



GRAP 1 PRESENTATION OF FINANCIAL STATEMENTS – FACT SHEET #1 ASSESSING GOING CONCERN

ASSESSING GOING CONCERN		
When should an entity prepare its financial statements on a going concern basis?	<p>An entity that prepares its financial statements using Standards of GRAP prepares its financial statements on a going concern basis unless there is an intention, or no realistic alternative but to:</p> <p>(a) liquidate the entity; or</p> <p>(b) cease the operations of the entity.</p>	<p>GRAP 1.27</p> <p>GRAP 14.15</p>
When should management assess the entity's ability to continue as a going concern?	<p>Management assesses an entity's ability to continue as a going concern when it prepares the financial statements. This assessment is based on the entity's ability to continue as a going concern up until the point that the financial statements are authorised for issue.</p> <p>In making this assessment, management considers if any material uncertainties exist that may cast significant doubt on the entity's ability to continue as a going concern.</p> <p>The going concern assessment should be entity specific, taking an entity's specific circumstances into account.</p>	<p>GRAP 1.27</p>
What is the time frame considered when assessing going concern?	<p>The assessment of going concern needs to reflect the events that occur after the reporting date up to the date that the financial statements are authorised for issue.</p> <p>All available information about the future, which is at least, but not limited to twelve months from the reporting date, is considered in making the assessment. This includes an assessment of medium to long-term information.</p>	<p>GRAP 1.28</p> <p>GRAP 14.21(a)</p>

This Fact Sheet explains the Secretariat's views on assessing going concern and material uncertainties that may cast significant doubt on an entity's ability to continue as a going concern. This Fact Sheet accompanies the principles on going concern and material uncertainties in GRAP 1 Presentation of Financial Statements and GRAP 14 Events After the Reporting Date, and should be read with these Standards. This Fact Sheet has not been reviewed, approved or otherwise acted on by the ASB.



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What events or conditions may management consider when assessing going concern and material uncertainties?	The following are examples of events or conditions ¹ , individually or collectively, that management may consider when assessing going concern and material uncertainties. The list is not exhaustive and there may be other events or conditions that may also be considered:		GRAP 1.29
	Area of consideration	Event or condition	GRAP 14.16 to .18
	Financial	<ul style="list-style-type: none"> Increased net liability and net current liability position Negative net asset or net current asset position Negative operating cash flows Adverse key financial ratios Long-term borrowings approaching maturity with no prospects to renew the borrowing Reliance on short-term borrowings to finance long-term assets Reliance on long-term funding to finance operational expenses Consistent working capital deficiencies or deterioration in the entity's operating results, financial position, working capital, operating cash flows and liquidity Substantial and recurring operating losses Expenses continuously exceeding revenue Significant deterioration in the value of assets used to generate revenue and/or cash flows Inability to pay creditors when due or within legislative prescripts Inability to comply with terms of loan agreements Inability to meet financial obligations in long and short term Change from credit to cash-on-delivery transactions with suppliers 	

¹ Examples from The International Standard on Auditing 570 Going Concern and Statement 56 of the Governmental Accounting Standards Board (GASB)

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What events or conditions may management consider when assessing going concern and material uncertainties? (continued)	Area of consideration	Event or condition
	Revenue generating activities	<ul style="list-style-type: none"> Reduction in revenue generated Intention of the National Treasury to enforce surrendering of surpluses Likelihood of government ceasing or reducing funding to the entity Increased need to raise additional funding Low revenue collection Poor enforcement of credit control measures Inability to levy fees, rates, taxes, tariff and charges
Cash management and financing	<ul style="list-style-type: none"> Decrease in available cash and cash equivalents Decrease in access to credit Inability to obtain financing for essential operational and strategic initiatives Limited sources of replacement funding available Withdrawal of financial support by creditors Demand for new repayment terms by lenders or creditors Increase in the entity's borrowing facilities Deterioration in credit rating 	

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	Operating	<ul style="list-style-type: none"> Intention to liquidate entity, to cease operations or potential and announced restructurings Need to restructure or revise the entity's operations to reduce operating costs Inability of the entity to substantively fulfill its mandate and remain a going concern Plans to discontinue significant operations of the entity Loss of key management with no intention to replace Loss of a key customer, major market or principal supplier Labour difficulties Supplier's inability to provide critical goods and services Deferral of capital expenditure or deviations from planned expenditure on projects Decline in demand for the entity's goods or services Substantial dependence on the success of a project
Other	<ul style="list-style-type: none"> Non-compliance with relevant legislation, such as the PFMA, MFMA or Treasury Regulations Pending legal proceedings against the entity, and likelihood of significant claims to be satisfied Changes in legislation or government policy expected to have an adverse effect on the entity Uninsured or underinsured catastrophes when they occur, for example flooding or drought Deteriorating financial health of customers and suppliers of the entity Interventions by national or provincial treasuries following poor governance, poor financial administration or lack of service delivery 	

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What events or conditions may management consider when assessing going concern and material uncertainties? (continued)	Area of consideration	Event or condition		
	Other (continued)	Impact of pandemics, economic crisis, natural disasters, or similar events, and the extent of operational disruption, community restrictions or lockdown		
DISCLOSURE REQUIREMENTS				
What disclosures should be presented by management in the financial statements?	No significant doubt about going concern	Significant doubt about going concern - Sufficient mitigating actions taken for going concern to remain appropriate	Significant doubt about going concern - Despite mitigating actions, material uncertainties remain	
	Significant judgements made by management to conclude that there is no significant doubt (if applicable).	A statement that material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, were identified. Sufficient mitigating actions were taken to address the uncertainties to conclude that the entity is able to continue as a going concern. Significant judgements made by management to conclude that going concern basis remains appropriate.	A statement that material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, were identified and that these uncertainties remain despite mitigating actions that were taken to address the uncertainties. Significant judgements made by management to conclude that the going concern basis remains appropriate.	

GRAP 1.132

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What disclosures should be presented by management in the financial statements? (continued)	No significant doubt about going concern	Significant doubt about going concern - Sufficient mitigating actions taken for going concern to remain appropriate	Significant doubt about going concern - Despite mitigating actions, material uncertainties remain	
		<p>Material uncertainties along with the events and conditions that result in these uncertainties casting doubt on the entity's ability to continue as a going concern.</p> <p>Information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of their nature, and their carrying amount as at the reporting date.</p>	<p>Material uncertainties along with the events and conditions that result in these uncertainties casting doubt on the entity's ability to continue as a going concern.</p> <p>Information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of their nature, and their carrying amount as at the reporting date.</p>	<p>GRAP 1.27 GRAP 14.21(b)</p> <p>GRAP 1.135</p>

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What disclosures should be presented by management in the financial statements? (continued)

Under all three scenarios, the entity continues to prepare the financial statements using the going concern basis.

The disclosures presented should not be:

- generic but should reflect the entity's unique and specific circumstances, relevant to its activities; and
- duplicated or repeated in the financial statements. Information should be cross-referenced.

Management should document its key assumptions and significant judgements in assessing the entity's going concern and material uncertainties. Management should include information about their plans to address the events or conditions that resulted in uncertainties, and their actions to mitigate the effect of the events or conditions in the annual financial statements or the annual report. If this information is included elsewhere in a report that is published with the financial statements, a cross reference can be included.

The basis of preparation, and any key assumptions and significant judgements applied in preparing the financial statements on a going concern basis should be approved by the appropriate level of governance within the organisation.

PREPARING FINANCIAL STATEMENTS ON A BASIS OTHER THAN GOING CONCERN

For guidance on the preparation of financial statements on a basis other than going concern refer to GRAP 1 *Presentation of Financial Statements* – Fact Sheet #2 Preparing Financial Statements on a Basis Other Than Going Concern [[add link](#)]

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