of Material Uncertainty Is Inadequate- auditor will qualify his audit report and if appropriate an **Adverse opinion can be given**

**Case-2 Use of Going Concern Assumption Inappropriate**

If the financial statements have been prepared on a going concern basis but, in the auditor's judgment, management's use of the going concern assumption in the financial statements is inappropriate, the auditor shall express an adverse opinion, regardless of whether or not the financial statements include disclosure of the inappropriateness of management's use of the going concern assumption. But if management discloses the fact and prepare the financial statement on liquidation basis ( bringing all the assets and liabilities to realizable value) , the auditor may be able to express an unmodified opinion on those financial statements, provided there is adequate disclosure therein 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 and the reasons for its use.

**Step -4 Communication with Those Charged with Governance :-** Unless all those charged with governance are involved in managing the entity, 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 the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and
- (c) The adequacy of related disclosures in the financial statements.

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