



Smart decisions. Lasting value.

Navigating Going Concern

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Going Concern - Recap

- An entity is a going concern unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so.
- Management takes into account all available information about the future, which is at least, ***but is not limited to***, twelve months from the date when the financial statements are ***authorised for issue***.
- Management to consider material uncertainties related to events or conditions that cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties.

In times of uncertainty and high inflationary economy the Trustees' assessment on ability to continue as a going concern is likely to be a key area of emphasis for boards and auditors.



<https://www.crowe.com/uk/insights/charities-going-concern>

Responsibilities in respect of going concern under ISA (570)



Management

- **Required to assess the entity's ability to continue as a going concern**
- Involves making a judgement, at a particular point in time, about inherently uncertain future outcomes of events or conditions.

Auditors

To obtain sufficient appropriate audit evidence regarding, and conclude on:

- **Whether a material uncertainty related to going concern exists; and**
- **The appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.**

“...the auditor shall consider whether there are events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern. In so doing, the auditor shall determine whether management has already performed a preliminary assessment of the entity’s ability to continue as a going concern, and...”

1 Risk Assessment Procedures and Related Activities

- Design & perform risk assessment procedures to obtain an understanding of the basis for identifying events or conditions which may cast significant doubt in respect of GC & does a material uncertainty exist.
- Request management to make an assessment
- Are management aware of any events or conditions beyond period of assessment that may cast significant doubt on GC

2 Evaluating Management's assessment

- Explicit about what procedures must be undertaken at this stage
- Emphasis on maintaining professional scepticism
- If managements period of assessment does not cover 12months, then consider implications for the Audit Report

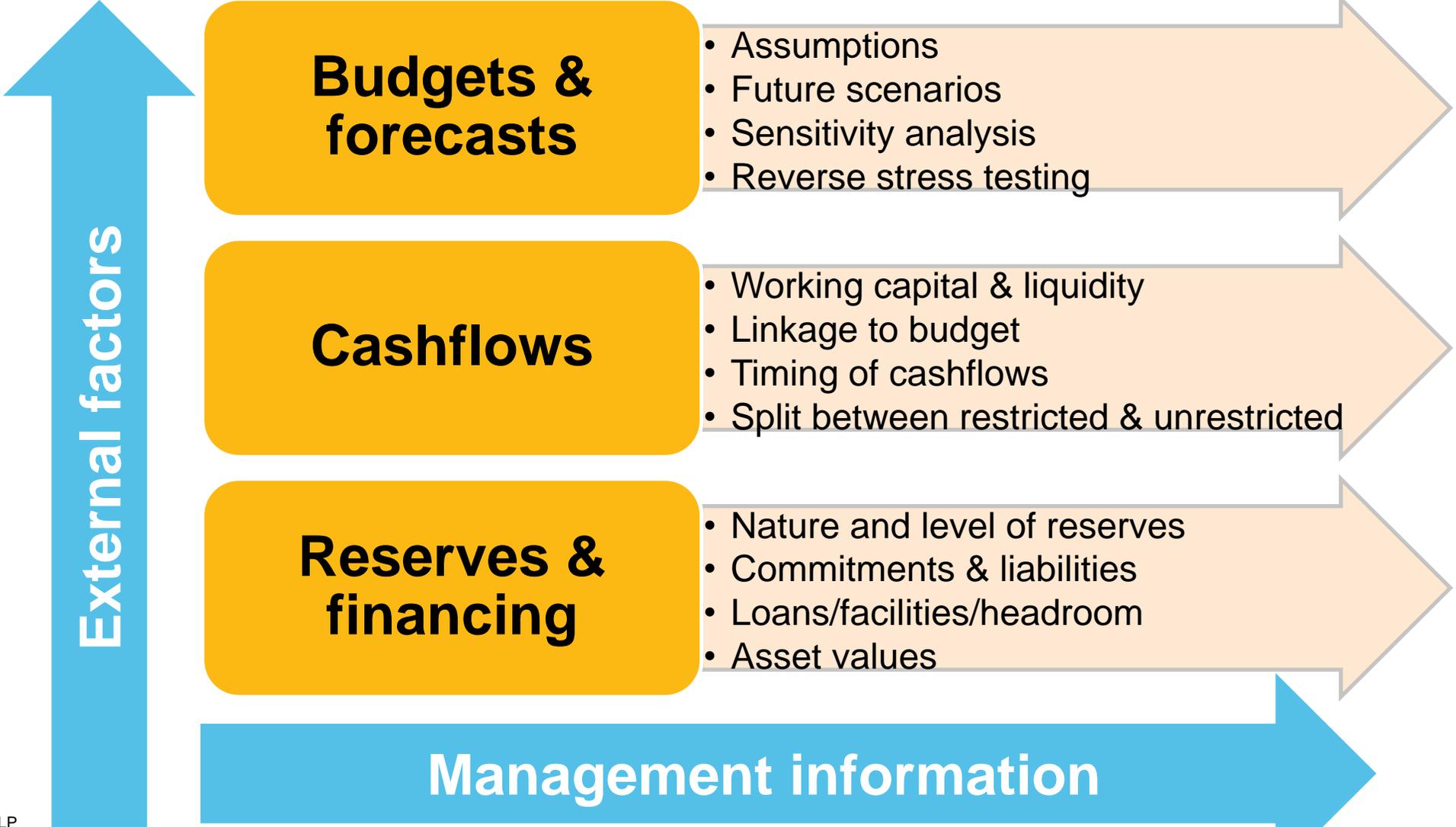
3 Evaluating Sufficiency and Adequacy of Audit Evidence

- Evaluate if sufficient & appropriate audit evidence has been obtained regarding, and must conclude on, the appropriateness of managements use of GC
- Conclude if a material uncertainty exists in respect of GC.
- When forming conclusions, evaluate if there are indicators of management bias

4 Implications for the Auditor's Report

- Negative to positive statement re no material uncertainties
- Additional reporting requirement for entities applying the UK Corporate Governance Code
- Unmodified opinion with a material uncertainty related to going concern paragraph
- Adverse opinion

Evaluating management's assessments



- 1 Scenarios are not forecasts
- 2 Avoid being too simplistic
- 3 Monitor & build in triggers for action
- 4 Bring in different perspectives
- 5 Engage with a diverse team across the organisation
- 6 Use decision trees to consider sequencing of decisions

Link cash management with risk management & forecasting process

Rethink reserves – Why are these held? What is the appropriate level? How should it be used?

Think about the NOW and the FUTURE

How are cash requirements going to be managed?
Are funds going to be obtained by borrowing, selling investments or drawing down on cash balances, cutting / deferring expenditure?



Thank You

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