

AUDIT UPDATE

**GOING CONCERN
Key Consideration for
Auditors amid Covid-19**



**GOING CONCERN: KEY CONSIDERATION FOR AUDITORS AMID
COVID -19**

Background

- The Board of Directors of every company are required to make a statement in the Directors' Responsibility Statement referred to in Section 134(5) of the Companies Act, 2013 that the annual accounts are prepared on a going concern basis i.e. the Board has 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 its assessment.
- Given the economic uncertainty created by the pandemic COVID-19 coupled with significant business disruptions for entities across almost all sectors, there is likely to be an increase in events and circumstances which may cast significant doubt on an entity's ability to continue as a going concern. Therefore, management may need to assess whether going concern assumption is still appropriate as a basis for the preparation of the company's financial statements.
- Timely and effective communication between the management and the auditor is essential in ensuring that both are able to fulfil their respective responsibilities in relation to going concern aspect during these uncertain times.
- In completing work related to going concern in the current environment, auditors should focus on all the requirements set out in SA 570 (Revised), Going Concern, with full consideration given to the entity's specific circumstances before any conclusions are reached. In completing the work on going concern, the importance of exercising professional skepticism is amplified, particularly where management have determined that the current circumstances are not expected to have any material financial impact on the entity and that no material uncertainties related to going concern exist for the entity. Reference should also be made to the "Implementation Guide to SA 570 (Revised), Going Concern" issued by the Auditing and Assurance Standards Board of ICAI.

- Recently, Auditing and Assurance Standard Standards Board (AASB) of the Institute of Chartered Accountants of India (ICAI) have issued guidance on going concern assessment amid COVID-19 by management and considerations for an auditor while evaluating the management's assessment.
- This guidance includes specific 11 FAQs to deal with the various situations in the current environment.

For detailed guidance on this aspect, please refer the guidance:

“Going Concern – Key Consideration for Auditors amid COVID – 19.” issued by the Auditing and Assurance Standards Board of ICAI on May 10, 2020.

Website link: <https://resource.cdn.icai.org/59473aasb48392.pdf>

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