



# GOING CONCERN - MATERIAL UNCERTAINTY RELATING TO 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 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 appropriately disclosed in the financial statements, ie, whether the financial statements:

- appropriately 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 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, however the Appendix includes guidance on what to do if the auditor concludes that disclosures are not appropriate. 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.

## Material uncertainty related to going concern

If appropriate 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 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.

The following paragraphs are required by ISA (UK) 570 (Revised September 2019) paragraph 21-1, and may either be included in the Material uncertainty related to going concern section, or in the Conclusions relating to going concern section. If they are included in the Material uncertainty related to going concern section, the Conclusions relating to going concern section is not required.

#### **For all entities:**

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

#### **For public interest entities, other listed entities, entities that are required, and those that choose voluntarily, to report on how they have applied the UK Corporate Governance Code, and other entities subject to the governance requirements of The Companies (Miscellaneous Reporting) Regulations 2018:**

For such entities, the auditor is also required to include an explanation of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern and, where relevant, key observations arising with respect to that evaluation.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the entity's ability to continue to adopt the going concern basis of accounting included [*Explanation of how the auditor evaluated management's assessment and the key observations arising with respect to that evaluation*].

[In relation to the reporting on how the entity has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to:

- the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting; and
- the directors' identification in the financial statements of the material uncertainty related to the entity's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.]\*

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

\* only required for entities applying the UK Corporate Governance Code.

## Conclusions relating to going concern

Assuming that the relevant additional requirements discussed above have been dealt with in the Material uncertainty related to going concern section, this section can be excluded.

## 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.

## Corporate governance statement

This section is required for companies that apply the UK Corporate Governance Code even where there is a material uncertainty related to 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.

## Appendix - What to do if the auditor concludes that disclosures are not adequate

Practically, if the auditor does not consider that material uncertainties related to going concern are appropriately disclosed, the auditor will determine which aspects of the required disclosures are missing, and communicate this to the entity's management, with a view to management enhancing the disclosures.

If the auditor still concludes that material uncertainties related to going concern are **not** appropriately disclosed, reference should be made to the Audit and Assurance Faculty's guides *Preparing a qualified audit report - disagreement* or *Preparing an adverse opinion audit report*.

The 'positive' statement on going concern would be amended to the effect of:

*In auditing the financial statements, we have concluded that, notwithstanding the material uncertainty described above not being appropriately disclosed, the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.*

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

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