ICAEW KNOW-HOW
AUDIT AND ASSURANCE FACULTY

GOING CONCERN - BASIS OTHER THAN GOING CONCERN

GUIDE

Updated August 2021

This Guide was last updated in August 2021 and is based on the relevant laws and regulations that apply as at 1 August 2021.

Introduction

This Guide is designed to explain the main changes that are required to the audit report of a company where application of the going concern basis of accounting is not considered appropriate. It does not seek to explain every difference, just the key areas to consider.

Where it is determined that use of the going concern basis of accounting is not appropriate, accounting frameworks do not prescribe the basis that should be applied, although the basis used is generally described as "a basis other than going concern". Where financial statements are prepared using a basis other than going concern they should disclose this together with the reasons why this is appropriate.

Situations in which use of the going concern basis may not be applicable include:

- the directors of a company intend to liquidate the company (or have no realistic alternative but to liquidate the company); or
- the directors of a company intend to cease trading (or have no realistic alternative but to cease trading). An example is where the company is selling the trade and assets but the company will remain in existence, albeit as a non-trading company.

If the financial statements have been prepared on a going concern basis but, in the auditor's judgement, the use of the going concern assumption in the financial statements is inappropriate, ISA (UK) 570 requires the auditor to express an adverse opinion.

The example wording in this Guide has been adapted from the company examples in the FRC's Bulletin: Illustrative auditor's reports on United Kingdom private sector financial statements.

For the purposes of this Guide it has been presumed that the appropriate disclosures are made by the company in the financial statements and strategic report or directors' report. It has also been presumed that the company is not required nor has chosen to prepare group financial statements.

Addressee of the report

No changes are required.

Opinion

No changes are required provided that the basis of preparation is appropriately disclosed.

Basis for opinion

No changes are required provided that the basis of preparation is appropriately disclosed.

Emphasis of matter

The auditor may consider it necessary to include an emphasis of matter paragraph to draw the users' attention to the alternative basis of preparation and the reasons for its use. Where the auditor is reporting on key audit matters, this may instead constitute a key audit matter rather than an emphasis of matter paragraph. ISA (UK) 706 requires that emphases of matter cannot also be key audit matters. The only exception to this is where the emphasis of matter is required by law or regulation, which is not the case for the use of a basis other than going concern.

The auditor's decision as to whether to include an emphasis of matter is a matter of judgement and will depend on the circumstances, the basis on which the financial statements are prepared and the information needs of users of the financial statements. Factors which may be relevant in deciding whether an emphasis of matter paragraph is necessary will include:

- the likely users of the financial statements, for example owners, employees and creditors. Wholly-owned subsidiaries with no employees or external liabilities may have fewer stakeholders to whom an emphasis of matter paragraph would be useful. Conversely, it may be very relevant to a supplier to know that a subsidiary is shortly to be liquidated; and
- the extent to which the statement of financial position and income statement would be interpreted differently if the users' attention was drawn to the fact that the going concern basis was not used.

If an emphasis of matter paragraph is included, it should have an appropriate heading that includes the words "emphasis of matter".

Positioning of this paragraph is not mandated but it will generally be appropriate to include it immediately after the basis for opinion section to provide appropriate context to the auditor's opinion.

Emphasis of matter – [basis of preparation / financial statements prepared on a basis other than going concern]

We draw attention to Note X to the financial statements which explains that the directors intend to liquidate the company and therefore do not consider it to be appropriate to adopt the going concern basis of accounting in preparing the financial statements. Accordingly the financial statements have been prepared on a basis other than going concern as described in Note X. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

This section is not required where a basis other than going concern is used and is generally replaced by an emphasis of matter paragraph discussed above.

Key audit matters

If the auditor reports on key audit matters, the preparation of the financial statements on a basis other than going concern may constitute a key audit matter rather than an emphasis of matter. It will be a judgement for the auditor as to whether this is a key audit matter, an emphasis of matter or not referred to explicitly in the audit report.

Other information

No changes are required provided that where relevant, such as in the future developments section of the directors' report or the business review section of the strategic report, the other information appropriately discloses that the company is not a going concern.

Opinions on other matters prescribed by the Companies Act 2006

No changes are required provided that where relevant, such as in the future developments section of the directors' report or the business review section of the strategic report, the applicable report(s) appropriately disclose that the company is not a going concern.

Matters on which the auditor is required to report by exception

No changes are required.

Corporate governance statement

This section is still required for companies that apply the UK Corporate Governance Code even where the financial statements are prepared on a basis other than going concern.

The bullet point referring to concluding on the appropriateness of the directors' use of the going concern basis of accounting and any material uncertainties identified does not need to be amended.

Responsibilities of directors

No changes are required. It is still appropriate for the section to refer to the directors' responsibilities to assess the company's ability to continue as a going concern and use of the going concern basis of accounting unless they intend to liquidate the company or cease operations.

Auditor's responsibilities for the audit of the financial statements

No changes are required, regardless of whether the detailed description is within the audit report directly, included within an appendix or referenced to the FRC website.

In particular, where included directly or within an appendix, the paragraph referring to concluding on the appropriateness of the directors' use of the going concern basis of accounting does not need to be amended.

In addition, no changes are needed for the section which explains the extent to which the audit was considered capable of detecting irregularities, including fraud.

Use of the audit report

No changes are required.

Signature on the audit report

No changes are required.

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* Source: CAW, 2020 – Interbrand, Best Global Brands 2019

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