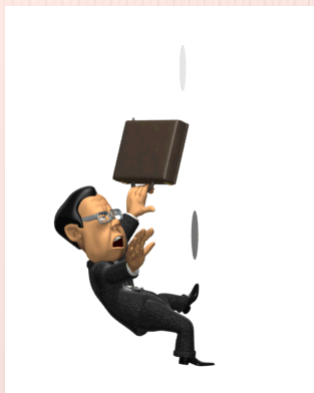


Going Concern and its related audit issues



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Adapted from PPT prepared
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Going Concern and its related audit issues

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1. Introduction

- The Going Concern Assumption -

➤ Definition

- An entity is viewed as continuing in business for the foreseeable future
- Financial statements are usually prepared on a going concern basis, unless management either intends to liquidate the entity or to cease operations
- When going concern is appropriate, assets and liabilities are recorded on the basis that the entity will be to realize its assets and discharge its liabilities in the normal case of business



1. Introduction

- The Going Concern Assumption -

➤ Going Concern in IFRS

- Going Concern is one of the main principles of accounting as an underlying assumption (Conceptual Framework 4.1 and IFRS 1 par. 25)



1. Introduction

- The Going Concern Assumption -



- **Responsibility for assessing Going Concern**
 - Usually the reporting/accounting frameworks require management to make an assessment of an entity's ability to continue as a going concern (e.g. IFRS 1 par. 25-26)
 - Even if there is no explicit requirement, the preparation of financial statements always requires management to assess Going Concern since the Going Concern is a fundamental principle in preparation of financial statements
 - Management has to make a judgement at a particular point of time about inherently uncertain future outcomes of events or conditions



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1. Introduction

- The Going Concern Assumption

- **No detailed Going Concern assessment necessary, when the entity**
 - was successful in the past and created sustainable profits
 - has easy access to funds
 - has no material risk for an excess of liabilities over assets

Given these facts the auditor usually does not have to obtain additional audit evidence regarding the Going Concern Assumption



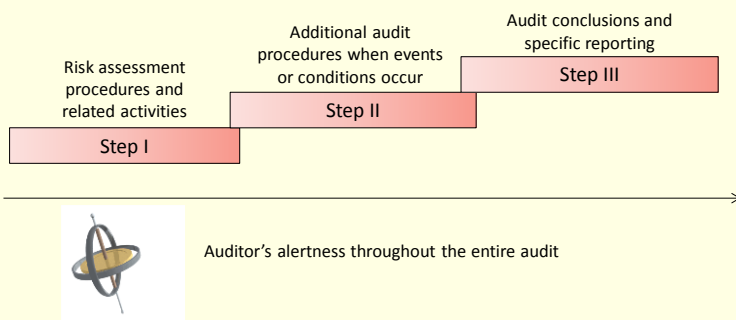
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1. Introduction

- The Going Concern Assumption

- Three steps for auditing the Going Concern Assumption



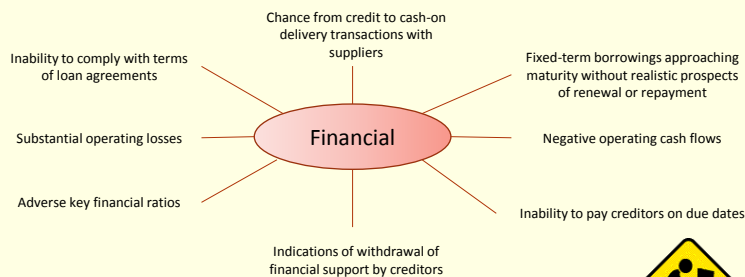
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2. Risk assessment procedures and related activities

- Risk assessment procedures

- Are there events or conditions that may cause significant doubt on entity's ability to continue as a going concern? Examples:

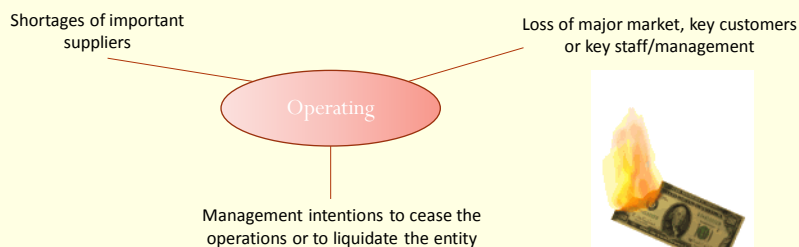


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2. Risk assessment procedures and related activities

- Risk assessment procedures
 - Are there events or conditions that may cause significant doubt on entity's ability to continue as a going concern? Examples:



3. Additional audit procedures when events or conditions are identified



- Sufficient appropriate audit evidence through additional audit procedures shall include:
 - If not performed yet: Requesting management to make its assessment
 - Evaluation of management's plans for its future actions in relation to its Going Concern assessment.
 - Is the outcome of these plans likely to improve the situation?
 - Is the plan feasible under the given circumstances?
 - Evaluation of
 - the reliability of the underlying data generated to prepare the forecast
 - adequate support for the assumptions underlying the forecast

4. Audit conclusions and reporting

- Conclusion of the auditor based on the audit evidence obtained
 - Does a material uncertainty exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern?
 - A material uncertainty exists when the magnitude of its potential impact and likelihood of occurrence is such that appropriate disclosure of the nature and implications of the uncertainty is necessary for a fair presentation of the financial statements



4. Audit conclusions and reporting

- Possible scenarios for audit conclusions and reporting

		Use of Going Concern Assumption in accounting	
		appropriate	not appropriate
Use of Going Concern Assumption in the notes/management report	appropriate	Unqualified opinion Emphasis of Matter paragraph	Adverse opinion
	not appropriate	Qualified opinion	Adverse opinion



4. Audit conclusions and reporting



- Use of Going Concern Assumption appropriate but material Uncertainty
 - Illustration of an Emphasis of Matter paragraph:

“Without qualifying our opinion, we draw attention to note 2.1 to the financial statements, which indicates that the company had accumulated losses of HK\$1,051,425 and its total liabilities exceeded total assets by HK\$751,425 as at 31 March 2014. These conditions indicate the existence of an uncertainty, which may cause doubt the company’s ability to continue as a going concern. The financial statements prepared on a going concern basis are dependent upon on the continuing financial support of the immediate holding company.”

4. Audit conclusions and reporting

- Use of Going Concern Assumption appropriated but material uncertainty
 - If adequate disclosure is not made
 - qualified or adverse opinion
 - Statement of auditor in the auditor’s report that there is significant doubt about the entity’s ability to continue as a going concern



4. Audit conclusions and reporting

- Use of Going Concern Assumption inappropriate
 - Auditor shall express an adverse opinion
- Management is unwilling to make or extend its assessment
 - Auditor shall consider the implications of auditor's report
- Communication with those charged with Governance
 - Do the events and conditions constitute a material uncertainty?
 - Is the use of the going concern assumption appropriate in the preparation of financial statements?
 - Are the related disclosures in the financial statements adequate?

