

**AG ISA (NZ) 570 (REVISED)**  
**THE AUDITOR-GENERAL'S STATEMENT ON**  
**GOING CONCERN**

**Contents**

	Page
Introduction	3 - 4301
Scope of this Statement	3 - 4301
Application	3 - 4301
Objectives	3 - 4301
Definitions	3 - 4302
Requirements	3 - 4302
Financial statements and performance information not prepared using the going concern basis of accounting	3 - 4302
Audit reports to be referred to the OAG before they are issued	3 - 4303
Where a public entity is reliant on a letter of support	3 - 4303
Management reporting	3 - 4304
Application and other explanatory material	3 - 4304
Where a public entity is reliant on a letter of support	3 - 4304

## Introduction

### Scope of this Statement

1. This Auditor-General's Auditing Statement:
  - (a) establishes the Auditor-General's requirements in relation to ISA (NZ) 570 (Revised): *Going Concern* (ISA (NZ) 570)<sup>1</sup>; and
  - (b) provides additional guidance to reflect the public sector perspective.
  
2. The Appointed Auditor cannot assume that, because an entity is operating in the public sector, the Government will automatically support the entity should it run into financial difficulties. When assessing the validity of the going concern basis of accounting in relation to a public entity, the Appointed Auditor needs to ask the question:  
*Without government or other external assistance over and above that provided to fund normal operations (including the need to invoke statutory processes to amend an entity's ability to levy or rate), will the entity be able to continue operating for at least one year (or for the foreseeable future) from the date of the approval of the financial statements?*
  
3. From time to time, public entities run into financial difficulties. Such difficulties usually mean that, without additional government support, the entity would have to cease operating or be unable to continue to meet its statutory functions.

### Application

4. Compliance with this Statement is mandatory for Appointed Auditors who carry out annual audits on behalf of the Auditor-General. This Statement requires compliance with all of the requirements of ISA (NZ) 570 and the additional requirements included in this Statement.
  
5. This Statement applies to audits of financial statements and/or performance information that have been prepared for reporting periods ending on or after 1 April 2020, although earlier application is encouraged.

### Objectives

6. The objectives of the Appointed Auditor are to:
  - (a) obtain sufficient appropriate audit evidence, and conclude, on the appropriateness of the use of the going concern basis of accounting in the preparation and presentation of the financial and performance information;

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<sup>1</sup> The ISA (NZ) Auditing Standards are scoped so that they apply to audits of "historical financial information". However, for the purposes of the Auditor-General's Auditing Standards and Statements, all references to "historical financial information" should be read as the audit of "historical financial and historical performance information".

- (b) conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the public entity's ability to continue as a going concern; and
- (c) report in accordance with this Statement and ISA (NZ) 570 (Revised).

## Definitions

7. For the purpose of this Auditor-General's Auditing Statement, the defined terms have the meanings attributed:
- (a) in the Glossary of Terms issued by the New Zealand Auditing and Assurance Standards Board (the NZAuASB glossary) of the External Reporting Board (although, where a term with a specific meaning in the New Zealand public sector differs from the NZAuASB glossary, the New Zealand public sector definition shall prevail); and
  - (b) in the Auditor-General's Glossary of Terms.

## Requirements

### **Financial statements and performance information not prepared using the going concern basis of accounting**

8. Where the financial statements have been prepared on a basis other than on a going concern basis, the Appointed Auditor shall consider whether the other basis is appropriate in the specific circumstances and whether the financial statements contain the necessary disclosures. In these circumstances, the Appointed Auditor shall not issue a modified opinion. However, the audit report shall include, when setting out the basis of the opinion, an emphasis of matter paragraph that describes the other basis of preparation and shall refer to the relevant disclosures in the financial statements.<sup>2</sup>
9. The Appointed Auditor shall refer their proposed audit report to the Audit Quality team in the OAG where there are material errors in the application of an alternative or non-going concern basis of preparation, such as where the valuation of assets and/or liabilities in financial statements that have been prepared on an alternative or non-going concern basis are materially misstated.

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<sup>2</sup> AG ISA (NZ) 706 contains an audit report that includes an example of an "emphasis of matter" paragraph that refers to the fact that the public entity has appropriately prepared its financial statements on a non-going concern basis.

### **Audit reports to be referred to the OAG before they are issued**

10. The Appointed Auditor shall consult with the Audit Quality team in the OAG when they have doubt over the validity of the going concern basis of accounting. Specifically, the Audit Quality team should be consulted:
- (a) where the Appointed Auditor disagrees with the use of the going concern basis of accounting or there is inadequate disclosure about the going concern basis of accounting;
  - (b) where the Appointed Auditor is unable to obtain sufficient audit evidence to support the use of the going concern basis of accounting; and
  - (c) where the Appointed Auditor has identified uncertainties over the use of the going concern basis of accounting that are outside the control of management and those charged with governance.
11. The Audit Quality team will request the Appointed Auditor to prepare a submission<sup>3</sup> to the Auditor-General's Opinions Review Committee for the circumstances in paragraph 10 above, unless there is clear precedent supporting the proposed audit report.

### **Where a public entity is reliant on a letter of support**

12. Where the entity's use of the going concern basis of accounting is dependent on a letter of support, the Appointed Auditor shall ensure that the letter of support is sufficient to justify the use of the going concern basis of accounting (ref: para. A1-A2).
13. The Appointed Auditor shall consult the OAG about the possible inclusion of an emphasis of matter paragraph or an other matter paragraph in the auditor's report:
- (a) when the entity has received a letter of support for the first time;
  - (b) when the entity's financial difficulties have substantially worsened compared to the previous year or are expected to substantially worsen in the foreseeable future; and/or
  - (c) when it may be in the public interest for the audit report to draw attention to the existence of the letter of support because the entity is significant (for example, a district health board).

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<sup>3</sup> Submissions to the OAG Opinions Review Committee on going concern issues should consider whether the financial statements adequately reflect all expenses and obligations of the entity, whether the levels of equity and working capital are reasonable and sustainable, whether the entity has the ability to pay its debts as they fall due, whether the entity is subject to capital expenditure or other financial commitments, whether the entity has a realistic budget, and whether those charged with governance acknowledge the seriousness of the financial situation of the entity and are taking achievable actions to resolve the entity's financial difficulties.

## Management reporting

14. If the Appointed Auditor has seriously considered the validity of the going concern basis of accounting, the issue shall be addressed in the management letter to those charged with governance.

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## Application and other explanatory material

### Where a public entity is reliant on a letter of support (ref: para. 12)

- A1. The Appointed Auditor should consider the following matters as part of ensuring that the letter of support can justify the use of the going concern basis of accounting:
- (a) whether the entity providing the letter of support has the authority to provide the support;<sup>4</sup>
  - (b) whether the letter of support has been signed by a person with appropriate delegated authority to provide such support;
  - (c) whether the entity or entities that will be providing support have the ability to cover the obligations of the entity receiving the support; and
  - (d) whether the financial statements and performance information adequately disclose the fact that the entity has received the letter of support and whether the disclosures adequately refer to any conditions or other matters contained in the letter of support.<sup>5</sup>
- A2. Where a letter of support has been obtained by an entity, the Appointed Auditor should ensure that appropriate reference to this fact and any other related matters is included in the document that summarises the audit conclusions and/or the management letter.

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<sup>4</sup> For example, local authorities that issue letters of support to council-controlled trading organisations are limited by the restrictions in sections 62 and 63 of the Local Government Act 2002.

<sup>5</sup> At a minimum, Appointed Auditors should be considering the requirements of paragraphs 25 and 26 of NZ IAS 1 and paragraphs 38 to 41 of PBE IPSAS 1.