ASA 570
(April 2006)

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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Auditing and Assurance Standards Board
Level 4
530 Collins Street
Melbourne Victoria 3000
AUSTRALIA

Phone: (03) 8080 7400
Fax: (03) 8080 7450
E-mail: enquiries@auasb.gov.au

Postal Address:
PO Box 204
Collins Street West
Melbourne Victoria 8007
AUSTRALIA

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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* due to the requirements of the legislative provisions explained below.

The *Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004* (the CLERP 9 Act) established the AUASB as an independent statutory body under section 227A of the *Australian Securities and Investments Commission Act 2001*, as from 1 July 2004. 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*.

Main Features

This Auditing Standard establishes mandatory requirements and provides explanatory guidance to auditors in fulfilling their responsibilities regarding the appropriateness of management using the going concern basis in the preparation of a financial report. This Auditing Standard:

(a) requires the auditor, as part of planning, to consider the risk of events occurring or conditions existing that may cast doubt on the entity to continue as a going concern;

(b) establishes mandatory requirements and provides explanatory guidance to the auditor to evaluate management's assessment of the entity's ability to continue as a going concern;

(c) requires the auditor to conduct further audit procedures upon identification of events or conditions that may cast doubt on the entity's ability to continue as a going concern;

(d) establishes mandatory requirements and provides explanatory guidance to auditors on material uncertainty and audit reporting considerations in relation to going concern;

(e) requires the auditor to communicate with those charged with governance or management the impact of going concern considerations in the auditor's report; and

(f) provides illustrations of auditor's reports modified regarding the going concern basis.

Operative Date

This Auditing Standard is operative for financial reporting periods commencing on or after 1 July 2006.

Main changes from AUS 708 (July 2002) *Going Concern*

The main differences between this Auditing Standard and the Auditing Standard issued by the Auditing & Assurance Standards Board of the Australian Accounting Research Foundation, AUS 708 (July 2002) *Going Concern*, are that in this Auditing Standard:

1. The word 'shall', in the **bold-type** paragraphs, is the terminology used to describe an auditor's mandatory requirements, whereas an auditor's degree of responsibility is described in AUS 708 by the word 'should'.

2. The explanatory paragraphs provide guidance and illustrative examples to assist the auditor in fulfilling the mandatory requirements, whereas in AUS 708 some obligations are implied within certain explanatory paragraphs. Accordingly, such paragraphs have been redrafted to clarify that the matter forms part of the explanatory guidance.

3. Consistent with the definition of 'going concern basis' adopted by the Accounting Standard AASB 101 *Presentation of Financial Statements*, the mandatory requirement on the auditor's responsibility to consider the appropriateness of the going concern basis has been revised as follows:

   (a) if, in the auditor's judgement, the entity will not be able to continue as a going concern, the auditor shall express an adverse opinion if the financial report had been prepared on a going concern basis (paragraph 43); and

4. The following additional specific mandatory requirements are included:

   (a) if management is unwilling to make or extend its assessment when requested to do so by the auditor, the auditor shall consider the need to modify the auditor's report as a result of the limitation on the scope of the auditor's work (paragraph 46); and

(b) the auditor shall communicate with those charged with governance or management, as soon as practicable, the impact on the auditor's report where:

   (i) there is a material uncertainty as described at paragraphs 39 and 41;

   (ii) the going concern assumption is inappropriate as described at paragraph 43; and

   (iii) management is unwilling to make or extend its assessment as required by paragraph 46 (paragraph 50).

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) makes Auditing Standard ASA 570 *Going Concern* as set out in paragraphs 1 to 53 and Appendices 1 to 3, 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 the *Preamble to AUASB Standards*, which sets out the intentions of the AUASB on how the Auditing Standards are to be understood, interpreted and applied.

The mandatory requirements of this Auditing Standard are set out in **bold-type** paragraphs.

Dated 28 April 2006

M H Kelsall
Chairman - AUASB

AUDITING STANDARD ASA 570

Going Concern

Application

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 Part 2M.3 of the *Corporations Act 2001*; and**
>
> **(b) an audit of a financial report for any other purpose.**

2 This Auditing Standard also applies, as appropriate, to an audit of other financial information.

Operative Date

3 This Auditing Standard is operative for financial reporting periods commencing on or after 1 July 2006.

Introduction

4 The purpose of this Auditing Standard is to establish mandatory requirements and to provide explanatory guidance on the auditor's responsibility in the audit of a financial report with respect to the going concern assumption used in the preparation of the financial report, including considering management's assessment of the entity's ability to continue as a going concern.

5 When planning and performing audit procedures and in evaluating the results thereof, the auditor shall consider the appropriateness of management's use of the going concern assumption in the preparation of the financial report.

Definitions

6 "Going concern basis" means the accounting basis whereby in the preparation of the financial report the reporting entity is viewed as a going concern, that is, the entity is expected to:

> (a) be able to pay its debts as and when they fall due; and

(b) continue in operation without any intention or necessity to liquidate or otherwise wind up its operations.

7 "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.

Management's Responsibility

8 The going concern assumption is a fundamental principle in the preparation of the financial report. Under the going concern assumption, an entity is ordinarily viewed as continuing in business for the foreseeable future with neither the intention nor the necessity of liquidation, ceasing trading or seeking protection from creditors pursuant to laws or regulations. Accordingly, 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.

9 Some financial reporting frameworks contain an explicit requirement[1] 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, Accounting Standard AASB 101 *Presentation of Financial Statements*, requires management to make an assessment of an enterprise's ability to continue as a going concern.[2] In addition, certain legislation, for example the *Corporations Act 2001*, requires a formal statement as to the solvency of the entity to be made by members of the governing body and included as part of the financial report upon which the auditor's opinion is expressed.

[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 be set out in accounting standards, legislation or regulation.

[2] Accounting Standard AASB 101 (para 23.) states: "When preparing financial reports, management shall make an assessment of an entity's ability to continue as a going concern. Financial reports shall be prepared on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, those uncertainties shall be disclosed. When the financial report is not prepared on a going concern basis, that fact shall be disclosed, together with the basis on which the financial report is prepared and the reason why the entity is not regarded as a going concern".

10 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 the financial report, management has a responsibility to assess the entity's ability to continue as a going concern even if the financial reporting framework does not include an explicit responsibility to do so.

11 When there is a history of profitable operations and a ready access to financial resources, management may make its assessment without detailed analysis.

12 Management's assessment of the going concern assumption involves making a judgement, at a particular point in time, about the future outcome of events or conditions which are inherently uncertain. The following factors are relevant:

- In general terms, the degree of uncertainty associated with the outcome of an event or condition increases significantly the further into the future a judgement is being made about the outcome of an event or condition. 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.
- Any judgement about the future is based on information available at the time at which the judgement is made. Subsequent events can contradict a judgement which was reasonable at the time it was made.
- 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 all affect the judgement regarding the outcome of events or conditions.

13 Examples of events or conditions, which may give rise to business risks, that individually or collectively may cast significant doubt about the going concern assumption are set out below. This listing is not all-inclusive nor does the existence of one or more of the items always signify that a material uncertainty[3] exists.

[3] The phrase "material uncertainty" is used in AASB 101 in discussing the uncertainties related to events or conditions which may cast significant doubt on the enterprise's ability to continue as a going concern that should be disclosed in the financial report. In other financial reporting

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 debtors and other creditors.
- Negative operating cash flows indicated by historical or prospective financial reports.
- 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

- Loss of key management without replacement.
- Loss of a major market, franchise, license, or principal supplier.
- Labour difficulties or shortages of important supplies.
- Lack of strategic direction including appropriately documented policies, plans and forecasts such as forward budgets and cash flow projections.

frameworks, and elsewhere in the Auditing Standards, the phrase "significant uncertainties" is used in similar circumstances.

- Deficiencies in the governing body, for example lack of independent members, low level of involvement in key decisions, poor documentation and communication of decisions, imbalance or lack of expertise amongst members.

- Concentration of risk in a limited number of products or projects.

- Prolonged industrial relations difficulties.

- Deficiencies in management information systems, including blockages in information flows, or lack of management action in response to information received.

- Rapid or unplanned development of business (particularly in non-core activities) without commensurate developments in information systems, management expertise, financing structures, pricing policies, etc.

- Uninsured or underinsured disasters such as drought, flood, fire, fraud or sabotage.

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 are unlikely to be satisfied.

- Changes in legislation or government policy expected to adversely affect the entity.

- Undue influence of a market dominant competitor.

- Technical developments which render a key product obsolete.

- Failure of other entities in the same industry.

- Lack of adequate back-up and recovery capabilities for key financial or other information systems.

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 disposal of assets, rescheduling of 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. Appendix 2 contains additional examples of mitigating factors.

Auditor's Responsibility

14 In respect of going concern the auditor's responsibility is as follows:

(a) under paragraph 5 of this Auditing Standard, the auditor needs to consider the appropriateness of management's use of the going concern assumption in the preparation of the financial report;

(b) under paragraph 39 of this Auditing Standard, the auditor needs to consider whether there are material uncertainties about the entity's ability to continue as a going concern that need to be disclosed in the financial report; and

(c) under paragraph 5 of this Auditing Standard, the auditor needs to consider the appropriateness of management's use of the going concern assumption 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.

15 The auditor cannot predict future events or conditions that may cause an entity to cease to continue as a going concern. 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.

Planning the Audit and Performing Risk Assessment Procedures

16 **In obtaining an understanding of the entity, the auditor shall consider whether there are events or conditions and related business risks which may cast significant doubt on the entity's ability to continue as a going concern.**

17 **The auditor shall remain alert for audit evidence of events or conditions and related business risks, which may cast significant doubt on the entity's ability to continue as a going concern, in performing audit procedures throughout the audit. If such events or conditions are identified, the auditor shall, in addition to performing the procedures in paragraph 31, consider whether they affect the auditor's assessment of the risks of material misstatement.**

18 Under paragraph 16 of this Auditing Standard, the auditor needs to consider events and conditions relating to the going concern assumption when performing risk assessment procedures, because this allows for more timely discussions with management, review of management's plans and resolution of any identified going concern issues.

19 In some cases, management may have already made a preliminary assessment when the auditor is performing risk assessment procedures. If so, under ASA 315 *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, the auditor needs to review that assessment to determine whether management has identified events or conditions, such as those discussed in paragraph 13 of this Auditing Standard, and management's plans to address them.

20 If management has not yet made a preliminary assessment, the auditor ordinarily discusses with management the basis for their intended use of the going concern assumption, and enquires of management whether events or conditions, such as those discussed in paragraph 13, exist. The auditor may request management to begin making its assessment, particularly when the auditor has already identified events or conditions relating to the going concern assumption.

21 Under paragraph 17 of this Auditing Standard, the auditor needs to consider the effect of identified events or conditions when assessing the risks of material misstatement and, therefore, their existence may

affect the nature, timing and extent of the auditor's further procedures in response to the assessed risks.

Evaluating Management's Assessment

22 **The auditor shall evaluate management's assessment of the entity's ability to continue as a going concern.**

23 **The auditor shall consider the relevant period, as defined in this Auditing Standard. This period may be the same or may differ from the period used by management in making its assessment under 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 used by the auditor, the auditor shall ask management to extend its assessment period to correspond to the relevant period used by the auditor.**

24 Management's assessment of the entity's ability to continue as a going concern is a key part of the auditor's consideration of the going concern assumption. As noted in paragraph 12, most financial reporting frameworks requiring an explicit management assessment specify the period for which management is required to take into account all available information.

25 In evaluating management's assessment, the auditor ordinarily considers:

- The process management followed to make its assessment, the assumptions on which the assessment is based and management's plans for future action.
- Whether the assessment has taken into account all relevant information of which the auditor is aware as a result of the audit procedures.

26 As noted in paragraph 11, when there is a history of profitable operations and a ready access to financial resources, management may make its assessment without detailed analysis. In such circumstances, the auditor's conclusion about the appropriateness of this assessment normally is also made without the need for performing detailed procedures. When events or conditions have been identified which may cast significant doubt about the entity's ability to continue as a going concern, under paragraph 31 of this Auditing Standard, the auditor needs to perform additional audit procedures.

Period Beyond Management's Assessment

27 The auditor shall enquire of management as to its knowledge of events or conditions and related business risks beyond the period of assessment used by management that may cast significant doubt on the entity's ability to continue as a going concern.

28 Ordinarily, the auditor is to be 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. The auditor may become aware of such known events or conditions during the planning and performance of the audit, including subsequent events procedures.

29 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 such events or conditions, the indications of going concern issues will need to be significant before the auditor ordinarily considers taking further action. The auditor may need to ask management to determine the potential significance of the event or condition on their going concern assessment.

30 The auditor does not have a responsibility to design audit procedures other than enquiry of management to test for indications of events or conditions which 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 23, would be at least the relevant period.

Further Audit Procedures when Events or Conditions are Identified

31 When events or conditions have been identified which may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall:

(a) review management's plans for future actions based on its going concern assessment;

(b) gather sufficient appropriate audit evidence to confirm or dispel whether or not a material uncertainty exists through carrying out audit procedures considered

necessary, including considering the effect of any plans of management and other mitigating factors; and

(c) endeavour to obtain written representations from management regarding its plans for future action.

32 Events or conditions which may cast significant doubt on the entity's ability to continue as a going concern may be identified in performing risk assessment procedures or in the course of performing further audit procedures. The process of considering events or conditions continues as the audit progresses. When the auditor believes such events or conditions may cast significant doubt on the entity's ability to continue as a going concern, the auditor ordinarily:

- Enquires of management as to its plans for future action, including its plans to liquidate assets, borrow money or restructure debt, reduce or delay expenditures, or increase capital.
- Considers whether any additional facts or information is available since the date on which management made its assessment.
- Obtains sufficient appropriate audit evidence that management's plans are feasible and that the outcome of these plans will improve the situation.

33 Audit procedures that are relevant in this regard 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.
- Reviewing 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 lawyer 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.
- Considering the entity's plans to deal with unfilled customer orders.
- Reviewing events after period end to identify those that either mitigate or otherwise affect the entity's ability to continue as a going concern.

34 When analysis of cash flow is a significant factor in considering the future outcome of events or conditions, ordinarily the auditor considers:

(a) the reliability of the entity's information system for generating such information; and

(b) whether there is adequate support for the assumptions underlying the forecast.

In addition the auditor ordinarily compares the:

(a) prospective financial information for recent prior periods with historical results; and

(b) prospective financial information for the current period with results achieved to date.

Audit Conclusions and Reporting

Going Concern Basis Considered Appropriate

35 When there are no other matters requiring modification to the auditor's report and the auditor is satisfied that it is appropriate, based on all reasonably foreseeable circumstances facing the entity, for management to prepare the financial report on the going concern basis, the auditor shall issue an unmodified auditor's report in accordance with ASA 700 *The Auditor's Report on a General Purpose Financial Report*.

36 When consideration of mitigating factors, in particular management's plans, have had a significant effect upon the

auditor in forming the opinion that the going concern basis is appropriate, the auditor shall specifically consider the adequacy of the disclosure of the following matters in the financial report:

(a) the principal conditions which caused the auditor to question the going concern basis, including as appropriate, management's evaluation of their significance and possible effects; and

(b) management's plans and other mitigating factors, including as appropriate, relevant prospective financial information.

If the disclosures considered necessary by the auditor are not made, the auditor shall express a qualified opinion on the basis of the lack of disclosure in accordance with ASA 701 *Modifications to the Auditor's Report*.

Material Uncertainty

37 Based on the audit evidence obtained, the auditor shall determine if, in the auditor's judgement, a material uncertainty exists related to events or conditions that alone or in aggregate, may cast significant doubt on the entity's ability to continue as a going concern.

38 A material uncertainty exists when the magnitude of its potential impact is such that, in the auditor's judgement, clear disclosure of the nature and implications of the uncertainty is necessary for the presentation of the financial report not to be misleading.

Going Concern Assumption Appropriate but a Material Uncertainty Exists

39 When this uncertainty is adequately disclosed in the financial report, the auditor's report shall include an emphasis of matter section in accordance with ASA 701. An emphasis of matter section regarding a going concern uncertainty shall:

(a) state clearly that there is significant uncertainty whether the entity will continue as a going concern and, therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report; and

(b) adequately describe, or refer to a note to the financial report that adequately describes:

(i) the principal conditions that raise doubt about the entity's ability to continue as a going concern; and

(ii) the extent to which the financial report includes appropriate adjustments, if any, relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary if the entity does not continue as a going concern.

40 In evaluating the adequacy of the financial report disclosure, under paragraph 39 of this Auditing Standard, the auditor needs to consider 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. An illustration of a modified auditor's report with such a paragraph when the auditor is satisfied as to the adequacy of the note disclosure is included as example 1 at Appendix 3. In extreme cases, such as situations involving multiple material uncertainties that are significant to the financial report, the auditor may consider it appropriate to express a disclaimer of opinion instead of adding an emphasis of matter paragraph.

41 If adequate disclosure is not made in the financial report, the auditor shall express a qualified or adverse opinion, as appropriate. The report shall include specific reference to the fact that there is a material uncertainty that may cast significant doubt about the entity's ability to continue as a going concern.

42 An illustration of a modified auditor's report with the relevant paragraphs when a qualified opinion is to be expressed is included as example 2 at Appendix 3. An illustration of a modified auditor's report with the relevant paragraphs when an adverse opinion is to be expressed is included as example 3 at Appendix 3.

Going Concern Assumption Inappropriate

43 If, in the auditor's judgement, the entity will not be able to continue as a going concern, the auditor shall express an adverse opinion if the financial report had been prepared on a going concern basis.

44 If, on the basis of the additional audit procedures carried out and the information obtained, including the effect of management's plans, the auditor's judgement is that the entity will not be able to continue

as a going concern, under paragraph 43 of this Auditing Standard, the auditor needs to conclude, regardless of whether or not disclosure has been made, that the going concern assumption used in the preparation of the financial report is inappropriate and express an adverse opinion.

45 When the entity's management has concluded that the going concern assumption used in the preparation of the financial report is not appropriate, the financial report needs to be prepared on an alternative authoritative basis. If on the basis of the additional audit procedures carried out and the information obtained the auditor determines the alternative basis is appropriate, ordinarily the auditor can issue an unqualified opinion if there is adequate disclosure but may require an emphasis of matter in the auditor's report to draw the user's attention to that basis.

Management Unwilling to Make or Extend Its Assessment

46 If management is unwilling to make or extend its assessment when requested to do so by the auditor, the auditor shall consider the need to modify the auditor's report as a result of the limitation on the scope of the auditor's work.

47 In certain circumstances, such as those described in paragraphs 20, 23 and 29, the auditor may believe that it is necessary to ask management to make or extend its assessment. If management is unwilling to do so, it is not the auditor's responsibility to rectify the lack of analysis by management, and a modified report may be appropriate because it may not be possible for the auditor to obtain sufficient appropriate evidence regarding the use of the going concern assumption in the preparation of the financial report.

48 In some circumstances, the lack of analysis by management may not preclude the auditor from being satisfied about the entity's ability to continue as a going concern. For example, the auditor's other procedures may be sufficient to assess the appropriateness of management's use of the going concern assumption in the preparation of the financial report because the entity has a history of profitable operations and a ready access to financial resources. In other circumstances, however, the auditor may not be able to confirm or dispel, in the absence of management's assessment, whether or not:

(a) events or conditions exist which indicate there may be a significant doubt on the entity's ability to continue as a going concern; or

(b) the existence of plans management has put in place to address them or other mitigating factors.

In these circumstances, under ASA 701, the auditor needs to modify the auditor's report.

Significant Delay in the Signature or Approval of the Financial Report

49 When there is significant delay in the signature or approval of the financial report by those charged with governance and management after the balance sheet date, the auditor ordinarily considers the reasons for the delay. When the delay could be related to events or conditions relating to the going concern assessment, under paragraph 31 of this Auditing Standard, the auditor needs to consider the need to perform additional audit procedures, as well as the effect on the auditor's conclusion regarding the existence of a material uncertainty, as described in paragraph 37.

Communicating with Those Charged With Governance and Management

50 The auditor shall communicate with those charged with governance or management, as soon as practical, the impact on the auditor's report where:

(a) there is a material uncertainty as described at paragraphs 39 and 41;

(b) the going concern assumption is inappropriate as described at paragraph 43; or

(c) management is unwilling to make or extend its assessment as described in paragraph 46.

51 See ASA 260 *Communication of Audit Matters with Those Charged With Governance* for additional mandatory requirements and explanatory guidance.

Other Considerations

52 An auditor is required by section 311 of the *Corporations Act 2001* to notify the Australian Securities and Investments Commission (ASIC) if the auditor is aware of certain circumstances. ASIC Practice Note 34 *Auditors' Obligations: Reporting to ASIC* provides

guidance to help auditors comply with their obligations under section 311 of the Act, such as reporting suspected insolvent trading.

Conformity with International Standards on Auditing

53 Except as noted below, this Auditing Standard conforms with International Standard on Auditing ISA 570 *Going Concern*, issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants. The main differences between this Auditing Standard and ISA 570 are:

- This Auditing Standard requires the auditor to assess the appropriateness of the going concern assumption for the relevant period, which is 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.
- The following paragraph is provided as guidance in ISA 570, whereas in this Auditing Standard it has been expanded and is a specific mandatory requirement:

  When this uncertainty is adequately disclosed in the financial report, the auditor's report shall include an emphasis of matter section in accordance with ASA 701. An emphasis of matter section regarding a going concern uncertainty shall:

  - ♦ state clearly that there is significant uncertainty whether the entity will continue as a going concern and, therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report; and
  - ♦ adequately describe, or refer to a note to the financial report that adequately describes:
    - ○ the principal conditions that raise doubt about the entity's ability to continue as a going concern; and
    - ○ the extent to which the financial report includes appropriate adjustments, if any, relating to the recoverability and

classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary if the entity does not continue as a going concern (paragraph 39).

- The following specific requirements in this Auditing Standard are not included in ISA 570:

  ♦ When the auditor is satisfied that it is appropriate, based on all reasonably foreseeable circumstances facing the entity and the applicable financial reporting framework, for management to prepare the financial report on the going concern basis, the auditor shall issue an unmodified auditor's report in accordance with ASA 700 *The Auditor's Report on a General Purpose Financial Report*. (paragraph 35).

  ♦ When consideration of mitigating factors, in particular management's plans, have had a significant effect upon the auditor in forming the opinion that the going concern basis is appropriate, the auditor shall specifically consider the adequacy of the disclosure in the financial report of matters such as:

    ○ the principal conditions which initially caused the auditor to question the going concern basis, including as appropriate, management's evaluation of their significance and possible effects; and

    ○ management's plans and other mitigating factors, including as appropriate, relevant prospective financial information.

  If the disclosures considered necessary by the auditor are not made, the auditor shall express a qualified opinion on the basis of the lack of disclosure in accordance with ASA 701 *Modifications to the Auditor's Report* (paragraph 36).

  ♦ The auditor shall communicate with those charged with governance or management, as soon as practical, the impact on the auditor's report where:

  - there is a material uncertainty as described at paragraphs 39 and 41;
  - the going concern assumption is inappropriate as described at paragraph 43; or
  - management is unwilling to extend its assessment as required by paragraph 46 (paragraph 50).

- This Auditing Standard makes reference to requirements under the *Corporations Act 2001* (paragraphs 9 and 52). ISA 570 does not make reference to any specific legislation.

- This Auditing Standard includes Appendices 1 and 2 which link going concern considerations with types of auditor's opinion and provides examples of mitigating factors. ISA 570 does not include these appendices.

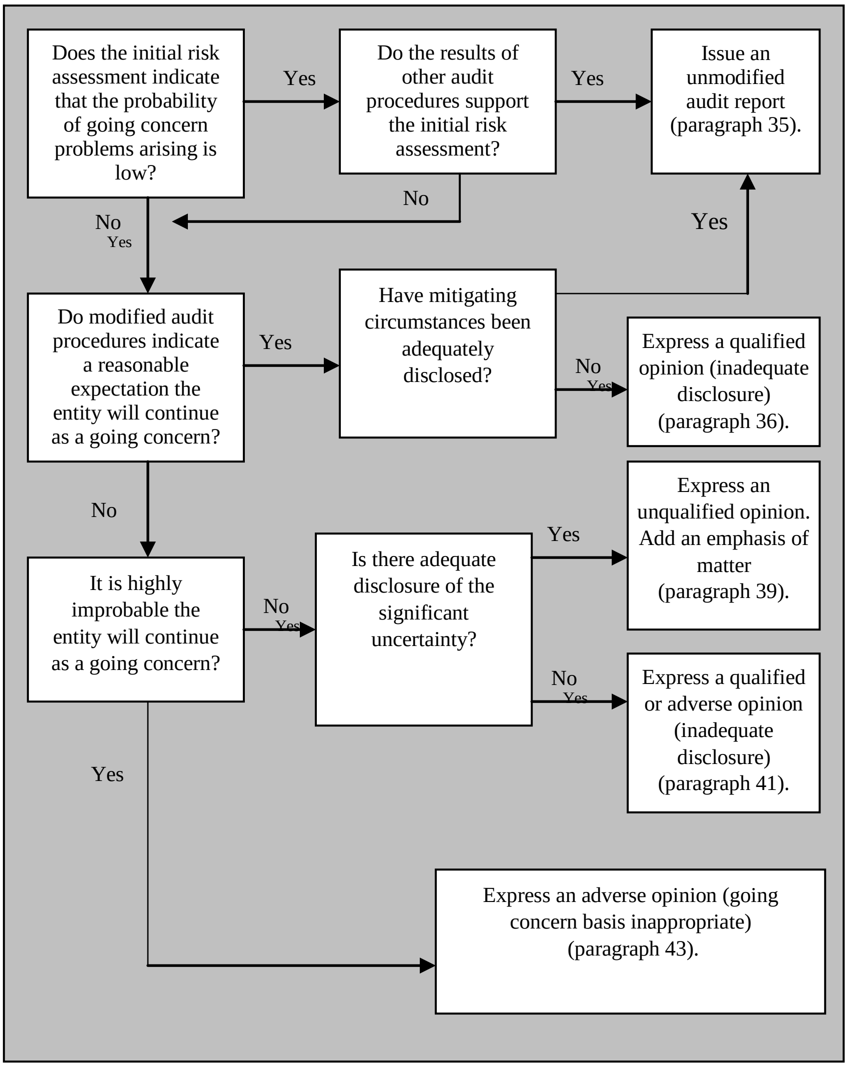
- This Auditing Standard provides *Examples of Auditor's Reports Modified Regarding the Going Concern Basis* at Appendix 3, whereas ISA 570 includes examples of modifications within corresponding paragraphs (paragraphs 40 and 42).

- ISA 570 includes a Public Sector Perspective section. This Auditing Standard does not include a separate section on the public sector as it is sector neutral.

Compliance with this Auditing Standard enables compliance with ISA 570.

APPENDIX 1

LINKING GOING CONCERN CONSIDERATIONS WITH TYPES OF AUDIT OPINIONS



APPENDIX 2

EXAMPLES OF MITIGATING FACTORS

The significance of those indications which are related to cash flow or solvency can often be mitigated by the existence of, and management plans with respect to, factors such as those listed below:

Asset factors

(a) disposability of assets that are not operationally interdependent;

(b) capability of delaying the replacement of assets consumed in operations or of leasing rather than purchasing certain assets; and

(c) possibility of using assets for factoring, sale and leaseback, or similar arrangements.

Debt factors

(a) availability of unused lines of credit or similar borrowing capacity;

(b) capability of renewing or extending the due dates of existing loans; and

(c) possibility of entering into debt restructuring agreements.

Cost factors

(a) separability of operations producing negative cash flows;

(b) capability of postponing expenditures for such matters as maintenance or research and development; and

(c) possibility of reducing overhead and administrative expenditures.

Equity factors

(a) variability of dividend requirements;

(b) capability of obtaining additional contributions by owners; and

(c) possibility of increasing cash distributions from subsidiaries or associates.

Similarly, the significance of those indications which are not directly related to cash flow or solvency may also be mitigated by other factors. For example, the impact of losing a principal supplier may be mitigated by the availability of a suitable alternative source of supply.

APPENDIX 3

EXAMPLES OF AUDITOR'S REPORTS MODIFIED REGARDING THE GOING CONCERN BASIS

EXAMPLE 1: MATERIAL UNCERTAINTY EXISTS AND IS ADEQUATELY DISCLOSED IN THE FINANCIAL REPORT

INDEPENDENT AUDITOR'S REPORT[4]

To the members of [name of entity]

Report on the Financial Report[5]

We have audited the accompanying financial report of [name of entity], which comprises the balance sheet as at 30 June 20XX, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.[6]

Directors' Responsibility for the Financial Report

The directors of the [company/registered scheme/disclosing entity] are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the

[4] See ASA 700 for the requirements for an auditor's report for audits conducted in accordance with the Auditing Standards and both the Auditing Standards and the *Corporations Act 2001*.

[5] The subheading 'Report on the Financial Report' is unnecessary in circumstances when the second subheading 'Report on Other Legal and Regulatory Requirements' is not applicable.

[6] As noted in ASA 700, when the auditor is aware that the financial report will be included in a document that contains other information, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the audited financial report is presented.

audit to obtain reasonable assurance 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 entity'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 entity's internal control.[7] 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 we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence[8]

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*, provided to the directors of [name of entity] on [date], would be in the same terms if provided to the directors as at the date of this auditor's report.[9]

Auditor's Opinion

In our opinion the financial report of [name of entity] is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the [company/registered scheme/disclosing entity]'s financial position as at 30 June 20XX and of its performance for the year ended on that date; and

7 In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial report, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances."

8 Refer ASIC Class Order 05/83 and the Summary of Audit Reporting Requirements of the *Corporations Act 2001* for details of when an independence paragraph is required in an auditor's report.

9 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.

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

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note X in the financial report which indicates that the [company/registered scheme/disclosing entity] incurred a net loss of ZZZ during the year ended 30 June 20XX and, as of that date, the [company/registered scheme/disclosing entity]'s current liabilities exceeded its total assets by ZZZ. These conditions, along with other matters as set forth in Note X, indicate the existence of a material uncertainty which may cast significant doubt about the [company/registered scheme/disclosing entity]'s ability to continue as a going concern.

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][10]

[Date of the auditor's report]

[Auditor's address]

[10] Under ASA 700, the auditor's report needs to be signed in one or more of the name of the audit firm, the name of the audit company or the personal name of the auditor as appropriate.

EXAMPLE 2: MATERIAL UNCERTAINTY EXISTS BUT IS NOT ADEQUATELY DISCLOSED IN THE FINANCIAL REPORT – QUALIFIED OPINION

INDEPENDENT AUDITOR'S REPORT[11]

To the members of [name of entity]

Report on the Financial Report[12]

We have audited the accompanying financial report of [name of entity], which comprises the balance sheet as at 30 June 20XX, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.[13]

Directors' Responsibility for the Financial Report

The directors of the [company/registered scheme/disclosing entity] are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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

[11] See ASA 700 for the requirements for an auditor's report for audits conducted in accordance with the Auditing Standards and both the Auditing Standards and the *Corporations Act 2001*.

[12] The subheading 'Report on the Financial Report' is unnecessary in circumstances when the second subheading 'Report on Other Legal and Regulatory Requirements' is not applicable.

[13] As noted in ASA 700, when the auditor is aware that the financial report will be included in a document that contains other information, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the audited financial report is presented.

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 entity'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 entity's internal control.[14] 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 we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence[15]

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*, provided to the directors of [name of entity] on [date], would be in the same terms if provided to the directors as at the date of this auditor's report.[16]

Basis for Qualified Auditor's Opinion

The [company/registered scheme/disclosing entity]'s financing arrangements expire and amounts outstanding are payable on 9 March 20X1. The [company/registered scheme/disclosing entity] has been unable to re-negotiate or obtain replacement financing. This situation indicates the existence of a material uncertainty which may cast significant doubt on the [company/registered scheme/disclosing entity]'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 (and notes thereto) does not disclose this fact.

[14] In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial report, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances."

[15] Refer ASIC Class Order 05/83 and the Summary of Audit Reporting Requirements of the *Corporations Act 2001* for details of when an independence paragraph is required in an auditor's report.

[16] 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.

Qualified Auditor's Opinion

In our opinion, except for the omission of the information included in the preceding paragraph, the financial report of [name of entity] is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the [company/registered scheme/disclosing entity]'s financial position as at 30 June 20XX and of its performance for the year ended on that date; and

(b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) 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][17]

[Date of the auditor's report]

[Auditor's address]

[17] Under ASA 700, the auditor's report needs to be signed in one or more of the name of the audit firm, the name of the audit company or the personal name of the auditor as appropriate.

EXAMPLE 3: MATERIAL UNCERTAINTY EXISTS BUT IS NOT ADEQUATELY DISCLOSED IN THE FINANCIAL REPORT – ADVERSE OPINION

INDEPENDENT AUDITOR'S REPORT[18]

To the members of [name of entity]

Report on the Financial Report*[19]*

We have audited the accompanying financial report of [name of entity], which comprises the balance sheet as at 30 June 20XX, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.[20]

Directors' Responsibility for the Financial Report

The directors of the [company/registered scheme/disclosing entity] are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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

[18] See ASA 700 for the requirements for an auditor's report for audits conducted in accordance with the Auditing Standards and both the Auditing Standards and the *Corporations Act 2001*.

[19] The subheading 'Report on the Financial Report' is unnecessary in circumstances when the second subheading 'Report on Other Legal and Regulatory Requirements' is not applicable.

[20] As noted in ASA 700, when the auditor is aware that the financial report will be included in a document that contains other information, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the audited financial report is presented.

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 entity'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 entity's internal control.[21] 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 we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence[22]

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*, provided to the directors of [name of entity] on [date], would be in the same terms if provided to the directors as at the date of this auditor's report.[23]

Basis for Qualified Auditor's Opinion

The [company/registered scheme/disclosing entity]'s financing arrangements expired and the amount outstanding was payable on 30 June 20XX. The [company/registered scheme/disclosing entity] has been unable to re-negotiate or obtain replacement financing and is considering filing for bankruptcy. These events indicate a material uncertainty which may cast significant doubt on the [company/registered scheme/disclosing entity]'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 (and notes thereto) does not disclose this fact.

[21] In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial report, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances."

[22] Refer ASIC Class Order 05/83 and Auditing Standard ASA 700 - Appendix 2 *Summary of Audit Reporting Requirements* of the *Corporations Act 2001*, for details of when an independence paragraph is required in an auditor's report.

[23] 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.

Qualified Auditor's Opinion

In our opinion, because of the omission of the information mentioned in the preceding paragraph, the financial report of [name of company/registered scheme/disclosing entity] is not in accordance with the *Corporations Act 2001*, and does not:

(a) give a true and fair view of the [company/registered scheme/disclosing entity]'s financial position as at 30 June 20XX and of its performance for the year ended on that date; and

(b) comply with Australian Accounting Standards(including the Australian Accounting Interpretations) 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][24]

[Date of the auditor's report]

[Auditor's address]

[24] Under ASA 700, the auditor's report needs to be signed in one or more of the name of the audit firm, the name of the audit company or the personal name of the auditor as appropriate.