ISSAI 1570

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INTOSAI

Directriz de auditoría financiera

Empresa en funcionamiento

COMITÉ DE NORMAS PROFESIONALES DE LA INTOSAI

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La presente directriz de auditoría financiera se basa en la Norma Internacional de Auditoría (NIA) 570, "Empresa en funcionamiento", formulada por el Consejo de Normas Internacionales de Auditoría y Aseguramiento (International Audit and Assurance Standards Board/IAASB) y publicada por la Federación Internacional de Contadores (International Federation of Accountants/IFAC). La NIA se ha incluido en la presente directriz con permiso de la IFAC.

Índice de la ISSAI 1570

Nota de Práctica[1] para la Norma Internacional de Auditoría (NIA) 570

Empresa en funcionamiento

Fundamentos

Esta Nota de Práctica proporciona orientaciones adicionales sobre la NIA 570, "Empresa en funcionamiento", y debe leerse conjuntamente con ella. La NIA 570 entra en vigor para las auditorías de estados financieros correspondientes a los períodos que comiencen a partir del 15 de diciembre de 2009. Esta Nota de Práctica será efectiva en la misma fecha que la NIA.

Introducción a la NIA

La NIA 570 establece las obligaciones del auditor independiente, cuando audita estados financieros, en relación con el uso por la dirección de la presunción de empresa en funcionamiento al elaborar y presentar los estados financieros.

Contenido de la Nota de Práctica

P1. La Nota de Práctica proporciona orientaciones adicionales para los auditores del sector público en relación con los aspectos siguientes:
- a) Presunción de la empresa en funcionamiento.
- b) Evaluación de las valoraciones de la dirección.
- c) Procedimientos de auditoría adicionales tras la identificación de hechos o condiciones.
- d) El uso de la presunción de empresa en funcionamiento es apropiado pero existe una incertidumbre significativa.

Aplicabilidad de la NIA en la auditoría del sector público

P2. La NIA 570 es aplicable a los auditores de las entidades del sector público en el desempeño de su función de auditores de los estados financieros.

P3. Según se explica en el párrafo A1 de la NIA, el uso por la dirección de la presunción de empresa en funcionamiento es también aplicable a las entidades del sector público. Los gobiernos soberanos, en particular los gobiernos centrales, no suelen quebrar o convertirse en insolventes desde un punto de vista jurídico debido a sus amplias atribuciones para imponer impuestos, derechos o tasas, por lo que tienen la posibilidad de ajustar sus ingresos a fin de cumplir sus obligaciones. En algunos casos, sin embargo, los gobiernos pueden tener un pasivo neto

1 Todas las Notas de Práctica habrán de leerse conjuntamente con la ISSAI 1000 ìIntroducción general a las Directrices de auditoría financiera de la INTOSAI.î

considerable en proporción al tamaño de su economía o a su capacidad de imponer impuestos, derechos o tasas, o depender sustancialmente de la ayuda de otros gobiernos. Aunque no es corriente, los gobiernos soberanos, en particular los gobiernos centrales, pueden convertirse en insolventes cuando son incapaces de cumplir sus obligaciones en el momento en que se hacen exigibles y se enfrentan, por ejemplo, a la imposibilidad de renegociar su deuda. La incapacidad de un gobierno para cumplir sus obligaciones puede verse influida también por la medida en que su moneda, emitida directamente por él o bien por el banco central en su nombre, siga siendo aceptada como medio de intercambio para cumplir sus obligaciones financieras. Por esta razón, los auditores del sector público aplicarán las exigencias y orientaciones de la NIA.

Orientaciones adicionales sobre cuestiones ligadas al sector público

P4. La NIA 570 contiene disposiciones de aplicación y otras disposiciones explicativas con consideraciones específicas a las entidades del sector público en el párrafo A1.

Presunción de la empresa en funcionamiento

P5. Los auditores del sector público en relación con la empresa en funcionamiento pueden tener otras obligaciones que las directamente previstas en la NIA 570 como la de examinar las disposiciones adoptadas por la entidad para mantener su posición financiera general e informar sobre ellas.

P6. Las entidades del sector público pueden gastar en un año sumas por encima de los recursos a su disposición, y sus ingresos pueden ser inferiores a sus gastos y su activo a su pasivo. Sin embargo, no es corriente que una entidad de sector público cese o reduzca la escala de operaciones como consecuencia de su incapacidad de financiar sus operaciones o de su pasivo neto.

P7. Es más probable que el cese de la actividad de una entidad del sector público se deba a una decisión política adoptada para liquidarla y disolverla completamente, reducir la escala de sus operaciones, privatizarla o transferir algunas de sus funciones a otra entidad de derecho público, o bien fusionarla con ella. En estos casos, cesa la actividad operativa de la entidad ya sea de forma total o parcial. Sólo en el supuesto de disolución sin solución de continuidad de la entidad perdería validez la presunción de empresa en funcionamiento. En los demás supuestos, los auditores del sector público tomarán en consideración sobre qué base se transfieren las actividades desde la perspectiva de la entidad que está cediendo el activo y el pasivo en la fecha contable correspondiente.

P8. Con el fin de formarse una opinión sobre la capacidad de la entidad para continuar sus operaciones, los auditores del sector público tendrán en cuenta, al examinar el aspecto de la empresa en funcionamiento, dos factores distintos pero que a veces se superponen, a saber:

- El mayor riesgo que representan los cambios de dirección política (por ejemplo, un cambio en el gobierno).
- El riesgo operativo o comercial, de carácter menos frecuente (por ejemplo, cuando la entidad carece de suficiente capital circulante para mantener sus operaciones en el nivel actual).

P9. Con el fin de minimizar el riesgo de que se produzcan cambios en las políticas gubernamentales con incidencia en la presunción de empresa en funcionamiento sin conocimiento del auditor, éste verificará si:

- El gobierno ha declarado su intención de reexaminar una política que afecte a la entidad auditada.
- Se ha anunciado un reexamen que está además en curso.
- El reexamen indica que la entidad auditada puede racionalizarse o su futuro replantearse.
- Hay una decisión política de privatizar las actividades de la entidad auditada.

Evaluación de las valoraciones de la dirección

P10. Los auditores del sector público son conscientes de que los cambios en las políticas gubernamentales pueden tener una incidencia considerable en la naturaleza y las funciones de las entidades del sector público, aunque las decisiones políticas no son más inciertas normalmente que los riesgos imprevistos que sufren las entidades del sector privado.

Procedimientos de auditoría adicionales tras la identificación de hechos o condiciones

P11. Teniendo en cuenta las exigencias del párrafo 16 de la NIA, los auditores del sector público examinarán la conveniencia de pedir a la entidad una confirmación directa del departamento u organismo administrativo del cual depende su respaldo financiero o su futura financiación, y en ese examen analizarán las limitaciones derivadas del proceso político. En tal caso, quizá no sea garantía suficiente del futuro de la entidad una declaración de su responsable financiero en el sentido de que ese respaldo continuará, debido a que la entidad puede desconocer las intenciones del departamento u organismo administrativo del cual depende su respaldo financiero.

P12. Además de los procedimientos de auditoría expuestos en el párrafo A15 de la NIA, los auditores del sector público pueden acudir a registros oficiales para informarse sobre cambios de políticas y decisiones del poder legislativo e indagar sobre las cuestiones objeto de decisión cuando no se disponga de registros oficiales.

El uso de la presunción de empresa en funcionamiento pero existe una incertidumbre significativa

P13. Los párrafos 19 y 20 de la NIA establecen las obligaciones del auditor tanto en el caso de que se informe adecuadamente de incertidumbres significativas en los estados financieros como de que no se informe. Los párrafos A21 a A24 de la NIA exponen ejemplos de párrafos de énfasis para los dos casos, y los párrafos P14 a P16 exponen ejemplos relativos al sector público.

P14. Ejemplo de párrafo de énfasis cuando los auditores del sector público están satisfechos de la información facilitada:

Párrafo de énfasis

Sin incluir reservas en nuestra opinión, deseamos atraer la atención sobre la nota X de los estados financieros según la cual el Gobierno ha iniciado el reexamen de las futuras operaciones del Organismo pero no ha decidido aún su actuación al respecto. Esta situación, junto con otros aspectos señalados en la nota X, pone de manifiesto una incertidumbre significativa que puede suscitar considerables dudas sobre la capacidad del Organismo para continuar su actividad según el principio de empresa en funcionamiento.

P15. Ejemplo de párrafos en que ha de emitirse una opinión con reservas al no existir suficiente información sobre una incertidumbre significativa:

Base para emitir una opinión con reservas

El Gobierno ha iniciado el reexamen de las futuras operaciones del Organismo pero no ha decidido aún su actuación al respecto. Esta situación implica de una incertidumbre significativa que puede suscitar considerables dudas sobre la capacidad del Organismo para continuar su actividad según el principio de empresa en funcionamiento, por lo que el Organismo puede no ser capaz de enajenar sus activos y cumplir sus obligaciones en el curso normal de sus operaciones. Los estados financieros (y las notas contenidos en ellos) no informan de ese hecho.

Opinión con reservas

En nuestra opinión, salvo la omisión de la información contemplada en la base para emitir una opinión con reservas, los estados financieros del Organismo presentan una imagen fiel, en todos los aspectos significativos, de su situación financiera a 31 de diciembre de 20X0, así como de su gestión financiera y gestión de tesorería en relación con el año que termina de acuerdo con (el marco de información financiera aplicable).

P16. Ejemplo de párrafos en que ha de emitirse una opinión adversa al no existir suficiente información sobre una incertidumbre:

Base para emitir una opinión adversa

El Gobierno ha decidido que el Organismo cesará su actividad y será disuelto el próximo año, lo que implica una incertidumbre significativa que puede suscitar considerables dudas sobre la capacidad del Organismo para continuar su actividad según el principio de empresa en funcionamiento y la imposibilidad, por tanto, de enajenar sus activos y cumplir sus obligaciones en el curso normal de sus operaciones. Los estados financieros (y las notas contenidos en ellos) no informan de ese hecho.

Opinión adversa

En nuestra opinión, debido a la omisión de la información mencionada en la base para emitir una opinión adversa, los estados financieros no presentan fielmente la situación financiera del Organismo a 31 de diciembre de 20X0, ni su gestión financiera y la gestión de su tesorería en relación con el año que termina de acuerdo con (el marco de información financiera aplicable).

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Going Concern

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INTERNATIONAL STANDARD ON AUDITING 570
GOING CONCERN

(Effective for audits of financial statements for periods beginning on or after December 15, 2009)

CONTENTS

International Standard on Auditing (ISA) 570, "Going Concern" should be read in conjunction with ISA 200, "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing."

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 management's use of the going concern assumption in the preparation of the financial statements.

Going Concern Assumption

2. Under the going concern assumption, an entity is viewed as continuing in business for the foreseeable future. General purpose financial statements are prepared on a going concern basis, 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 is relevant (for example, the going concern basis is not relevant for some financial statements prepared on a tax basis in particular jurisdictions). 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. (Ref: Para. A1)

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.

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, since the going concern assumption 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.

1 IAS 1, "Presentation of Financial Statements" as at 1 January 2009, paragraphs 25-26.

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 responsibility is 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 and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern. This responsibility exists 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 going concern uncertainty in an auditor's report cannot be viewed as a guarantee as to the entity's ability to continue as a going concern.

Effective Date

8. This ISA is effective for audits of financial statements for periods beginning on or after December 15, 2009.

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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."

Objectives

9. The objectives of the auditor are:

   (a) To obtain sufficient appropriate audit evidence regarding the appropriateness of management's use of the going concern assumption 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 determine the implications for the auditor's report.

Requirements

Risk Assessment Procedures and Related Activities

10. When performing risk assessment procedures as required by ISA 315,[3] the auditor shall consider whether there are events or conditions 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. A2-A5)

    (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 assumption, 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.

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. A6)

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. A7-A9; A11-A12)

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3 ISA 315, "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment," paragraph 5.

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. A10-A12)

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. A13-A14)

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 through performing additional audit procedures, including consideration of mitigating factors. These procedures shall include: (Ref: Para. A15)

    (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. A16)

    (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 action: (Ref: Para. A17-A18)

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

4 ISA 560, "Subsequent Events," paragraph 5(a).

(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 action and the feasibility of these plans.

Audit Conclusions and Reporting

17. 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. A19)

(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.

Use of Going Concern Assumption Appropriate but a Material Uncertainty Exists

18. If the auditor concludes that the use of the going concern assumption is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether the financial statements:

(a) Adequately describe 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. (Ref: Para. A20)

19. If adequate disclosure is made in the financial statements, the auditor shall express an unmodified opinion and include an Emphasis of Matter paragraph in the auditor's report to:

(a) Highlight the existence of a material uncertainty relating to the event or condition that may cast significant doubt on the entity's ability to continue as a going concern; and

(b) Draw attention to the note in the financial statements that discloses the matters set out in paragraph 18. (See ISA 706.[5]) (Ref: Para. A21-A22)

20. If adequate disclosure is not made in the financial statements, the auditor shall express a qualified opinion or adverse opinion, as appropriate, in accordance with ISA 705.[6] The auditor shall state in the auditor's report that there is a material uncertainty that may cast significant doubt about the entity's ability to continue as a going concern. (Ref: Para. A23-A24)

Use of Going Concern Assumption Inappropriate

21. 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. (Ref: Para. A25-A26)

Management Unwilling to Make or Extend Its Assessment

22. 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. A27)

Communication with Those Charged with Governance

23. Unless all those charged with governance are involved in managing the entity,[7] 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.

Significant Delay in the Approval of Financial Statements

24. 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

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5 ISA 706, "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report."

6 ISA 705, "Modifications to the Opinion in the Independent Auditor's Report."

7 ISA 260, "Communication with Those Charged with Governance," paragraph 13.

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 17.

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Application and Other Explanatory Material

Going Concern Assumption (Ref: Para. 2)

Considerations Specific to Public Sector Entities

A1. Management's use of the going concern assumption 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.[8] 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.

Risk Assessment Procedures and Related Activities

Events or Conditions That May Cast Doubt about Going Concern Assumption (Ref: Para. 10)

A2. The following are examples of events or conditions that, individually or collectively, may cast significant doubt about the going concern assumption. 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.

8 IPSAS 1, "Presentation of Financial Statements" as at January 1, 2009, paragraphs 38-41.

- 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 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 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.

A3. The risk assessment procedures required by paragraph 10 help the auditor to determine whether management's use of the going concern assumption 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

A4. 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.

A5. 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)

A6. ISA 315 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.[9] 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[10] establishes requirements and provides guidance on this issue.

Evaluating Management's Assessment

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

A7. 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 assumption.

A8. 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

9 ISA 315, paragraph 31.

10 ISA 330, "The Auditor's Responses to Assessed Risks."

concluding whether management's use of the going concern assumption 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 assumption in the preparation of the financial statements is appropriate in the circumstances.

A9. 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)

A10. Most financial reporting frameworks requiring an explicit management assessment specify the period for which management is required to take into account all available information.[11]

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

A11. 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.

A12. Continued support by owner-managers is often important to smaller entities' 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

[11] 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.

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)

A13. 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 assumption 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.

A14. 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.

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

A15. 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))

A16. 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))

A17. 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.

A18. 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.

Audit Conclusions and Reporting (Ref: Para. 17)

A19. 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.

Use of Going Concern Assumption Appropriate but a Material Uncertainty Exists

Adequacy of Disclosure of Material Uncertainty (Ref: Para. 18)

A20. 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 realizing its assets and discharging its liabilities in the normal course of business.

Audit Reporting When Disclosure of Material Uncertainty Is Adequate (Ref: Para. 19)

A21. The following is an illustration of an Emphasis of Matter paragraph when the auditor is satisfied as to the adequacy of the note disclosure:

> *Emphasis of Matter*
>
> Without qualifying our opinion, we draw attention to Note X 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. These conditions, along with other matters as set forth in Note X, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

A22. In situations involving multiple material 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 adding an Emphasis of Matter paragraph. ISA 705 provides guidance on this issue.

Audit Reporting When Disclosure of Material Uncertainty Is Inadequate (Ref: Para. 20)

A23. The following is an illustration of the relevant paragraphs when a qualified opinion is to be expressed:

> *Basis for Qualified Opinion*
>
> The Company's financing arrangements expire and amounts outstanding are payable on March 19, 20X1. The Company has been unable to re-negotiate or obtain replacement financing. This situation indicates the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going

concern and therefore the Company may be unable to realize its assets and discharge its liabilities in the normal course of business. The financial statements (and notes thereto) do not fully disclose this fact.

Qualified Opinion

In our opinion, except for the incomplete disclosure of the information referred to in the Basis for Qualified Opinion paragraph, the 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, 20X0, and of its financial performance and its cash flows for the year then ended in accordance with …

A24. The following is an illustration of the relevant paragraphs when an adverse opinion is to be expressed:

Basis for Adverse Opinion

The Company's financing arrangements expired and the amount outstanding was payable on December 31, 20X0. The Company has been unable to re-negotiate or obtain replacement financing and is considering filing for bankruptcy. These events indicate a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and therefore the Company may be unable to realize its assets and discharge its liabilities in the normal course of business. The financial statements (and notes thereto) do not disclose this fact.

Adverse Opinion

In our opinion, because of the omission of the information mentioned in the Basis for Adverse Opinion paragraph, the financial statements do not present fairly (or "give a true and fair view of") the financial position of the Company as at December 31, 20X0, and of its financial performance and its cash flows for the year then ended in accordance with …

Use of Going Concern Assumption Inappropriate (Ref: Para. 21)

A25. 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 requirement of 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 assumption.

A26. If the entity's management is required, or elects, to prepare financial statements when the use of the going concern assumption is not appropriate in the circumstances, the financial statements are prepared on an alternative basis (for example, liquidation basis). The auditor may be able to perform an audit of those financial statements provided that the auditor determines that the alternative basis is an acceptable financial reporting framework in the circumstances. 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.

Management Unwilling to Make or Extend Its Assessment (Ref: Para. 22)

A27. 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 the use of the going concern assumption 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.