

Frequently Asked Questions on SA 570 (Revised), ‘Going Concern’ (Applicable for audits of financial year 2017-18)

Background

As the members are aware that ICAI has issued SA 570 (Revised), “Going Concern” along with other Standards, SA 700 (Revised), SA 701, SA 705 (Revised), SA 706 (Revised) & SA 260 (Revised) on 17th May, 2016 (https://www.icai.org/new_post.html?post_id=12624&c_id=219), which were made applicable w.e.f. 01.04.2017 (for audits of financial statements for periods beginning on or after April 1, 2017).

The Council of ICAI, by issuing an announcement (<https://resource.cdn.icai.org/45050aasb010417.pdf>), deferred the applicability of SA 700 (Revised), SA 701, SA 705 (Revised), SA 706 (Revised) by one year, i.e. effective for audits of financial statements for periods beginning on or after April 1, 2018. However, SA 260 (Revised) & SA 570 (Revised) are applicable for audits of financial statements for periods beginning on or after April 1, 2017.

Queries & Response

The Auditing and Assurance Standards Board have received queries from the members with respect to implementation of SA 570 (Revised) for the audit of F.Y. 2017-18, where reference has been made to the aforesaid reporting Standards deferred to 01.04.2018.

To clarify the implementation issues, the Auditing and Assurance Standards Board of ICAI, hereby issues the following FAQs on SA 570(Revised) based on the queries received from the members:

Question 1: What are the main Implications of SA 570(Revised) for Auditor’s Report?

Response: The main implications of SA 570(Revised) for Auditor’s Report are summarised below:

S.N.	Situation	Reporting requirements in SA 570 (Revised)
1	Use of Going Concern Basis of Accounting in Financial Statements is inappropriate	Adverse opinion {Refer paragraph 21 of SA 570(Revised)}
2	Use of Going Concern Basis of Accounting in Financial Statements is appropriate, but a material uncertainty exists	
	<u>2.1: Case 1:</u> Adequate disclosure of Material Uncertainty is made in Financial Statements	Unmodified opinion but a Separate Paragraph “Material Uncertainty Related to Going Concern” to highlight material uncertainty {Refer paragraph 22 of SA 570 (revised)}
	<u>2.2: Case 2:</u> Adequate disclosure of Material Uncertainty is not made in Financial Statements	Qualified or Adverse opinion {Refer paragraph 23 of SA 570 (Revised)}

Question 2: Is Emphasis of Matter Paragraph (EOM) also required to be given for the situation where the auditor is required to give Separate Paragraph on “Material Uncertainty Related to Going Concern” to highlight material uncertainty” as per SA 570 (Revised).

Response:

As per pre-revised SA 570 (which was applicable till audits of F.Y. 2016-17) an Emphasis of Matter Paragraph (EOM, refer para 19) was required to be given in the situation given in case 2.1 as above in question 1. SA 570 (Revised) in such situation requires a separate paragraph ‘Material Uncertainty Related to Going Concern’ instead of EOM Paragraph.

Accordingly, in situations which warrant separate Paragraph on “Material Uncertainty Related to Going Concern” as per SA 570 (Revised), auditor is not required to give EOM paragraph.

Question 3: Whether Illustrations of Auditor’s Reports given in Appendix of SA 570 (Revised) are applicable in respect of audits of F.Y. 2017-18?

Response:

The audit reports for audits of F.Y. 2017-18 are to be issued as per the applicable format of auditor’s report prescribed by extant SA 700, SA 705, SA 706 and the illustrative formats given in Appendix of SA 570 (Revised) make reference to new/Revised SAs, i.e. SA 700 (Revised), SA 701, SA 705 (Revised) & SA 706 (Revised) which are not applicable for audits of financial year 2017-18. Therefore, Illustrations of Auditor’s Reports given in SA 570 (Revised) are not applicable in respect of audits of F.Y. 2017-18.

Question 4: What will be the manner of reporting under SA 570 (Revised) in audits of F.Y. 2017-18, where use of Going Concern Basis of Accounting in Financial Statements is appropriate, but a material uncertainty exists and adequate disclosure of Material Uncertainty is made in Financial Statements.

Response:

In the given situation, the section ‘Material Uncertainty Related to Going Concern’ may be included in the below cited manner:

“Material Uncertainty Related to Going Concern

We draw attention to Note XX in the financial statements, which indicates that the Company incurred a net loss of ZZZ during the year ended December 31, 20X1 and, as of that date, the Company’s current liabilities exceeded its total assets by YYY. As stated in Note 6, these events or conditions, along with other matters as set forth in Note XX, 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.”

Note: The aforesaid paragraph is illustrative and should be amended appropriately based on circumstances which leads to material uncertainty regarding going concern.

Further, this section should be placed immediately after the opinion paragraph and before the EOM/OM paragraph, if any, using the applicable format of auditor's report.

Chairman,
Auditing and Assurance Standards Board