

GOING CONCERN

Key Considerations for Auditors amid COVID-19

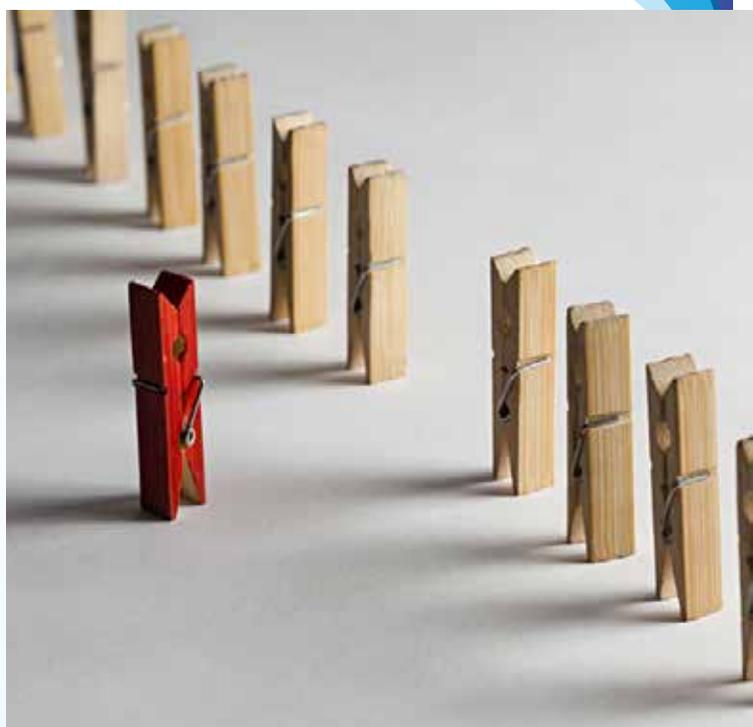


The Institute of Chartered Accountants of India





This guidance has been prepared to highlight key areas of focus in the current environment in India, when undertaking procedures relating to, and concluding on, the appropriateness of management's use of the going concern basis of accounting in accordance with the Standards on Auditing (SAs). This guidance does not amend or override the SAs. Reading this guidance is not a substitute for reading the SAs. Preparers, those charged with governance and users of financial statements may find this guidance helpful in understanding the auditor's responsibilities in relation to going concern, as well as any modifications made to the auditor's report in respect of any uncertainties related to going concern.



The Board of Directors of every company are required to make a statement in the Directors' Responsibility Statement referred to in Section 134(5) of the Companies Act, 2013 that the directors had prepared the annual accounts on a going concern basis i.e. whether the Board has a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment. Some companies have the impression that this issue of evaluation of going concern basis is more concerned with regard to the auditor rather than the Board of Directors. This is not true, management will need to give significant consideration to this area, especially in the current environment and early engagement on this topic will be important. As the situation is changing very rapidly and uncertainties crop up, the assessment by the Board needs to be dynamic and reflect the facts considering the latest conditions and information.

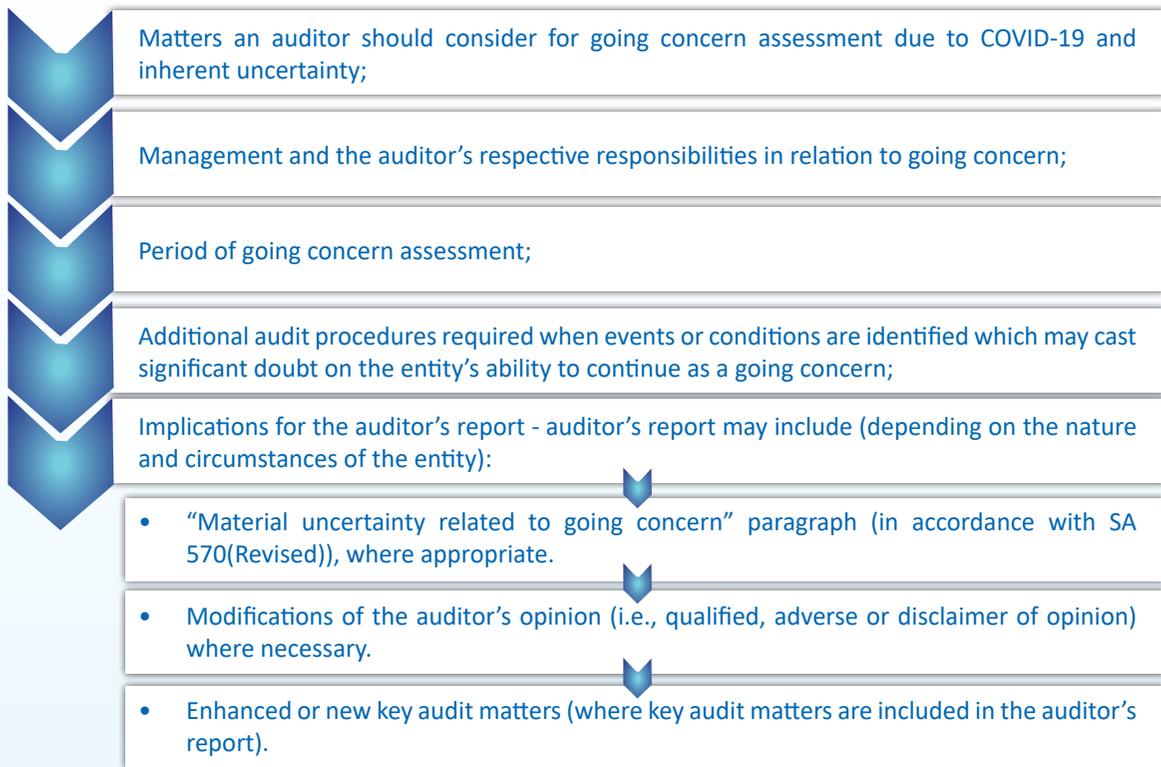
Timely and effective communication between the management and the auditor is essential in ensuring that both are able to fulfil their respective responsibilities in relation to going concern aspect during these uncertain times.

There are various factors that impact the ability of an entity to continue as a going concern. Out of such factors, the auditor as well as the company needs to essentially consider the impact of COVID-19 on going concern evaluation critically.

In completing work related to going concern in the current environment, auditors should focus on all the requirements set out in SA 570 (Revised), Going Concern, with full consideration given to the entity's specific circumstances before any conclusions are reached. In completing the work on going concern, the importance of exercising professional skepticism is amplified, particularly where management have determined that the current circumstances are not expected to have any material financial impact on the entity and that no material uncertainties related to going concern exist for the entity. Reference should also be made to the "Implementation Guide to SA 570 (Revised), Going Concern" issued by the Auditing and Assurance Standards Board of ICAI.



This guidance focuses on the implications of the COVID-19 pandemic for the auditor’s work related to going concern, including the following:



This guidance includes specific FAQs to deal with the various situations in the current environment

Key questions/inquiries an auditor should consider due to COVID-19
Has management performed a preliminary assessment of the entity’s ability to continue as a going concern? Whether auditor has discussed with management the impact of the COVID-19 outbreak, if any, on their assessment?
Were there interruptions in the supply and production cycle of the entity due to the COVID- 19 outbreak? If so, does management have a feasible recovery plan? Do these events or conditions cast significant doubt about the entity’s ability to continue as a going concern? Are these disruptions expected to continue for a foreseeable future and the action plan of the management to mitigate these risks?
Did the auditor note any contradiction in audit evidence provided by the entity (e.g., different assumptions or inputs used for different purposes)?
Are there any financial difficulties, resulting in additional credit risks, higher than usual bad debts and potential impairments and write-offs because of the COVID-19 outbreak? Has management considered these situations in their assessment of the entity’s ability to continue as a going concern?
Are there any potential issues related to debt, including debt covenants, which are applicable to the entity (for example, is the entity in compliance with debt covenants or do debt agreements contain material adverse change clauses or call provisions)? Has management considered these situations in their assessment of the entity’s ability to continue as a going concern?
Whether the auditor considered the risk of inadequate disclosures in the financial statements related to the COVID-19 outbreak and management’s recovery plans?



FREQUENTLY ASKED QUESTIONS (FAQs)

Question 1: Which matters specific to the current environment and the effects of the COVID-19 pandemic should be considered by the management when assessing the entity's ability to continue as a going concern?

Response: The COVID-19 pandemic is likely to have significant implications for global economies and markets for certain industries such as restaurants, entertainment, hospitality, retail and travel especially aviation. The downturn will result in a significant increase in both the volume and severity of events and conditions that may in some instances cast doubt on an entity's ability to continue as a going concern. However, this does not necessarily mean that a material uncertainty automatically exists—the increased risk of significant doubt on an entity's ability to continue as a going concern will rather depend on the nature and circumstances of the entity, including the industry in which it operates.



As part of a going concern assessment, it is critical for management to assess what impact the current events and conditions have on the entity's operations and forecasted cash flows, with a focus on whether the entity will have sufficient liquidity to continue to meet its obligations as they fall due. Management will need to consider the existing and anticipated effects of the COVID-19 pandemic on the assumptions in its assessment giving particular attention to significant assumptions that are sensitive or susceptible to change or are inconsistent with historical trends.

The auditor is required to consider whether management's assessment includes all relevant information they are aware of at the time of assessment and the auditor compares it with the information that the auditor is aware of as a result of the audit. The auditor should assess how management addressed the considerations listed below and their impact on the entity to help identify and focus on the most sensitive assumptions that are likely to increase the risk of a material uncertainty on a case-by-case basis. This assessment involves judgment and it is auditor's responsibility to maintain an appropriate level of professional skepticism.

The auditor should also consider the necessity with regard to involvement of an expert to assist in asset valuations, given the current uncertainty in both local and global markets and how the expert has developed his assumptions. Valuations based on projected future cash flows are likely to be more challenging, as developing robust models of cash flows into the future may be more difficult given current volatility and uncertainty.

The considerations related to the COVID-19 pandemic that management should include in their assessment are discussed below:

Regulatory considerations

- The impact of measures taken by governments in all the countries where the entity operates.
- Changes to the entity's access to capital impacted by measures taken by regulators (industry and/or financial) or banks.
- The entity's ability to prepare timely financial statements or other required information/filings, including delays in receiving financial data from operations in other countries or material investees for consolidated financial statements.
- The entity's ability to meet regulatory ratios.



Operating environment considerations

General considerations include restructuring of the entity/group (actual or planned) and its business (e.g., store closures, workforce reduction) that may be needed to generate sufficient cash flows. The auditor should determine if there are any restrictions on disposing of assets, such as in existing debt agreements or actions subject to Board approvals. Other considerations related to the operating environment include but are not limited to:

- The level of lost revenue and cash flows including the effect of rebates, refunds and allowances.
- The level of pricing and volume volatility impacting revenue.
- Impact of foreign exchange fluctuations including the impact of any hedging arrangements to reduce uncertainty.
- The risks relating to delivering products and services (e.g., workforce being ill / plant and facilities being inaccessible / inventory unable to reach end markets).
- Significant deterioration in the value of current assets – particularly inventory and whether management has considered possible write downs or write-offs of inventory.
- Loss of existing contracts and future contracts, particularly if facilities are being repurposed to support restructuring or recover losses arising due to COVID-19.
- Inability to honour certain terms of contracts leading to penalties by regulators/ counterparties and suitability of invocation of force majeure clauses.
- Foreign exchange fluctuations and how these have been considered.
- Customers finding other sources of supply during the COVID-19 pandemic and not returning.
- The ability of the business model to operate under current COVID-19 restrictions and whether the business model will be sustainable post COVID-19 (e.g., travel and leisure industry).
- Raw material pricing due to sourcing challenges and the related impact to projected gross margin levels.
- Increase in operating costs or cost of supplies due to restrictions related to COVID-19 and anticipated additional costs on account of adjusting to post COVID-19 scenario.

- Supply chains interruptions due to delays in overseas supplies (no longer just-in-time).
- Grants and other relief provided by governments (such as relief in the form of deferral of payments).
- Overseas supplies no longer available due to overseas governments' actions.
- Costs associated with temporary suspension of operations.
- Restart costs - certain processes may require extended restart periods or remediation or require regulatory approvals before production can begin, supply chain may not be resilient in the circumstance and not able to restart in accordance with the entity's plans.

Liquidity considerations

Operational considerations:

- Risk relating to receivables (delays or failures of counterparties, requests for changes in payment terms).
- Loss in ability to factor trade receivables due to uncertainties over collectability.
- Impact of trade financing products such as letters of credit, forfaiting, shipping and payment terms, etc.
- Risk of significant business expansion into a new sector that is not sustainable in the future.
- Adverse movement in bond yields leading to deterioration of value of investments and impact on recoverability due to adverse market movements.

Funding considerations:

- Understanding the sources of available cash – shareholders (including related parties), lenders.
- Position of asset liability mismatch especially in case of financial institutions and the adverse implications of such ALM gap.
- Determination of whether funding facilities are





on demand or committed, any representations or warranties required by funding agreements and if there is a risk of funding being withdrawn.

- The impact on funding due to but not limited to:
 - Potential covenant breaches.
 - Material adverse changes/material adverse event clauses in debt agreements.
 - Debt maturity profile and impact of COVID-19 on refinancing risk.
- Clarity on how any accounting for exceptional items or adjusting items will be treated in determining covenant compliance.
- Risk of contingent liabilities (bank guarantees, performance guarantees, bonding, etc.).
- Risk that the parent company will no longer support the business.

Management information and forecasting capability considerations

- Quality and timeliness of the financial and operational information used to manage the day to day business.
- Appropriateness of methodology or approach to short-term cash forecasting.
- Management's track record on forecasting expenditure such as cost reductions, plant restarts due to COVID-19.
- Whether management prepared a reverse stress test

of liquidity, solvency and where applicable, covenant compliance to consider the maximum downside risk that would need to be managed through.

- Whether management has put in place actions in defining contingency plans for all aspects of the business.

Mitigating factors that can be considered by the auditor

The following considerations may mitigate the risks listed above which the auditor may consider:

- Any mitigating actions available to management (e.g., capital expenditure reductions, reduction in dividends, suspension of non-performance based bonuses, deferral of payments of principal and interest, cost reduction actions, working capital reduction, taxation payment holidays or deferrals or COVID-19 driven government funding, asset liquidation, government supported staff retention schemes and other governmental measures).
- Arrangements with lenders to lend against any government guaranteed cash flows (if available) to improve liquidity. Nevertheless, the auditor should consider whether the impact of any mitigating factors have been reflected in the revised business plan or forecast (e.g., reduced capital expenditure may impact production and in turn may reduce revenues), and whether these actions are feasible and in the control of management, or do these actions rely on third party or government actions.

Question 2: When evaluating management's assessment of the entity's ability to continue as a going concern, what period should be used by the auditor?

Response: In financial reporting frameworks (Ind AS 1, Presentation of Financial Statements and AS 1, Disclosure of Accounting Policies), there is an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern. In assessing an entity's ability to continue as a going concern, Ind AS 1 and AS 1 require that all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period, should be considered by management. In evaluating management's assessment of the entity's ability to continue as a going concern, the auditor shall cover the same period as that used by management to make its assessment as required by the applicable financial reporting framework, or by law or regulation if it specifies a longer period. If management's assessment of the entity's ability to continue as a going concern covers less than twelve

months from the date of the financial statements as defined in SA 560, Subsequent Events, the auditor shall request management to extend its assessment period to at least twelve months from that date.

The auditor should remain alert for and consider the consequences of known or expected events that will occur soon after the twelve months¹ from the end of the reporting period (e.g., ceasing of operations or slowing due to supply chain issues, significant reduction in sales due to restricted operations for non-essential retail businesses, maturing of debt and strained cash flows, or loan covenants that may not be met during the evaluation period (e.g., because of a significant reduction in fair value of investments and other assets), or an entity will be unable to pay its creditors shortly after the twelve months from the end of the reporting period). If events or conditions have been identified that may cast significant

¹Please refer FAQs 45-46 of COVID- 19: FAQs on Ind AS issued by the Accounting Standards Board of ICAI.



doubt on the entity's ability to continue as a going concern, the auditor shall obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (hereinafter referred to as "material uncertainty") through performing additional audit procedures, including consideration of mitigating factors

As it is likely that the COVID-19 pandemic will result in events and conditions that may cast significant doubt on an entity's ability to continue as a going concern, it is also more likely that auditors may need to perform the additional audit procedures in accordance with paragraph 16 of SA 570 (Revised). Paragraph A16 of SA 570 (Revised) includes examples of audit procedures that

may be relevant to the requirement in paragraph 16 in the circumstances. Please refer **Appendix A** for details.

In accordance with Ind AS 10, Events Occurring after Reporting Period / AS 4, Contingencies and Events Occurring after the Balance Sheet Date, events after the reporting date that indicate an entity is no longer a going concern are adjusting events that should be considered in the entity's going concern assessment. If management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so, the financial statements may require a fundamental change in the basis of accounting (e.g., to liquidation basis of accounting), rather than an adjustment to the amounts recognised within the original basis of accounting.

Question 3: Whether the position as on balance sheet date i.e. as on 31st March 2020 or the position of the company post lock-down when auditors are signing the auditor's reports, should be the basis for assessing going concern uncertainty?

Response: As stated in response to Question 2 above, if management's assessment of the entity's ability to continue as a going concern covers less than twelve months from the date of the financial statements, the auditor shall request management to extend its assessment period to at least twelve months from that date. However, the auditor needs to inquire 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 events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor is required to perform additional audit procedures as indicated in Question 2 above.

Question 4: How management should update or change its assessment of the entity's ability to continue as a going concern from previous periods in the current situation?

Response: Assumptions used in management's going concern assessment should be regularly updated for the effects of COVID-19. The extent of these updates should be specific to the entity and should include consideration around the markets and industry in which it operates, their customers' ability to continue in business and pay bills, support provided by local governments, the effects of social distancing and lockdown laws and assumptions used in their forecast, such as growth rates and changes in working capital balances, their capital and liquidity analysis and availability of funding sources and also consider regulatory restrictions or relaxations in the said assessment.

Management typically relies upon historical financial results, known changes in the business and competitor and industry data to provide evidence of the reasonableness of the assumptions used in its assessment. However, given current economic and market conditions, historical

financial results are unlikely to provide a basis for future cash flows and therefore management will likely need to consider additional sources of information when evaluating the reasonableness of the assumptions used in its assessment. Management is expected to prepare a range of scenarios based on different dates of recovery to determine the potential impact on underlying performance and future funding requirements. It is important that these scenarios adequately address the impact of COVID-19 by applying stricter parameters than those used in the past.

The following sources of information may provide evidence to assess the reasonableness of the assumptions used:

- Industry reports.
- Analyst reports.
- Third party studies.



- Data from the World Health Organization (WHO) or local institutions about the expected progression of the COVID-19 outbreak in the countries.
- Data from governmental sources about the severity and estimated duration of the economic downturn and actions the government may take to mitigate the effects.

The auditor should ask management to rechallenge forecasts and assumptions that have not been updated for current events (e.g., forecasts developed before the COVID-19 outbreak). With circumstances changing rapidly due to COVID-19 with severe impacts in some

industries (restaurants, entertainment, tourism, such as airlines, cruises, hotels, etc.), making the required projections to assess the entity's ability to continue as a going concern in some cases can be extremely difficult. There could be new factors and complexity affecting management's going concern assessment as a result of the COVID-19 pandemic, therefore the assessment may require specialized knowledge. The auditor should discuss with management whether they are considering involving a management's expert (as defined in SA 500, Audit Evidence) in developing their forecasts for their assessment and plan the audit response accordingly.

Question 5: Which audit procedures should an auditor perform to evaluate management's plans for future actions and the feasibility of those plans?

Response: The auditor should evaluate management's plans for future actions in relation to its going concern assessment and whether management's plans are feasible in the circumstances and whether the outcome of these plans is likely to improve the situation. If the entity has prepared a cash flow forecast, and analysis of the forecast is a significant factor in assessing the future outcome of events or conditions in the evaluation of management's plans for future action, the auditor should:

- Evaluate the reliability of the underlying data generated to prepare the forecast.
- Determine whether there is adequate support for the assumptions underlying the forecast.

To evaluate management's plans, the auditor should discuss with management its plans to liquidate assets, borrow money or restructure debt, reduce or defer

expenditures, or increase ownership equity. The auditor should also assess the likelihood of the plans being implemented effectively and within an acceptable timeframe. Further, inquiries should be made whether the plans have been shared with those charged with governance, lenders, regulators, and outside credit and investment analysts.

For each significant assumption, the auditor should evaluate management's ability and intent to carry out actions on which the assumption is based, including whether the assumption is consistent with management's expectations of the outcome of specific objectives and strategies (e.g., to assess the reasonableness of gross margin as a percentage of revenue, the auditor should consider reviewing the status and approval of restructuring plans that significantly reduce costs in future years).

Question 6: Which factors should an auditor consider in determining the adequacy of management's disclosures related to an entity's ability to continue as a going concern?

Response: If management has significant doubt about the entity's ability to continue as a going concern, the uncertainties should be disclosed, even if the conclusion is that no material uncertainty exists, and when a material uncertainty exists related to going concern make clear to the readers that the entity's ability to continue as a going concern is subject to a material uncertainty.

Additionally, the auditor should consider the following in determination of the adequacy of management's disclosure of underlying events or conditions related to going concern:

- Additional line items or sub-totals on the face of

the income statement may be included to enhance users' understanding of the entity's performance (such as an impairment adjustment).

- Disclosures regarding estimation uncertainty may need to be increased (e.g., assumptions may be subject to a material change within the next period).
- Disclosure of any changes in financial risks such as credit risk, liquidity risk, currency risk and other price risk, and changes in objectives, policies and processes for managing those risks are expected. In particular, additional disclosures about liquidity risk might be needed when COVID-19 has affected cash



flows from operations or the ability to access cash in other ways such as from government payments, factoring receivables or supplier financing.

- Updates are likely to be needed to management's analysis of principal risks and uncertainties (e.g., qualitative disclosures about risks and uncertainties that in the near term (i.e., within one year from the date of the financial statements) that could significantly affect the amounts reported in the financial statements or the functioning of the

reporting entity).

- Management may need to make additional disclosures in the Board of Directors' report or in information in the annual report (other than the financial statements and the auditor's report) as required by respective regulatory framework. The auditor should determine his responsibilities towards this information in accordance with SA 720(Revised), The Auditor's Responsibilities Relating to Other Information.

Question 7: How should an auditor report a material uncertainty related to going concern in the auditor's report and how does the adequacy of management's related disclosures affect auditor's report?

Response: The identification of a material uncertainty relating to going concern is a matter that is important to users' understanding of the financial statements. The use of a separate section in the auditor's report with a heading that includes reference to the fact that a material uncertainty relating to going concern exists alerts users to this circumstance.

Example of wording in the auditor's report:

"Material Uncertainty Related to Going Concern

We draw attention to Note X in the financial statements, which [describe material uncertainty]. 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. Our opinion is not modified in respect of this matter."

When the auditor concludes that the use of the going concern basis of accounting is appropriate in the circumstances, but a material uncertainty exists, the auditor should also determine whether the financial statements adequately disclose the matter and

management's plan to deal with the event or condition giving rise to the material uncertainty. When the disclosures are adequate, an unmodified opinion should be issued, and the above section should be included in the auditor's report.

The description of the material uncertainty in the auditor's report is required to be made under the separate paragraph "Material Uncertainty Related to Going Concern" in accordance with SA 570(Revised) and should not be included under Emphasis of Matter paragraph.

However, if adequate disclosure about the material uncertainty is not made in the financial statements, the auditor should express a qualified opinion or adverse opinion (depending on the pervasiveness of the matter to the financial statements (i.e., the inadequacy of disclosures)). In the Basis for Qualified (Adverse) Opinion section of the auditor's report, the auditor should state that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the financial statements do not adequately address this matter.

Question 8: How are matters related to evaluation of an entity's ability to continue as a going concern considered in the determination of key audit matters?

Response: For many of the companies, it is likely that the COVID-19 pandemic will be an event or condition that may cast significant doubt on an entity's ability to continue as a going concern and, in some cases, matters related to the COVID-19 pandemic may give rise to a material uncertainty related to going concern. When the auditor determines that there is a material uncertainty related to going concern, the auditor should not include that material uncertainty within key audit matters (KAM) Section and instead report the material uncertainty in a

separate section of the auditor's report in accordance with SA 570(Revised). In other cases, the judgments the auditor makes in his evaluations may be matters that required significant auditor attention and therefore are considered in the auditor's determination of KAM.

It is possible to identify KAM related to going concern matters in accordance with SA 701, Communicating Key Audit Matters in the Independent Auditor's Report which would be reported in the KAM section of the auditor's report, when the auditor:



- Identifies events and conditions that may cast significant doubt on an entity's ability to continue as a going concern; and
- Concludes that no material uncertainty exists; and
- Concludes that the disclosures related to those events or conditions are adequate.

The auditor should note that if disclosures related to the events or conditions are not adequate, this constitutes a misstatement that an auditor should evaluate in determining whether a material misstatement exists and if so, the auditor determines the related effects on the auditor's report. Matters that give rise to a modification of auditor's opinion are disclosed in the Basis for Opinion section of the auditor's report and are not reported in the

KAM section of the auditor's report.

If the auditor determines that matters related to going concern are KAM, the auditor should not include in the description of such matter(s) in the auditor's report that such issues arose in their evaluation of whether or not a material uncertainty related to going concern exists. Instead, the auditor should describe the identified events or conditions disclosed in the financial statements that were the focus of auditor's attention, such as substantial operating losses, available borrowing facilities and possible debt refinancing, or non-compliance with loan agreements, and related mitigating factors (refer paragraph A41 of SA 701).

Question 9: Can an auditor rely on "Support Letter" from Parent Company in COVID-19 situation while making going concern assessment?

Response: Where an auditor relies on a "support letter" as audit evidence, the auditor should also evaluate the financial strength and capability of the parent company issuing support letter to be able to discharge liabilities of the company. The auditor should be more careful in a situation where the last available financial statements of the investor/ parent were issued before the breakout of the COVID-19 pandemic. In such situations, the auditor should:

- Obtain and evaluate information obtained in public domain about the investor/parent who has issued support letter, which may include historical financial

information, other information or forward-looking statement / guidance issued by the parent company.

- Obtain information from the auditors of the investor/parent if they can provide insight into financial viability of the investor/parent.

However, if the auditor is not able to obtain sufficient appropriate audit evidence about the financial strength and capability of the parent company, the auditor should evaluate the impact on the auditor's report i.e. whether a material uncertainty exists related to going concern or a disclaimer of opinion is required if the impact is pervasive.

Question 10: What is the responsibility of the auditor if there is significant delay in the approval of financial statements?

Response: Paragraph 26 of SA 570 (Revised) requires that if there is significant delay in the approval of the financial statements by management or those charged with governance after the date of the financial statements, the auditor shall inquire as to the reasons for the delay. If the auditor believes that the delay could be related to events or conditions relating to the going concern assessment, the auditor shall perform those additional audit procedures necessary, as described in paragraph 16 of SA 570 (Revised), as well as consider the effect on the auditor's conclusion regarding the existence of a material uncertainty, as described in paragraph 18 of

SA 570 (Revised).

The COVID-19 pandemic may be a contributing factor to a delay in the approval of financial statements. If a significant delay occurs, the auditor should consider the requirements of SA 570 (Revised) described above and ensure that communication with management and those charged with governance remains open and effective, allowing both the auditor and those charged with governance to fulfil their respective responsibilities despite the significant delay in approval of the financial statements.



Question 11: What is the responsibility of the auditor if the management itself concludes that the going concern assumption is not valid and prepares the financial statements considering net realisable values of assets and giving suitable disclosure i.e. it prepares financial statements on liquidation basis of accounting?

Response: In such cases, the auditor should refer paragraph 21 of SA 570(Revised) and corresponding application guidance in paragraph A27 of SA 570(Revised). Paragraph A27 states that 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 statements on another basis (e.g., liquidation basis). The auditor may be able to perform an audit of those financial statements 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 those financial statements, provided there is adequate disclosure therein about the basis of accounting on which the financial statements are prepared, but may consider it appropriate or necessary to include an Emphasis of Matter paragraph in accordance with SA 706 (Revised) in the auditor's report to draw the user's attention to that alternative basis of accounting and the reasons for its use.

Whatever the situation, SA 570 (Revised) that apply to assessing going concern make it necessary for auditors to:

- Discuss the impact of COVID-19 on entities with management and those charged with governance;
- Obtain sufficient appropriate audit evidence to assess whether the disclosures given by management about the COVID-19 events are appropriate; and
- Document the audit evidence and their considerations in such a way that, in line with SA 230-Audit Documentation, they can provide an experienced auditor an understanding regarding procedures performed with respect to going concern, the results from these procedures, and the resulting audit evidence obtained, and the conclusions which the auditor has drawn and the support thereof, all in line with paragraph 9 of SA 570(Revised), Objectives of the Auditor.

Appendix A: Additional Audit Procedures When Events or Conditions Are Identified

Audit procedures that are relevant to the requirement in paragraph 16 of SA 570(Revised) may include the following:

- Analyzing and discussing cash flow, profit and other relevant forecasts with management.
- Analyzing and discussing the entity's latest available interim financial statements.
- Reading the terms of debentures and loan agreements and determining whether any have been breached.
- Reading minutes of the meetings of shareholders, those charged with governance and relevant committees for reference to financing difficulties.
- Inquiring of the entity's legal counsel regarding the existence of litigation and claims and the reasonableness of management's assessments of their outcome and the estimate of their financial implications.
- Confirming the existence, legality and enforceability of arrangements to provide or maintain financial support with related and third parties and assessing the financial ability of such parties to provide additional funds.
- Evaluating the entity's plans to deal with unfilled customer orders.
- Performing audit procedures regarding subsequent events to identify those that either mitigate or otherwise affect the entity's ability to continue as a going concern.
- Confirming the existence, terms and adequacy of borrowing facilities.
- Obtaining and reviewing reports of regulatory actions.
- Determining the adequacy of support for any planned disposals of assets.