

ASA 570

(October 2009)

Auditing Standard ASA 570 *Going Concern*

Issued by the **Auditing and Assurance Standards Board**



Australian Government

Auditing and Assurance Standards Board

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ISSN 1833-4393

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PREFACE

Reasons for Issuing Auditing Standard ASA 570 ***Going Concern***

The Auditing and Assurance Standards Board (AUASB) issues Auditing Standard ASA 570 *Going Concern* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is an independent statutory board of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislative Instruments Act 2003*.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required to have regard to any programme initiated by the International Auditing and Assurance Standards Board (IAASB) for the revision and enhancement of the International Standards on Auditing (ISAs) and to make appropriate consequential amendments to the Australian Auditing Standards. Accordingly, the AUASB has decided to revise and redraft the Australian Auditing Standards using the equivalent redrafted ISAs.

Main Features

This Auditing Standard establishes requirements and provides application and other explanatory material regarding the auditor's responsibilities in the audit of a financial report relating to management's use of the going concern assumption in the preparation of the financial report.

This Auditing Standard requires the auditor to:

- (a) plan and perform risk assessment procedures to determine if there are events or conditions that may cast significant doubt on the entity's ability to continue as a going concern;
- (b) evaluate management's assessment of the entity's ability to continue as a going concern;
- (c) use professional judgement to determine if a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern;
- (d) perform additional audit procedures when events or conditions are identified that may cast significant doubt on the entity's ability to continue as a going concern;
- (e) determine if adequate disclosure is made in the financial report regarding the entity's going concern position and to consider the implications of such disclosure on the auditor's opinion; and
- (f) communicate with management, and where appropriate, those charged with governance, any events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern.

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AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard ASA 570 *Going Concern* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

This Auditing Standard is to be read in conjunction with ASA 101 *Preamble to Australian Auditing Standards*, which sets out the intentions of the AUASB on how the Australian Auditing Standards, operative for financial reporting periods commencing on or after 1 January 2010, are to be understood, interpreted and applied. ASA 570 is to be read also in conjunction with ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*.

Dated: 27 October 2009

M H Kelsall
Chairman - AUASB

AUDITING STANDARD ASA 570

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Application

- Aus 0.1 This Auditing Standard applies to:
- (a) an audit of a financial report for a financial year, or an audit of a financial report for a half-year, in accordance with the *Corporations Act 2001*; and
 - (b) an audit of a financial report, or a complete set of financial statements, for any other purpose.
- Aus 0.2 This Auditing Standard also applies, as appropriate, to an audit of other historical financial information.

Operative Date

- Aus 0.3 This Auditing Standard is operative for financial reporting periods commencing on or after 1 January 2010.

Introduction

Scope of this Auditing Standard

1. This Auditing Standard deals with the auditor's responsibilities in the audit of a financial report relating to management's use of the going concern assumption in the preparation of the financial report.
- Aus 1.1 For the purposes of this Auditing Standard, a reference to management is taken to mean "management, and where appropriate, those charged with governance".

Going Concern Assumption

2. Under the going concern assumption, an entity is viewed as continuing in business for the foreseeable future. A general purpose financial report is 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. A special purpose financial report may or may not be prepared in accordance with a financial reporting framework for which the going concern

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basis is relevant (for example, the going concern basis is not relevant for some financial reports 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 realise 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.¹ The detailed requirements regarding management's responsibility to assess the entity's ability to continue as a going concern and related financial report disclosures may also be set out in law or regulation.
- Aus 3.1 Australian Accounting Standards* require management to make an assessment of an entity's ability to continue as a going concern. In addition, certain legislation, such as the *Corporations Act 2001*,[#] requires a formal statement as to the solvency of the entity to be made by those charged with governance and included as part of the financial report upon which the auditor's opinion is expressed.
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 a financial report as discussed in paragraph 2 of this Auditing Standard, the preparation of the financial report 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 judgement, at a particular point in time, about inherently uncertain future outcomes of events or conditions. The following factors are relevant to that judgement:

¹ [Footnote deleted by the AUASB. Refer Aus 3.1]

* See AASB 101 *Presentation of Financial Statements*.

See, for example, section 295(4) of the *Corporations Act 2001*.

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- 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 judgement regarding the outcome of events or conditions.
- Any judgement about the future is based on information available at the time at which the judgement is made. Subsequent events may result in outcomes that are inconsistent with judgements 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 report 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 report 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 ASA 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. [Deleted by the AUASB. Refer Aus 0.3]

² See ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*.

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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 report;
 - (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 ASA 315³ 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 enquire 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.

³ See ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraph 5.

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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)
13. [Deleted by the AUASB. Refer Aus 13.1⁴]

Aus 13.1 In evaluating management's assessment of the entity's ability to continue as a going concern, the auditor shall consider the relevant period, which may be the same or may differ from that used by management to make its assessment as required by the applicable financial reporting framework. If management's assessment of the entity's ability to continue as a going concern covers less than the relevant period, the auditor shall request management to correspond to the relevant period used by the auditor. (Ref: Para. A10-A12)

Aus 13.2 Relevant period means the period of approximately 12 months from the date of the auditor's current report to the expected date of the auditor's report for:

- (a) the next annual reporting period in the case of an annual financial report; or
- (b) the corresponding reporting period for the following year in the case of an interim reporting period.

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 enquire 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)

⁴ [Footnote deleted by the AUASB. Refer Aus 13.1 and Aus 13.2]

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
 - (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.

Aus 16.1 If such events or conditions are identified, the auditor shall consider whether they affect the auditor's assessment of the risks of material misstatement in accordance with ASA 315.*

* See ASA 315, paragraph 31.

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Audit Conclusions and Reporting

17. Based on the audit evidence obtained, the auditor shall conclude whether, in the auditor's judgement, 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 judgement, appropriate disclosure of the nature and implications of the uncertainty is necessary for:
(Ref: Para. A19-Aus A19.1)
- (a) In the case of a fair presentation financial reporting framework, the fair presentation of the financial report, or
 - (b) In the case of a compliance framework, the financial report 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 report:
- (a) Adequately describes 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) Discloses 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 realise its assets and discharge its liabilities in the normal course of business.
(Ref: Para. A20)
19. If adequate disclosure is made in the financial report, 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

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- (b) Draw attention to the note in the financial report that discloses the matters set out in paragraph 18 of this Auditing Standard.⁵ (Ref: Para. A21-A22)
20. If adequate disclosure is not made in the financial report, the auditor shall express a qualified opinion or adverse opinion, as appropriate in accordance with ASA 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-Aus A24.2)

Use of Going Concern Assumption Inappropriate

21. If the financial report has been prepared on a going concern basis but, in the auditor's judgement, management's use of the going concern assumption in the financial report 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-Aus A27.2)

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 report;

⁵ See ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*.

⁶ See ASA 705 *Modifications to the Opinion in the Independent Auditor's Report*, paragraphs 7-8.

⁷ See ASA 260 *Communication with Those Charged with Governance*, paragraph 13.

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

Aus 23.1 Whether management is unwilling to make or
extend its assessment as described in paragraph 22
of this Auditing Standard.

Significant Delay in the Approval of the Financial Report

24. If there is significant delay in the approval of the financial report by management or those charged with governance after the date of the financial report, the auditor shall enquire 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 of this Auditing Standard, as well as consider the effect on the auditor's conclusion regarding the existence of a material uncertainty, as described in paragraph 17 of this Auditing Standard.

* * *

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.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 privatisation. 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.
- Negative operating cash flows indicated by historical or prospective financial report.
- Adverse key financial ratios.

⁸ [Footnote deleted by the AUASB as not applicable in Australia.]

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- 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).
- Labour 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.

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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. ASA 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

⁹ See ASA 315, paragraph 31.

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procedures in response to the assessed risks. ASA 330¹⁰ 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 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 report 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. Aus 13.1-Aus 13.2)

- 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

¹⁰ See ASA 330 *The Auditor's Responses to Assessed Risks*.

¹¹ See AASB 101, paragraphs 25 and 26.

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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 Auditing Standard, 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 Aus 13.1 for the auditor to request management to extend its assessment may, for example, be satisfied by discussion, enquiry 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 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 favour of banks or other creditors, or the owner manager supporting a loan for the entity by providing a guarantee with the owner-managers 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 report. Since the degree of uncertainty associated with the

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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. [Deleted by the AUASB. Refer Aus A14.1]

Aus A14.1 Other than enquiry 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 relevant period, which, as discussed in paragraph Aus 13.2, is approximately twelve months from the date of the auditor's report on the current financial report.

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:

- Analysing and discussing cash flow, profit and other relevant forecasts with management.
- Analysing and discussing the entity's latest available interim financial report.
- 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.
- Enquiring 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.

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- 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 enquiries 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)

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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 Australian Accounting Standards* 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 report. In some other financial reporting frameworks, the phrase “significant uncertainty” is used in similar circumstances.

Aus A19.1 Refer to [Aus] Appendix 1 for a diagrammatic illustration of the links between going concern considerations and the types of audit opinions.

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 report 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.

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 report which indicates that the entity incurred a net loss of ZZZ during the year ended 30 June 20X1 and, as of that date, the entity’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 entity’s ability to continue as a going concern and

* See AASB 101.

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therefore the entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

Aus A21.1 Refer to [Aus] Appendix 3 for an Illustrative Auditor's Report that contains an unqualified opinion with an Emphasis of Matter paragraph.

A22. In situations involving multiple material uncertainties that are significant to the financial report 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. ASA 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 19 September 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 realise its assets and discharge its liabilities in the normal course of business. The financial report does not fully disclose this fact.

Qualified Opinion

[Deleted by the AUASB. Refer Aus A23.1]

Qualified Opinion

Aus A23.1 In our opinion, except for the incomplete disclosure of the information referred to in the Basis for Qualified Opinion paragraph, the financial report of ABC Company Ltd. is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the company's financial position as at

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30 June 20X1 and of its performance for the year then ended; and

- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Aus A23.2 Refer to [Aus] Appendix 2 for an Illustrative Auditor's Report that contains a qualified opinion.

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 30 June 20X1. 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 it may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial report does not disclose this fact.

Adverse Opinion

[Deleted by the AUASB. Refer Aus A24.1]

Adverse Opinion

Aus A24.1 In our opinion, because of the omission of the information described in the Basis for Adverse Opinion paragraph, the financial report of ABC Company Ltd. is not in accordance with the *Corporations Act 2001*, and does not:

- (a) give a true and fair view of the financial position of the company as at 30 June 20X1, and of its performance for the year then ended; and
- (b) comply with Australian Accounting Standards and the *Corporations Regulations 2001*.

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Aus A24.2 Refer to [Aus] Appendix 2 for an Illustrative Auditor's Report that contains an adverse opinion.

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

- A25. If the financial report has been prepared on a going concern basis but, in the auditor's judgement, management's use of the going concern assumption in the financial report is inappropriate, the requirement of paragraph 21 for the auditor to express an adverse opinion applies regardless of whether or not the financial report includes 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 the financial report when the use of the going concern assumption is not appropriate in the circumstances, the financial report is prepared on an alternative basis (for example, liquidation basis). The auditor may be able to perform an audit of that financial report 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 that financial report, 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 report, such as audit evidence regarding the existence of plans management has put in place or the existence of other mitigating factors.
- Aus A27.1 Refer to [Aus] Appendix 2 for an Illustrative Auditor's Report that contains a disclaimer of opinion.

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Other Considerations (Ref: Para. 22)

Aus A27.2 An auditor is required under the *Corporations Act 2001** (the Act) to notify the Australian Securities and Investments Commission (ASIC) if the auditor, when conducting an audit, becomes aware of certain circumstances specified in the Act. ASIC# provides guidance to help auditors comply with their obligations under the *Corporations Act 2001*, such as reporting suspected insolvent trading.

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* See section 311 of the *Corporations Act 2001*.

See, for example, ASIC Regulatory Guide 34 *Auditors' obligations: reporting to ASIC* (December 2007).

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Conformity with International Standards on Auditing

This Auditing Standard conforms with International Standard on Auditing ISA 570 *Going Concern* issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

Paragraphs that have been added to this Auditing Standard (and do not appear in the text of the equivalent ISA) are identified with the prefix “Aus”.

The following requirements are additional to ISA 570:

- If such events or conditions are identified, the auditor shall consider whether they affect the auditor’s assessment of the risks of material misstatement in accordance with ASA 315. (Ref: Para. Aus 16.1)
- Whether management is unwilling to make or extend its assessment as described in paragraph 22 of this Auditing Standard. (Ref: Para. Aus 23.1)

This Auditing Standard requires the auditor to assess the appropriateness of the going concern assumption for the relevant period, which is approximately 12 months from the date of the auditor’s current report to the expected date of the auditor’s report for the next reporting period. However, ISA 570 requires the auditor to consider the appropriateness of the going concern assumption for a period of at least, but not limited to, twelve months from the balance sheet date. (Ref: Para. Aus 13.1-13.2)

The following application and other explanatory material is additional to ISA 570:

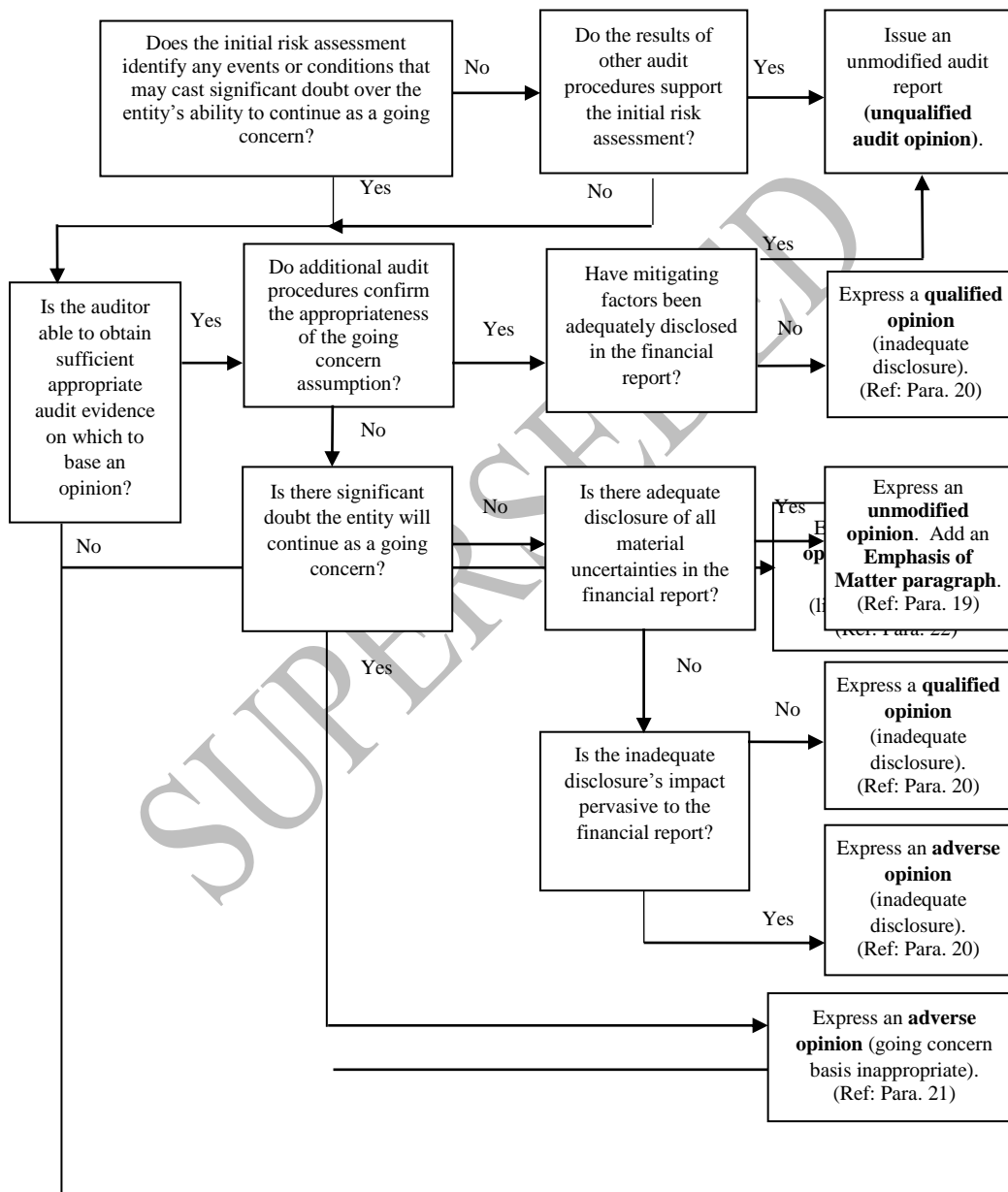
- Appendix 1 contains an explanatory diagram mapping going concern considerations and types of audit opinions.
- Appendix 2 contains illustrations of auditors’ reports modified due to going concern considerations.
- Appendix 3 contains an illustration of an auditor’s report with an Emphasis of Matter paragraph due to material uncertainties on the going concern basis.

Compliance with this Auditing Standard enables compliance with ISA 570.

[Aus] Appendix 1

(Ref: Para. Aus A19.1)

Linking Going Concern Considerations and Types of Audit Opinions



[Aus] Appendix 2

(Ref: Para. A23-Aus A27.1)

**Illustrations of Auditors' Reports on a General Purpose
Financial Report—Modified Opinions due to Going Concern
Considerations (Fair Presentation Framework)**

- [Aus] Illustration 1: An auditor's report on a financial report containing a qualified opinion due to inadequate disclosure of a material uncertainty in the financial report (under the *Corporations Act 2001*). (Ref: Para. A23-Aus A23.2)
- [Aus] Illustration 2: An auditor's report on a financial report containing an adverse opinion due to inadequate disclosure of a material uncertainty in the financial report. (under the *Corporations Act 2001*). (Ref: Para. A24-Aus A24.2)
- [Aus] Illustration 3: An auditor's report on a financial report containing a disclaimer of opinion due to a limitation of scope on the auditor (under the *Corporations Act 2001*). (Ref: Para. A27-Aus A27.1)

See ASA 700* for applicable wording in the auditor's report when the company makes a statement on compliance with *International Financial Reporting Standards* (IFRSs) and/or includes a Remuneration Report in the Directors' Report.

* See ASA 700 *Forming an Opinion and Reporting on a Financial Report*.

**Example Auditor's Report
General Purpose Financial Report
Qualified Opinion due to inadequate disclosures
Corporations Act 2001
(Fair Presentation Framework)**

[Aus] Illustration 1:

Circumstances include the following:

- **Audit of a single company's financial report.**
- **The financial report has been prepared under the *Corporations Act 2001*.**
- **The terms of the audit engagement reflect the description of management's responsibility for the financial report in ASA 210.**
- **There is a material uncertainty which has not been adequately disclosed in the financial report. It relates to the company's ability to re-negotiate, or obtain replacement financing facilities for its existing facilities.**

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

We have audited the accompanying financial report of ABC Company Ltd., which comprises the statement of financial position as at 30 June 20X1, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards, and the *Corporations Act 2001*, and for such internal control as the directors determine is necessary to enable the preparation of a financial report that is free from material misstatement, whether due to fraud or error.

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Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of ABC Company Ltd., would be in the same terms if given to the directors as at the time of the auditor's report.*

Basis for Qualified Opinion

ABC Company Ltd.'s financing arrangements expire within the next financial year. 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

* Or, alternatively, include statements (a) to the effect that circumstances have changed since the declaration was given to the relevant directors; and (b) setting out how the declaration would differ if it had been given to the relevant directors at the time the auditor's report was made.

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realise its assets and discharge its liabilities in the normal course of business. The financial report does 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 report of ABC Company Ltd. is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the company's financial position as at 30 June 20X1 and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature]*

[Date of the auditor's report]#

[Auditor's address]

* The auditor's report needs to be signed in one or more of the following ways: name of the audit firm, the name of the audit company or the personal name of the auditor as appropriate.

The date of the auditor's report is the date the auditor signs the report.

Example Auditor's Report
General Purpose Financial Report
Adverse Opinion due to inadequate disclosures
Corporations Act 2001
(Fair Presentation Framework)

[Aus] Illustration 2:

- **Audit of a single company financial.**
- **The financial report has been prepared under the *Corporations Act 2001*.**
- **The terms of the audit engagement reflect the description of management's responsibility for the financial report in ASA 210.**
- **The company is unable to negotiate or obtain replacement financing arrangements and is considering bankruptcy, which has not been adequately disclosed in the financial report.**

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

We have audited the accompanying financial report of ABC Company Ltd., which comprises the statement of financial position as at 30 June 20X1, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards, and the *Corporations Act 2001*, and for such internal control as the directors determine is necessary to enable the preparation of a financial report that is free from material misstatement, whether due to fraud or error.

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Going Concern

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our adverse audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of ABC Company Ltd., would be in the same terms if given to the directors as at the time of the auditor's report.*

Basis for Adverse Opinion

The company's financing arrangements expired and the amount outstanding was payable on 30 June 20X1. 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, it may

* Or, alternatively, include statements (a) to the effect that circumstances have changed since the declaration was given to the relevant directors; and (b) setting out how the declaration would differ if it had been given to the relevant directors at the time the auditor's report was made.

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be unable to realise its assets and discharge its liabilities in the normal course of business. The financial report does not disclose this fact.

Adverse Opinion

In our opinion, because of the omission of the information described in the Basis for Adverse Opinion paragraph, the financial report of ABC Company Ltd. is not in accordance with the *Corporations Act 2001*, and does not:

- (a) give a true and fair view of the financial position of the company as at 30 June 20X1, and of its performance for the year then ended; and
- (b) comply with Australian Accounting Standards and the *Corporations Regulations 2001*.

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature]*

[Date of the auditor's report]#

[Auditor's address]

* The auditor's report needs to be signed in one or more of the following ways: name of the audit firm, the name of the audit company or the personal name of the auditor as appropriate.

The date of the auditor's report is the date the auditor signs the report.

**Example Auditor's Report
General Purpose Financial Report
Disclaimer of Opinion (due to limitation of scope)
Corporations Act 2001
(Fair Presentation Framework)**

[Aus] Illustration 3:

- **Audit of a single company financial report.**
- **The financial report has been prepared under the *Corporations Act 2001*.**
- **The terms of the audit engagement reflect the description of management's responsibility for the financial report in ASA 210.**
- **The auditor is unable to obtain sufficient appropriate audit evidence about the company's ability to continue as a going concern as the directors have refused to extend their going concern assessment up to the relevant period.**

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

We have audited the accompanying financial report of ABC Company Ltd., which comprises the statement of financial position as at 30 June 20X1, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors are responsible for the preparation of the financial report in accordance with Australian Accounting Standards, and for such internal control as the directors determine is necessary to enable the preparation of a financial report that is free from material misstatement, whether due to fraud or error.

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Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on conducting the audit in accordance with Australian Auditing Standards. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of ABC Company Ltd., would be in the same terms if given to the directors as at the time of the auditor's report.*

Basis for Disclaimer of Opinion

The company's financing arrangements expired and the amount outstanding was payable on 30 June 20X1. The company has been unable to re-negotiate or obtain replacement financing. The directors have refused to extend their assessment of the company's ability to continue as a going concern beyond 30 September 20X1 given the uncertainty of obtaining suitable replacement financing. We have been unable to obtain alternative evidence which would provide sufficient appropriate audit evidence as to whether the company may be able to obtain such financing, and hence remove significant doubt of its ability to continue as a going concern within 12 months of the date of this auditor's report.

Disclaimer of Opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial report.

* Or, alternatively, include statements (a) to the effect that circumstances have changed since the declaration was given to the relevant directors; and (b) setting out how the declaration would differ if it had been given to the relevant directors at the time the auditor's report was made.

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Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature]*

[Date of the auditor's report]#

[Auditor's address]

SUPERSEDED

* The auditor's report needs to be signed in one or more of the following ways: name of the audit firm, the name of the audit company or the personal name of the auditor as appropriate.

The date of the auditor's report is the date the auditor signs the report.

[Aus] Appendix 3

(Ref: Para. A21-A22)

**Illustration of an Auditor's Report on a General Purpose
Financial Report—Emphasis of Matter Paragraph due to a
Material Uncertainty regarding Going Concern**

- [Aus] Illustration 1: An auditor's report on a financial report containing an Emphasis of Matter paragraph due to a material uncertainty in the financial report (prepared under the *Corporations Act 2001*).

See ASA 700* for applicable wording in the auditor's report when the company makes a statement on compliance with *International Financial Reporting Standards* (IFRSs) and/or includes a Remuneration Report in the Directors' Report.

* See ASA 700 *Forming an Opinion and Reporting on a Financial Report*.

Example Auditor's Report
General Purpose Financial Report
Unmodified Opinion, Emphasis of Matter paragraph
Corporations Act 2001
(Fair Presentation Framework)

[Aus] Illustration 1:

- **Audit of a single company financial report.**
- **The financial report is prepared under the *Corporations Act 2001*.**
- **The terms of the audit engagement reflect the description of management's responsibility for the financial report in ASA 210.**
- **There is uncertainty resulting from a net loss for the year and net liabilities exceeding net assets.**

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

We have audited the accompanying financial report of ABC Company Ltd., which comprises the statement of financial position as at 30 June 20X1, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors are responsible for the preparation of the financial report in accordance with Australian Accounting Standards, and for such internal control as the directors determine is necessary to enable the preparation of a financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing

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Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of ABC Company Ltd., would be in the same terms if given to the directors as at the time of this auditor's report.*

Opinion

In our opinion the financial report of ABC Company Ltd. is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the company's financial position as at 30 June 20X1 and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

* Or, alternatively, include statements (a) to the effect that circumstances have changed since the declaration was given to the relevant directors; and (b) setting out how the declaration would differ if it had been given to the relevant directors at the time the auditor's report was made.

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Emphasis of Matter

Without qualifying our opinion, we draw attention to Note X in the financial report, which indicates that the company incurred a net loss of ZZZ during the year ended 30 June 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 and therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business.

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature]*

[Date of the auditor's report]#

[Auditor's address]

* The auditor's report needs to be signed in one or more of the following ways: name of the audit firm, the name of the audit company or the personal name of the auditor as appropriate.

The date of the auditor's report is the date the auditor signs the report.