Going Concern questionnaire

2 August 2023

Your ref:

Our ref:

Client name

Period ended:

Enter additional info here

Enter additional info here

Going Concern: background

Management’s responsibilities

When preparing financial statements under current UK accounting standards, the management of an entity are required to make an assessment of the entity’s ability to continue as a going concern. 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.

When management is aware, in making its assessment, of 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 its financial statements.

Auditor’s responsibilities – recent changes

Due to the number of recent high-profile corporate failures, the Financial Reporting Council (FRC) has issued a revised International Standard on Auditing (ISA (UK)) 570, Going Concern, which strengthens the role of auditors in assessing whether a material uncertainty related to going concern exists; and the appropriateness of management's use of the going concern basis of accounting.

Effective for accounting periods commencing on or after 15 December 2019, the revised standard significantly strengthens the requirements for UK auditors to perform a robust evaluation of management’s assessment of the going concern status of the entity and demonstrate how they have challenged management’s assessment, documenting the evidence and other supporting documentation obtained.

Purpose of this questionnaire

The purpose of the following questionnaire is to notify management, at the planning stage of the audit, of the information required to assess management’s going concern assessment and provide a template for this to be documented.

We would be grateful if you could complete the questionnaire and return it in advance of the audit fieldwork.

Questionnaire

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| **Question** | **Response** |
| 1. Describe how you:  * identify business risks that may affect the entity’s ability to continue as a going concern; * assess the significance, likelihood and impact of those risks; and * address those risks.   *Please provide copies of all related forecasts, relevant assumptions and other supporting information.* |  |
| 1. What assessment period has been considered? Where this period differs from periods of forecasting provided for other reasons, e.g. bank covenants, please explain why this different period is appropriate.   *Note: In the UK there is a minimum requirement of 12 months from the date of approval of the financial statements.* |  |
| 1. If the assessment period does not extend a period of at least 12 months from the date that the financial statements are expected to be approved, are management willing to extend their assessment? |  |
| 1. What developments in the wider industry and economy have there been, or are there expected to be during the assessment period, which may impact the entity’s ability to continue as a going concern?   *Note: From a wider industry perspective, this may include new major competitors entering the market, changes in legislation, new technologies making products obsolete, changes in commodity prices or systemic issues with supply chains. From an economy perspective, this may include events such as Brexit or Covid-19.* |  |
| 1. What are the key plans for the business during the assessment period and beyond, and how have they been factored into the going concern assessment? Please quantify as far as possible.   *E.g. are any changes in product lines expected, are there plans to expand, is a refinancing imminent, are any one-off investments expected?* |  |
| 1. Have any events or conditions been identified, including during or beyond the assessment period, that may cast significant doubt on the entity’s ability to continue as a going concern?   *Note: When considering the impact of such events or conditions, events or conditions should be assessed both individually and collectively. Appendix 1 provides some examples of events or conditions.* |  |
| 1. What method of assessment has been selected, and why has it been deemed an appropriate basis of assessment?   Has the method of assessment changed from the prior year? If so, why is this appropriate?  *Note: Potential methods of assessment include:*   * *Cashflow forecasts demonstrating sufficient liquid resources to meet liabilities as they fall due* * *Reliance on group/parent support, together with an assessment on their ability to provide the support and a business rationale behind their intentions.* * *Significant availability of cash, far in excess of requirements.* * *Other tools such as scenario analysis and sensitivity analysis may also be used as part of management’s assessment.* |  |
| 1. Where cashflow forecasts are used as the method of assessment, explain the process for compilation, oversight and governance of the forecasts.   *E.g. are forecasts built from the top down or bottom up, are they built from scratch each year or are they based on prior year figures adjusted for known changes, has external data been factored in as key assumptions, who prepares, reviews and approves them?* |  |
| 1. Where an assessment has been performed on a group basis, how have you considered the assessment in relation to each subsidiary company? Document your conclusions and justifications for each subsidiary. |  |
| 1. What are the key assumptions underpinning the going concern assessment, and which of these are the most sensitive? Provide explanations for the use of these assumptions, providing supporting evidence where at all possible.   *Note: Where there is contradicting evidence or you considered alternative assumptions, provide this information and explain why this has been disregarded or why the actual assumption used is more appropriate and relevant.* |  |
| 1. Where scenario planning or sensitivity analysis has been performed on forecasts, at what level of assumptions do the forecasts demonstrate an issue in relation to going concern (e.g. a deficit of available cash or a breach of loan covenants)? What is the likelihood of this event occurring? |  |
| 1. Are assumptions, data and forecasts used in the going concern assessment, consistent with those used in the assessment of other areas of the entity’s business activities, and if not why not?   *E.g. asset impairment reviews, or consideration of the recoverability of deferred tax assets.* |  |
| 1. Where your assessment includes plans for future actions to mitigate any identified events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern, describe those plans, the reasons for the chosen course of action and why it is considered feasible.   *Note: Such plans may include, for example, plans to liquidate assets, borrow money or restructure debt, reduce or delay expenditures, or increase capital.* |  |
| 1. Where your assessment is based on the support of another party, how have you assessed the ability of the third party to provide the support and their rationale for doing so where such support is not legally enforceable?   *Note: Support may be provided by a parent company, a fellow group company, a shareholder etc.* |  |
| 1. What is your conclusion in relation to going concern, and how have you come to this determination?   *Note: Conclusions may include:*   * *The entity is a going concern* * *The entity is a going concern, but events or conditions have been identified which may be of importance to the readers of the financial statements, but which do not constitute a material uncertainty.* * *The entity is a going concern, but events or conditions have been identified which constitute a material uncertainty* * *The entity is not a going concern, and the accounts have been prepared on a basis other than going concern* |  |
| 1. How have you assured yourself that appropriate disclosure related to going concern has been included in the financial statements? Has any additional disclosure been deemed necessary in order to give a true and fair view of the financial statements? |  |

Appendix

Examples of events or conditions

The following are examples of events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern. This listing is not exhaustive nor does the existence of one or more of the items always signify that a material uncertainty related to going concern exists. But the list can be used to help identify if there are any events or conditions present that may have been missed during the risk assessment process.

It is important to note, that when considering events or conditions that have occurred, it is vital that their impact is not just considered in isolation, but also in aggregate.

Financial

* Net liability or net current liability position.
* Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment; or excessive reliance on short-term borrowings to finance long-term assets.
* Indications of withdrawal of financial support by creditors.
* Negative operating cash flows indicated by historical or prospective financial statements.
* Adverse key financial ratios.
* Substantial operating losses or significant deterioration in the value of assets used to generate cash flows.
* Arrears or discontinuance of dividends.
* Inability to pay creditors on due dates.
* Inability to comply with the terms of loan agreements.
* Change from credit to cash-on-delivery transactions with suppliers.
* Inability to obtain financing for essential new product development or other essential investments.
* Breaches, or forecast breaches, of financial or other covenants imposed by lenders.

Operating

* Management intentions to liquidate the entity or to cease operations.
* Loss of key management without replacement.
* Loss of a major market, key customer(s), franchise, license, or principal supplier(s).
* Labour difficulties.
* Shortages of important supplies.
* Emergence of a highly successful competitor.

Other

* Non-compliance with capital or other statutory or regulatory requirements, such as solvency or liquidity requirements for financial institutions.
* Pending legal or regulatory proceedings against the entity that may, if successful, result in claims that the entity is unlikely to be able to satisfy.
* Changes in law or regulation or government policy expected to adversely affect the entity.
* Uninsured or underinsured catastrophes when they occur.
* Substantial decrease in share price.