

**ASA 570**  
(xxx 2015)

# **Auditing Standard ASA 570**

## ***Going Concern***

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

Draft

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## PREFACE

### **Reasons for Issuing ASA 570**

The 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 committee 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, inter alia, to develop auditing standards that have a clear public interest focus and are of the highest quality.

### **Main Features**

This Auditing Standard represents the Australian equivalent of revised ISA 570 *Going Concern* (January 2015) and will replace the current ASA 570 issued by the AUASB in October 2009 (as amended).

This Auditing Standard contains differences from the revised ISA 570, which have been made to accord with the Australian legislative environment and to maintain audit quality where the AUASB has considered there are compelling reasons to do so.

**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. This Auditing Standard 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: <TypeHere>

M H Kelsall  
Chairman - AUASB

## **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:

- Paragraph Aus 13.1 requires the auditor to assess the appropriateness of management’s going concern assumption for the relevant period.
- Paragraph Aus 13.2 defines the relevant period to be approximately twelve months from the date of the auditor’s current report to the expected date of the auditor’s report for the next reporting period.

ISA 570 requires the auditor to consider the appropriateness of management’s going concern for a period of at least twelve months from the date of the financial statements.

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

- [Aus] Appendix 1 contains an explanatory diagram mapping going concern considerations and types of audit opinions.
- Appendix 2 contains [Aus] Illustration 1A, [Aus] Illustration 2A, [Aus] Illustration 3A and [Aus] Illustration 4A example auditors’ reports that conform with the requirements of the *Corporations Act 2001*.

This Auditing Standard incorporates terminology and definitions used in Australia.

Compliance with this Auditing Standard enables compliance with ISA 570.

# AUDITING STANDARD ASA 570

## *Going Concern*

### **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 ending on or after 15 December 2016.

### **Introduction**

#### **Scope of this Auditing Standard**

1. This Auditing Standard deals with the auditor's responsibilities in the audit of financial report relating to going concern and the implications for the auditor's report. (Ref: Para. A1)

#### **Going Concern Basis of Accounting**

2. Under the going concern basis of accounting, the financial report is prepared on the assumption that the entity is a going concern and will continue its operations for the foreseeable future. General purpose financial reports are prepared using the going concern basis of accounting, unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so. Special purpose financial reports may or may not be prepared in accordance with a financial reporting framework for which the going concern basis of accounting is relevant (e.g., the going concern basis of accounting is not relevant for some financial reports prepared on a tax basis in particular jurisdictions). When the use of the going concern basis of accounting 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. A2)

#### **Responsibility for Assessment of the Entity's Ability to Continue as a Going Concern**

3. Some financial reporting frameworks contain an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern, and standards regarding matters to be considered and disclosures to be made in connection with going concern. For example, Australian Accounting Standard AASB 101 requires management to make an assessment of an entity's ability to continue as a going concern.<sup>1</sup> The detailed requirements regarding management's responsibility to assess the entity's ability to continue as a going concern and related financial statement disclosures may also be set out in law or regulation.

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<sup>1</sup> See Australian Accounting Standard AASB 101, *Presentation of Financial Statements*, paragraphs 25–26.

- 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, where the going concern basis of accounting 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:
    - 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 responsibilities are to obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial report, and to conclude, based on the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern. These responsibilities exist 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,<sup>2</sup> 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 a material uncertainty about the entity's ability to continue as a going concern 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]

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\* See AASB 101 *Presentation of Financial Statements*.

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

<sup>2</sup> See ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*, paragraphs A51–A52.



## Objectives

9. The objectives of the auditor are:
- (a) To obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting 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 report in accordance with this Auditing Standard.

## Requirements

### Risk Assessment Procedures and Related Activities

10. When performing risk assessment procedures as required by ASA 315<sup>3</sup> the auditor shall consider whether events or conditions exist 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. A3–A6)
- (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 basis of accounting, 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.
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. A7)

### 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. A8–A10, A12–A13)
13. [Deleted by the AUASB. Refer Aus 13.1<sup>4</sup>]

~~[13. In evaluating management's assessment of the entity's ability to continue as a going concern, the auditor shall cover the same period as that used by management to make its assessment as required by the applicable financial reporting framework, or by law or regulation if it specifies a longer period. If management's assessment of the entity's ability to continue as a going concern covers less than twelve months from the date of the financial report as defined in ASA 560, the auditor shall request management to extend its assessment period to at least twelve months from that date. (Ref: Para. A11–A13)]~~

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

<sup>4</sup> See ASA 560 *Subsequent Events*, paragraph 5(a). [Deleted by the AUASB. Refer paragraph's Aus 13.1 and Aus 13.2]

**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 as defined in paragraph Aus 13.2 of this Auditing Standard, 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 extend its assessment period to correspond to the relevant period used by the auditor. (Ref: Para. A11–A13)

**Aus 13.2** Relevant period means the period of approximately twelve 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 date in the case of an annual financial report; or
- (b) the corresponding reporting period for the following year in the case of an interim financial 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. A14–Aus A15.1)

#### **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 related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (hereinafter referred to as "material uncertainty") through performing additional audit procedures, including consideration of mitigating factors. These procedures shall include: (Ref: Para. A16)

- (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. A17)
- (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 actions: (Ref: Para. A18–A19)
  - (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 actions and the feasibility of these plans. (Ref: Para. A20)

### **Auditor Conclusions**

17. The auditor shall evaluate whether sufficient appropriate audit evidence has been obtained regarding, and shall conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial report.
18. 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. A21–A22)
  - (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.

#### *Adequacy of Disclosures When Events or Conditions Have Been Identified and a Material Uncertainty Exists*

19. If the auditor concludes that management's use of the going concern basis of accounting is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether the financial report: (Ref: Para. A22–A23)
  - (a) Adequately discloses 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.

#### *Adequacy of Disclosures When Events or Conditions Have Been Identified but No Material Uncertainty Exists*

20. If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained the auditor concludes that no material uncertainty exists, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework, the financial report provide adequate disclosures about these events or conditions. (Ref: Para. A24–A25)

### **Implications for the Auditor's Report**

#### *Use of Going Concern Basis of Accounting Is Inappropriate*

21. If the financial report has been prepared using the going concern basis of accounting but, in the auditor's judgement, management's use of the going concern basis of accounting in the preparation of the financial report is inappropriate, the auditor shall express an adverse opinion. (Ref: Para. A26–A27)

#### *Use of Going Concern Basis of Accounting Is Appropriate but a Material Uncertainty Exists*

##### **Adequate Disclosure of a Material Uncertainty Is Made in the Financial Report**

22. If adequate disclosure about the material uncertainty is made in the financial report, the auditor shall express an unmodified opinion and the auditor's report shall include a separate section under the heading "Material Uncertainty Related to Going Concern" to:  
(Ref: Para. A28-A31, A34)

- (a) Draw attention to the note in the financial report that discloses the matters set out in paragraph 19 of this Auditing Standard; and
- (b) State that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the auditor's opinion is not modified in respect of the matter.

#### Adequate Disclosure of a Material Uncertainty Is Not Made in the Financial Report

23. If adequate disclosure about the material uncertainty is not made in the financial report, the auditor shall: (Ref: Para. A32–A34)
- (a) Express a qualified opinion or adverse opinion, as appropriate, in accordance with ASA 705<sup>5</sup>; and
  - (b) In the Basis for Qualified (Adverse) Opinion section of the auditor's report, state that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the financial report does not adequately disclose this matter.

#### Management Unwilling to Make or Extend Its Assessment

24. 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. A35)

#### Communication with Those Charged with Governance

25. Unless all those charged with governance are involved in managing the entity,<sup>6</sup> 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 management's use of the going concern basis of accounting is appropriate in the preparation of the financial report;
  - (c) The adequacy of related disclosures in the financial report; and
  - (d) Where applicable, the implications for the auditor's report.

#### Significant Delay in the Approval of Financial Report

26. 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 18 of this Auditing Standard.

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<sup>5</sup> See ASA 705 *Modifications to the Opinion in the Independent Auditor's Report*.

<sup>6</sup> See ASA 260 *Communication with Those Charged with Governance*, paragraph 13.

## **Application and Other Explanatory Material**

### **Scope of this Auditing Standard** (Ref: Para 1)

- A1. ASA 701<sup>7</sup> deals with the auditor's responsibility to communicate key audit matters in the auditor's report. That Auditing Standard acknowledges that, when ASA 701 applies, matters relating to going concern may be determined to be key audit matters, and explains that a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern is, by its nature, a key audit matter.<sup>8</sup>

### **Going Concern Basis of Accounting** (Ref: Para. 2)

#### *Considerations Specific to Public Sector Entities*

- A2. Management's use of the going concern basis of accounting is also relevant to public sector entities. For example, Australian Accounting Standard AASB 101 addresses the issue of the ability of public sector entities to continue as going concerns.<sup>9</sup> 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 Significant Doubt on the Entity's Ability to Continue as a Going Concern* (Ref: Para. 10)

- A3. The following are examples of events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern. 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.
- 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.

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<sup>7</sup> See ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*.

<sup>8</sup> See ASA 701, paragraphs 15 and A41.

<sup>9</sup> See AASB 101, *Presentation of Financial Statements*, paragraphs 38–41.

- 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 or regulatory requirements, such as solvency or liquidity requirements for financial institutions.
- Pending legal or regulatory proceedings against the entity that may, if successful, result in claims that the entity is unlikely to be able to satisfy.
- Changes in law or regulation or government policy expected to adversely affect the entity.
- Uninsured or underinsured catastrophes when they occur.

The significance of such events or conditions often can be mitigated by other factors. For example, the effect of an entity being unable to make its normal debt repayments may be counter-balanced by management's plans to maintain adequate cash flows by alternative means, such as by disposing of assets, rescheduling loan repayments, or obtaining additional capital. Similarly, the loss of a principal supplier may be mitigated by the availability of a suitable alternative source of supply.

- A4. The risk assessment procedures required by paragraph 10 help the auditor to determine whether management's use of the going concern basis of accounting 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* (Ref: Para. 10)

- A5. 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.
- A6. 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)

- A7. 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.<sup>10</sup> If events or conditions that may cast significant doubt on the entity's ability to continue as a going concern are identified after the auditor's risk assessments are made, in addition to performing the procedures in paragraph 16, the auditor's assessment of the risks of material misstatement may need to be revised. The existence of such events or conditions may also affect the nature, timing and extent of the auditor's further procedures in response to the assessed risks. ASA 330<sup>11</sup> 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)

- A8. 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 basis of accounting.
- A9. 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 basis of accounting 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 basis of accounting in the preparation of the financial report is appropriate in the circumstances.
- A10. In other circumstances, evaluating management's assessment of the entity's ability to continue as a going concern, as required by paragraph 12, may include an evaluation of the process management followed to make its assessment, the assumptions on which the assessment is based and management's plans for future action and whether management's plans are feasible in the circumstances.

*The Period of Management's Assessment* (Ref: Para. 13–Aus 13.2)

- A11. Most financial reporting frameworks requiring an explicit management assessment specify the period for which management is required to take into account all available information.<sup>12</sup>

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

- A12. 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, the auditor needs to evaluate management's assessment of the entity's ability to continue as a going concern. For smaller entities, it may be appropriate to discuss the medium and long-term financing of the entity with management, provided that management's contentions can be corroborated by sufficient documentary evidence and are not inconsistent with the auditor's understanding of the entity. Therefore, the requirement in paragraph 13 for the auditor to request management to extend its assessment may, for example, be satisfied by discussion, enquiry and inspection of supporting documentation, for example, orders received for future supply, evaluated as to their feasibility or otherwise substantiated.
- A13. 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

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<sup>10</sup> See ASA 315, paragraph 31.

<sup>11</sup> See ASA 330 *The Auditor's Responses to Assessed Risks*.

<sup>12</sup> For example, AASB 101, paragraph 26, defines this as a period that should be at least, but is not limited to, twelve months from the end of the reporting period.

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 his or her personal assets as collateral. In such circumstances, the auditor may obtain appropriate documentary evidence of the subordination of the owner-manager's loan or of the guarantee. Where an entity is dependent on additional support from the owner-manager, the auditor may evaluate the owner-manager's ability to meet the obligation under the support arrangement. In addition, the auditor may request written confirmation of the terms and conditions attaching to such support and the owner-manager's intention or understanding.

**Period beyond Management's Assessment** (Ref: Para. 15)

A14. 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 basis of accounting in preparing the financial report. Since the degree of uncertainty associated with the outcome of an event or condition increases as the event or condition is further into the future, in considering events or conditions further in the future, the indications of going concern issues need to be significant before the auditor needs to consider taking further action. If such events or conditions are identified, the auditor may need to request management to evaluate the potential significance of the event or condition on its assessment of the entity's ability to continue as a going concern. In these circumstances, the procedures in paragraph 16 apply.

A15. [Deleted by the AUASB. Refer Aus A15.1]

~~[A15. 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 period assessed by management, which, as discussed in paragraph 13, would be at least twelve months from the date of the financial report.]~~

| Aus **A15.1** 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 period assessed by management, which, as discussed in paragraph Aus 13.2, is approximately twelve months from the date of the auditors' report on the current financial report.

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

A16. 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.



- 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))

A17. 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))

A18. 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.

A19. Where management's assumptions include continued support by third parties, whether through the subordination of loans, commitments to maintain or provide additional funding, or guarantees, and such support is important to an entity's ability to continue as a going concern, the auditor may need to consider requesting written confirmation (including of terms and conditions) from those third parties and to obtain evidence of their ability to provide such support.

*Written Representations* (Ref: Para. 16(e))

A20. The auditor may consider it appropriate to obtain specific written representations beyond those required in paragraph 16 in support of audit evidence obtained regarding management's plans for future actions in relation to its going concern assessment and the feasibility of those plans.

**Auditor Conclusions**

*Material Uncertainty Related to Events or Conditions that May Cast Significant Doubt on the Entity's Ability to Continue as a Going Concern* (Ref: Para. 18–19)

A21. The phrase "material uncertainty" is used in Australian Accounting Standard AASB 101 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 A21.1 Refer to [Aus] Appendix 1 for a diagrammatic illustration of the links between going concern considerations and the types of audit opinions.

*Adequacy of Disclosure when Events or Conditions Have Been Identified and a Material Uncertainty Exists* (Ref: Para. 18–19)

- A22. Paragraph 18 explains that a material uncertainty exists when the magnitude of the potential impact of the events or conditions and the likelihood of occurrence is such that appropriate disclosure is necessary to achieve fair presentation (for fair presentation frameworks) or for the financial report not to be misleading (for compliance frameworks). The auditor is required by paragraph 18 to conclude whether such a material uncertainty exists regardless of whether or how the applicable financial reporting framework defines a material uncertainty.
- A23. Paragraph 19 requires the auditor to determine whether the financial statement disclosures address the matters set forth in that paragraph. This determination is in addition to the auditor determining whether disclosures about a material uncertainty, required by the applicable financial reporting framework, are adequate. Disclosures required by some financial reporting frameworks that are in addition to matters set forth in paragraph 19 may include disclosures about:
- Management's evaluation of the significance of the events or conditions relating to the entity's ability to meet its obligations; or
  - Significant judgements made by management as part of its assessment of the entity's ability to continue as a going concern.

Some financial reporting frameworks may provide additional guidance regarding management's consideration of disclosures about the magnitude of the potential impact of the principal events or conditions, and the likelihood and timing of their occurrence.

*Adequacy of Disclosures When Events or Conditions Have Been Identified but No Material Uncertainty Exists* (Ref: Para. 20)

- A24. Even when no material uncertainty exists, paragraph 20 requires the auditor to evaluate whether, in view of the requirements of the applicable financial reporting framework, the financial report provides adequate disclosure about events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. Some financial reporting frameworks may address disclosures about:
- Principal events or conditions;
  - Management's evaluation of the significance of those events or conditions in relation to the entity's ability to meet its obligations;
  - Management's plans that mitigate the effect of these events or conditions; or
  - Significant judgements made by management as part of its assessment of the entity's ability to continue as a going concern.
- A25. When the financial report is prepared in accordance with a fair presentation framework, the auditor's evaluation as to whether the financial report achieves fair presentation includes the consideration of the overall presentation, structure and content of the financial report, and whether the financial report, including the related notes, represent the underlying transactions and events in a manner that achieves fair presentation.<sup>13</sup> Depending on the facts and circumstances, the auditor may determine that additional disclosures are necessary to achieve fair presentation. This may be the case, for example, when events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained, the auditor concludes that no material uncertainty exists, and no disclosures are explicitly required by the applicable financial reporting framework regarding these circumstances.

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<sup>13</sup> See ASA 700 *Forming an Opinion and Reporting on a Financial Report*, paragraph 14.

### **Implications for the Auditor's Report**

#### *Use of Going Concern Basis of Accounting is Inappropriate* (Ref: Para. 21)

- A26. If the financial report has been prepared using the going concern basis of accounting but, in the auditor's judgement, management's use of the going concern basis of accounting in the financial report is inappropriate, the requirement in 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 basis of accounting.
- A27. When the use of the going concern basis of accounting is not appropriate in the circumstances, management may be required, or may elect, to prepare the financial report on another basis (e.g., liquidation basis). The auditor may be able to perform an audit of that financial report provided that the auditor determines that the other basis of accounting is acceptable in the circumstances. The auditor may be able to express an unmodified opinion on that financial report, provided there is adequate disclosure therein about the basis of accounting on which the financial report is prepared, but may consider it appropriate or necessary to include an Emphasis of Matter paragraph in accordance with ASA 706<sup>14</sup> in the auditor's report to draw the user's attention to that alternative basis of accounting and the reasons for its use.

#### *Use of the Going Concern Basis of Accounting Is Appropriate but a Material Uncertainty Exists* (Ref: Para. 22–23)

- A28. The identification of a material uncertainty is a matter that is important to users' understanding of the financial report. The use of a separate section with a heading that includes reference to the fact that a material uncertainty related to going concern exists alerts users to this circumstance.
- A29. Appendix 2 provides illustrations of the statements that are required to be included in the auditor's report on the financial report when Australian Accounting Standards are the applicable financial reporting framework. If an applicable financial reporting framework other than Australian Accounting Standards is used, the illustrative statements presented in Appendix 2 may need to be adapted to reflect the application of the other financial reporting framework in the circumstances.
- A30. Paragraph 22 establishes the minimum information required to be presented in the auditor's report in each of the circumstances described. The auditor may provide additional information to supplement the required statements, for example to explain:
- That the existence of a material uncertainty is fundamental to users' understanding of the financial report,<sup>15</sup> or
  - How the matter was addressed in the audit. (Ref: Para. A1)

#### *Adequate Disclosure of a Material Uncertainty Is Made in the Financial Report* (Ref: Para. 22)

- A31. [Aus] Illustration 1A of Appendix 2 is an example of an auditor's report when the auditor has obtained sufficient appropriate audit evidence regarding the appropriateness of management's use of the going concern basis of accounting but a material uncertainty exists and disclosure is adequate in the financial report. The Appendix of ASA 700 also includes illustrative wording to be included in the auditor's report for all entities in relation to going concern to describe the respective responsibilities of those responsible for the financial report and the auditor in relation to going concern.

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<sup>14</sup> See ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*.

<sup>15</sup> See ASA 706, paragraph A2.

Adequate Disclosure of a Material Uncertainty Is Not Made in the Financial Report (Ref: Para. 23)

- A32. [Aus] Illustrations 2A and 3A of Appendix 2 are examples of auditor's reports containing qualified and adverse opinions, respectively, when the auditor has obtained sufficient appropriate audit evidence regarding the appropriateness of the management's use of the going concern basis of accounting but adequate disclosure of a material uncertainty is not made in the financial report.
- A33. In situations involving multiple 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 including the statements required by paragraph 22. ASA 705 provides guidance on this issue.<sup>16</sup>
- Aus A33.1 [Aus] Illustration 4A of Appendix 2 is an example of an auditor's report containing a disclaimer of opinion, when the auditor has not obtained sufficient appropriate audit evidence regarding the appropriateness of the management's use of the going concern basis of accounting.

Communication with Regulators (Ref: Para. 22–23)

- A34. When the auditor of a regulated entity considers that it may be necessary to include a reference to going concern matters in the auditor's report, the auditor may have a duty to communicate with the applicable regulatory, enforcement or supervisory authorities.

Management Unwilling to Make or Extend Its Assessment (Ref: Para. 24)

- A35.** 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 management's use of the going concern basis of accounting 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 A35.1** An auditor 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.

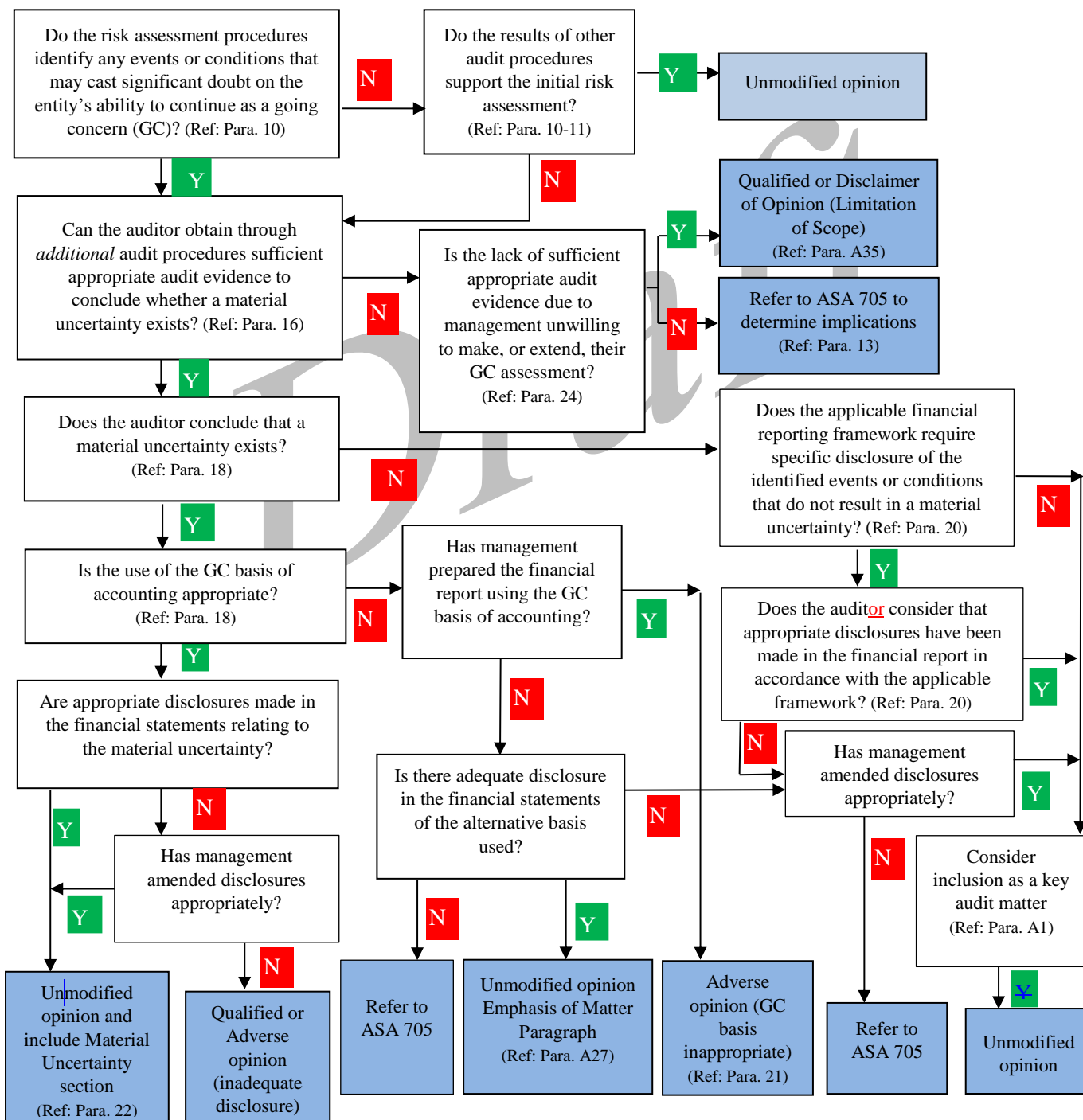
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<sup>16</sup> See ASA 705, paragraph 10.

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

# See, for example, ASIC Regulatory Guide 34 *Auditors' obligations: Reporting to ASIC* (May 2013).

**LINKING GOING CONCERN CONSIDERATIONS AND TYPES OF AUDIT OPINIONS**



Note: Audit opinions in this diagram must comply, as appropriate, with: ASA 700 *Forming an Opinion and Reporting on a Financial Report*, ASA 705 *Modifications to the Opinion in the Independent Auditor's Report* and ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*.

(Ref: Para. A29, A31-A32, Aus A33.1)

**Illustrations of Auditor’s Reports Relating to Going Concern**

- Illustration 1: [Deleted by the AUASB. Refer [Aus] Illustration 1A]
- [Aus] Illustration 1A: An auditor’s report on a financial report of a single listed company prepared in accordance with the *Corporations Act 2001* containing an unmodified opinion when the auditor has concluded that a material uncertainty exists and disclosure in the financial report is adequate.
- Illustration 2: [Deleted by the AUASB. Refer [Aus] Illustration 2A]
- [Aus] Illustration 2A: An auditor’s report on a financial report of a single listed company prepared in accordance with the *Corporations Act 2001* containing a qualified opinion when the auditor has concluded that a material uncertainty exists and that the financial report is materially misstated due to inadequate disclosure.
- Illustration 3: [Deleted by the AUASB. Refer [Aus] Illustration 3A]
- [Aus] Illustration 3A: An auditor’s report on a financial report of a single listed company prepared in accordance with the *Corporations Act 2001* containing an adverse opinion when the auditor has concluded that a material uncertainty exists and the financial report omits the required disclosures relating to a material uncertainty.
- [Aus] Illustration 4A: An auditor’s report on a financial report of a single listed company prepared in accordance with the *Corporations Act 2001* containing a disclaimer of opinion (limitation of scope) when the auditor has been unable to obtain sufficient appropriate audit evidence about the company’s ability to continue as a going concern.

**Example Auditor’s Report**  
**Unmodified Opinion, Material Uncertainty Exists, Adequate Disclosure**  
**Single Company-Corporations Act 2001**  
**(Fair Presentation Framework)**

[Aus] Illustration 1A:

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a single listed company’s financial report. The audit is not a group audit (i.e., ASA 600\* does not apply).
- The financial report is prepared by ~~the directors~~ **management** of the company in accordance with Australian Accounting Standards (a general purpose framework) and under the *Corporations Act 2001*.
- The terms of the audit engagement reflect the description of the directors’ responsibility for the financial report in ASA 210.#
- The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit are the Accounting Professional and Ethical Standards Board’s APES 110 *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty exists related to events or conditions that may cast significant doubt on the company’s ability to continue as a going concern. The disclosure of the material uncertainty in the financial report is adequate.
- Key audit matters have been communicated in accordance with ASA 701.
- The auditor has obtained all of the other information prior to the date of the auditor’s report and has not identified a material misstatement of the other information.†
- In addition to the audit of the financial report, the auditor has other reporting responsibilities required under section 308(3C) of the *Corporations Act 2001*.

**INDEPENDENT AUDITOR’S REPORT**

[Appropriate Addressee]

**Report on the Audit of the Financial Report**§

**Opinion**

We have audited the financial report of ABC Company Ltd. (the Company), 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, and notes to the financial ~~report~~ **statements**, including a summary of significant accounting policies, and the directors’ declaration.

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\* See ASA 600 *Special Considerations—Audits of a Group Financial Report (Including the Work of Component Auditors)*.

# See ASA 210 *Agreeing the Terms of Audit Engagements*.

† See revised ISA 720 *The Auditor’s Responsibilities Relating to Other Information* [as issued by the IAASB on 9 April 2015].

§ The sub-title “Report on the Audit of the Financial Report” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements” is not applicable.

Draft



In our opinion:

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

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

### **Basis for Opinion**

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the [auditor independence requirements of the \*Corporations Act 2001\*](#) and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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 on the same terms if given to the directors as at the time of this auditor's report.\*

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

### **Material Uncertainty Related to Going Concern**

We draw attention to Note 6 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. As stated in Note 6, these events or conditions, along with other matters as set forth in Note 6, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

[Description of each key audit matter in accordance with ASA 701.]

### **Other Information**

[Reporting in accordance with ASA 700 – see [Aus] Illustration 1A in ASA 700.]

[Directors'](#) Responsibilities [of the Directors](#) for the Financial Report

[Reporting in accordance with ASA 700 – see [Aus] Illustration 1A in ASA 700.\*]

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\* 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. [Section 307C (5A)(d) of the *Corporations Act 2001*]

**Auditor's Responsibilities for the Audit of the Financial Report**

[Reporting in accordance with ASA 700 – see [Aus] Illustration 1A in ASA 700.]

**Report on the Remuneration Report<sup>#</sup>**

[Reporting in accordance with ASA 700 – see [Aus] Illustration 1A in ASA 700.]

[Auditor's name and signature]<sup>†</sup>

[Date of the auditor's report]

[Auditor's Address]

Draft

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\* Paragraphs 33 and 38 of ASA 700 require wording to be included in the auditor's report for all entities in relation to going concern to describe the respective responsibilities of those responsible for the financial report and the auditor in relation to going concern.

# The Report on the Remuneration Report is an example of "Other Reporting Responsibilities"—refer paragraphs 42-44 of ASA 700. Any additional "Other Reporting Responsibilities" that the auditor needs to address will also be included in a separate section of the auditor's report. Under paragraph 42 of ASA 700, the sub-title "Report on Other Legal and Regulatory Requirements" or other sub-title as appropriate to the section is used.

† The auditor is required to sign the auditor's report in both their own name and the name of their firm [section 324 AB(3) of the *Corporations Act 2001*] or the name of the audit company [section 324AD(1) of the *Corporations Act 2001*], as applicable.

**Example Auditor's Report**  
**Qualified Opinion, Material Uncertainty Exists, Inadequate Disclosure**  
**Single Listed Company-Corporations Act 2001**  
**(Fair Presentation Framework)**

[Aus] Illustration 2A:

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of single listed company's financial report. The audit is not a group audit (i.e., ASA 600\* does not apply).
- The financial report is prepared by the directors<sup>2</sup> of the company in accordance with Australian Accounting Standards (a general purpose framework) and under the *Corporations Act 2001*.
- The terms of the audit engagement reflect the description of the directors' responsibility for the financial report in ASA 210<sup>#</sup>.
- The relevant ethical requirements that apply to the audit are the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. Note yy to the financial report discusses the magnitude of financing arrangements, the expiration and the total financing arrangements; however the financial report does not include discussion on the impact or the availability of refinancing or characterise this situation as a material uncertainty.
- The financial report is materially misstated due to the inadequate disclosure of the material uncertainty. A qualified opinion is being expressed because the auditor concluded that the effects on the financial report of this inadequate disclosure are material but not pervasive to the financial report.
- Key audit matters have been communicated in accordance with ASA 701.
- The auditor has obtained all of the other information prior to the date of the auditor's report and the matter giving rise to the qualified opinion on the financial ~~report~~statements also affects the other information.<sup>‡</sup>
- In addition to the audit of the financial report, the auditor has other reporting responsibilities required under section 308(3C) of the *Corporations Act 2001*.

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\* See ASA 600 *Special Considerations—Audits of a Group Financial Report (Including the Work of Component Auditors)*.

# See ASA 210 *Agreeing the Terms of Audit Engagements*.

‡ See revised ISA 720, *The Auditor's Responsibilities Relating to Other Information* [as issued by the IAASB on 9 April 2015.]

## INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

### Report on the Audit of the Financial Report\*

#### Qualified Opinion

We have audited the financial report of ABC Company Ltd., (the Company), 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, and notes to the financial ~~report~~statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion:

except for the incomplete disclosure of the information referred to in the *Basis for Qualified Opinion* section of our report, the accompanying financial report of ABC Company Ltd., is in accordance with the *Corporations Act 2001*, including:

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

#### Basis for Qualified Opinion

As discussed in Note yy, the Company's financing arrangements expire and amounts outstanding are payable on 19 August 20X2. The Company has been unable to conclude re-negotiations or obtain replacement financing. This situation indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. The financial report does not adequately disclose this matter.

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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 on the same terms if given to the directors as at the time of this auditor's report.<sup>#</sup>

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

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Qualified*

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\* The sub-title "Report on the Audit of the Financial Report" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

# 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. [Section 307C (5A)(d) of the *Corporations Act 2001*]

*Opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

[*Descriptions of each key audit matter in accordance with ASA 701.*]

#### **Other Information**

[*Reporting in accordance with revised ISA 720 – see [Illustration 6 in Appendix 2 of ISA 720](#). The last paragraph of the other information section in [Illustration 6](#) would be customised to describe the specific matter giving rise to the qualified opinion that also affects the other information.\**]

#### **Directors' Responsibilities of the Directors for the Financial Report**

[*Reporting in accordance with ASA 700 – see [Aus] [Illustration 1A in ASA 700](#).#*]

#### **Auditor's Responsibilities for the Audit of the Financial Report**

[*Reporting in accordance with ASA 700 – see [Aus] [Illustration 1A in ASA 700](#).*]

#### **Report on the Remuneration Report†**

[*Reporting in accordance with ASA 700 – see [Aus] [Illustration 1A in ASA 700](#).*]

[*Auditor's name and signature*]<sup>§</sup>

[*Date of the auditor's report*]

[*Auditor's Address*]

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\* Paragraph 22 of revised ISA 720 requires the auditor to consider the implications for the other information statement of a matter giving rise to a qualified or adverse opinion in accordance with ASA 705. [See revised ISA 720, Appendix 2, Illustration 6, for circumstances where the matter giving rise to a qualified opinion impacts on the conclusion provided on the other information.](#)

# Paragraphs 33 and 38 of ASA 700 require wording to be included in the auditor's report for all entities in relation to going concern to describe the respective responsibilities of those responsible for the financial report and the auditor in relation to going concern.

† The Report on the Remuneration Report is an example of "Other Reporting Responsibilities"—refer paragraphs 42-44 of ASA 700. Any additional "Other Reporting Responsibilities" that the auditor needs to address will also be included in a separate section of the auditor's report. Under paragraph 42 of ASA 700, the sub-title "Report on Other Legal and Regulatory Requirements" or other sub-title as appropriate to the section is used.

§ The auditor is required to sign the auditor's report in both their own name and the name of their firm [section 324AB(3) of the *Corporations Act 2001*] or the name of the audit company [section 324AD(1) of the *Corporations Act 2001*], as applicable.

**Example Auditor's Report**  
**Adverse Opinion, Material Uncertainty Exists, Inadequate Disclosure**  
**Single listed Company-Corporations Act 2001**  
**(Fair Presentation Framework)**

[Aus] Illustration 3A:

For purposes of the illustrative auditor's report, the following circumstances are assumed:

- Audit of a single listed company's financial report. The audit is not a group audit (i.e., ASA 600\* does not apply).
- The financial report is prepared by the directors of the company in accordance with Australian Accounting Standards (a general purpose framework) and under the *Corporations Act 2001*.
- The terms of the audit engagement reflect the description of the directors' responsibility for the financial report in ASA 210.#
- The relevant ethical requirements that apply to the audit are the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern, and the company is considering bankruptcy. The financial report omits the required disclosures relating to the material uncertainty. An adverse opinion is being expressed because the effects on the financial report of such omission are material and pervasive.
- ASA 701 applies; however, the auditor has determined that there are no key audit matters other than the matter described in the Basis for Adverse Opinion section.
- The auditor has obtained all of the other information prior to the date of the auditor's report and the matter giving rise to the adverse opinion on the **financial report** ~~company~~ also affects the other information.†
- In addition to the audit of the financial report, the auditor has other reporting responsibilities required under section 308(3C) of the *Corporations Act 2001*.

**INDEPENDENT AUDITOR'S REPORT**

[Appropriate Addressee]

**Report on the Audit of the Financial Report**<sup>§</sup>

**Adverse Opinion**

We have audited the financial report of ABC Company Ltd., (the Company), 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, and notes to the financial ~~report~~**statements**, including a summary of significant accounting policies and the directors' declaration.

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\* See ASA 600 *Special Considerations—Audits of a Group Financial Report (Including the Work of Component Auditors)*.

# See ASA 210 *Agreeing the Terms of Audit Engagements*.

† See revised ISA 720, *The Auditor's Responsibilities Relating to Other Information* [as issued by the IAASB on 9 April 2015.]

§ The sub-title "Report on the Audit of the Financial Report" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

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

- (i) 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
- (ii) comply with Australian Accounting Standards and the *Corporations Regulations 2001*.

### **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 conclude re-negotiations or obtain replacement financing and is considering filing for bankruptcy. This situation indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. The financial report does not adequately disclose this fact.

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the [auditor independence requirements of the Corporations Act 2001](#) and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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 on the same terms if given to the directors as at the time of this auditor's report.\*

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

### **Key Audit Matters**

Except for the matter described in the *Basis for Adverse Opinion* section, we have determined that there are no other key audit matters to communicate in our report.

### **Other Information**

[Reporting in accordance with revised ISA 720 – see [Illustration 7 in Appendix 2 of ISA 720](#). The last paragraph of the other information section in [Illustration 7](#) would be customised to describe the specific matter giving rise to the adverse opinion that also affects the other information.#]

### **Directors' Responsibilities of the Directors for the Financial Report**

[Reporting in accordance with ASA 700 – see [Aus] [Illustration 1A in ASA 700](#).]

### **Auditor's Responsibilities for the Audit of the Financial Report**

[Reporting in accordance with ASA 700 – see [Aus] [Illustration 1A in ASA 700](#).]

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\* 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. [Section 307C (5A)(d) of the *Corporations Act 2001*]

# Paragraph 22 of revised ISA 720 requires the auditor to consider the implications for the other information statement of a matter giving rise to a qualified or adverse opinion in accordance with ASA 705. See [ISA 720, Appendix 2, Illustration 7, for circumstances where the matter giving rise to an adverse opinion impacts on the conclusion provided on the other information](#).



**Report on the Remuneration Report<sup>†</sup>**

[Reporting in accordance with ASA 700 – see [Aus] Illustration 1A in ASA 700.]

[Auditor's name and signature]\*

[Date of the auditor's report]

[Auditor's Address]

Draft

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<sup>†</sup> The Report on the Remuneration Report is an example of “Other Reporting Responsibilities”—refer paragraphs 42-44 of ASA 700. Any additional “Other Reporting Responsibilities” that the auditor needs to address will also be included in a separate section of the auditor's report. Under paragraph 42 of ASA 700, the sub-title “Report on Other Legal and Regulatory Requirements” or other sub-title as appropriate to the section is used.

\* The auditor is required to sign the auditor's report in both their own name and the name of their firm [section 324AB(3) of the *Corporations Act 2001*] or the name of the audit company [section 324AD(1) of the *Corporations Act 2001*], as applicable.

**Example Auditor's Report**  
**Disclaimer of Opinion (Limitation of Scope)**  
**Single listed Company-Corporations Act 2001**  
**(Fair Presentation Framework)**

[Aus] Illustration 4A:

For purposes of the illustrative auditor's report, the following circumstances are assumed:

- Audit of a single listed company's financial report. The audit is not a group audit (i.e., ASA 600\* does not apply).
- The financial report is prepared by the directors of the company in accordance with Australian Accounting Standards (a general purpose framework) and under the *Corporations Act 2001*.
- The terms of the audit engagement reflect the description of the directors' responsibility for the financial report in ASA 210.#
- The relevant ethical requirements that apply to the audit are the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants*.
- 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 (limitation of scope).
- The auditor is not permitted to communicate key audit matters in accordance with ASA 705.†
- The auditor does not include an other information section in accordance with revised ISA 720.§
- In addition to the audit of the financial report, the auditor has other reporting responsibilities required under section 308(3C) of the *Corporations Act 2001*.

**INDEPENDENT AUDITOR'S REPORT**

[Appropriate Addressee]

**Report on the Audit of the Financial Report†**

**Disclaimer of Opinion**

Because of the significance of the matter described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial report of ABC Company (the Company).

**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 conclude re-negotiations to obtain replacement financing. The directors have refused to extend their assessment of the Company's ability to continue

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\* See ASA 600 *Special Considerations—Audits of a Group Financial Report (Including the Work of Component Auditors)*.

# See ASA 210 *Agreeing the Terms of Audit Engagements*.

† See ASA 705, paragraph 29.

§ Paragraph A54 of revised ISA 720, *The Auditor's Responsibilities Relating to Other Information* [as issued by the IAASB on 9 April 2015] requires the auditor not to include a other information section when the auditor issues a disclaimer of opinion on the financial report in accordance with ~~ISA~~ASA 705.

‡ The sub-title "Report on the Audit of the Financial Report" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

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 twelve months of the date of this auditor's report.

**Directors' Responsibilities of the Directors for the Financial Report**

[Reporting in accordance with ASA 700 – see [Aus] Illustration IA in ASA 700.]

**Auditor's Responsibilities for the Audit of the Financial Report**

[Reporting in accordance with ASA 700 – see [Aus] Illustration IA in ASA 700.]

**Report on the Remuneration Report<sup>#</sup>**

[Reporting in accordance with ASA 700 – see [Aus] Illustration IA in ASA 700.]

[Auditor's name and signature]<sup>#</sup>

[Date of the auditor's report]

[Auditor's Address]

Draft

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<sup>#</sup> The Report on the Remuneration Report is an example of "Other Reporting Responsibilities"—refer paragraphs 42-44 of ASA 700. Any additional "Other Reporting Responsibilities" that the auditor needs to address will also be included in a separate section of the auditor's report. Under paragraph 42 of ASA 700, the sub-title "Report on Other Legal and Regulatory Requirements" or other sub-title as appropriate to the section is used.

<sup>#</sup> The auditor is required to sign the auditor's report in both their own name and the name of their firm [section 324AB(3) of the *Corporations Act 2001*] or the name of the audit company [section 324AD(1) of the *Corporations Act 2001*], as applicable.