

ASA 570
(May 2025)

Auditing Standard ASA 570

Going Concern

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



Australian Government

Auditing and Assurance Standards Board

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ISSN 1030-603X

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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 a non-corporate Commonwealth entity 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 *Legislation 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 ISA 570 (Revised 2024), *Going Concern* and will replace the current ASA 570 issued by the AUASB in December 2015 (as amended to March 2023).

This Auditing Standard contains differences from the ISA 570 (Revised 2024), which have been made in the Application and Other Explanatory Material and Appendices to reflect Australian regulatory requirements.

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 AUASB Standards*, which sets out how AUASB Standards 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: 14 May 2025

D Niven
Chair - AUASB

Conformity with International Standards on Auditing

This Auditing Standard conforms with International Standard on Auditing ISA 570 (Revised 2024), *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 requirement is additional to ISA 570 (Revised 2024):

- Paragraph Aus 3.1 refers to solvency statement requirements in the directors’ declaration under the *Corporations Act 2001*.

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

- [Aus] Appendix 2 contains diagram of the auditor’s decision-making process for going concern.

This Auditing Standard incorporates terminology and definitions used in Australia.

Compliance with this Auditing Standard enables compliance with ISA 570 (Revised 2024).

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 beginning on or after 15 December 2026. Early adoption of this Auditing Standard is permitted prior to this date.

Introduction

Scope of this Auditing Standard

1. This Australian Auditing Standard (ASA) deals with the auditor's responsibilities in the audit of a financial report relating to going concern and the implications for the auditor's report. Although this ASA applies irrespective of the entity's size or complexity, particular considerations apply only for audits of financial reports of listed entities. (Ref: Para. A1–A2)

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. A general purpose financial report is 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. A special purpose financial report 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. A3)

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

Responsibilities of Management

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 include 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.¹ The

¹ See AASB 101 *Presentation of Financial Statements*, paragraphs 25–26.

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. (Ref: Para. A4)

- Aus 3.1 The *Corporations Act 2001*[#], requires a formal statement as to the solvency of the entity to be made by the directors 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, 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 minimum 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 related to events or conditions that may cast significant doubt on 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 200,² the potential effects of inherent limitations on the auditor's ability to detect material misstatements are greater for future events or conditions that may cause an entity to cease to continue as a going concern. The auditor cannot predict such future events or conditions. Accordingly, the absence of a reference to an identified material uncertainty related to events or conditions that may cast significant doubt on 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.

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

² See ASA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*, paragraphs A56–A57.

Effective Date

8. [Deleted by the AUASB. Refer Aus 0.3]

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 ASA.

Definition

10. For the purposes of this Auditing Standard, the following term has the meaning attributed below:
- (a) **Material Uncertainty (Related to Going Concern)**—An uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern. "May cast significant doubt" is used to refer to circumstances where the magnitude of the potential impact and likelihood of occurrence of the identified events or conditions are such that, unless management's plans for future actions mitigate their effects, the entity may be unable to realise its assets and discharge its liabilities in the normal course of business and continue its operations for the foreseeable future. (Ref: Para. A5–A6)

Requirements

Risk Assessment Procedures and Related Activities

11. In applying ASA 315,³ the auditor shall design and perform risk assessment procedures, including those required by paragraph 12, to obtain audit evidence that provides an appropriate basis for determining whether events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern. The identification of such events or conditions shall be before consideration of any related mitigating factors included in management's plans for future actions. (Ref: Para. A7–A15)

Obtaining an Understanding of the Entity and Its Environment, the Applicable Financial Reporting Framework and the Entity's System of Internal Control

12. In applying ASA 315,⁴ the auditor shall perform risk assessment procedures to obtain an understanding of: (Ref: Para. A9–A15)

The Entity and Its Environment

- (a) The entity's business model, objectives, strategies and related business risks relevant to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. (Ref: Para. A16)

³ See ASA 315 *Identifying and Assessing the Risks of Material Misstatement*, paragraphs 13-14.

⁴ See ASA 315, paragraphs 19-27.

- (b) Industry conditions, including the competitive environment, technological developments, and other external factors affecting the entity's financing.
- (c) The measures used, internally and externally, to assess the entity's financial performance, including forecasts, future cash flows, and management's budgeting processes. (Ref: Para. A17)

The Applicable Financial Reporting Framework

- (d) The requirements of the applicable financial reporting framework relating to going concern, and the related disclosures that are required to be included in the entity's financial report. (Ref: Para. A18, A20)
- (e) The basis for management's intended use of the going concern basis of accounting. (Ref: Para. A19–A20)

The Entity's System of Internal Control

- (f) Unless all of those charged with governance are involved in managing the entity,⁵ how those charged with governance exercise oversight over management's assessment of the entity's ability to continue as a going concern. (Ref: Para. A21–A22)
- (g) The entity's risk assessment process to identify, assess and address business risks relating to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
- (h) How management identifies the relevant method, significant assumptions and data that are appropriate in assessing the entity's ability to continue as a going concern. (Ref: Para. A23–A24)
- (i) How the entity's financial reporting process addresses disclosures related to the entity's ability to continue as a going concern. (Ref: Para. A25)

Remaining Alert Throughout the Audit for Information about Events or Conditions

- 13. The auditor shall remain alert throughout the audit for information about events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. (Ref: Para. A26–A29)

Events or Conditions not Previously Identified or Disclosed by Management

- 14. In applying ASA 315,⁶ the auditor shall determine whether the audit evidence obtained from risk assessment procedures and related activities indicates the existence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern that management has not previously identified or disclosed to the auditor. (Ref: Para. A30–A31)

Control Deficiencies Within the Entity's System of Internal Control

- 15. In applying ASA 315,⁷ based on the auditor's evaluation of each of the components of the entity's system of internal control, the auditor shall determine whether one or more control deficiencies in respect of management's assessment of going concern have been identified. (Ref: Para. A32)

⁵ See ASA 260 *Communication with Those Charged with Governance*, paragraph 13.

⁶ See ASA 315, paragraph 35.

⁷ See ASA 315, paragraph 27.

Evaluating Management's Assessment

16. Where management has not yet performed an assessment of the entity's ability to continue as a going concern, the auditor shall request management to make its assessment. If management is unwilling to make its assessment, the auditor shall consider the implications for the audit. (Ref: Para. A33)
17. The auditor shall design and perform audit procedures to evaluate management's assessment of the entity's ability to continue as a going concern, including the significant judgements on which management's assessment is based. (Ref: Para. A34–A36)
18. In designing and performing the audit procedures required by paragraph 17, the auditor shall do so in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory. (Ref: Para. A37)

Method, Significant Assumptions and Data Used in Management's Assessment

19. The audit procedures required by paragraph 17 shall include evaluating the method, significant assumptions and data used by management in assessing the entity's ability to continue as a going concern. In determining the nature and extent of such audit procedures, the auditor shall take into account the results of the risk assessment procedures performed. Such audit procedures shall address: (Ref: Para. A35, A38, A46)
 - (a) The method used by management to assess the entity's ability to continue as a going concern, including whether the: (Ref: Para. A39)
 - (i) Method selected is appropriate in the context of the applicable financial reporting framework, and, if applicable, changes from the method used in prior periods are appropriate; and (Ref: Para. A40)
 - (ii) Calculations, if applicable, are applied in accordance with the method and are mathematically accurate. (Ref: Para. A41)
 - (b) Whether the significant assumptions on which management's assessment is based are: (Ref: Para. A42)
 - (i) Appropriate in the context of the applicable financial reporting framework, and, if applicable, changes from prior periods are appropriate; and
 - (ii) Consistent with each other and with related assumptions used in other areas of the entity's business activities, based on the auditor's knowledge obtained in the audit.
 - (c) Whether the data is:
 - (i) Relevant and reliable; and (Ref: Para. A43–A44)
 - (ii) Appropriate in the context of the applicable financial reporting framework, and, if applicable, changes from prior periods are appropriate. (Ref: Para. A45)

Period Beyond Management's Assessment

20. 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. If management or the auditor identifies such events or conditions, the auditor shall request management to evaluate the potential significance of the events or conditions on its assessment of the entity's ability to continue as a going concern. (Ref: Para. A47–A49)

Requesting Management to Extend Its Assessment

21. If management's assessment of the entity's ability to continue as a going concern covers less than twelve months from the date of approval of the financial report as defined in ASA 560,⁸ the auditor shall request management to extend its assessment period to at least twelve months from that date. (Ref: Para. A50–A53)

Management Unwilling to Extend its Assessment

22. If management is unwilling to extend its assessment when requested to do so by the auditor, the auditor shall discuss the matter with management and, where appropriate, those charged with governance. (Ref: Para. A54–A56)
23. If, following the discussion required by paragraph 22, in the auditor's professional judgement it is necessary for management to extend its assessment and management remains unwilling to do so, the auditor shall determine the implications for the audit. (Ref: Para. A57)

Information Used in Management's Assessment

24. In evaluating management's assessment of the entity's ability to continue as a going concern, the auditor shall consider whether management's assessment includes all relevant information of which the auditor is aware.
25. If the auditor identifies events or conditions that may cast significant doubt on the entity's ability to continue as a going concern that management has not previously identified or disclosed to the auditor, the auditor shall:
- (a) Discuss the matter with management to understand the effects of those events or conditions on management's assessment of the entity's ability to continue as a going concern and request management to evaluate their potential significance;
 - (b) Determine whether it is necessary to request management to revise its going concern assessment to address the effect of those events or conditions; and (Ref: Para. A58)
 - (c) If applicable, design and perform additional audit procedures to evaluate management's assessment of the entity's ability to continue as a going concern in accordance with paragraphs 17-19.

Evaluating Management's Plans for Future Actions

26. 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 evaluate management's plans for future actions in relation to its going concern assessment, including whether: (Ref: Para. A59–A62)
- (a) The outcome of these plans is likely to be sufficient to mitigate the effects of the identified events or conditions;
 - (b) Management's plans are feasible in the circumstances; and
 - (c) Management has both the intent and ability to carry out specific courses of action.
27. If management's plans for future actions include the use of significant assumptions or data, the auditor shall perform the audit procedures required by paragraph 19(b)-(c).

⁸ See ASA 560 *Subsequent Events*, paragraph 5(b).

Financial Support by Third Parties or Related Parties, Including the Entity's Owner-Manager

28. If management's plans for future actions include financial support by third parties or related parties, including the entity's owner-manager, the auditor shall obtain audit evidence about the intent and ability of those parties to maintain or provide the necessary financial support. (Ref: Para. A63–A65)

Information Becomes Known After the Date of the Auditor's Report

29. If additional information becomes known to the auditor after the date of the auditor's report but before the date the financial report is issued that is related to management's assessment of the entity's ability to continue as a going concern, the auditor shall perform procedures in accordance with ASA 560. (Ref: Para. A66)

Evaluating the Audit Evidence Obtained and Concluding

30. 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. In doing so, the auditor shall: (Ref: Para. A67)
- (a) Evaluate whether the judgements and decisions made by management in making its assessment of the entity's ability to continue as a going concern, even if they are individually reasonable, are indicators of possible management bias. When indicators of possible management bias are identified, the auditor shall evaluate the implications for the audit. (Ref: Para. A68–A71)
 - (b) Consider all audit evidence obtained, including audit evidence that is consistent or inconsistent with other audit evidence, and regardless of whether it appears to corroborate or contradict the assertions in the financial report.
31. Based on the audit evidence obtained, the auditor shall conclude whether, in the auditor's professional judgement, 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. (Ref: Para. A72)

Adequacy of Disclosures

Adequacy of Disclosures When No Material Uncertainty Exists

32. 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 provides adequate disclosures about these events or conditions, including, as applicable, when significant judgements are made by management in concluding that there is no material uncertainty. (Ref: Para. A73–A76)

Adequacy of Disclosures When a Material Uncertainty Exists

33. 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. A77)
- (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 for future actions to address 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 the entity may be unable to realise its assets and discharge its liabilities in the normal course of business and continue its operations for the foreseeable future.

When a material uncertainty exists, adequate disclosure of the nature and implications of the uncertainty is necessary for:

- (i) In the case of a fair presentation financial reporting framework, the fair presentation of the financial report, or
- (ii) In the case of a compliance framework, the financial report not to be misleading.

Implications for the Auditor's Report

Use of Going Concern Basis of Accounting Is Appropriate – No Material Uncertainty Exists

34. If the auditor concludes that the going concern basis of accounting is appropriate and no material uncertainty exists, the auditor shall include a separate section in the auditor's report with the heading "Going Concern", and: (Ref: Para. A78–A79)
- (a) State that: (Ref: Para. A80–A81)
 - (i) In the context of the audit of the financial report as a whole, and in forming the auditor's opinion thereon, the auditor concluded that management's use of the going concern basis of accounting in the preparation of the financial report is appropriate;
 - (ii) Based on the audit evidence obtained, the auditor has not identified 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
 - (iii) The auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report and are not a guarantee as to the entity's ability to continue as a going concern.
 - (b) For an audit of financial report of a listed entity, when significant judgements are made by management in concluding that there is no 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. A82–A83, A89)
 - (i) Include a reference to the related disclosure(s) in the financial report, if any; and (Ref: Para. A73–A76)
 - (ii) Describe how the auditor evaluated management's assessment of the entity's ability to continue as a going concern. (Ref: Para. A84–A88)

Use of Going Concern Basis of Accounting Is Appropriate – A Material Uncertainty Exists

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

35. 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" and: (Ref: Para. A78–A79, A90–A91)
- (a) Include a reference to the related disclosure(s) in the financial report; (Ref: Para. A73, A77)

- (b) For an audit of financial report of a listed entity, describe how the auditor evaluated management's assessment of the entity's ability to continue as a going concern; (Ref: Para. A84–A88)
- (c) 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;
- (d) State that:
 - (i) The auditor's opinion is not modified in respect of the matter;
 - (ii) In the context of the audit of the financial report as a whole, and in forming the auditor's opinion thereon, the auditor concluded that management's use of the going concern basis of accounting in the preparation of the financial report is appropriate; and
 - (iii) The auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report and are not a guarantee as to the entity's ability to continue as a going concern.

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

36. If adequate disclosure about the material uncertainty is not made in the financial report, the auditor shall: (Ref: Para. A78–A79, A90, A92)
- (a) Express a qualified opinion or adverse opinion, as appropriate, in accordance with ASA 705;⁹
 - (b) In the Basis for Qualified (Adverse) Opinion section of the auditor's report, state that a material uncertainty exists and that the financial report does not adequately disclose this matter;
 - (c) Include in the auditor's report a separate section under the heading "Material Uncertainty Related to Going Concern" and:
 - (i) Draw attention to the Basis for Qualified (Adverse) Opinion section of the auditor's report that states that a material uncertainty exists that has not been adequately disclosed in the financial report;
 - (ii) State that:
 - a. In the context of the audit of the financial report as a whole, and in forming the auditor's opinion thereon, the auditor concluded that management's use of the going concern basis of accounting in the preparation of the financial report is appropriate; and
 - b. The auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report and are not a guarantee as to the entity's ability to continue as a going concern.

Considerations When the Auditor Disclaims an Opinion on the Financial Report

37. When the auditor disclaims an opinion on the financial report, unless required by law or regulation, the auditor shall not include separate sections on Going Concern or Material Uncertainty Related to Going Concern in the auditor's report.¹⁰ (Ref: Para. A93–A94)

⁹ See ASA 705 *Modifications to the Opinion in the Independent Auditor's Report*.

¹⁰ See ASA 705, paragraph 29.

Use of Going Concern Basis of Accounting Is Inappropriate

38. If the financial report has been prepared using the going concern basis of accounting but, in the auditor's professional judgement, management's use of the going concern basis of accounting in the preparation of the financial report is inappropriate: (Ref: Para. A95–A96)
- (a) The auditor shall express an adverse opinion; and
 - (b) Unless required by law or regulation, the auditor shall not include separate sections on Going Concern or Material Uncertainty Related to Going Concern in the auditor's report.

Written Representations

39. The auditor shall request written representations from management¹¹ and, where appropriate, those charged with governance addressing: (Ref: Para. A97)
- (a) Whether management's use of the going concern basis of accounting in the preparation of the financial report is appropriate;
 - (b) Whether the method, significant assumptions and data used in management's assessment of going concern and any related disclosures are appropriate in the context of the applicable financial reporting framework;
 - (c) That management's assessment of going concern reflects all events or conditions that may cast significant doubt on the entity's ability to continue as a going concern that management is aware of, and all such events or conditions, if any, have been disclosed to the auditor; and
 - (d) That matters relevant to going concern have been adequately disclosed in the financial report, including, when applicable, significant judgements made by management in concluding that there is no material uncertainty.
40. If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern the written representations required by paragraph 39 shall also address: (Ref: Para. A97)
- (a) Management's plans for future actions and whether such plans mitigate the effects of the identified events or conditions;
 - (b) The feasibility of these plans; and
 - (c) Whether management has the intent to carry out specific courses of action and has the ability to do so.

Communication with Those Charged with Governance

41. Unless all those charged with governance are involved in managing the entity,¹² the auditor shall communicate on a timely basis 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. (Ref: Para. A98–A99)
42. If events or conditions are identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall communicate with those charged with governance: (Ref: Para. A100)

¹¹ See ASA 580 *Written Representations*.

¹² See ASA 260, paragraph 13.

- (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) An overview of the audit procedures performed and the basis for the auditor's conclusions, including the auditor's evaluation of management's plans for future actions;
- (d) The adequacy of related disclosures in the financial report, including disclosures that describe the significant judgements made by management and the mitigating factors in management's plans that are of significance to overcoming the adverse effects of the events or conditions;
- (e) When applicable, management's unwillingness to make or extend its assessment of the entity's ability to continue as a going concern when requested; and
- (f) The implications for the audit or the auditor's report. (Ref: Para. A101)

Reporting to an Appropriate Authority Outside of the Entity

43. When the auditor considers including a separate section under the heading "Material Uncertainty Related to Going Concern" in the auditor's report, or issuing a modified opinion in respect of matters related to going concern, the auditor shall determine whether law, regulation or relevant ethical requirements: (Ref: Para. A102–A105)
- (a) Require the auditor to report to an appropriate authority outside the entity.
 - (b) Establish responsibilities or rights under which reporting to an appropriate authority outside the entity may be appropriate in the circumstances.

Documentation

44. In applying ASA 230,¹³ the auditor shall include in the audit documentation significant professional judgements made relating to the auditor's:
- (a) Conclusions on:
 - (i) The appropriateness of management's use of the going concern basis of accounting in the preparation of the financial report; and
 - (ii) Whether or not a material uncertainty exists; and
 - (b) Determination of the adequacy of management's disclosures in the financial report related to going concern.

* * *

¹³ See ASA 230 *Audit Documentation*, paragraphs 8–11, A6–A7 and Appendix 1.

Application and Other Explanatory Material

Scope of this Auditing Standard (Ref: Para. 1)

- A1. In addition to the matters addressed by this ASA, ASA 701¹⁴ deals with the auditor's responsibility to communicate key audit matters in the auditor's report. That ASA acknowledges that, when ASA 701 applies, the following are, by their nature key audit matters:¹⁵
- A material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; or
 - When significant judgements were made by management in concluding that there is no material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

However, in such circumstances, the implications for the auditor's report are in accordance with this ASA.

- A2. For audits of financial reports of listed entities, when the auditor concludes, based on the audit evidence obtained, that no material uncertainty exists, and significant judgements were made by management in concluding that there is no material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, this ASA requires the auditor to disclose under the heading of "Going Concern" within the auditor's report how the auditor evaluated management's assessment of the entity's ability to continue as a going concern.

Going Concern Basis of Accounting

Considerations Specific to Public Sector Entities (Ref: Para. 2)

- A3. Management's use of the going concern basis of accounting is also relevant to public sector entities. For example, International Public Sector Accounting Standard (IPSAS) 1 addresses the issue of the ability of public sector entities to continue as going concerns.¹⁶ 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.

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

Responsibilities of Management (Ref: Para. 3)

- A4. The circumstances in which entities prepare financial reports on a going concern basis of accounting may vary. For example, AASB 101 explains that those circumstances could range from when an entity has a history of profitable operations and ready access to financial resources, to when management may need to consider a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate.¹⁷

¹⁴ See ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*.

¹⁵ See ASA 701, paragraph 15.

¹⁶ See IPSAS 1 *Presentation of Financial Statements*, paragraphs 38–41.

¹⁷ See AASB 101, paragraph 26.

Definition (Ref: Para. 10)

- A5. The applicable financial reporting framework may or may not explicitly use the term “material uncertainty” when describing the uncertainties that are required to be disclosed in the financial report related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. For example, the term “material uncertainty” is used in AASB 101 and IPSAS 1. In some other financial reporting frameworks, the term “significant uncertainty” is used in similar circumstances. The auditor is required by paragraph 31 to conclude whether a material uncertainty exists regardless of whether or how the applicable financial reporting framework defines a “material uncertainty.” The applicable financial reporting framework may also not define or describe the term “may cast significant doubt” or may use other terms or phrases.
- A6. Plans for future actions may include, for example, that management realises assets sooner than originally intended or obtains alternative or additional sources of liquidity to support the entity's ability to continue as a going concern (also see paragraphs 26–28). In such circumstances, the timing of the events or conditions giving rise to the uncertainty may also be relevant. For example, the shorter the time period in which management must take action, the more significant the uncertainty may be about the entity's ability to continue as a going concern.

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. 11)

- A7. Some events or conditions may not cast significant doubt when considered individually, however when considered collectively with other events or conditions they may cast significant doubt on the entity's ability to continue as a going concern.

Examples:

The following are examples of identified events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern. These examples are not all-inclusive.

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.
- Recurring negative cash flows from operations or inability to generate cash flows from operations 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.

- Non-compliance or marginal ability to meet debt repayment or other debt covenant requirements or comply with the terms of loan agreements.
- Change from credit to cash-on-delivery transactions with suppliers.
- Inability to obtain additional debt or equity financing to stay competitive, including for financing or major research and development, capital expenditures, essential new product development and other essential investments.
- Exposure to liquidity risk as a result of the maturity mismatch of financial assets and liabilities.

Operating

- Management intentions to liquidate the entity or to cease operations.
- Loss of key personnel and management without replacement.
- Significant declines in customer demand.
- Loss of a major market, significant customer(s), franchise, license, or principal supplier(s).
- Labour difficulties.
- Shortages of important supplies.
- Emergence of a highly successful competitor.

Other

- Significant or sustained business interruption due to a cyber attack (e.g., denial of access to information or inability to provide service).
- Non-compliance or marginal ability to meet capital or other statutory or regulatory requirements, such as solvency or liquidity requirements for financial institutions or exchange listing requirements.
- Pending litigation and contingent liabilities arising from matters such as sales warranties, financial guarantees and environmental remediation 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, including sustainability related matters.
- Substantial decrease in share price.
- Significant exposures to volatile markets, such as exchange rates, commodities (e.g., crude oil prices), equities or interest rates.
- Uninsured or underinsured catastrophes or business interruption losses when they occur (e.g., an earthquake).
- Changes in the environment such as war, civil unrest, outbreaks of disease expected to adversely affect the entity or physical risks related to climate change (e.g., extreme flooding).

- A8. In certain circumstances, the auditor may identify fraud risk factors arising from events or conditions that may cast significant doubt on the entity's ability to continue as a going concern that are relevant to the identification and assessment of the risks of material misstatement due to fraud in accordance with ASA 240.¹⁸

Examples:

- Recurring negative cash flows from operations or an inability to generate cash flows from operations may create a threat of bankruptcy, foreclosure, or hostile takeover that may indicate an incentive or pressure to commit fraud.
- Non-compliance or marginal ability to meet debt covenant requirements may threaten the ability to renew borrowings and indicate an incentive or pressure to improve the business performance or to intentionally misstate the financial report.

Risk Assessment Procedures and Related Activities (Ref: Para. 11–12)

- A9. ASA 315 contains requirements and guidance regarding the auditor's responsibility to obtain an understanding of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control, and the identification and assessment of the risks of material misstatement whether due to fraud or error. The requirements and guidance in this ASA refer to, or expand on, what is required by ASA 315 relevant to identifying events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
- A10. The risk assessment procedures and related activities assist the auditor in determining 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. In particular, when performing risk assessment procedures, such as those required by paragraphs 11–12, the auditor may identify information about certain events or conditions that, when considered individually or collectively, indicate that there are events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. These procedures also allow for more timely discussions with management, including a discussion of management's plans for future actions and resolution of any identified going concern issues when events or conditions are identified that may cast significant doubt on the entity's ability to continue as a going concern. The auditor uses professional judgement to determine the nature and extent of the risk assessment procedures to be performed to meet the requirements of this ASA.
- A11. ASA 315¹⁹ requires the auditor to design and perform risk assessment procedures in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory. Designing and performing risk assessment procedures in an unbiased manner may assist the auditor in identifying potentially contradictory information. This may assist the auditor in maintaining professional scepticism when identifying whether the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern give rise to a risk of management bias in the preparation of the financial report (also see paragraphs A68–A71).
- A12. The following are examples of risk assessment procedures that may be relevant:

Examples:

The Entity and its Environment

¹⁸ See ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report*, paragraph 24.

¹⁹ See ASA 315, paragraph 13.

- Enquiries of financial planning and analysis personnel related to cash flow, profit and other relevant forecasts to understand the sensitivity analysis related to future earnings included in management's assessment of going concern.
- Enquiries of the entity's legal counsel about the existence of litigation and claims and the reasonableness of management's assessments of their outcome and the estimate of their financial implications.
- Review of previous forecasts (retrospective review) to obtain information regarding the effectiveness of management's process for assessing going concern.
- Inspecting the terms of debentures and loan agreements and determining whether any have been breached.

The Applicable Financial Reporting Framework

- Review of disclosures about the significant judgements and assumptions management makes about the future included in the entity's latest available financial report that may be indicative of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

The Entity's System of Internal Control

- Inspecting the minutes of the meetings of shareholders, those charged with governance and relevant committees for reference to financing difficulties.

- A13. The auditor may also use automated tools and techniques when designing and performing risk assessment procedures as required by paragraph 11.

Examples:

The auditor may use automated tools and techniques when:

- Performing analytical procedures to understand the trends of key financial ratios (e.g., the entity's key sources of earnings and their relationship to cash generation) or identify inconsistencies or unusual events.
- Applying predictive models to assess an entity's financial condition or to understand the impact of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (e.g., models for prediction of bankruptcy or insolvency).

Scalability (Ref: Para. 11–12)

- A14. The nature and extent of the auditor's risk assessment procedures may vary based on the nature and circumstances of the entity.

Examples:

The Entity and its Environment

- The nature and extent of the auditor's risk assessment procedures to obtain an understanding of the measures used, internally and externally, to assess the entity's financial performance are likely to be more extensive for entities with a complex structure and business activities. Such entities may also have complex borrowing arrangements with lenders, suppliers or group entities. In contrast, for smaller or less complex entities whose business activities are simple with few lines of business and

with uncomplicated borrowing arrangements, the auditor's risk assessment procedures are likely to be less extensive.

The Applicable Financial Reporting Framework

- When the entity's business activities are affected to a lesser degree by uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, the related disclosures in the entity's financial report may be straightforward and the applicable financial reporting requirements may be simpler to apply. In such circumstances, the auditor's procedures to obtain an understanding of the basis for management's intended use of the going concern basis of accounting are likely to be less extensive.

The Entity's System of Internal Control

- The nature and extent of the auditor's risk assessment procedures may also depend on the extent to which certain matters apply in the circumstances. For example, those charged with governance in smaller or less complex entities may not include independent or outside members who exercise oversight over management's assessment of the entity's ability to continue as a going concern. In addition, the entity's risk assessment process may be undertaken through the direct involvement of the owner-manager.

A15. The following considerations may be relevant for smaller or less complex entities:

- The size of an entity may affect its ability to withstand adverse conditions. Smaller entities may be able to respond quickly to exploit opportunities, but may lack reserves to sustain operations.
- Conditions of particular relevance to smaller 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.

Obtaining an Understanding of the Entity and Its Environment, the Applicable Financial Reporting Framework and the Entity's System of Internal Control

The Entity and Its Environment (Ref: Para. 12(a), 12(c))

A16. The entity's business model, objectives, strategies and related business risks may give rise to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. Some business risks may be so significant that they have implications for the conclusion as to the appropriateness of the entity's use of the going concern basis of accounting and whether a material uncertainty exists.

Examples:

- Industry developments, such as the lack of access to appropriate personnel or expertise to deal with the changes in the industry or loss of significant customers or market share.
- New products and services that may lead to increased product liability.
- Expansion of the entity's business, and demand that has not been accurately estimated.

- Regulatory requirements resulting in increased legal exposure or financial impacts or restrictions on business activities, including those arising from sustainability related matters.
- Current and prospective financing requirements, such as loss of financing due to the entity's inability to meet certain predetermined revenue metrics.
- Incentives and pressures on management, which may result in management bias, and therefore affect the reasonableness of assumptions used in management's assessment of the entity's ability to continue as a going concern.

- A17. Management will likely use information available about the future as well as historical information from internal and external sources when identifying events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. Obtaining an understanding of the measures used, internally or externally, may highlight unexpected results or trends that may be indicative of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

Examples:

- Internal performance measures may indicate an unusual deterioration in sales volume when compared to that of other entities in the same industry that may be indicative of a significant decline in market share or loss of customers.
- External information sources, such as pricing data, comparable data about competitors (benchmarking data) or macro-economic data may indicate competitive, industry, economic and other factors that are used in the entity's forecasts, future cash flow and budgeting processes.
- The analysis of the entity's financial performance by external parties, such as analysts, credit agencies or institutional investors, may highlight inconsistencies with management's performance measures.

The Applicable Financial Reporting Framework (Ref: Para. 12(d), 12(e))

- A18. Obtaining an understanding of the requirements of the applicable financial reporting framework provides the auditor with information about the recognition, measurement and presentation criteria in the applicable financial reporting framework, and how they apply in the preparation of the financial report under the going concern basis of accounting. The applicable financial reporting framework may also include disclosure requirements about the significant judgements and assumptions management makes in concluding whether or not there is a material uncertainty related to going concern. Law or regulation may also include disclosure and other detailed requirements when preparing a financial report on the going concern basis of accounting.
- A19. The nature, extent, timing and frequency of management's assessment of the entity's ability to continue as a going concern may vary from entity to entity. In some entities, management may make assessments of the entity's ability to continue as a going concern more frequently as part of ongoing monitoring, while in other entities it may be made on an annual basis. If such an assessment has not yet been performed, the auditor may obtain an understanding of the basis for the intended use of the going concern basis of accounting through discussion with management and enquire of management whether events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern.

Considerations Specific to Public Sector Entities (Ref: Para. 12(d), 12(e))

- A20. In some jurisdictions the applicable financial reporting framework may include specific guidance for public sector entities in relation to going concern that is relevant to management's assessment of the entity's ability to continue as a going concern. For example, such guidance may recognise the relevance of considering the ongoing nature of government programs to certain public sector entities and the presumption of continuation of public services and associated government funding to deliver these programs.

The Entity's System of Internal Control (Ref: Para. 12(f), 12(h), 12(i))

- A21. Obtaining an understanding of the oversight by those charged with governance may be particularly important when the assessment of the entity's ability to continue as a going concern:
- Requires significant judgement by management to assess 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; or
 - Is complex to make, for example, because of the use of multiple data sources or assumptions with complex interrelationships.
- A22. The effectiveness of management's assessment of the entity's ability to continue as a going concern may be influenced by the oversight exercised by those charged with governance. The auditor may obtain an understanding of whether those charged with governance:
- Have the skills or knowledge to understand the appropriateness of the method used by management in assessing the entity's ability to continue as a going concern.
 - Have the skills or knowledge to understand whether management's assessment of the entity's ability to continue as a going concern has been made in accordance with the requirements of the applicable financial reporting framework.
 - Are independent from management, have the information required to evaluate on a timely basis how management made the assessment of the entity's ability to continue as a going concern, and the authority to call into question management's actions when those actions appear to be inadequate or inappropriate.
 - Oversee management's process for making the assessment of the entity's ability to continue as a going concern.
- A23. Aspects that may be relevant to the auditor's understanding of how management determines the relevant method, significant assumptions and data may include:
- The basis for management's selection of the method, assumptions and data used in assessing the entity's ability to continue as a going concern; and
 - If alternative methods, assumptions or data were considered by management, including:
 - How management determines that the assumptions are relevant and complete.
 - How management determines the relevance, accuracy and completeness of the data used in the assessment.
- A24. If management has changed its method for assessing the entity's ability to continue as a going concern from the prior period, considerations may include whether the new method is, for example, more appropriate, is itself a response to changes in the environment or circumstances affecting the entity, or to changes in the requirements of the applicable financial reporting

framework or regulatory environment, or whether management has another valid reason. If management has not changed its method for assessing the entity's ability to continue as a going concern, considerations may include whether the continued use of the previous method, significant assumptions and data is appropriate in view of the current environment or circumstances.

- A25. The disclosures related to the entity's ability to continue as a going concern may contain information that is obtained from other supporting records and information from outside of the general and subsidiary ledgers (e.g., information produced by an entity's risk management system about hedging strategies or sensitivity analysis derived from financial models that demonstrate management has considered alternative assumptions). As part of obtaining an understanding of the entity's system of internal control, the auditor may consider how management determines the appropriateness of such information used to develop the disclosures related to the entity's ability to continue as a going concern.

Remaining Alert Throughout the Audit for Information about Events or Conditions (Ref: Para. 13)

- A26. As explained in ASA 315,²⁰ obtaining an understanding of the entity and its environment, the applicable financial reporting framework and the entity's system of internal control is a dynamic and iterative process of gathering, updating and analysing information and continues throughout the audit. Therefore, the auditor's determination of whether events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern may change as new information is obtained.

Example:

The auditor may identify a risk of a material misstatement associated with the valuation assertion for a lender of medium-term real estate backed loans because of a fall in real estate market values. The same event in combination with a severe economic downturn may have a longer-term consequence and a greater impact on the assessment of the risk of material misstatement that may also indicate an event or condition that may cast significant doubt on the entity's ability to continue as a going concern.

- A27. ASA 315 requires the auditor to revise the auditor's identification or assessment of the risks of material misstatement if the auditor obtains new information which is inconsistent with the audit evidence on which the auditor originally based the identification or assessment of risk.²¹ 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 identification or assessments are made, in addition to performing the procedures in this ASA, the auditor's identification or assessment of the risks of material misstatement may need to be revised.
- A28. The auditor may also become aware of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern from:
- External information sources (e.g., publicly available information of the entity's financial performance by external parties, such as information about short-selling of shares, industry or macro-economic forward-looking information such as economic or earnings forecasts).
 - Other engagements performed for the entity (e.g., an agreed-upon procedures engagement).
 - The auditor's consideration of the other information in accordance with ASA 720.²²

²⁰ See ASA 315, paragraph A48.

²¹ See ASA 315, paragraph 37.

²² See ASA 720 *The Auditor's Responsibilities Relating to Other Information*.

Considerations Specific to Public Sector Entities (Ref: Para. 13)

- A29. In the public sector some entities may have broader responsibilities to publicly report beyond the preparation of the financial report which may provide the auditor information about events or conditions that may cast significant doubt on an entity's ability to continue as a going concern. For example, in certain jurisdictions public sector entities may be required to report on long-term fiscal sustainability of a public sector entity's finances and the auditor may have additional responsibilities established by law or regulation with respect to such information. In such cases, the auditor may become aware of long-term fiscal sustainability concerns that may be indicative of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

Events or Conditions not Previously Identified or Disclosed by Management (Ref: Para. 14)

- A30. If the auditor identifies events or conditions that may cast significant doubt on the entity's ability to continue as a going concern that management failed to identify or disclose to the auditor, this may constitute a deficiency in internal control. ASA 265²³ deals with the auditor's responsibility to communicate appropriately to those charged with governance and management deficiencies in internal control that the auditor has identified in an audit of a financial report.
- A31. When management has intentionally failed to identify or disclose to the auditor events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, this may raise doubts about their integrity and honesty, such as when the auditor suspects an intention to mislead. ASA 240 provides further requirements and guidance in relation to the identification and assessment of the risks of material misstatement due to fraud.²⁴

Control Deficiencies Within the Entity's System of Internal Control (Ref: Para. 15)

- A32. When the auditor identifies one or more control deficiencies with respect to management's assessment of going concern, ASA 265 requires the auditor to determine whether, individually or in combination, the deficiencies in internal control constitute a significant deficiency. Matters the auditor may consider in determining whether a significant deficiency in internal control exists related to management's assessment of going concern may include:
- Absence of a process established by management to identify, assess and address events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
 - Ineffective oversight by those charged with governance over management's assessment of the entity's ability to continue as a going concern.
 - Evidence that management has failed to identify or disclose events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

Evaluating Management's Assessment

Requesting Management to Make an Assessment (Ref: Para. 16)

- A33. When management is unwilling to make an assessment of the entity's ability to continue as a going concern, even when the financial reporting framework does not include an explicit requirement to do so, the auditor may consider management's lack of assessment as a limitation on the audit evidence the auditor has obtained. In accordance with ASA 705, when

²³ See ASA 265 *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*.

²⁴ See ASA 240, paragraphs 26-28.

the possible effects on the financial report of the inability to obtain sufficient appropriate audit evidence are pervasive, the auditor disclaims an opinion.

Management's Assessment and Supporting Analysis and the Auditor's Evaluation (Ref: Para. 17)

A34. Management's assessment of the entity's ability to continue as a going concern is a key part of the auditor's evaluation whether:

- Management's use of the going concern basis of accounting in the preparation of the financial report is appropriate; and
- 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.

A35. It is not the auditor's responsibility to rectify a lack of analysis by management. In some circumstances, however, a less extensive 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 the entity has profitable operations and there are no liquidity concerns, and the entity's risk assessment process has not identified events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, the method, assumptions and data used by management to make its assessment may be less extensive. However, in situations when, in the auditor's professional judgement, management has not performed an appropriate assessment based on the nature and circumstances of the entity, this may be an indicator of a deficiency in internal control in accordance with ASA 265.

Considerations Specific to Public Sector Entities (Ref: Para. 17)

A36. For certain public sector entities that are able to draw upon government assistance, management's assessment of going concern may not always be based on solvency or liquidity tests and other factors may be more relevant when the auditor evaluates the entity's ability to continue as a going concern. For example, the absence of a change in government policy in the assessment period may be more relevant when determining whether continued funding is likely to be secured to enable the entity to realise its assets and discharge its liabilities in the normal course of business and continue its operations for the foreseeable future.

Obtaining Audit Evidence in an Unbiased Manner (Ref: Para. 18)

A37. Obtaining audit evidence in an unbiased manner may involve obtaining evidence from multiple sources within and outside the entity. However, the auditor is not required to perform an exhaustive search to identify all possible sources of information to be used as audit evidence.

Examples:

Contradictory information may include:

- The results of the auditor's procedures to evaluate the assumptions used by management in a cash flow forecast highlight inconsistencies with assumptions used for other purposes, such as forecasts used to evaluate the recoverability of deferred tax assets or impairment of assets.
- Credit history information from external sources may indicate financial difficulties for significant customer(s) that has not been considered by management when assessing the recoverability of account receivable balances.
- The outcome of the analysis performed for other account balances is indicative of deteriorating financial performance (e.g., increased inventory obsolescence, delays in payments from customers, changes in customer base, increased borrowings or delays

in payments to creditors) that is not adequately considered by management when making its assessment of going concern.

Corroborative information may include:

- Publicly available information from external sources, such as analysts' expectations or industry data that is consistent with forecasts and assumptions used by management in its assessment of going concern.

Method, Significant Assumptions and Data Used in Management's Assessment (Ref: Para. 19)

- A38. The method, significant assumptions and data used by management in its assessment of the entity's ability to continue as a going concern support the judgements made by management about the appropriateness of the use of the going concern basis of accounting in the preparation of the financial report and whether a material uncertainty exists.

Method (Ref: Para. 19(a))

- A39. "Method" refers to the approach taken by management to assess the entity's ability to continue as a going concern. A method may be based on using qualitative or quantitative information and involves applying assumptions and data, and taking into account a set of relationships between them.

Examples:

- When the entity's business activities are more complex or susceptible to a greater degree by uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, management's method may require input from multiple sources of historical and forward-looking data. The method may also include significant judgements and assumptions with multiple interrelationships between them or from sources of data external to the entity. Supporting analysis may include the effects of adverse scenarios or may employ sensitivity and scenario analysis to consider alternative outcomes related to the entity's current and expected profitability, its liquidity sources, financial obligations and the funds necessary to maintain the entity's operations for the foreseeable future. Supporting analysis may also reflect the interdependencies between risk variables that impact liquidity, market and credit risks.
- When the entity's business activities are simple or the business is affected to a lesser degree by uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, management may determine that the most appropriate method is to prepare a simple cash flow forecast and budget or other equivalent analysis covering the appropriate assessment period.

- A40. Matters that may be relevant to the auditor's evaluation of whether the method selected is appropriate in the context of the applicable financial reporting framework and, if applicable, the appropriateness of changes from the prior period may include:

- Whether management's rationale for the method selected is appropriate;
- When management has determined that different methods result in significantly different outcomes, how management has investigated the reasons for these differences; and
- Whether the changes are based on new circumstances or new information. When this is not the case, the changes may not be reasonable or may be an indicator of possible management bias (also see paragraphs A68–A71).

- A41. Matters that may be relevant to the auditor's evaluation of whether calculations are mathematically accurate may include whether management has provided adequate explanations for advanced or complex calculations or processing steps (e.g., multiple formulas or macros).

Significant Assumptions (Ref: Para. 19(b))

- A42. Considerations for the auditor's evaluation regarding the significant assumptions on which management's assessment is based may include:
- Management's rationale for the selection of the assumptions;
 - Whether the assumptions used are consistent with those used in other areas of the entity's business activities, for example, business prospects, assumptions in strategy documents and assumptions used in making accounting estimates;
 - Whether the assumptions used by management in the prior period were reasonable, for example, by comparing the prior year assumptions to the actual outcomes in the current year.
 - Whether management considered alternative assumptions to determine the effect of changes in the assumptions on the data used in making the assessment, for example, performing a sensitivity analysis including 'pessimistic' and 'optimistic' scenarios; and
 - Whether a change from prior periods in selecting an assumption is based on new circumstances or new information. When this is not the case, the change may not be reasonable or may be an indicator of possible management bias (also see paragraphs A68–A71).

Example:

The use of automated tools and techniques may assist the auditor when performing sensitivity analysis of management's assessment of going concern to understand how outcomes are affected by changes in input variables such as discount or growth rates.

Data (Ref: Para. 19(c))

- A43. Matters that may be relevant to the auditor's evaluation of whether the data is relevant and reliable may include, for example, management's rationale for selection of the data, how management evaluated whether the data is appropriate, the source of the data, or whether and how the integrity of the data has been maintained through all stages of information processing.
- A44. When using information produced by the entity, ASA 500²⁵ requires the auditor to evaluate whether the information is sufficiently reliable for the auditor's purposes, including as necessary in the circumstances, to obtain audit evidence about the accuracy and completeness of the information and evaluating whether the information is sufficiently precise and detailed for the auditor's purposes.
- A45. Considerations for the auditor's evaluation of whether the data is appropriate in the context of the applicable financial reporting framework, and, if applicable, the appropriateness of changes from the prior period, may include:

²⁵ See ASA 500 *Audit Evidence*, paragraph 9.

- Whether the data used is consistent with data used elsewhere by management in the preparation of the financial report;
- Whether modifications made to the data are appropriate and supported by management's rationale; and
- Whether a change from prior periods in the sources or items of data selected is based on new circumstances or new information. When this is not the case, the change may not be reasonable or may be an indicator of possible management bias (also see paragraphs A68–A71).

Scalability (Ref: Para. 19)

- A46. The nature and extent of the auditor's procedures may vary depending on the method, significant assumptions and data used by management to assess the entity's ability to continue as a going concern as well as the nature and circumstances of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

Examples:

Method

- The greater the complexity of the method used by management to assess the entity's ability to continue as a going concern, the more likely it is that management may need to apply specialised skills or knowledge in making its assessment. Also, the auditor's procedures to evaluate management's method will likely be more extensive. In such circumstances it may also be appropriate to involve members of the engagement team with specialised skills or knowledge to assist the auditor in applying the audit procedures or evaluating the results of those procedures.
- In contrast, the auditor's procedures may be less extensive when management's method is simpler, such as when the method used includes a simple budget, sales or cash flow forecast and an analysis of the entity's borrowing facilities and requirements.

Significant Assumptions

- When the assumptions used by management inherently have a high level of subjectivity (e.g., assumptions based on internally developed plans for future restructuring of the entity's business units), the auditor's procedures are likely to be more extensive and may include consideration of forward-looking assumptions.
- In contrast, when management uses assumptions commonly used by other marketplace participants, the auditor's procedures to evaluate the assumptions used by management may be less extensive and may include the auditor comparing the assumptions to those obtained directly from the market or a third party.

Data

- When management's assessment of going concern includes large volumes of data from multiple sources, there may be inherent complexity in evaluating the reliability of the data used and the auditor's procedures may employ automated tools and techniques to evaluate the reliability of the data used by management.
- In contrast, when the source of the data is derived from a reputable external information source (e.g., from a central bank or statistical reports from reputable, authoritative sources) the auditor's procedures to consider the reliability of the information may not be as extensive.

Period Beyond Management's Assessment (Ref: Para. 20)

- A47. 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 the preparation of the financial report. The degree of uncertainty associated with the outcome of an event or condition increases when the event or condition is further into the future.
- A48. 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 required by paragraph 21, would be at least twelve months from the date of approval of the financial report.
- A49. When events or conditions have been identified in the period beyond management's assessment, depending on the nature and circumstances of such events or conditions, the auditor may consider requesting management to revise the period of assessment for example, by extending it beyond twelve months from the date of approval of the financial report.

Requesting Management to Extend Its Assessment (Ref: Para. 21)

- A50. Most financial reporting frameworks requiring an explicit management assessment about going concern specify the minimum period for which management is required to take into account all available information.²⁶ Paragraph 21 requires the auditor to request management to extend its assessment period if that period covers less than twelve months from the date of the approval of the financial report. This requirement also applies when the applicable financial reporting framework does not specify the period to be covered by management's assessment of the entity's ability to continue as a going concern.
- A51. The date of approval of the financial report for purposes of the ASAs is the date on which those with the recognised authority determine that all the statements that comprise the financial report, including the related notes, have been prepared and that those with the recognised authority have asserted that they have taken responsibility for the financial report.²⁷ The applicable financial reporting framework may use other terms to describe the "date of approval of the financial report."²⁸
- A52. The auditor may also wish to discuss with management at an early stage of the audit the expected date of approval of the financial report to assist the auditor in complying with the requirement in paragraph 21. To avoid misunderstandings, the auditor may also include in the engagement letter reference to the expectation that management's assessment of the entity's ability to continue as a going concern covers at least twelve months from the date of approval of the financial report.²⁹
- A53. Certain entities, for example public sector entities, that are dependent on continued government funding will ordinarily not have certainty of funding beyond the annual budget cycle of governments. Management will therefore need to make assumptions about securing continued funding so that management's assessment covers a period of at least twelve months from the date of approval of the financial report. In such circumstances the absence of

²⁶ See, for example, AASB 101 defines this as a period that should be at least, but is not limited to, twelve months from the end of the reporting period and IPSAS 1 defines this as a period that should be at least, but is not limited to, twelve months from the approval of the financial statements.

²⁷ See ASA 560, paragraph 5(b).

²⁸ See, for example, AASB 110, *Events After the Reporting Period* uses the term "date the financial statements are authorised for issue" and explains that such date will vary depending upon the management structure, statutory requirements and procedures followed in preparing and finalising the financial statements.

²⁹ See ASA 210 *Agreeing the Terms of Audit Engagements*, paragraph A24.

information about a change of government policy may be relevant to the auditor's evaluation of the appropriateness of these assumptions.

Management Unwilling to Extend its Assessment (Ref: Para. 22–23)

- A54. An unwillingness by management to extend its assessment may be a limitation on the audit evidence the auditor is seeking to obtain about the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial report. Accordingly, the auditor is required to discuss the matter with management, and where appropriate, with those charged with governance, and enquire as to the reasons for management's decision.
- A55. Where management has chosen not to extend the period of assessment, management and those charged with governance may be able to provide additional information to support the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial report. For example, this may be the case when the entity has profitable operations and has no liquidity concerns, and management or those charged with governance have not identified any events or conditions that may cast significant doubt beyond the period of assessment they have chosen.
- A56. The level of detail and the formality of management's process to extend its assessment of the entity's ability to continue as a going concern to at least twelve months from the date of approval of the financial report may vary from entity to entity. In some entities, management may prepare an assessment of the entity's ability to continue as a going concern, supported by detailed analysis, more frequently as part of its ongoing monitoring. In other cases, management may update its assessment from the date of the financial report to the date of approval of the financial report through less formal means. As explained in paragraph A35 a less extensive 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.
- A57. If the auditor is unable to obtain sufficient appropriate audit evidence that supports the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial report, as a result of management's decision not to extend its assessment, the auditor may conclude that it is appropriate to:
- Revise the assessment of the risks of material misstatement and modify planned audit procedures in accordance with ASA 315.³⁰ For example, if management's decision is unreasonable in the circumstances, this may indicate a fraud risk factor that requires evaluation in accordance with ASA 240.
 - Consider management's unwillingness to extend its assessment as a limitation on the audit evidence the auditor has obtained. In accordance with ASA 705, when the possible effects on the financial report of the inability to obtain sufficient appropriate audit evidence are pervasive, the auditor disclaims an opinion.

Information Used in Management's Assessment (Ref: Para. 25)

- A58. Paragraphs 20, A27, A30–A31 and A66 describe circumstances that are relevant when it may be necessary for the auditor to request management to revise its assessment.

Evaluating Management's Plans for Future Actions (Ref: Para. 26–28)

- A59. Management's plans for future actions may mitigate the significance of identified events or conditions that may cast significant doubt on the entity's ability to continue as a going

³⁰ See ASA 315, paragraph 37.

concern. Such plans for future actions, may include plans to liquidate assets, borrow money or restructure debt, reduce or delay expenditures, or increase capital.

Examples:

- The risk of an entity being unable to make its normal debt repayments may be counterbalanced 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.
- The loss of a principal supplier may be mitigated by management's actions to secure a suitable alternative source of supply.

A60. The nature and extent of audit evidence to be obtained about management's intent and ability is a matter of professional judgement. The auditor's procedures to evaluate management's plans for future actions may include:

- Enquiry of management about its reasons for a particular course of action.
- Evaluating responses to enquiries of management about the ability to carry out a particular course of action given the entity's economic circumstances, including the implications of its existing commitments and legal, regulatory or contractual restrictions that could affect the feasibility of management's actions.
- Evaluating responses to enquiries of management or those charged with governance with audit evidence from sources within or outside the entity.
- Inspecting information about management's history of carrying out its stated intentions.
- Inspecting written plans and other documentation, including, when applicable, formally approved budgets, authorisations or minutes.
- Inspecting records and documents for support of any planned disposals of assets.
- Inspecting reports of regulatory actions.
- Inspecting correspondence with lenders and finance providers that could affect the feasibility of management's plans to carry out further actions.
- Evaluating the consistency of significant assumptions in management's plans with those used in other accounting estimates, or with related assumptions used in other areas of the entity's business activities,
- Reviewing events occurring subsequent to the date of the financial report and up to the date of the auditor's report to identify those that either mitigate or otherwise affect the entity's ability to continue as a going concern.
- Confirming the existence, legality and enforceability of arrangements to provide or maintain financial support with third parties or related parties, including the entity's owner-manager and evaluating the financial ability of such parties to provide additional funds.
- When prospective financial information is relevant, performing analytical procedures by comparing:
 - 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.
 - When management's plans for future actions are based on information from internal sources, comparing to information from reputable independent sources external to the entity.
- A61. In certain circumstances the auditor may consider requesting an external confirmation³¹ of the existence and terms of borrowing facilities between the entity and external finance providers.

Examples:

Requesting an external confirmation may be appropriate when:

- Borrowing facilities are being renewed in the assessment period.
- There are limited financial resources available to the entity beyond those required to continue its operations.
- The entity is dependent on borrowing facilities shortly due for renewal, for example within twelve months from the date of approval of the financial report.
- There is an indication that previous renewal of borrowing facilities was agreed with difficulty, or the lender has imposed additional conditions as a prerequisite for continued financing.
- There is a significant deterioration in projected cash flows.
- The value of assets granted as security for borrowing is declining.
- The entity has breached the terms of borrowing covenants, or there are indications of potential breaches.

- A62. Some finance providers may be reluctant to confirm in writing to an entity or their auditor that borrowing facilities will be renewed. When management's plans for future actions are based on arrangements to maintain or secure borrowing facilities from external finance providers, the lack of an external confirmation may be a limitation on the audit evidence the auditor is seeking to obtain. In such circumstances, the auditor may consider making enquiries of external finance providers with respect to borrowing facilities, including information about the rationale for their reluctance to confirm in writing that borrowing facilities will be renewed and whether such rationale is specific to the circumstances of the entity. The auditor may also need to enquire of management as to whether there are alternative strategies or sources of financing that may mitigate the significance of identified events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If alternative strategies or sources of financing are not available, then a material uncertainty may exist.

Financial Support by Third Parties or Related Parties, Including the Entity's Owner-Manager

Intent (Ref: Para. 28)

- A63. Where management's plans for future actions include financial support by third parties or related parties, including the entity's owner-manager, whether through the subordination of loans, commitments to maintain or provide additional funding, or guarantees, and such financial support is important to an entity's ability to continue as a going concern, the auditor may need to consider requesting written confirmation from such parties to obtain sufficient

³¹ See ASA 330 *The Auditor's Responses to Assessed Risks*, paragraph 19.

appropriate audit evidence about their intent to provide the necessary financial support. Such written confirmation may be in paper form, or by electronic or other medium³² and may include:

- Terms and conditions of the commitment from those parties.
- When applicable, the legality and enforceability of the commitments.
- The period or the specific date to which the parties intend to provide the financial support.

Ability (Ref: Para. 28)

A64. The auditor's procedures to obtain sufficient appropriate audit evidence about the ability of the third parties or related parties, including the entity's owner-manager, to provide the financial support may include:

- Enquiries about the business rationale for the financial support and the basis on which such support is established (e.g., entity's business plans or other forecasts).
- Enquiries about the ability to provide the financial support in a timely manner for the entity to meet its obligations.
- Enquiries of others, such as external or internal legal counsel, or the auditor of the financial report of a related party in a group audit engagement who may have relevant knowledge and information about the ability of third parties or related parties, including the entity's owner-manager, to provide the financial support.
- Inspecting the records of past financial support provided by the parties when such support was needed.
- Inspecting the latest available audited financial report or other supporting information to obtain audit evidence about the financial position of the parties to provide the necessary financial support to the entity.

Scalability (Ref: Para. 28)

A65. Financial support by an entity's owner-manager is often important to the ability of smaller or less complex entities to continue as a going concern. Where a smaller or less complex entity is largely financed by a loan from the owner-manager, it may be important that these funds are not withdrawn.

Example:

The continuance of a smaller or less complex entity in financial difficulty may be dependent on the owner-manager subordinating a loan to the entity in favour of banks or other creditors, or the owner-manager supporting a loan for the entity by providing a guarantee with the owner-manager's 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 evaluates 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.

³² See ASA 505 *External Confirmations*, paragraph 6(a).

Information Becomes Known After the Date of the Auditor's Report (Ref: Para. 29)

- A66. ASA 560 requires the auditor to respond appropriately to facts that become known to the auditor after the date of the auditor's report but before the date the financial report is issued, that, had they been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report.³³ For example, this may be the case when the auditor is aware of a significant delay between the date of the auditor's report and the date the financial report will be issued, and the auditor determines that such delay is related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

Evaluating the Audit Evidence Obtained and Concluding (Ref: Para. 30–31)

- A67. If the auditor is unable to obtain sufficient appropriate audit evidence regarding the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial report, in accordance with ASA 705 the auditor is required to consider the implications for the audit.

Indicators of Possible Management Bias (Ref: Para. 30(a))

- A68. The susceptibility to management bias, whether intentional or unintentional, may increase with the degree of estimation uncertainty, complexity and subjectivity in management's assessment of the entity's ability to continue as a going concern.
- A69. When the auditor identifies indicators of possible management bias, the auditor may need a further discussion with management and may need to reconsider whether sufficient appropriate audit evidence has been obtained that the method, assumptions and data used by management to make its assessment of the entity's ability to continue as a going concern were appropriate.

Examples:

- Management may tend to ignore observable marketplace assumptions or data and instead use their own internally-developed assumptions or select data that yields a more favourable outcome.
- There may be changes in the method, assumptions or data from period to period without a clear and appropriate reason for doing so. In contrast, management may not have made changes in the method, assumptions or data from period to period despite significant changes in economic conditions or when other circumstances indicate that a change may be necessary.
- There may be significant influence of an owner-manager or a related party over the determination of the source of the information used in management's assessment of the entity's ability to continue as a going concern.
- Management may be overly optimistic or fail to consider trends and patterns in historical information when evaluating future outcomes about events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

- A70. When such indicators are identified, this may also affect the auditor's conclusion as to whether the auditor's risk assessment and related responses remain appropriate. The auditor may also need to consider the implications for other aspects of the audit,³⁴ including the need to further question the appropriateness of management's judgements in making its assessment of the

³³ See ASA 560, paragraphs 10-13.

³⁴ See ASA 540 *Auditing Accounting Estimates and Related Disclosures*, paragraphs A133-A136.

entity's ability to continue as a going concern. Further, indicators of possible management bias may affect the auditor's conclusion as to whether the financial report as a whole is free from material misstatement, as discussed in ASA 700.³⁵

- A71. Indicators of possible management bias may also be fraud risk factors and may cause the auditor to reassess whether the auditor's risk assessment, in particular the assessment of the risks of material misstatement due to fraud, and related responses remain appropriate.³⁶ When there is intention to mislead, management bias is fraudulent in nature and the auditor may need to consider whether the bias may represent a material misstatement due to fraud.

Concluding on Whether a Material Uncertainty Exists (Ref: Para. 31)

- A72. When events or conditions are identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor's conclusion required by paragraph 31 is dependent on the auditor's evaluation of management's plans for future actions in accordance with paragraphs 26–28. For example, a material uncertainty exists when, based on the audit evidence obtained, the auditor concludes that:

- The outcome of these plans is not likely to be sufficient to mitigate the effects of the identified events or conditions.
- Management's plans may not be feasible in the circumstances.
- Management may not have the intent or ability to carry out specific courses of action.
- Third parties or related parties, including the entity's owner-manager, may not have the intent or ability to provide necessary financial support.

When a material uncertainty exists, the auditor is required to determine whether the financial report provides the disclosures required by paragraph 33.

- Aus A72.1 Refer to [Aus] Appendix 2 for a diagrammatic illustration of the auditor's decision-making process for going concern.

Adequacy of Disclosures

Adequacy of Disclosures When No Material Uncertainty Exists (Ref: Para. 32, 34(b)(i))

- A73. 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;
- The assumptions management makes about the future, and other sources of estimation uncertainty; or
- Significant judgements made by management as part of its assessment of the entity's ability to continue as a going concern.

Example:

³⁵ See ASA 700 *Forming an Opinion and Reporting on a Financial Report*, paragraph 11.

³⁶ See ASA 240, paragraph 25.

In assessing the entity's ability to continue as a going concern, management considers all relevant information about events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. Having considered all relevant information, including the feasibility and effectiveness of any remedial actions to mitigate the effects of those events or conditions, management may conclude that there is no material uncertainty. For example, in response to declining customer demand and uncertainties faced in the broader economic environment, management may have started executing a turnaround strategy that is demonstrating some evidence of success (e.g., reducing costs, optimising cash flows and preserving liquidity, to support the entity's ability to realise its assets and discharge its liabilities in the normal course of business and continue its operations for the foreseeable future). However, reaching the conclusion that there is no material uncertainty involved significant judgement by management in estimating the impact and the timing of the future cash flows.

- A74. 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, represents the underlying transactions and events in a manner that achieves fair presentation.³⁷
- A75. When significant judgements are made by management in concluding that there is no material uncertainty, in applying paragraph 32 the auditor may determine, depending on the facts and circumstances, that additional disclosures are necessary for the financial report to achieve fair presentation (for fair presentation frameworks) or for the financial report not to be misleading (for compliance frameworks), as appropriate. Additional disclosures may be necessary, for example, when no disclosures are explicitly required by the applicable financial reporting framework regarding these circumstances.
- A76. In accordance with ASA 705,³⁸ the auditor is required to express a modified opinion in the auditor's report when the financial report does not provide the additional disclosures necessary to achieve fair presentation beyond disclosures specifically required by the applicable financial reporting framework.

Adequacy of Disclosure When a Material Uncertainty Exists (Ref: Para. 33, 35(a))

- A77. Paragraph 33 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 33 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 and management's plans for future actions to address 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.

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.

³⁷ See ASA 700, paragraph 14.

³⁸ See ASA 705, paragraphs 6 and A7.

Implications for the Auditor's Report (Ref: Para. 34–38)

- A78. Appendix 1 to this ASA provides illustrations of the statements that are required to be included in the auditor's report on the financial report when AASB Accounting Standards is the applicable financial reporting framework. If an applicable financial reporting framework other than AASB Accounting Standards is used, the illustrative statements presented in Appendix 1 to this ASA may need to be adapted to reflect the application of the other financial reporting framework in the circumstances.
- A79. The statements required by paragraphs 34–36 represent the minimum information that is 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 reference to where the respective responsibilities of those with responsibility for the financial report and of the auditor in relation to going concern are described. The Appendix of ASA 700³⁹ includes illustrative wording to be included in the auditor's report in relation to going concern to describe the respective responsibilities of those responsible for the financial report and of the auditor.

Use of Going Concern Basis of Accounting Is Appropriate – No Material Uncertainty Exists (Ref: Para. 34)

- A80. The auditor may provide additional information in the auditor's report that would supplement the statements required by paragraph 34(a) (e.g., to provide a reference to the relevant accounting policies or the notes in the financial report).
- A81. Illustration 1 of Appendix 1 to this ASA is an example of an auditor's report of an entity other than a listed entity when the auditor has obtained sufficient appropriate audit evidence regarding the appropriateness of management's use of the going concern basis of accounting and has concluded that no material uncertainty exists.
- A82. For an audit of a financial report of an entity other than a listed entity, law or regulation may require the auditor to provide the information required by paragraph 34(b). The auditor also may decide that providing the information required by paragraph 34(b) for an entity other than a listed entity would be appropriate to enhance transparency for intended users of a financial report in the auditor's report. For example, the auditor may decide to do so for other entities, including those that may be of significant public interest, for example, because they have a large number and wide range of stakeholders and considering the nature and size of the business. Such entities may include financial institutions (such as banks, insurance companies, and superannuation funds), and other entities such as charities.
- A83. There may be circumstances when, in the auditor's professional judgement, the disclosures of management's judgements relating to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern are fundamental to the intended users' understanding of the financial report. Also, there may be circumstances when the auditor, in addition to including a reference to the disclosure(s) in the financial report, would consider it appropriate to draw attention to key aspects of them. In such circumstances, the information required by paragraph 34(b) can be supplemented to include aspects of the identified events or conditions disclosed in the financial report, such as substantial operating losses, available borrowing facilities and possible debt refinancing, or non-compliance with loan agreements, and related mitigating factors or to draw attention to aspects of the disclosures of management's judgements.

³⁹ See ASA 700, paragraphs 34 and 39.

Description of How the Auditor Evaluated Management's Assessment of Going Concern (Ref: Para. 34(b)(ii), 35(b))

- A84. The auditor may describe one or more of the following elements when providing the description of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern:
- A brief overview of procedures performed;
 - An indication of the outcome of the auditor's procedures;
 - Aspects of the auditor's response or approach that were most relevant to the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, including the evaluation of management's plans for future actions; or
 - Key observations with respect to the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
- A85. The amount of detail to be provided in the auditor's report to describe how the auditor evaluated management's assessment of the entity's ability to continue as a going concern is a matter of professional judgement. When considering the amount of detail to provide in the auditor's report, the auditor may consider the following factors:
- The nature and extent of audit procedures performed to evaluate management's assessment to conclude that no material uncertainty exists.
 - The level of subjectivity, complexity and estimation uncertainty involved in management's assessment.
- A86. In order for intended users to understand the significance of the description in the context of the audit of the financial report as a whole, care may be necessary so that language used in the description of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern:
- Relates the description directly to the specific circumstances of the entity, while avoiding generic or standardised language.
 - Takes into account how the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern are addressed in the related disclosure(s) in the financial report.
 - Does not contain or imply discrete opinions on separate elements of the financial report.
 - When applicable, does not obscure that a material uncertainty exists.
- A87. The nature and extent of the information provided by the auditor is intended to be balanced in the context of the responsibilities of the respective parties (i.e., for the auditor to provide useful information in a concise and understandable form, while not inappropriately being the provider of original information about the entity). Original information is any information about the entity that has not otherwise been made publicly available by the entity (e.g., has not been included in the financial report or other information available at the date of the auditor's report, or addressed in other oral or written communications by management or those charged with governance, such as a preliminary announcement of financial information or investor briefings). Such information is the responsibility of the entity's management and those charged with governance.
- A88. It is appropriate for the auditor to seek to avoid inappropriately providing original information about the entity in the description of how the auditor evaluated management's assessment of

the entity's ability to continue as a going concern. The description of how the auditor evaluated management's assessment of the entity's ability of going concern is not usually of itself original information about the entity, as it describes the matter in the context of the audit. However, the auditor may consider it necessary to include additional information to explain aspects of the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern to enhance users' understanding. When such information is determined to be necessary by the auditor, the auditor may encourage management or those charged with governance to disclose additional information, rather than the auditor providing original information in the auditor's report. Management or those charged with governance may decide to include new or enhanced disclosures in the financial report or elsewhere in the annual report relating to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in light of the fact that the auditor will communicate how they were addressed in the auditor's report.

A89. Illustration 2 of Appendix 1 to this ASA is an example of an auditor's report of a listed entity when:

- The auditor has obtained sufficient appropriate audit evidence regarding the appropriateness of management's use of the going concern basis of accounting;
- The auditor has concluded that no material uncertainty exists; and
- The financial report adequately discloses the significant judgements made by management in concluding that there is no material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

Use of the Going Concern Basis of Accounting Is Appropriate – A Material Uncertainty Exists (Ref: Para. 35–36)

A90. The identification of a material uncertainty is a matter that is important to intended 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 exists alerts intended users to this circumstance.

Adequate Disclosure of a Material Uncertainty Is Made in the Financial Report (Ref: Para. 35)

A91. Illustrations 3 and 4 of Appendix 1 to this ASA are examples of an auditor's report of an entity other than a listed entity and a listed entity, respectively, 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.

Adequate Disclosure of a Material Uncertainty Is Not Made in the Financial Report (Ref: Para. 36)

A92. Illustrations 5 and 6 of Appendix 1 to this ASA are examples of auditor's reports for a listed entity and an entity other than a listed entity containing qualified and adverse opinions, respectively, when the auditor has obtained sufficient appropriate audit evidence regarding the appropriateness of management's use of the going concern basis of accounting but adequate disclosure of a material uncertainty is not made in the financial report.

Considerations When the Auditor Disclaims an Opinion on the Financial Report (Ref: Para. 37)

- A93. In situations involving multiple uncertainties that are significant to the financial report as a whole, the auditor may consider it appropriate, in extremely rare circumstances, to express a disclaimer of opinion. ASA 705 provides guidance on this issue.⁴⁰
- A94. Paragraph 37 prohibits including separate sections on Going Concern or Material Uncertainty Related to Going Concern in the auditor's report when the auditor disclaims an opinion on the financial report, unless the auditor is otherwise required by law or regulation, as this would be inconsistent with the disclaimer of opinion on the financial report as a whole and may suggest that the financial report as a whole is more credible in relation to those matters. When the auditor disclaims an opinion, ASA 705⁴¹ requires the auditor to state in the Basis for Disclaimer of Opinion section of the auditor's report that the auditor is unable to conclude on the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial report and 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. Providing such a statement in the Basis for Disclaimer of Opinion section of the auditor's report provides useful information to users that may guard against inappropriate reliance on the financial report.

Use of Going Concern Basis of Accounting is Inappropriate (Ref: Para. 38)

- A95. If the financial report has been prepared using the going concern basis of accounting but, in the auditor's professional judgement, management's use of the going concern basis of accounting in the preparation of the financial report is inappropriate, the requirement in paragraph 38 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.
- A96. 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 the 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 the 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 706⁴² in the auditor's report to draw the intended user's attention to that alternative basis of accounting and the reasons for its use.

Written Representations (Ref: Para. 39–40)

- A97. The auditor may consider it appropriate to obtain specific written representations in addition to those required in paragraphs 39 and 40. For example, if the auditor obtains written confirmation as described in paragraph A63 from a related party, including the entity's owner-manager, the auditor may still request written representations from management as to the validity of the written confirmation.

Communication with Those Charged with Governance (Ref: Para. 41–42)

- A98. ASA 260⁴³ explains that timely communication throughout the audit contributes to the achievement of robust two-way dialogue between those charged with governance and the auditor. The appropriate timing for communications will vary with the circumstances of the

⁴⁰ See ASA 705, paragraph 10.

⁴¹ See ASA 705, paragraph 19.

⁴² See ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*.

⁴³ See ASA 260, paragraph A49.

engagement, including the significance and nature of the matter, and the action expected to be taken by those charged with governance.

Example:

When events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, prompt communication with those charged with governance may provide them with an opportunity to provide further clarification where necessary. This also enables those charged with governance to consider whether new or enhanced disclosures may be necessary (e.g., in relation to the mitigating factors in management's plans for future actions that are of significance to overcoming the adverse effects of the events or conditions).

- A99. The auditor's understanding of how those charged with governance exercise oversight over management's assessment of the entity's ability to continue as a going concern required by paragraph 12(f), may also provide a useful basis to promote effective two-way communication between the auditor and those charged with governance.
- A100. Communication with those charged with governance about the auditor's evaluation of management's assessment of the entity's ability to continue as a going concern provides an opportunity for those charged with governance to understand the auditor's work that forms the basis for the auditor's conclusions, and where applicable, the implications for the auditor's report. Examples of matters the auditor may communicate with those charged with governance include:

Examples:

- The auditor's views about the appropriateness of the disclosures in the financial report in view of the recognition, measurement and presentation requirements of the applicable financial reporting framework.
- Whether management has applied appropriate specialised skills or knowledge or engaged appropriate experts in making its assessment of the entity's ability to continue as a going concern.
- Whether the method used by management to assess the entity's ability to continue as a going concern is appropriate in the context of the nature, conditions and circumstances of the entity or the requirements of the applicable financial reporting framework.
- The auditor's views about the reasonableness of assumptions on which management's assessment is based and the degree of subjectivity involved in the development of the assumptions.
- Whether assumptions are consistent with those used for other areas of the entity's business activities and whether management has considered alternative assumptions.
- Indicators of possible management bias in management's judgements and assumptions used in its assessment of the entity's ability to continue as a going concern.
- Significant deficiencies in internal control related to management's assessment of going concern (also see paragraphs A30, A32 and A35).

- A101. In the case of an entity other than a listed entity, in addition to the required statements to be provided in the auditor's report, when appropriate, the auditor may also communicate with

those charged with governance additional matters, for example, describing how the auditor evaluated management's assessment of the entity's ability to continue as a going concern.

Reporting to an Appropriate Authority Outside of the Entity (Ref: Para. 43)

- A102. When the auditor considers including a separate section with a heading "Material Uncertainty Related to Going Concern" in the auditor's report, or issuing a modified opinion in respect of going concern matters, the auditor may be required by law, regulation or relevant ethical requirements to communicate these matters. The reporting may be to an applicable regulatory, enforcement, supervisory or other appropriate authority outside of the entity. In addition, the auditor may be required by law, regulation or relevant ethical requirements to consider the timing of such reporting prior to the issuance of the auditor's report.

Example:

In some jurisdictions, statutory requirements exist that provide early warning procedures for the auditor to report to a supervisory authority when a material uncertainty exists to enable an appropriate authority outside of the entity to investigate the matter and take action. The early warning procedures may include reporting to a supervisory authority at the point in time when the auditor identified a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

- A103. Law, regulation or relevant ethical requirements may not include requirements for the auditor to report to an appropriate authority outside the entity as described in paragraph A102. Nevertheless, law, regulation or relevant ethical requirements⁴⁴ may provide the auditor with the right to report the matter to an appropriate authority outside the entity, unless disclosure of the information is precluded by the auditor's duty of confidentiality under law, regulation or relevant ethical requirements. In such circumstances, the auditor may also decide to discuss the matter with those charged with governance.

Examples:

- When auditing the financial report of a financial institution, the auditor may have the right under law or regulation to discuss with a supervisory authority when a material uncertainty exists.
- Relevant ethical requirements may require the auditor to consider whether further action is needed in the public interest. Such actions may include reporting the matter to an appropriate authority outside of the entity even when there is no legal or regulatory requirement to do so.⁴⁵

- A104. Factors the auditor may consider in determining whether it is appropriate to report the matter to an appropriate authority outside the entity, may include:
- Any views expressed by the regulatory, enforcement, supervisory or other appropriate authority outside of the entity.
 - Whether reporting the matter would be in the public interest.

⁴⁴ See, for example, paragraph AUST R114.3(a) of the Accounting Professional & Ethical Standards Board's *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) may permit the disclosure of confidential information when there is a legal or professional duty or right to disclose. Paragraph 114.3 A1(b)(iv) of the Code explains that there is a professional duty or right to disclose such information to comply with technical and professional standards.

⁴⁵ See, for example, paragraphs R360.19-R360.26 of the Code.

- The adequacy and timeliness of actions by management and, where appropriate those charged with governance, to address or mitigate the situation.
- A105. Reporting going concern matters to an appropriate authority outside of the entity may involve complex considerations and professional judgements. In those circumstances, the auditor may consider consulting internally (e.g., within the firm or a network firm) or on a confidential basis with a regulator or professional body (unless doing so is prohibited by law or regulation or would breach the duty of confidentiality). The auditor may also consider obtaining legal advice to understand the auditor's options and the professional or legal implications of taking any particular course of action.

Appendix 1

(Ref: Para. A78, A81, A89, A91–A92)

Illustrations of Independent Auditor's Reports Related to Going Concern

- Illustration 1: An auditor's report of an entity other than a listed entity containing an unmodified opinion when the auditor has concluded that no material uncertainty exists.
- 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 an unmodified opinion when the auditor has concluded that no material uncertainty exists and disclosure in the financial report about the significant judgements made by management in concluding that there is no material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as going concern is adequate.
- Illustration 3: An auditor's report of an entity other than a listed entity containing an unmodified opinion when the auditor has concluded that a material uncertainty exists and disclosure in the financial report is adequate.
- Illustration 4: [Deleted by the AUASB. Refer [Aus] Illustration 4A].
- [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 an unmodified opinion when the auditor has concluded that a material uncertainty exists and disclosure in the financial report is adequate.
- Illustration 5: [Deleted by the AUASB. Refer [Aus] Illustration 5A].
- [Aus] Illustration 5A: 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 6: [Deleted by the AUASB. Refer [Aus] Illustration 6A].
- [Aus] Illustration 6A: 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 the material uncertainty.
- [Aus] Illustration 7: 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.

Illustration 1 – An Auditor’s Report of an Entity Other Than a Listed Entity Containing an Unmodified Opinion When No Material Uncertainty Exists

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

- Audit of the financial report of an entity other than a listed entity using a fair presentation framework. The audit is not a group audit (i.e., ASA 600⁴⁶ does not apply).
- The financial report is prepared by management of the entity in accordance with Australian Accounting Standards (a general purpose framework).
- The terms of the audit engagement reflect the description of management’s 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 Limited’s *APES 110 Code of Ethics for Professional Accountants (including Independence Standards)*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist.
- The auditor is not required, and has otherwise not decided, to communicate key audit matters 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 yet identified a material misstatement of the other information.
- Those responsible for oversight of the financial report differ from those responsible for the preparation of the financial report.
- In addition to the audit of the financial report, the auditor has other reporting responsibilities required under the law.

⁴⁶ See ASA 600 *Special Considerations—Audits of a Group Financial Report (Including the Work of Component Auditors)*

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Entity [or Other Appropriate Addressee]

Report on the Audit of the Financial Report⁴⁷

Opinion

We have audited the financial report of ABC Entity (the Entity), which comprises the statement of financial position as at 31 December 20X1, and 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, including material accounting policy information.

In our opinion, the accompanying financial report presents fairly, in all material respects, (*or give a true and fair view of*) the financial position of the Entity as at 31 December 20X1, and (*of*) its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards (ASAs). 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 Entity in accordance with the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia, and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Going Concern

In the context of our audit of the financial report as a whole, and in forming our opinion thereon, we have concluded that management's use of the going concern basis of accounting in the preparation of the financial report is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern.

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are not a guarantee as to the Entity's ability to continue as a going concern.

Other Information [or another title if appropriate such as "Information Other than the Financial Report and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in ASA 720 – see Illustration 1 in Appendix 2 of ASA 720.]

⁴⁷ 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.

Responsibilities of Management and Those Charged with Governance for the Financial Report⁴⁸

[Reporting in accordance with ASA 700 – see Illustration 1 in ASA 700.⁴⁹]

Auditor’s Responsibilities for the Audit of the Financial Report

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

Report on Other Legal and Regulatory Requirements

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

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate]

[Auditor Address]

[Date]

⁴⁸ Throughout these illustrative auditor’s reports, the terms management and those charged with governance may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction.

⁴⁹ Paragraphs 34 and 39 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.

[Aus] Illustration 2 – 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 No Material Uncertainty Exists and Disclosure in the Financial Report About the Significant Judgements Made by Management in Concluding That There is No Material Uncertainty Is Adequate

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

- Audit of the financial report of a listed company. 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 *Corporations Act 2001*.
- The terms of the audit engagement reflect the description of 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 APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code). The Code includes additional independence requirements that are applicable to audits of financial reports of public interest entities. The Code also requires the auditor to publicly disclose that the independence requirements applicable to audits of financial reports of public interest entities were applied.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist.
- Management has disclosed information about significant judgements made in concluding that there is no material uncertainty related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern and the disclosures are adequate.
- The auditor has chosen to supplement the required statements in accordance with ASA 570 by referencing to the sections describing the respective responsibilities of the directors and of the auditor in relation to going concern.
- 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 yet identified a material misstatement of the other information.
- Those responsible for oversight of the financial report differ from those responsible for the preparation of the financial report.
- 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

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Financial Report⁵⁰

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, and 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, including material accounting policy information, and the directors' declaration.

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

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

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards (ASAs). 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 APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* issued by the Accounting Professional & Ethical Standards Board Limited (the Code) that are relevant to audits of the financial report of public interest entities 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 the Company 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.

Going Concern

In the context of our audit of the financial report as a whole, and in forming our opinion thereon, we have concluded that management's use of the going concern basis of accounting in the preparation of the financial report is appropriate.

We draw attention to Note X in the financial report, which describes the uncertainties faced by the Company, the significant judgements made by management in assessing the Company's ability to continue as a going concern and the range of mitigating actions that have been deployed to address the effects on the Company's business activities.

⁵⁰ 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*]

[Description of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern in accordance with ASA 570.]

Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are not a guarantee as to the Company's ability to continue as a going concern. Our responsibilities and the responsibilities of management with respect to going concern are described in the relevant sections of this report.

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 significant judgements made by management in concluding that there is no material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern referred to in the *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 [or another title if appropriate such as "Information Other than the Financial Report and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in ASA 720 – see Illustration 1 in Appendix 2 of ASA 720.]

Responsibilities of the Directors for the Financial Report⁵¹

[Reporting in accordance with ASA 700 – see Illustration 1 in ASA 700.⁵²]

Auditor's Responsibilities for the Audit of the Financial Report

[Reporting in accordance with ASA 700 – see Illustration 1 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][†]

[Name of Firm]

[Auditor Address]

[Date]

⁵¹ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

⁵² Paragraphs 34 and 39 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.

Illustration 3 – An Auditor’s Report of an Entity Other Than a Listed Entity Containing an Unmodified Opinion When a Material Uncertainty Exists and Disclosure in the Financial Report Is Adequate

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

- Audit of the financial report of an entity other than a listed entity using a fair presentation framework. The audit is not a group audit (i.e., ASA 600 does not apply).
- The financial report is prepared by management of the entity in accordance with Australian Accounting Standards (a general purpose framework).
- The terms of the audit engagement reflect the description of management’s 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 & Ethical Standards Board’s APES 110 *Code of Ethics for Professional Accountants* (including *Independence Standards*).
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty exists. The disclosure of the material uncertainty in the financial report is adequate.
- The auditor is not required, and has otherwise not decided, to communicate key audit matters 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 yet identified a material misstatement of the other information.
- Those responsible for oversight of the financial report differ from those responsible for the preparation of the financial report.
- In addition to the audit of the financial report, the auditor has other reporting responsibilities required under the law.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Entity [or Other Appropriate Addressee]

Report on the Audit of the Financial Report⁵³

Opinion

We have audited the financial report of ABC Entity (the Entity), which comprises the statement of financial position as at 31 December 20X1, and 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, including material accounting policy information.

In our opinion, the accompanying financial report presents fairly, in all material respects, (*or give a true and fair view of*) the financial position of the Entity as at 31 December 20X1, and (*of*) its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards (ASAs). 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 Entity in accordance with the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia, and we have fulfilled our other ethical responsibilities in accordance with the Code. 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 X in the financial report, which indicates that the Entity incurred a net loss of ZZZ during the year ended 31 December 20X1 and, as of that date, the Entity's current liabilities exceeded its total assets by YYY. As stated in Note X, these events or conditions, along with other matters as set forth in Note X, indicate that a material uncertainty exists that may cast significant doubt on the Entity's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

In the context of our audit of the financial report as a whole, and in forming our opinion thereon, we have concluded that managements' use of the going concern basis of accounting in the preparation of the financial report is appropriate.

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are not a guarantee as to the Entity's ability to continue as a going concern.

Other Information [or another title if appropriate such as "Information Other than the Financial Report and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in ASA 720 – see Illustration 1 in Appendix 2 of ASA 720.]

⁵³ 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.

Responsibilities of Management and Those Charged with Governance for the Financial Report⁵⁴

[Reporting in accordance with ASA 700 – see Illustration 1 in ASA 700.⁵⁵]

Auditor’s Responsibilities for the Audit of the Financial Report

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

Report on Other Legal and Regulatory Requirements

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

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate]

[Auditor Address]

[Date]

⁵⁴ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

⁵⁵ Paragraphs 34 and 39 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.

[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 an Unmodified Opinion When the Auditor Has Concluded That a Material Uncertainty Exists and Disclosure in the Financial Report Is Adequate

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

- Audit of the financial report of a listed company. The audit is not a group audit (i.e., ASA 600 does not apply).
- The financial report is prepared by the directors of the entity 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 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 & Ethical Standards Board’s APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code). The Code includes additional independence requirements that are applicable to audits of financial reports of public interest entities. The Code also requires the auditor to publicly disclose that the independence requirements applicable to audits of financial reports of public interest entities were applied.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty exists. 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 yet identified a material misstatement of the other information.
- Those responsible for oversight of the financial report differ from those responsible for the preparation of the financial report.
- 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

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Financial Report⁵⁶

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, and 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, including material accounting policy information, and the directors' declaration.

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

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

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards (ASAs). 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 APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* issued by the Accounting Professional & Ethical Standards Board Limited (the Code) that are relevant to audits of the financial report of public interest entities 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 the Company 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 X in the financial report, which indicates that the Company incurred a net loss of ZZZ during the year ended 30 June 20X1 and, as of that date, the Company's current liabilities exceeded its total assets by YYY.

[Description of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern in accordance with ASA 570.]

As stated in Note X, these events or conditions, along with other matters as set forth in Note X, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

⁵⁶ 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*]

Our opinion is not modified in respect of this matter.

In the context of our audit of the financial report as a whole, and in forming our opinion thereon, we have concluded that managements' use of the going concern basis of accounting in the preparation of the financial report is appropriate.

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are not a guarantee as to the Company's ability to continue as a going concern.

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 [or another title if appropriate such as "Information Other than the Financial Report and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in ASA 720 – see Illustration 1 in Appendix 2 of ASA 720.]

Responsibilities of the Directors for the Financial Report⁵⁷

[Reporting in accordance with ASA 700 – see Illustration 1 in ASA 700.⁵⁸]

Auditor's Responsibilities for the Audit of the Financial Report

[Reporting in accordance with ASA 700 – see Illustration 1 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][†]

[Name of Firm]

[Auditor Address]

[Date]

⁵⁷ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

⁵⁸ Paragraphs 34 and 39 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.

[Aus] Illustration 5A – An Auditor’s Report on a Financial Report of a Single Listed Company Prepared in Accordance With *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

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

- Audit of the financial report of a listed company. 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 & Ethical Standards Board Limited’s APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code). The Code includes additional independence requirements that are applicable to audits of financial reports of public interest entities. The Code also requires the auditor to publicly disclose that the independence requirements applicable to audits of financial reports of public interest entities were applied.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty exists. Note Y 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 also affects the other information.
- Those responsible for oversight of the financial report differ from those responsible for the preparation of the financial report.
- 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

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Financial Report⁵⁹

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, and 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, including material accounting policy information, 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:

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

Basis for Qualified Opinion

As discussed in Note Y, the Company's financing arrangements expire and amounts outstanding are payable on 19 March 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 (ASAs). 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 APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* issued by the Accounting Professional & Ethical Standards Board Limited (the Code) that are relevant to audits of the financial report of public interest entities 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 qualified opinion.

Material Uncertainty Related to Going Concern

As described in the *Basis for Qualified Opinion* section of our report, a material uncertainty exists that has not been adequately disclosed in the financial report.

⁵⁹ 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*]

In the context of our audit of the financial report as a whole, and in forming our opinion thereon, we have concluded that managements' use of the going concern basis of accounting in the preparation of the financial report is appropriate.

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are not a guarantee as to the Company's ability to continue as a going concern.

Other Information [or another title if appropriate such as "Information Other than the Financial Report and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in ASA 720 – see Illustration 6 in Appendix 2 of ASA 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.]

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 Opinion* section and 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.]

Responsibilities of the Directors for the Financial Report⁶⁰

[Reporting in accordance with ASA 700 – see Illustration 1 in ASA 700.⁶¹]

Auditor's Responsibilities for the Audit of the Financial Report

[Reporting in accordance with ASA 700 – see Illustration 1 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][§]

[Name of Firm]

[Auditor Address]

[Date]

⁶⁰ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

⁶¹ Paragraphs 34 and 39 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.

[Aus] Illustration 6A – 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 the Material Uncertainty

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

- Audit of the financial report of a listed company. 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 & Ethical Standards Board Limited’s APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code). The Code includes additional independence requirements that are applicable to audits of financial reports of public interest entities. The Code also requires the auditor to publicly disclose that the independence requirements applicable to audits of financial reports of public interest entities were applied.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty exists 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 also affects the other information.
- Those responsible for oversight of the financial report differ from those responsible for the preparation of the financial report.
- 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

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Financial Report⁶²

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, and 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, including material accounting policy information, and the directors' declaration.

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

- (a) giving a true and fair view of the Company's financial position as at 30 June 20X1, and of its performance for the year then ended; and
- (b) complying 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 (ASAs). 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 APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* issued by the Accounting Professional & Ethical Standards Board Limited (the Code) that are relevant to audits of the financial report of public interest entities 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.

Material Uncertainty Related to Going Concern

As described in the *Basis for Adverse Opinion* section of our report, a material uncertainty exists that has not been disclosed in the financial report.

⁶² 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*]

In the context of our audit of the financial report as a whole, and in forming our opinion thereon, we have concluded that managements' use of the going concern basis of accounting in the preparation of the financial report is appropriate.

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are not a guarantee as to the Company's ability to continue as a going concern.

Key Audit Matters

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

Other Information [or another title if appropriate such as "Information Other than the Financial Report and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in ASA 720 – see Illustration 7 in Appendix 2 of ASA 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.]

Responsibilities of the Directors for the Financial Report⁶³

[Reporting in accordance with ASA 700 – see Illustration 1 in ASA 700.⁶⁴]

Auditor's Responsibilities for the Audit of the Financial Report

[Reporting in accordance with ASA 700 – see Illustration 1 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]**

[Name of Firm]

[Auditor Address]

[Date]

⁶³ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

⁶⁴ Paragraphs 34 and 39 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.

[Aus] Illustration 7 – 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

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

- Audit of the financial report of a single listed company. 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 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 ASA 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*.

* 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 A55 of ASA 720, *The Auditor’s Responsibilities Relating to Other Information* requires the auditor not to include an other information section when the auditor issues a disclaimer of opinion on the financial report in accordance with ASA 705.

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Audit of the Financial Report[‡]

Disclaimer of Opinion

We were engaged to audit 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 statements, including material accounting policy information, and the directors' declaration.

We do not express an opinion on the accompanying financial report of the Company. 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 this financial report.

Basis for Disclaimer of Opinion

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

We are unable to conclude on the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial report and whether 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.

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 705 – see [Aus] Illustration 5 in ASA 705.]

Report on the Remuneration Report[#]

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

[Auditor's name and signature][#]

[‡] 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.

[#] 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.

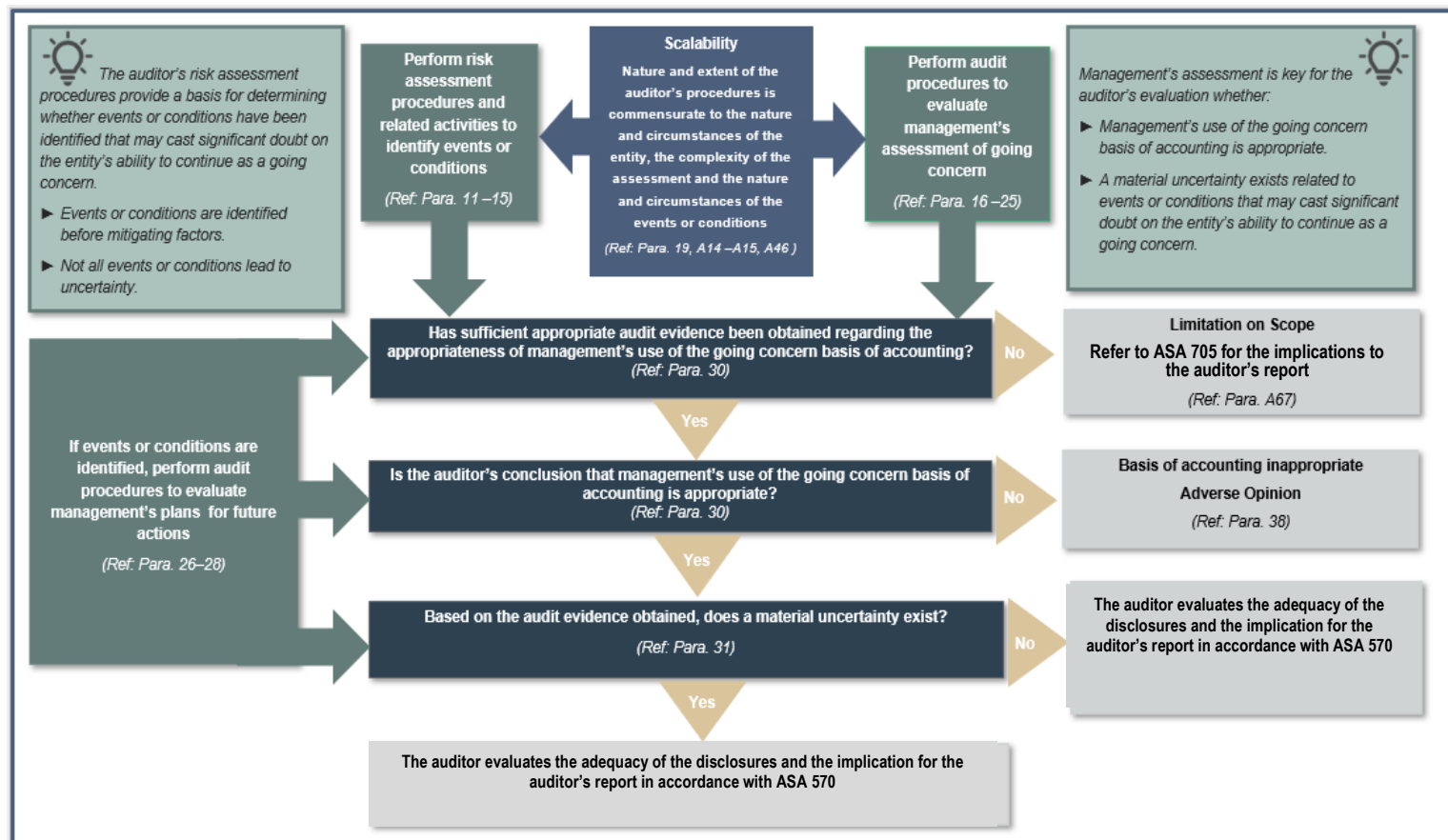
Auditing Standard ASA 570
Going Concern

[Name of Firm]

[Date of the auditor's report]

[Auditor's Address]

Auditor's Decision-Making Process for Going Concern



Note: The chart depicts a walkthrough of the auditor's decision-making process for going concern, rather than the audit process itself. The dark blue boxes highlight the auditor's decisions in respect of concluding whether the going concern basis of accounting is appropriate and whether a material uncertainty related to going concern exists.