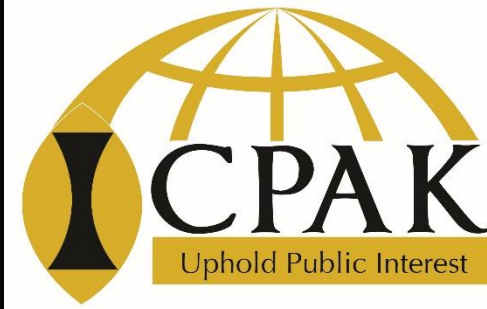


Audit Quality Assurance

Sarova Panafric Hotel – Nairobi

8th – 9th August 2019



Identifying, Assessing and Reporting on Going Concern Issues

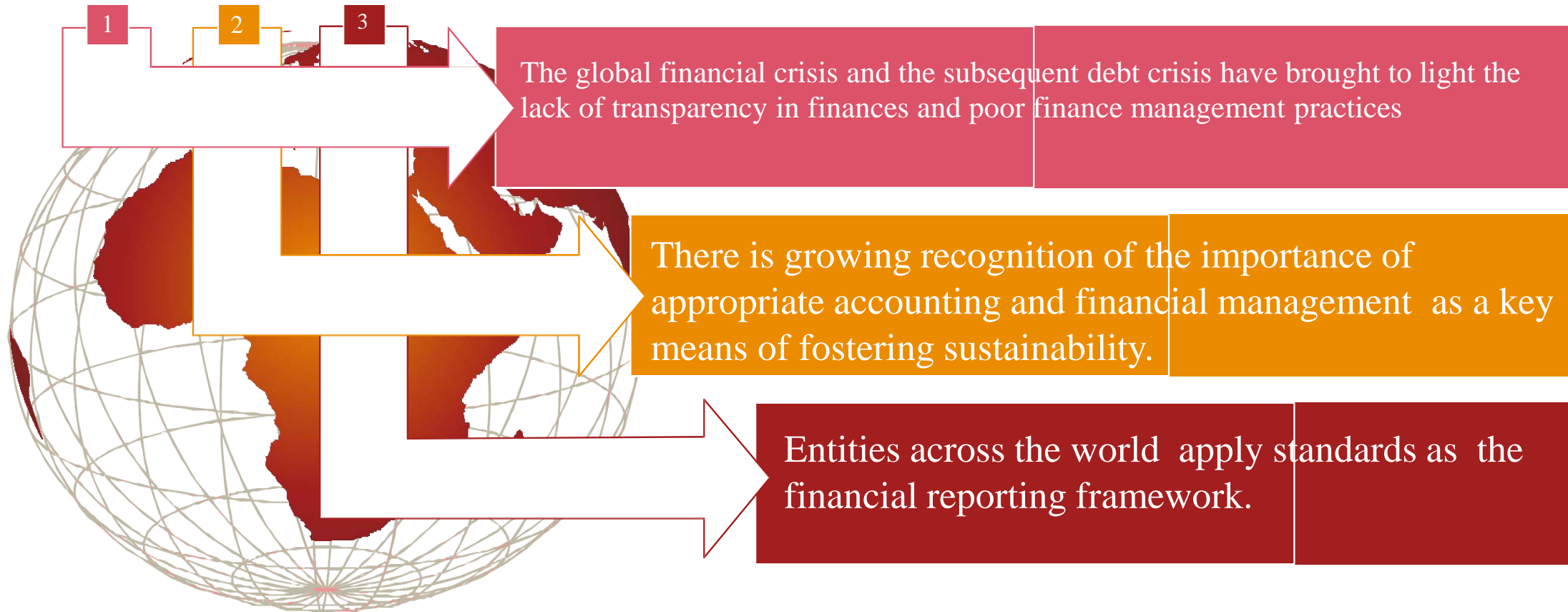
CPA Andrew Rori

Uphold .

Public .

Interest

Setting the stage...where are we ?



The adoption of standards is a giant step towards achieving efficiency, effectiveness and accountability in financial reporting. This requires the commitment and support of all key stakeholders. -----**Auditor the most trusted partner**

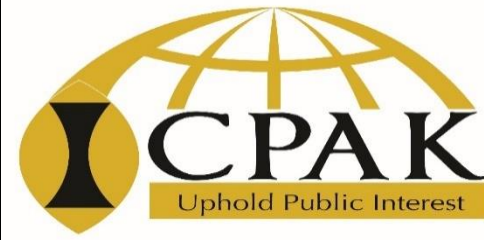
SCOPE OF ISA 570

Deals with:

Auditor's responsibilities in the audit of financial statements relating to management's use of the **Going Concern Assumption** in the preparation of the financial statements.



EFFECTIVE DATE

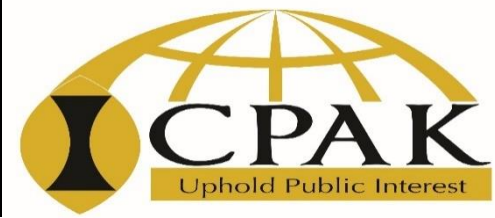


This ISA 570 effective Date:

For audits of financial statements for periods beginning on or after **December 15, 2009.**

ISA 570 (*Revise 2018*)

GOING CONCERN ASSUMPTION



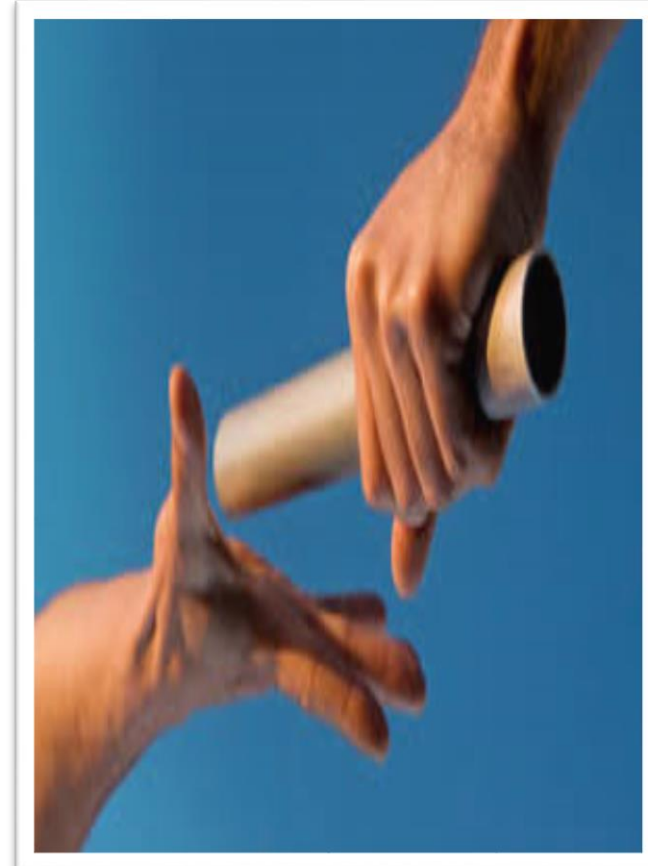
Under the going concern assumption:

- ✓ ***An entity is viewed as continuing in business for the foreseeable future.***
- ✓ ***General purpose financial statements are prepared on a going concern basis, unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so***
- ✓ ***When the use of the going concern assumption is appropriate, assets and liabilities are recorded on the basis that the entity will be able to realize its assets and discharge its liabilities in the normal course of business.***

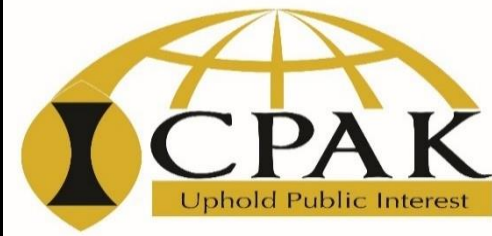


RESPONSIBILITY FOR ASSESSMENT OF THE ENTITY'S ABILITY TO CONTINUE AS A GOING CONCERN

- Some financial reporting frameworks contain an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern, and standards regarding matters to be considered and disclosures to be made in connection with going concern.
 - ✓ *E.g. International Accounting Standard (IAS) 1 requires management to make an assessment of an entity's ability to continue as a going concern.*
 - ✓ The detailed requirements regarding management's responsibility to assess the entity's ability to continue as a **going concern** and related financial statement disclosures **may also be set out in law or regulation.**



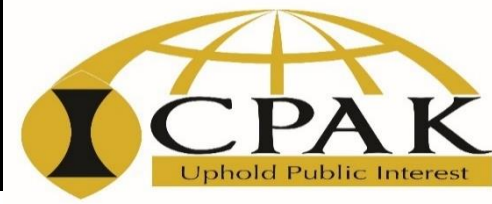
RESPONSIBILITY FOR ASSESSMENT OF THE ENTITY'S ABILITY TO CONTINUE AS A GOING CONCERN



- In other financial reporting frameworks,
 - *there may be no explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern.*
 - **NEVERTHELESS,**
 - ✓ since the going concern assumption is a fundamental principle in the preparation of financial statements, ***the preparation of the financial statements requires management to assess the entity's ability to continue as a going concern even if the financial reporting framework does not include an explicit requirement to do so.***



RESPONSIBILITY FOR ASSESSMENT OF THE ENTITY'S ABILITY TO CONTINUE AS A GOING CONCERN



Management's assessment of the entity's ability to continue as a going concern involves making a judgment, at a particular point in time, about inherently uncertain future outcomes of events or conditions.

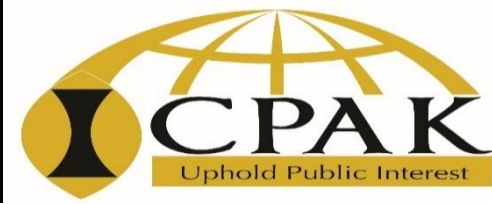
The following factors are relevant to that judgment:

- 1. The degree of uncertainty associated with the outcome of an event or condition increases significantly the further into the future a judgment is being made about the outcome of an event or condition.***

For that reason, most financial reporting frameworks that require an explicit management assessment specify the period for which management is required to take into account all available information.



RESPONSIBILITY FOR ASSESSMENT OF THE ENTITY'S ABILITY TO CONTINUE AS A GOING CONCERN



2. The size and complexity of the entity, the nature and condition of its business and the degree to which it is affected by external factors all affect the judgment regarding the outcome of events or conditions.



3. Any judgment about the future is based on information available at the time at which the judgment is made. Subsequent events may be inconsistent with a judgment which was reasonable at the time it was made.



- **The auditor's responsibility is to:**
 - ✓ Evaluate the appropriateness of management's use of the going concern assumption in the preparation of the financial statements and ***conclude whether there is a material uncertainty about the entity's ability to continue as a going concern that need to be disclosed in the financial statements.***



- **The auditor's responsibility is to:**

Evaluates the appropriateness of management's use of the going concern assumption ***even if the financial reporting framework used in the preparation of the financial statements does not include an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern.***



NB:

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

Accordingly,

The absence of any reference to going concern uncertainty in an auditor's report cannot be viewed as a guarantee as to the entity's ability to continue as a going concern.



The auditors objectives

- ✓ To obtain **sufficient appropriate audit evidence** about whether management's use of the going concern assumption in the preparation and presentation of the financial statements **is appropriate in the circumstances**.
- ✓ To conclude, based on the audit evidence obtained, whether
 1. **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,**
 2. **If such a material uncertainty exists, to consider the implications for the auditor's report.**

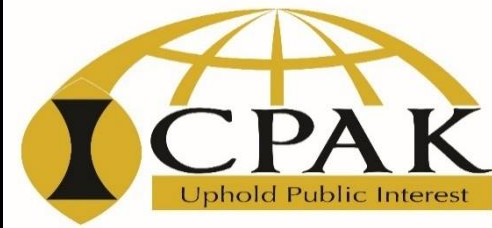


Performing Risk Assessment Procedures,

- When performing risk assessment procedures to obtain an understanding of the entity, the auditor shall:
 - a) Inquire of management as to whether events or conditions exist that, individually or collectively, may cast significant doubt about the going concern assumption; and either



REQUIREMENTS

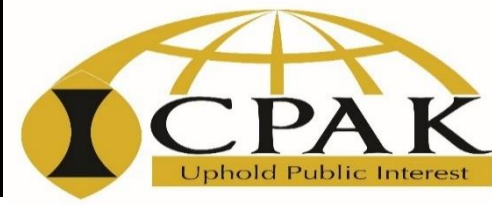


Performing Risk Assessment Procedures,

- When performing risk assessment procedures to obtain an understanding of the entity, the auditor shall:
 - b) **Consider management's assessment of the entity's ability to continue as a going concern, if such an assessment has been performed, to determine whether management has identified events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans to address them; or**
 - d) **Discuss with management the basis for its intended use of the going concern assumption, if management has not yet performed such an assessment.**



EVALUATING MANAGEMENT'S ASSESSMENT



The auditor shall:

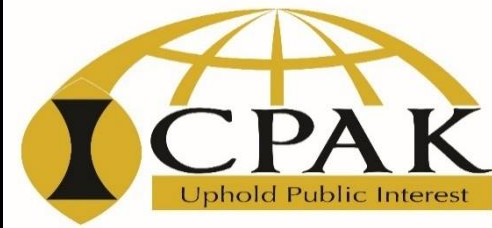
- ✓ Evaluate management's assessment of the entity's ability to continue as a going concern.

The auditor's evaluation shall:

- ✓ Cover the same period as that used by management to make its assessment under the applicable financial reporting framework.



PERIOD BEYOND MANAGEMENT'S ASSESSMENT

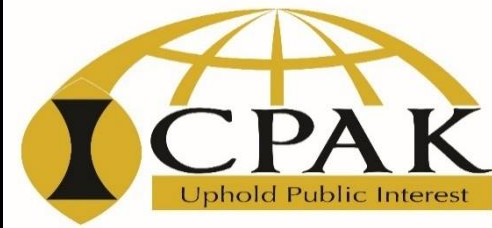


The auditor shall:

- *Inquire of management as to its knowledge of events or conditions beyond the period of **assessment** used by management that may cast significant doubt on the entity's ability to continue as a going concern.*



FURTHER AUDIT PROCEDURES WHEN EVENTS OR CONDITIONS ARE IDENTIFIED

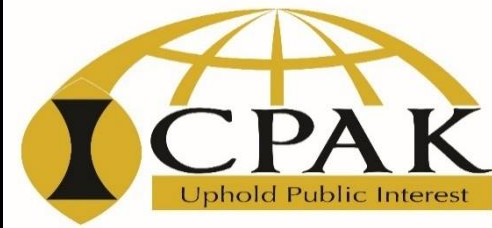


When *events or conditions have been identified* which *may cast significant doubt* on the entity's ability to continue as a going concern, the auditor shall:

- a) *Obtain sufficient appropriate audit evidence to determine whether or not a **material uncertainty exists through performing additional audit procedures, including consideration of other mitigating factors.***



FURTHER AUDIT PROCEDURES WHEN EVENTS OR CONDITIONS ARE IDENTIFIED

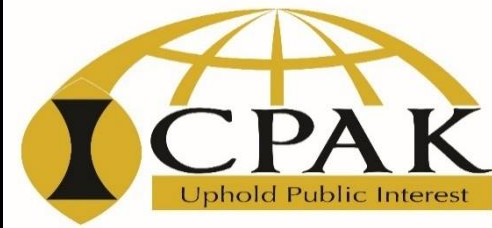


When *events or conditions* have been *identified* which *may cast significant doubt* on the entity's ability to continue as a going concern, the auditor shall:

b). **Evaluate management's plans for future actions based on its going concern assessment and whether the outcome of these plans will improve the situation**, and obtain sufficient appropriate audit evidence that management's plans are feasible in the circumstances.



FURTHER AUDIT PROCEDURES WHEN EVENTS OR CONDITIONS ARE IDENTIFIED



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

- c) **Determine whether any additional facts or information have become available since the date on which management made its assessment.**
- d) **Request specific written representations from management regarding its plans for future action.**



AUDIT CONCLUSIONS AND REPORTING

Based on the audit evidence obtained, the auditor shall:

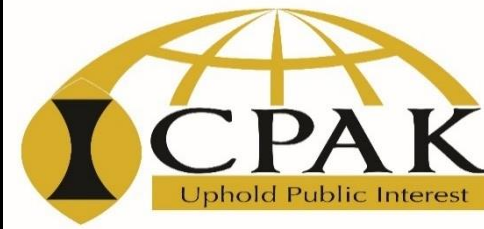
- Conclude whether, in the auditor's judgment, **a material uncertainty exists** related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern.

NB:

A material uncertainty exists when the magnitude of its potential impact is such that, in the auditor's judgment, appropriate disclosure of the nature and implications of the uncertainty is necessary for the fair presentation of the financial statements in accordance with a fair presentation financial reporting framework, or in the case of a compliance framework, for the financial statements not to be misleading.



USE OF GOING CONCERN ASSUMPTION APPROPRIATE BUT A MATERIAL UNCERTAINTY EXISTS

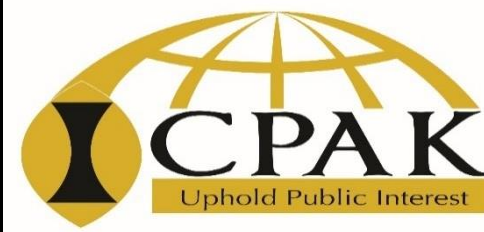


When the use of the going concern assumption is appropriate in the circumstances but a material uncertainty exists, the auditor shall conclude whether the financial statements:

- a) Adequately describe the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans to deal with these events or conditions.



USE OF GOING CONCERN ASSUMPTION APPROPRIATE BUT A MATERIAL UNCERTAINTY EXISTS

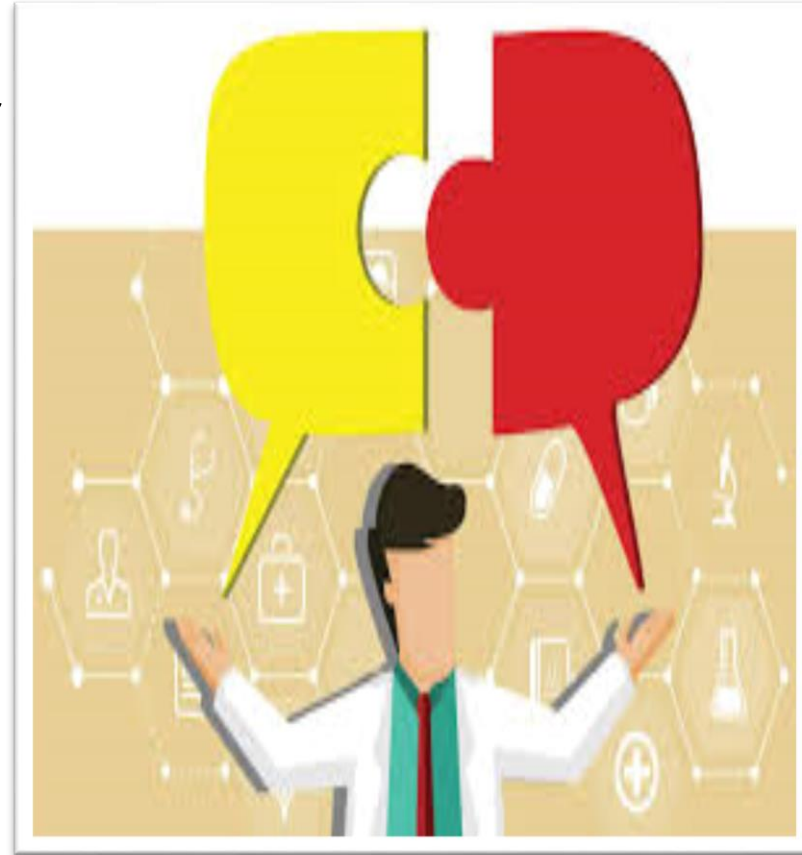


If adequate disclosure is made in the financial statements, the auditor shall express **an unmodified opinion** but shall include **an Emphasis of Matter paragraph** in the auditor's report to:

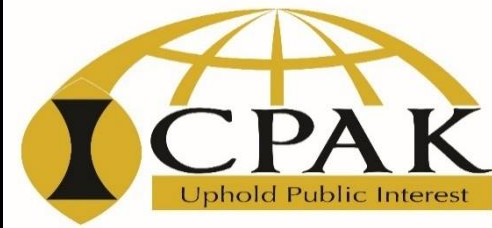
- *Highlight the existence of a material uncertainty relating to the event or condition that may cast significant doubt on the entity's ability to continue as a going concern.*

If adequate disclosure is not made in the financial statements:

- **The auditor shall express a qualified or adverse opinion, as appropriate.**



GOING CONCERN ASSUMPTION INAPPROPRIATE

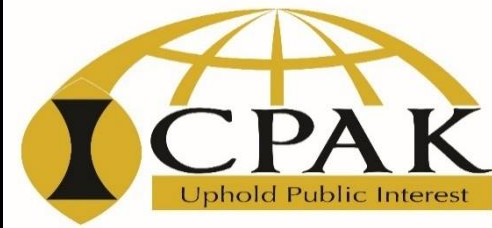


If, in the auditor's judgment, the entity will not be able to continue as a going concern:

- *The auditor shall express an adverse opinion if the financial statements have been prepared on a going concern basis, regardless of whether or not appropriate disclosure has been made.*



MANAGEMENT UNWILLING TO MAKE OR EXTEND ITS ASSESSMENT

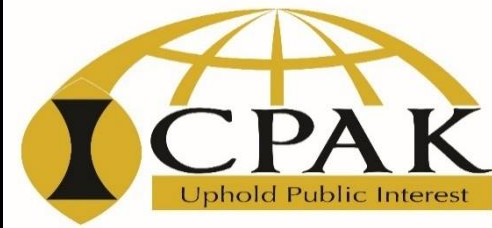


If management is unwilling to make or extend its assessment when requested to do so by the auditor:

- The auditor ***shall consider whether there is a need to modify the opinion in the auditor's report*** as a result of the auditor's inability to obtain sufficient appropriate audit evidence.
- ***It is not the auditor's responsibility to rectify the lack of analysis by management.*** In some circumstances, however, the lack of analysis by management may not preclude the auditor from being satisfied about the entity's ability to continue as a going concern.



MANAGEMENT UNWILLING TO MAKE OR EXTEND ITS ASSESSMENT

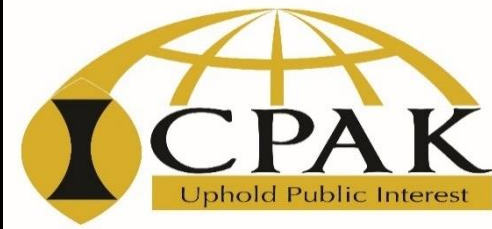


NOTE:

- When the auditor is ***unable to obtain sufficient appropriate audit evidence*** to enable the auditor to determine, in the absence of management's assessment, whether or not events or conditions exist that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall **qualify the opinion or disclaim the auditor's opinion** as appropriate as discussed in ISA 705 (Revised).



Significant Delay in the Approval of Financial Statements



When there is significant delay in the approval of the financial statements by management or those charged with governance after the balance sheet date:

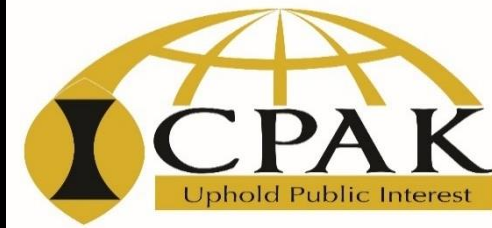
➤ *The auditor shall inquire as to the reasons for the delay.*

When the auditor believes that the delay could be related to events or conditions relating to the going concern assessment:

➤ *The auditor shall perform those additional audit procedures necessary, as well as consider the effect on the auditor's conclusion regarding the existence of a material uncertainty.*



COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE



When the auditor has identified events or conditions 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 about the matter.*

Such communication with those charged with governance shall include a discussion of the following:

- *Whether the events or conditions constitute a material uncertainty;*
- *Whether the use of the going concern assumption is appropriate in the preparation of the financial statements; and*
- *The adequacy of related disclosures in the financial statements.*



We have a responsibility – Thank you

