

Basis of Going Concern Assumption

Date: Mon, 09/28/2020 - 10:25



Mr. Sivaraman V, Senior Manager, Assurance, ASA & Associates LLP

SIGNIFICANCE AND APPROPRIATENESS

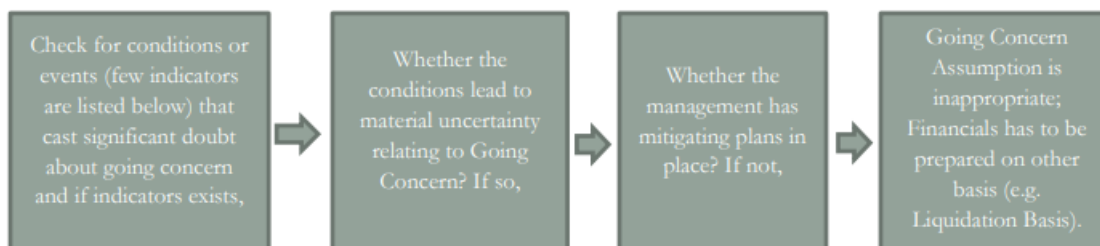
Going concern assumption is a key concept for both audit client and also, the auditor. Going Concern is one of the fundamental accounting assumptions underlying the preparation and presentation of financial statements. Going concern assumption is considered appropriate, if the entity continue to operate in the foreseeable future, which is generally one year from the reporting date. This means, the assets will be realized and liabilities will be discharged in the normal course of business. If the going concern assumption fails, the financial statements may be required to be prepared on another basis (e.g. liquidation basis).

As per the Standards on Auditing, management has to assess the appropriateness of going concern assumption and the auditors have to check the appropriateness of the assessment of by the management and appropriately factor it in their report. Accordingly the concept of going concern assumption is critical for both the preparer as well as the professionals attesting the financial statements.

RESPONSIBILITY

Assessment of appropriateness of Going Concern assumption in the preparation and presentation of Financial Statements is the responsibility of the management. Auditor's responsibility is to get sufficient and appropriate audit evidence and conclude on the appropriateness of the use of going concern assumption by the management. Period of assessment shall be at least twelve months from the date of the financial statements, unless other extended period is warranted by any law, reporting framework or any regulator. If the assessment of going concern is critical to the audit, the auditor shall consider reporting it as a Key Audit Matter, if such reporting is applicable /reported in the Independent Auditors Report.

ASSESSMENT PROCESS BY MANAGEMENT



INDICATORS

Existence of following indicators may individually or collectively cast significant doubt on the entity's ability to continue as a going concern. Events occurring after the balance sheet date should also be considered for assessment. Indicators are broadly classified in to Financial, Operational and Other indicators as follows:

a) Financial:

Net Liability or Net current Liability position; Difficulties in repaying borrowings or getting new loans for essential activities; Withdrawal of support from creditors; Negative cash flow from operations; Adverse financial ratios; Substantial operating losses; Deterioration in value of assets used to generate cash flows; discontinuance of dividends; Inability to pay creditors on time, etc.

Check for conditions or events (few indicators are listed below) that cast significant doubt about going concern and if indicators exists, Whether the conditions lead to material uncertainty relating to Going Concern? If so, Whether the management has mitigating plans in place? If not, Going Concern Assumption is inappropriate; Financials has to be prepared on other basis (e.g. Liquidation Basis).

b) Operating:

Management intention to liquidate the entity /cease the operations; Loss of key management staff; labor issues; Issues like loss of market, key customer, license; Shortage of important supplies; Emerging of a highly successful competitor, etc.

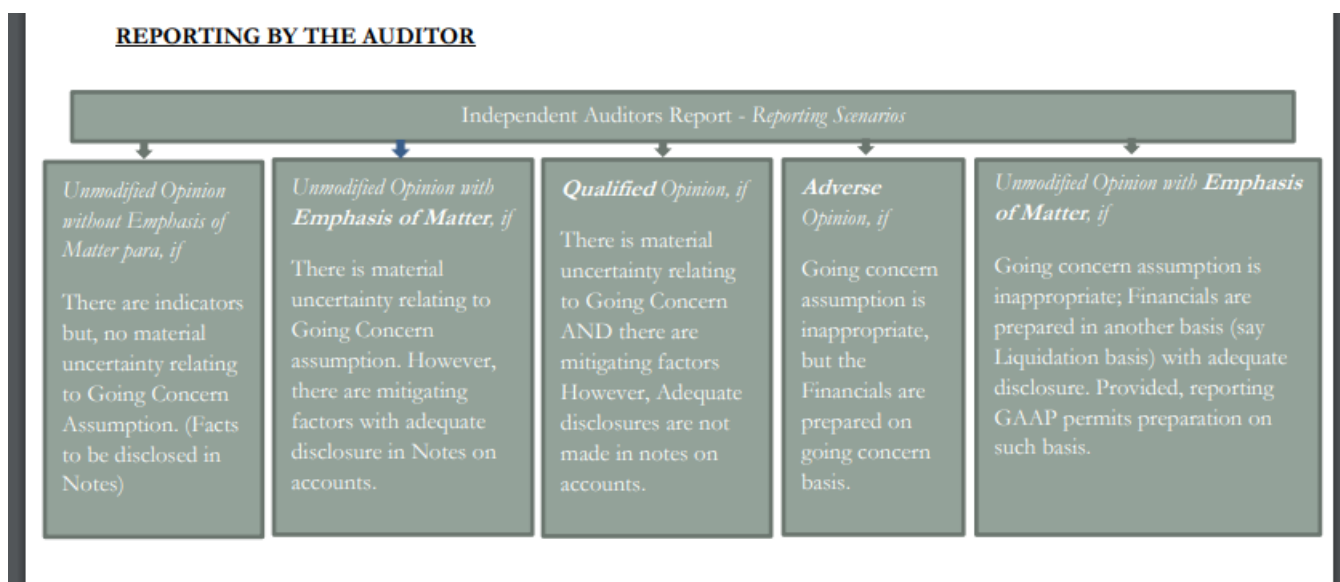
c) Others:

Noncompliance with statutory requirements; Pending legal or regulatory proceedings, if it is decided against the entity, it is unlikely to be able to satisfy; Changes in law or regulation adversely affecting the entity; happening of a catastrophes for which there is no insurance or underinsurance, etc.

PROCEDURES

Analyzing Future Cash flow projections, Forecasts, Budgets, Review of interim financial information, Terms of borrowings for breaches, if any; Reading the minutes of various committee / body meetings; getting opinion from the legal counsel regarding pending cases, Plan of action by the company to dispose any asset to get liquidity or ; existence of financial and/ or other support from holding company etc. may be performed while concluding on the appropriateness of the Going Concern Assumption.

REPORTING BY THE AUDITOR



FEW REFERENCE / GUIDANCE MATERIALS:

a) Accounting Standard (AS) 1 - Disclosure of Accounting Policies / Ind AS -1 Presentation of Financial Statements.

b) Accounting Standard (AS) 4 - Contingencies and Events Occurring After the Balance Sheet Date / Ind AS 10, Events after the Reporting Period.

c) Standard on Auditing (SA) 570 (Revised), Going Concern.

d) Implementation Guide to Standard on Auditing (SA) 570(Revised) Going Concern.

e) ICAI Accounting & Auditing Advisory By ICAI - Impact of Corona Virus on Financial Reporting and the Auditors Consideration – March 2020.

f) Guide to COVID -19 Disclosures in Auditor's Report and Financial Statements by CA PARIVAAR.