

AG ISA (NZ) 570

The Auditor-General's Statement on Going Concern

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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)¹; and
 - (b) provides guidance to reflect the public sector perspective.

Application

2. 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 ISA (NZ) 570 and the additional requirements included in this Statement.
3. 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?
4. 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.
5. This Statement applies to audits of financial statements commencing on or after 1 April 2023.

Objectives

6. The objectives of the Appointed Auditor in terms of this statement are to:
 - (a) meet the objective of the auditor as described in ISA (NZ) 570 on the appropriateness of the use of the going concern basis of accounting in the preparation and presentation of the financial statements, including whether a material uncertainty exists; and
 - (b) respond and report in terms of the additional requirements of this Statement (based on the evidence obtained and the conclusion formed in terms of sub-paragraph (a)).

¹ 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".

Definitions

7. For the purpose of this Auditor-General's Auditing Statement, the defined term listed below has the following meaning:

Appointed Auditor	means the person or persons appointed by the Auditor-General to carry out the annual audit or other engagement on behalf of the Auditor-General, and who are supported by other members of the audit team. Where an Auditor-General's Statement or Standard expressly intends that a requirement be fulfilled by the Appointed Auditor personally, the requirement will indicate that the Appointed Auditor shall personally satisfy the requirement.
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Requirements

Financial statements 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 of accounting, the Appointed Auditor shall consider whether the other basis is appropriate in the specific circumstances and whether the financial statements contain the necessary disclosures. If the basis of accounting applied and the disclosures made are considered appropriate, the Appointed Auditor shall not issue a modified opinion. However, the audit report shall include an emphasis of matter paragraph (Ref: Para. A1).

Consultation with the OAG

9. The Appointed Auditor shall notify the relevant Sector Manager in the OAG as soon as events or conditions are identified that may cast significant doubt over the public entity's ability to continue as a going concern (Ref: Para. A2).
10. The Appointed Auditor shall consult with the Audit Quality team at the OAG:
- (a) where the Appointed Auditor considers the going concern basis of accounting appropriate (no material uncertainty exists but there is a close call event or condition that causes doubt), but disclosures are inadequate, and the Appointed Auditor seriously considers an adverse opinion;
 - (b) where the Appointed Auditor considers the disclosure of a material uncertainty related to going concern inadequate, and the Appointed Auditor seriously considers an adverse opinion;

- (c) where the Appointed Auditor is unable to obtain sufficient appropriate audit evidence to support the use of the going concern basis of accounting and the Appointed Auditor seriously considers a disclaimer of opinion.
11. The Audit Quality team shall consider the audit report matter under consultation. Thereafter, as necessary, the Appointed Auditor and the Audit Quality team shall follow the Auditor-General's Opinions Review Committee (ORC) process described in AG ISA NZ 700 (Ref: Paras. A3-A4).

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: Paras. A5-A6).
13. The Appointed Auditor shall consult the OAG about the possible inclusion of an emphasis of 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.

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.

Application and other explanatory material

Financial statements not prepared using the going concern basis of accounting (Ref: Para. 8)

- A1. Refer to AG ISA (NZ) 706 for an audit report example that includes an "emphasis of matter" paragraph referring to the fact that the public entity has prepared its financial statements on a disestablishment basis.

Consultation with the OAG (Ref: Paras. 9-10)

- A2. The Appointed Auditor may identify events or conditions that cast significant doubt over the public entity's ability to continue as a going concern when performing procedures in terms of paragraphs 9 and 10 of ISA (NZ) 570. Early notification of such events or conditions to the Sector Manager help the OAG to have more timely interventions with those charged with governance of the public entity or other relevant parties. Examples of interventions could include a discussion with the governing body to make them aware of the circumstances, and to determine their plans and resolution of the going concern issues.
- A3. The Appointed Auditor does not have to consult with the ORC, when:
- (a) the opinion being considered is not adverse or a disclaimer of opinion; or
 - (b) the inclusion of an emphasis of matter or other matter paragraph is not being considered.
- A4. As described in AG ISA (NZ) 700 paragraph 18, the Appointed Auditor may however consult with the Audit Quality team when a qualified opinion is considered.

Where a public entity is reliant on a letter of support (Ref: Paras. 12)

- A5. 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;²
 - (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.³
- A6. 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.

² 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.

³ 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.