Audit and Assurance Faculty Helpsheets are now known as ‘Guides’. The Helpsheet that this Guide replaces was last updated in November 2018. The Guide is based on the relevant laws and regulations that apply as at 1 July 2019.

Introduction

This Guide is designed to explain the main changes that are required to the audit report of a company where there is a material uncertainty related to going concern. If the auditor concludes that management’s use of the going concern basis of accounting is appropriate in the circumstances but a material uncertainty exists, the auditor determines whether the material uncertainty is adequately disclosed in the financial statements, i.e. whether the financial statements:

- adequately disclose the principal events or conditions that may cast significant doubt on the company’s ability to continue as a going concern and management’s plans to deal with these events or conditions; and
- disclose clearly that there is a material uncertainty related to events or conditions that may cast significant doubt on the company’s ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The example wording in this Guide has been adapted from the company examples in the FRC’s Compendium of illustrative auditor’s reports.

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.

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.
Material uncertainty related to going concern

If adequate disclosure about the material uncertainty is made in the financial statements, the auditor’s report should include a new section of the audit report with the heading “Material uncertainty related to going concern”. This section will draw attention to the note in the financial statements that discloses this matter and state that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the company’s ability to continue as a going concern. It will also state that the auditor’s opinion is not modified in respect of the matter.

The location for this section is not specified in ISA (UK) 570, but the example in the appendix includes this directly after the basis for opinion section.

Note that this is not an emphasis of matter paragraph – under the revised ISA (UK) 570 it is a separate section.

Material uncertainty related to going concern

We draw attention to note x in the financial statements, which indicates that the company incurred a net loss of ZZZ during the year ended 31 December 20X1 and, as of that date, the company’s current liabilities exceeded its total assets by YYY. 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.

Where the company reports on key audit matters, a material uncertainty related to going concern is by its nature a key audit matter. The auditor may therefore also wish (but is not required) to discuss how the matter was addressed in the audit.

Conclusions relating to going concern

This section is not required where there is a material uncertainty related to going concern.

Conclusions relating to principal risks, going concern and viability statement

This section is still required for companies that apply the UK Corporate Governance Code even where there is a material uncertainty related to going concern. Where this section is combined with the conclusions relating to going concern, the bullet point relating to going concern can be deleted.

The auditor may consider it necessary to draw attention to the section of the audit report referring to the material uncertainty, as this is likely to impact both the principal risks and the viability statement:

Conclusions relating to principal risks, going concern and viability statement

Aside from the impact of the matters disclosed in the material uncertainty related to going concern section, we have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report [set out on page …] that describe the principal risks and explain how they are being managed or mitigated;
- the directors’ confirmation [set out on page …] in the annual report that they have carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors’ statement [set out on page …] in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors’ identification of any material uncertainties to the company’s ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
• whether the directors’ statement relating to going concern [and their assessment of the prospects of the company]\(^1\) required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) are materially inconsistent with our knowledge obtained in the audit; or
• the directors’ explanation [set out on page …] in the annual report as to how they have assessed the prospects of the company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have 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 their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Key audit matters

If the auditor reports on key audit matters, any material uncertainty related to going concern is by its nature a key audit matter. However, this is not described in detail as part of the key audit matters section and the auditor needs to refer in that section to the material uncertainty related to going concern section of the audit report.

Assuming there are other key audit matters, the following wording is used:

**Key audit matters**

…

In addition to the matter described in the material uncertainty related to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

…

If there are no other key audit matters, the following wording is used:

**Key audit matters**

Except for the matter described in the material uncertainty related to going concern section, we have determined that there are no other key audit matters to be communicated in our 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 there is a material uncertainty related to 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 there is a material uncertainty related to going concern.

**Matters on which the auditor is required to report by exception**

No changes are required.

**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.

\(^1\) The wording in square brackets is not included in the FRC’s examples in the compendium of audit reports, but is useful to include here especially where there is a material uncertainty.
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.

Use of the audit report

No changes are required.

Signature on the audit report

No changes are required
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