

The purpose of this document is to clearly indicate all changes made to the International Standard on Auditing when developing the International Standard on Auditing (New Zealand) equivalent. Amended paragraphs are shown with new text underlined and deleted text struck through.

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FOR INFORMATION ONLY

Introduction

Scope of this ISA (NZ)

1. This International Standard on Auditing (New Zealand) (ISA (NZ)) deals with the auditor's responsibilities in the audit of financial statements relating to the use of the going concern assumption in the preparation of the financial statements.

Going Concern Assumption

2. Under the going concern assumption, an entity is viewed as continuing in business for the foreseeable future. General purpose financial statements are prepared on a going concern basis, unless those charged with governance either intend to liquidate the entity or to cease operations, or have no realistic alternative but to do so. Special purpose financial statements may or may not be prepared in accordance with a financial reporting framework for which the going concern basis is relevant (for example, the going concern basis is not relevant for some financial statements prepared on a tax basis in particular jurisdictions). When the use of the going concern assumption is appropriate, assets and liabilities are recorded on the basis that the entity will be able to ~~realize~~realise its assets and discharge its liabilities in the normal course of business. (Ref: Para. A1)

Responsibility for Assessment of the Entity's Ability to Continue as a Going Concern

3. Some financial reporting frameworks contain an explicit requirement for those charged with governance to make a specific assessment of the entity's ability to continue as a going concern, and standards regarding matters to be considered and disclosures to be made in connection with going concern. For example, New Zealand Equivalent to International Accounting Standard (NZ IAS) 1 requires those charged with governance to make an assessment of an entity's ability to continue as a going concern.¹ The detailed requirements regarding the responsibility of those charged with governance to assess the entity's ability to continue as a going concern and related financial statement disclosures may also be set out in law or regulation.
4. In other financial reporting frameworks, there may be no explicit requirement for those charged with governance to make a specific assessment of the entity's ability to continue as a going concern. Nevertheless, since the going concern assumption is a fundamental principle in the preparation of financial statements as discussed in paragraph 2, the preparation of the financial statements requires those charged with governance to assess the entity's ability to continue as a going concern even if the financial reporting framework does not include an explicit requirement to do so.
5. The assessment of the entity's ability to continue as a going concern involves making a ~~judgment~~judgement, at a particular point in time, about inherently uncertain future outcomes of events or conditions. The following factors are relevant to that ~~judgment~~judgement:
 - The degree of uncertainty associated with the outcome of an event or condition increases significantly the further into the future an event or condition or the outcome occurs. For that reason, most financial reporting frameworks that require

¹ NZ IAS 1, "Presentation of Financial Statements" as at 1 January 2009, paragraphs 25-26.

an explicit assessment specify the period for which those charged with governance are required to take into account all available information.

- The size and complexity of the entity, the nature and condition of its business and the degree to which it is affected by external factors affect the judgment regarding the outcome of events or conditions.
- Any judgment about the future is based on information available at the time at which the judgment is made. Subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made.

Responsibilities of the Auditor

6. The auditor's responsibility is to obtain sufficient appropriate audit evidence about the appropriateness of the use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern. This responsibility exists even if the financial reporting framework used in the preparation of the financial statements does not include an explicit requirement for those charged with governance to make a specific assessment of the entity's ability to continue as a going concern.
7. However, as described in ISA (NZ) 200,² the potential effects of inherent limitations on the auditor's ability to detect material misstatements are greater for future events or conditions that may cause an entity to cease to continue as a going concern. The auditor cannot predict such future events or conditions. Accordingly, the absence of any reference to going concern uncertainty in an auditor's report cannot be viewed as a guarantee as to the entity's ability to continue as a going concern.

Effective Date

8. This ISA (NZ) is effective for audits of financial statements for periods beginning on or after 1 September, 2011.

Objectives

9. The objectives of the auditor are:
 - (a) To obtain sufficient appropriate audit evidence regarding the appropriateness of the use of the going concern assumption in the preparation of the financial statements;
 - (b) To conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; and
 - (c) To determine the implications for the auditor's report.

² ISA (NZ) 200, "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)."

Requirements

Risk Assessment Procedures and Related Activities

10. When performing risk assessment procedures as required by ISA (NZ) 315,³ 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~~those charged with governance have already performed a preliminary assessment of the entity's ability to continue as a going concern, and: (Ref: Para. A2-A5)
 - (a) If such an assessment has been performed, the auditor shall discuss the assessment with management and those charged with governance and determine whether events or conditions have been identified that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern and, if so, the plans of those charged with governance to address them; or
 - (b) If such an assessment has not yet been performed, the auditor shall discuss with management and those charged with governance the basis for the intended use of the going concern assumption, and ~~inquire~~enquire of those charged with governance whether events or conditions exist that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern.
11. The auditor shall remain alert throughout the audit for audit evidence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. (Ref: Para. A6)

Evaluating the Assessment of Those Charged with Governance

12. The auditor shall evaluate the assessment of those charged with governance of the entity's ability to continue as a going concern. (Ref: Para. A7-A9; A11-A12)
13. In evaluating the assessment of the entity's ability to continue as a going concern, the auditor shall cover the same period as that used by ~~management~~those charged with governance to make their assessment as required by the applicable financial reporting framework, or by law or regulation if it specifies a longer period. If the assessment of the entity's ability to continue as a going concern covers less than twelve months from the date of the financial statements as defined in ISA (NZ) 560,⁴ the auditor shall request ~~management~~those charged with governance to extend their assessment period to at least twelve months from that date. (Ref: Para. A10-A12)
14. In evaluating the assessment, the auditor shall consider whether the assessment of those charged with governance includes all relevant information of which the auditor is aware as a result of the audit.

³ ISA (NZ) 315, "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment," paragraph 5.

⁴ ISA (NZ) 560, "Subsequent Events," paragraph 5(a).

Period beyond the Assessment of Those Charged with Governance

15. The auditor shall ~~inquire of management~~ enquire of those charged with governance as to their knowledge of events or conditions beyond the period of their assessment that may cast significant doubt on the entity's ability to continue as a going concern. (Ref: Para. A13-A14)

Additional Audit Procedures When Events or Conditions Are Identified

16. If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists through performing additional audit procedures, including consideration of mitigating factors. These procedures shall include: (Ref: Para. A15)
- (a) Where ~~management has~~ those charged with governance have not yet performed an assessment of the entity's ability to continue as a going concern, requesting ~~management~~ those charged with governance to make their assessment.
 - (b) Evaluating ~~management's~~ the plans of those charged with governance for future actions in relation to their going concern assessment, whether the outcome of these plans is likely to improve the situation and whether the plans of those charged with governance are feasible in the circumstances. (Ref: Para. A16)
 - (c) Where the entity has prepared a cash flow forecast, and analysis of the forecast is a significant factor in considering the future outcome of events or conditions in the evaluation of the plans of those charged with governance for future action: (Ref: Para. A17-A18)
 - (i) Evaluating the reliability of the underlying data generated to prepare the forecast; and
 - (ii) Determining whether there is adequate support for the assumptions underlying the forecast.
 - (d) Considering whether any additional facts or information have become available since the date on which the assessment was made.
 - (e) Requesting written representations from those charged with governance, regarding their plans for future action and the feasibility of these plans.

Audit Conclusions and Reporting

17. Based on the audit evidence obtained, the auditor shall conclude whether, in the auditor's ~~judgment~~ judgement, a material uncertainty exists related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern. A material uncertainty exists when the magnitude of its potential impact and likelihood of occurrence is such that, in the auditor's ~~judgment~~ judgement, appropriate disclosure of the nature and implications of the uncertainty is necessary for: (Ref: Para. A19)
- (a) In the case of a fair presentation financial reporting framework, the fair presentation of the financial statements, or
 - (b) In the case of a compliance framework, the financial statements not to be misleading.

Use of Going Concern Assumption Appropriate but a Material Uncertainty Exists

18. If the auditor concludes that the use of the going concern assumption is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether the financial statements:
- Adequately describe the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and ~~management's~~the plans of those charged with governance 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 entity's ability to continue as a going concern and, therefore, that it may be unable to ~~realize~~realise its assets and discharge its liabilities in the normal course of business. (Ref: Para. A20)
19. If adequate disclosure is made in the financial statements, the auditor shall express an unmodified opinion and include an Emphasis of Matter paragraph in the auditor's report to:
- Highlight the existence of a material uncertainty relating to the event or condition that may cast significant doubt on the entity's ability to continue as a going concern; and
 - Draw attention to the note in the financial statements that discloses the matters set out in paragraph 18. (See ISA (NZ) 706.⁵) (Ref: Para. A21-A22)
20. If adequate disclosure is not made in the financial statements, the auditor shall express a qualified opinion or adverse opinion, as appropriate, in accordance with ISA (NZ) 705.⁶ The auditor shall state in the auditor's report that there is a material uncertainty that may cast significant doubt about the entity's ability to continue as a going concern. (Ref: Para. A23-A24)

Use of Going Concern Assumption Inappropriate

21. If the financial statements have been prepared on a going concern basis but, in the auditor's ~~judgment, management's~~judgement, the use of the going concern assumption in the financial statements is inappropriate, the auditor shall express an adverse opinion. (Ref: Para. A25-A26)

Those Charged with Governance Unwilling to Make or Extend Their Assessment

22. If those charged with governance are unwilling to make or extend their assessment when requested to do so by the auditor, the auditor shall consider the implications for the auditor's report. (Ref: Para. A27)

Communication with Those Charged with Governance

23. Unless all those charged with governance are involved in managing the entity,⁷ the auditor shall communicate with those charged with governance events or conditions

⁵ ISA (NZ) 706, "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report."

⁶ ISA (NZ) 705, "Modifications to the Opinion in the Independent Auditor's Report."

⁷ ISA (NZ) 260, "Communication with Those Charged with Governance," paragraph 13.

identified that may cast significant doubt on the entity's ability to continue as a going concern. Such communication with those charged with governance shall include the following:

- (a) Whether the events or conditions constitute a material uncertainty;
- (b) Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and
- (c) The adequacy of related disclosures in the financial statements.

Significant Delay in the Approval of Financial Statements

24. If there is significant delay in the approval of the financial statements by those charged with governance after the date of the financial statements, the auditor shall ~~inquire~~enquire as to the reasons for the delay. If the auditor believes that the delay could be related to events or conditions relating to the going concern assessment, the auditor shall perform those additional audit procedures necessary, as described in paragraph 16, as well as consider the effect on the auditor's conclusion regarding the existence of a material uncertainty, as described in paragraph 17.

Application and Other Explanatory Material

Going Concern Assumption (Ref: Para. 2)

Considerations Specific to Public Sector Entities

- A1. The use of the going concern assumption is also relevant to public sector entities. For example, ~~International Public Sector Accounting Standard (IPSAS)~~NZ IAS 1 addresses the issue of the ability of public sector entities to continue as going concerns.⁸ Going concern risks may arise, but are not limited to, situations where public sector entities operate on a for-profit basis, where government support may be reduced or withdrawn, or in the case of ~~privatization~~privatisation. Events or conditions that may cast significant doubt on an entity's ability to continue as a going concern in the public sector may include situations where the public sector entity lacks funding for its continued existence or when policy decisions are made that affect the services provided by the public sector entity.

Risk Assessment Procedures and Related Activities

Events or Conditions That May Cast Doubt about Going Concern Assumption (Ref: Para. 10)

- A2. The following are examples of events or conditions that, individually or collectively, may cast significant doubt about the going concern assumption. This listing is not all-inclusive nor does the existence of one or more of the items always signify that a material uncertainty exists.

Financial

- Net liability or net current liability position.

⁸ [NZ IAS 1, paragraph NZ 26.1 – NZ 26.2.](#)

- 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.

Operating

- The intentions of those charged with governance to liquidate the entity or to cease operations.
- Loss of key management without replacement.
- Loss of a major market, key customer(s), franchise, ~~license~~licence, or principal supplier(s).
- Labour difficulties.
- Shortages of important supplies.
- Emergence of a highly successful competitor.

Other

- Non-compliance with capital or other statutory requirements.
- 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.

The significance of such events or conditions often can be mitigated by other factors. For example, the effect of an entity being unable to make its normal debt repayments may be counter-balanced by plans to maintain adequate cash flows by alternative means, such as by disposing of assets, rescheduling loan repayments, or obtaining additional capital. Similarly, the loss of a principal supplier may be mitigated by the availability of a suitable alternative source of supply.

- A3. The risk assessment procedures required by paragraph 10 help the auditor to determine whether the use of the going concern assumption is likely to be an important issue and its

impact on planning the audit. These procedures also allow for more timely discussions with managementthose charged with governance, including a discussion of their plans and resolution of any identified going concern issues.

Considerations Specific to Smaller Entities

- A4. The size of an entity may affect its ability to withstand adverse conditions. Small entities may be able to respond quickly to exploit opportunities, but may lack reserves to sustain operations.
- A5. Conditions of particular relevance to small entities include the risk that banks and other lenders may cease to support the entity, as well as the possible loss of a principal supplier, major customer, key employee, or the right to operate under a licenselicence, franchise or other legal agreement.

Remaining Alert throughout the Audit for Audit Evidence about Events or Conditions

(Ref: Para. 11)

- A6. ISA (NZ) 315 requires the auditor to revise the auditor's risk assessment and modify the further planned audit procedures accordingly when additional audit evidence is obtained during the course of the audit that affects the auditor's assessment of risk.⁹ If events or conditions that may cast significant doubt on the entity's ability to continue as a going concern are identified after the auditor's risk assessments are made, in addition to performing the procedures in paragraph 16, the auditor's assessment of the risks of material misstatement may need to be revised. The existence of such events or conditions may also affect the nature, timing and extent of the auditor's further procedures in response to the assessed risks. ISA (NZ) 330¹⁰ establishes requirements and provides guidance on this issue.

Evaluating the Assessment of Those Charged with Governance

The Assessment and Supporting Analysis and the Auditor's Evaluation (Ref: Para. 12)

- A7. The assessment of those charged with governance of the entity's ability to continue as a going concern is a key part of the auditor's consideration of the use of the going concern assumption.
- A8. It is not the auditor's responsibility to rectify the lack of analysis by those charged with governance. In some circumstances, however, the lack of detailed analysis by managementthose charged with governance to support their assessment may not prevent the auditor from concluding whether their use of the going concern assumption is appropriate in the circumstances. For example, when there is a history of profitable operations and a ready access to financial resources, managementthose charged with governance may make their assessment without detailed analysis. In this case, the auditor's evaluation of the appropriateness of the assessment may be made without performing detailed evaluation procedures if the auditor's other audit procedures are sufficient to enable the auditor to conclude whether the use of the going concern assumption in the preparation of the financial statements is appropriate in the circumstances.

⁹ ISA (NZ) 315, paragraph 31.

¹⁰ ISA (NZ) 330, "The Auditor's Responses to Assessed Risks."

- A9. In other circumstances, evaluating the assessment of the entity's ability to continue as a going concern, as required by paragraph 12, may include an evaluation of the process followed by those charged with governance to make their assessment, the assumptions on which the assessment is based and the plans of those charged with governance for future action and whether those plans are feasible in the circumstances.

The Period of the Assessment (Ref: Para. 13)

- A10. Most financial reporting frameworks requiring an explicit assessment by those charged with governance specify the period for which they are required to take into account all available information.¹¹

Considerations Specific to Smaller Entities (Ref: Para. 12-13)

- A11. In many cases, those charged with governance of smaller entities may not have prepared a detailed assessment of the entity's ability to continue as a going concern, but instead may rely on in-depth knowledge of the business and anticipated future prospects. Nevertheless, in accordance with the requirements of this ISA (NZ), the auditor needs to evaluate the assessment of the entity's ability to continue as a going concern. For smaller entities, it may be appropriate to discuss the medium and long-term financing of the entity with management and those charged with governance, provided that these contentions can be corroborated by sufficient documentary evidence and are not inconsistent with the auditor's understanding of the entity. Therefore, the requirement in paragraph 13 for the auditor to request those charged with governance to extend their assessment may, for example, be satisfied by discussion, ~~inquiry~~enquiry and inspection of supporting documentation, for example, orders received for future supply, evaluated as to their feasibility or otherwise substantiated.

- A12. Continued support by owner-managers is often important to smaller entities' ability to continue as a going concern. Where a small entity is largely financed by a loan from the owner-manager, it may be important that these funds are not withdrawn. For example, the continuance of a small entity in financial difficulty may be dependent on the owner-manager subordinating a loan to the entity in ~~favor~~favour of banks or other creditors, or the owner-manager supporting a loan for the entity by providing a guarantee with his or her personal assets as collateral. In such circumstances the auditor may obtain appropriate documentary evidence of the subordination of the owner-manager's loan or of the guarantee. Where an entity is dependent on additional support from the owner-manager, the auditor may evaluate the owner-manager's ability to meet the obligation under the support arrangement. In addition, the auditor may request written confirmation of the terms and conditions attaching to such support and the owner-manager's intention or understanding.

Period beyond the Assessment of Those Charged with Governance (Ref: Para. 15)

- A13. As required by paragraph 11, the auditor remains alert to the possibility that there may be known events, scheduled or otherwise, or conditions that will occur beyond the period of assessment used by those charged with governance that may bring into question the appropriateness of the use of the going concern assumption in preparing the financial

¹¹ For example, NZ IAS 1 defines this as a period that should be at least, but is not limited to, twelve months from the end of the reporting period.

statements. Since the degree of uncertainty associated with the outcome of an event or condition increases as the event or condition is further into the future, in considering events or conditions further in the future, the indications of going concern issues need to be significant before the auditor needs to consider taking further action. If such events or conditions are identified, the auditor may need to request ~~management~~those charged with governance to evaluate the potential significance of the event or condition on its assessment of the entity's ability to continue as a going concern. In these circumstances the procedures in paragraph 16 apply.

A14. Other than ~~inquiry~~enquiry of ~~management~~those charged with governance, the auditor does not have a responsibility to perform any other audit procedures to identify events or conditions that may cast significant doubt on the entity's ability to continue as a going concern beyond the period assessed by those charged with governance, which, as discussed in paragraph 13, would be at least twelve months from the date of the financial statements.

Additional Audit Procedures When Events or Conditions Are Identified (Ref: Para. 16)

A15. Audit procedures that are relevant to the requirement in paragraph 16 may include the following:

- Analysing and discussing cash flow, profit and other relevant forecasts with management.
- Analysing and discussing the entity's latest available interim financial statements.
- Reading the terms of debentures and loan agreements and determining whether any have been breached.
- Reading minutes of the meetings of shareholders, those charged with governance and relevant committees for reference to financing difficulties.
- Enquiring of the entity's legal counsel regarding the existence of litigation and claims and the reasonableness of the assessments of those charged with governance of their outcome and the estimate of their financial implications.
- Confirming the existence, legality and enforceability of arrangements to provide or maintain financial support with related and third parties and assessing the financial ability of such parties to provide additional funds.
- Evaluating the entity's plans to deal with unfilled customer orders.
- Performing audit procedures regarding subsequent events to identify those that either mitigate or otherwise affect the entity's ability to continue as a going concern.
- Confirming the existence, terms and adequacy of borrowing facilities.
- Obtaining and reviewing reports of regulatory actions.
- Determining the adequacy of support for any planned disposals of assets.

Evaluating the Plans of Those Charged with Governance for Future Actions (Ref: Para. 16(b))

A16. Evaluating the entity's plans for future actions may include enquiries of those charged with governance as to their plans for future action, including, for example, their plans to

liquidate assets, borrow money or restructure debt, reduce or delay expenditures, or increase capital.

The Period of the Assessment (Ref: Para. 16(c))

A17. In addition to the procedures required in paragraph 16(c), the auditor may compare:

- The prospective financial information for recent prior periods with historical results; and
- The prospective financial information for the current period with results achieved to date.

A18. Where the assumptions of those charged with governance include continued support by third parties, whether through the subordination of loans, commitments to maintain or provide additional funding, or guarantees, and such support is important to an entity's ability to continue as a going concern, the auditor may need to consider requesting written confirmation (including of terms and conditions) from those third parties and to obtain evidence of their ability to provide such support.

Audit Conclusions and Reporting (Ref: Para. 17)

A19. The phrase "material uncertainty" is used in NZ IAS 1 in discussing the uncertainties related to events or conditions which may cast significant doubt on the entity's ability to continue as a going concern that should be disclosed in the financial statements. In some other financial reporting frameworks the phrase "significant uncertainty" is used in similar circumstances.

Use of Going Concern Assumption Appropriate but a Material Uncertainty **Exists**

Adequacy of Disclosure of Material Uncertainty (Ref: Para. 18)

A20. The determination of the adequacy of the financial statement disclosure may involve determining whether the information explicitly draws the reader's attention to the possibility that the entity may be unable to continue realizing/realising its assets and discharging its liabilities in the normal course of business.

Audit Reporting When Disclosure of Material Uncertainty Is Adequate (Ref: Para. 19)

A21. The following is an illustration of an Emphasis of Matter paragraph when the auditor is satisfied as to the adequacy of the note disclosure:

Emphasis of Matter

Without qualifying our opinion, 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 December 31, 20X1 and, as of that date, the Company's current liabilities exceeded its total assets by YYY. These conditions, along with other matters as set forth in Note X, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

A22. In situations involving multiple material uncertainties that are significant to the financial statements as a whole, the auditor may consider it appropriate in extremely rare cases to express a disclaimer of opinion instead of adding an Emphasis of Matter paragraph. ISA (NZ) 705 provides guidance on this issue.

Audit Reporting When Disclosure of Material Uncertainty Is Inadequate (Ref: Para. 20)

A23. The following is an illustration of the relevant paragraphs when a qualified opinion is to be expressed:

Basis for Qualified Opinion on Financial Position

The Company's financing arrangements expire and amounts outstanding are payable on March 19, 20X1. The Company has been unable to re-negotiate or obtain replacement financing. This situation indicates the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and therefore the Company may be unable to ~~realize~~realise its assets and discharge its liabilities in the normal course of business. The financial statements (and notes thereto) do not fully disclose this fact.

Qualified Opinion on Financial Position

In our opinion, except for the incomplete disclosure of the information referred to in the Basis for Qualified Opinion paragraph above, the financial statements on pages to

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the financial position of ABC Limited at December 31, 20X0.

Opinion on Financial Performance and Cash Flows

In our opinion the financial statements on pages to give a true and fair view of the results and cash flows of ABC Limited for the year ended December 31, 20X1..

A24. The following is an illustration of the relevant paragraphs when an adverse opinion is to be expressed:

Basis for Adverse Opinion on Financial Position

The Company's financing arrangements expired and the amount outstanding was payable on December 31, 20X0. The Company has been unable to re-negotiate or obtain replacement financing and is considering filing for bankruptcy. These events indicate a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and therefore the Company may be unable to ~~realize~~realise its assets and discharge its liabilities in the normal course of business. The financial statements (and notes thereto) do not disclose this fact.

Adverse Opinion on Financial Position

In our opinion, because of the omission of the information mentioned in the Basis for Adverse Opinion paragraph, the financial statements on pages to

- do not comply with generally accepted accounting practice in New Zealand;
- do not give a true and fair view of the financial position of the Company as at December 31, 20X0.

Opinion on Financial Performance and Cash Flows

In our opinion the financial statements on pages to give a true and fair view of the results and cash flows of ABC Limited for the year ended on December 31, 20X1.

Use of Going Concern Assumption Inappropriate (Ref: Para. 21)

- A25. If the financial statements have been prepared on a going concern basis but, in the auditor's ~~judgment, management's judgement, the~~ use of the going concern assumption in the financial statements is inappropriate, the requirement of paragraph 21 for the auditor to express an adverse opinion applies regardless of whether or not the financial statements include disclosure of the inappropriateness of the use of the going concern assumption.
- A26. If those charged with governance of the entity are required, or elect, to prepare financial statements when the use of the going concern assumption is not appropriate in the circumstances, the financial statements are prepared on an alternative basis (for example, liquidation basis). The auditor may be able to perform an audit of those financial statements provided that the auditor determines that the alternative basis is an acceptable financial reporting framework in the circumstances. The auditor may be able to express an unmodified opinion on those financial statements, provided there is adequate disclosure therein but may consider it appropriate or necessary to include an Emphasis of Matter paragraph in the auditor's report to draw the user's attention to that alternative basis and the reasons for its use.

Those Charged with Governance Unwilling to Make or Extend Their Assessment (Ref: Para. 22)

- A27. In certain circumstances, the auditor may believe it necessary to request ~~management~~those charged with governance to make or extend their assessment. If ~~management is~~those charged with governance are unwilling to do so, a qualified opinion or a disclaimer of opinion in the auditor's report may be appropriate, because it may not be possible for the auditor to obtain sufficient appropriate audit evidence regarding the use of the going concern assumption in the preparation of the financial statements, such as audit evidence regarding the existence of plans put in place by those charged with governance or the existence of other mitigating factors.