



## A) Introduction

Under the going concern assumption, an entity is viewed as continuing in business for the foreseeable future. When the use of the going concern assumption 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. The financial statements should be prepared on the going concern basis unless management either intends to liquidate the entity or has no realistic alternative but to do so. The going concern assumption is a fundamental principle in the preparation of the financial statements and therefore requires management to assess whether the entity is a going concern.

It is vital that the going concern assumption is considered, since it affects the value of many areas of the financial statements, how account balances are presented and the financial statement disclosures. Since the going concern assumption has such significance in the preparation of the financial statements, the going concern review is a very important part of the audit.

The objectives of the auditor in respect of going concern are:

- A) To obtain sufficient appropriate audit evidence regarding the appropriateness of management's use of the going concern assumption.
- B) To conclude 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
- C) To determine the implications for the auditor's report.

## B) Events or Conditions that may cast doubt about the Going Concern assumption

### A) Financial Indicators

- Net liability or net current liability position
- Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment
- Indications of withdrawal of financial support by creditors
- Negative operating cash flows (historical or prospective)
- 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 terms and conditions of the loan agreements
- Change from suppliers from credit to cash basis

## B) Operating Indicators

- Management intentions to liquidate or cease operations
- Loss of key management without replacement
- Loss of a major market, key customers, licence, or principal suppliers
- Labour difficulties
- shortages of important supplies

## C) Other Indicators

- Non-compliance with capital or other statutory requirements
- 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 laws/regulations/government policy expected to adversely affect the entity

## ‘C) Management's Responsibilities for Going Concern

Management has specific responsibilities relating to going concern that may be set out in law or regulation and in the financial reporting framework. LKAS 1 Presentation of financial statements contains a specific requirement that management makes an assessment of an entity's ability to continue as a going concern. Because general purpose financial statements are prepared on a going concern basis, the going concern assumption is a fundamental principle in the preparation of financial statements. Therefore, management's responsibility for the preparation and presentation of the financial statements also encompasses a responsibility to assess the entity's ability to continue as a going concern, even if there is no explicit requirement to do so in the financial reporting framework.

**From Managements perspective, they are responsible to perform a proper assessment with regard to the Going Concern ability of the organization**

## Important

If, during their assessment, management becomes aware of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, then those uncertainties must be disclosed in the financial statements

## **D) Auditor's Responsibilities in relation to Management's Assessment**

The auditor must remain alert throughout the audit for evidence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. The auditor shall evaluate management's assessment of the entity's ability to continue as a going concern.

## **E) Events or Conditions Identified**

If events or conditions are 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 a material uncertainty exists by,

- Requesting management to make its assessment, where this has not been done
- Evaluating management's plans for future action and having discussions with Management
  - a) Analyse and discuss cash flow, profit and other relevant forecasts with management
  - b) Analyse and discuss the entity's latest available interim financial statements (or management accounts)
  - c) Evaluating the reliability of underlying data used to prepare a cash flow forecast and considering the assumptions used to make the forecast
  - d) Confirm the existence, terms and adequacy of borrowing facilities
- Read minutes of the meetings of shareholders, the board of directors and important committees for reference for the matters which is applicable for Going Concern Assumption
- Enquire of the entity's lawyer regarding litigation and claims
- Requesting written representations from management and those charged with governance about plans for future action and the feasibility of these plans

## **F) Communicating with Those Charged with Governance**

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:

- Whether the events or conditions constitute a material uncertainty
- Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements
- The adequacy of related disclosures in the financial statements

## **G) Audit Reporting**

The auditor shall consider whether a material uncertainty exists related to events or conditions which may cast doubt on the entity's ability to continue as a going concern, as this will have an impact on the opinion issued in the auditor's report because the uncertainty must be disclosed.

