Going concern reporting and key audit matters

MODULE 4 | 4.3.2 | STUDENT COMPANION

If the going concern basis is right but a **material uncertainty** exists and is **adequately disclosed**, the opinion stays **unmodified** and a separate section draws attention to the disclosure. Inadequate disclosure leads to a **qualified or adverse** opinion; statements prepared on an inappropriate going concern basis get an **adverse** opinion. **Key audit matters**, required for listed entities, are chosen from the matters communicated to those charged with governance, narrowed to those that needed significant auditor attention and then to those of most significance. Each explains **why** it mattered and **how** the audit addressed it.

Going concern conclusions and the report

The auditor concludes	Opinion	What the report says
Going concern basis appropriate; no material uncertainty	Unmodified	Nothing special about going concern. From periods beginning on or after 15 December 2026: a Going Concern section in every report
Basis appropriate; a material uncertainty, adequately disclosed	Unmodified	A section headed Material Uncertainty Related to Going Concern: points to the note, says the uncertainty may cast significant doubt, and that the opinion isn't modified
A material uncertainty that is not adequately disclosed	Qualified or adverse	Depending on how pervasive the effect is; the basis for the opinion explains the uncertainty
Going concern basis used, but it isn't appropriate, e.g. liquidation is imminent	Adverse	The statements don't give a true and fair view
Management won't make or extend its assessment when asked	Consider the effect	Possibly a limitation of scope: a qualified opinion or a disclaimer

Why not modify the opinion for an adequately disclosed uncertainty? The statements aren't misstated: the basis is right and the disclosure is honest. The section makes sure nobody misses it.

Why the opinion isn't modified: a modified opinion says the statements are materially misstated, or that the auditor couldn't obtain enough evidence. Neither is true here. The statements use the right basis and tell users honestly about the uncertainty; the separate section simply makes sure nobody misses that disclosure.

What the section says: it draws attention to the note describing the uncertainty, says those events or conditions point to a material uncertainty that may cast significant doubt on whether the entity can continue as a going concern, and confirms that the opinion isn't modified because of it.

The revised standard: for periods beginning on or after 15 December 2026, the revised ASA 570 puts a Going Concern section in every report, even when there is no material uncertainty. It states the auditor's conclusions that the going concern basis is appropriate and that no material uncertainty was identified, and that these aren't a guarantee. For publicly traded entities, where management made significant judgements in reaching its view, the section also describes how the auditor evaluated management's assessment.

Case note: The Star Entertainment Group (2024)

By 2024, The Star Entertainment Group, which ran casinos in Sydney, Brisbane and on the Gold Coast, had been through inquiries that found it unsuitable to hold its casino licences. It faced heavy losses, large regulatory penalties and the need to raise more funding. Its shares were suspended on 2 September 2024 after it missed the reporting deadline; its full-year results followed late, on 26 September, and the audited financial report on 30 September. Its auditor, EY, included a section headed Material Uncertainties Relating to Going Concern, directing readers to the note explaining the uncertainties, including the company's funding needs and the outcomes of regulatory and legal matters. The opinion itself was unmodified, because the uncertainties were adequately disclosed.

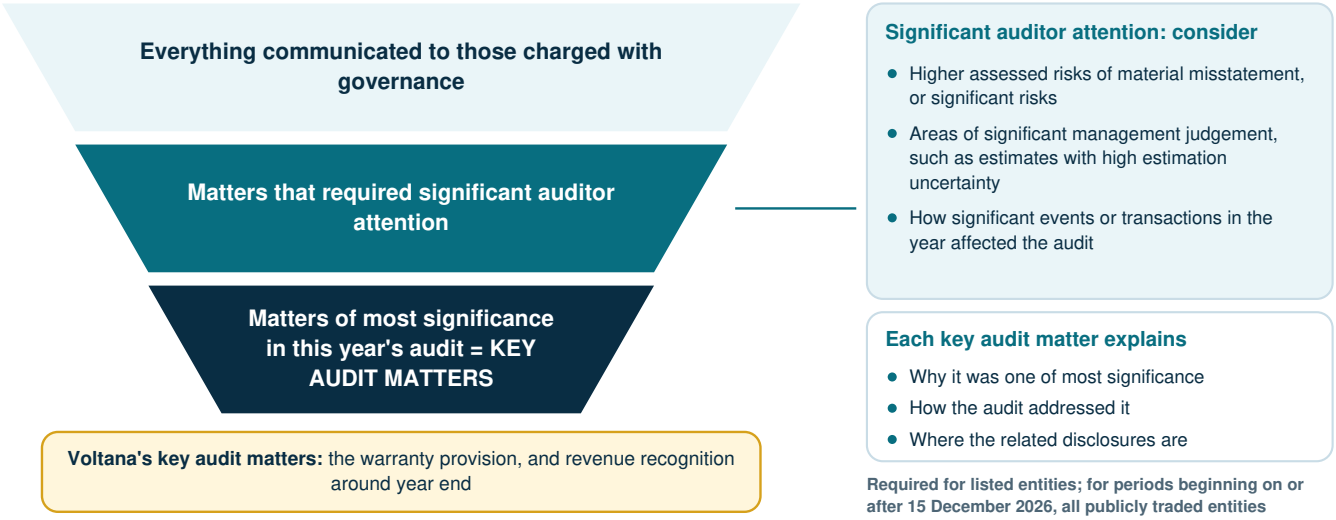
Why it matters: the opinion was clean, yet for a reader that one section changes how the whole annual report should be read.

Source: The Star Entertainment Group FY2024 financial report and EY auditor's report (30 September 2024); ASX announcements (2 and 26 September 2024).

Key audit matters

Who must include them: the auditor of a listed entity must communicate key audit matters, and for periods beginning on or after 15 December 2026 the requirement extends to all publicly traded entities (AUASB 2025-9). Other entities may include them voluntarily, or because the law requires it. They are the matters that, in the auditor's judgement, were of most significance in this year's audit.

Choosing key audit matters



Each description sits in its own subsection and explains why the matter was one of most significance, how it was addressed in the audit, and where the related disclosures can be found. Specific, entity-tailored wording is the point: a description that could appear in any company's report tells users nothing.

Voltana's warranty provision as a key audit matter

Key audit matter: Warranty provision (about $18.6 million)	Refer to the warranty provision note
Why it was a key audit matter	**How our audit addressed it**
Voltana's warranty provision of about $18.6 million depends on judgements about how many batteries will fail over a ten-year warranty. For a newer battery design with little claims history, those failure rates are hard to predict, so the estimate carries high estimation uncertainty and needed significant audit attention.	• We engaged an independent engineer to assess expected failure rates • We tested the claims data used in the calculation • We developed our own range for the provision • We compared last year's estimate with the claims actually made • We examined claims paid after year end • We evaluated the disclosure of the estimation uncertainty

Also in Voltana's report: a key audit matter on revenue recognition around the year end

Rules that stop key audit matters being misused

Rule	What it means
Not a substitute	Never a replacement for proper disclosure by management, for a modified opinion, or for the material uncertainty section
Not a separate opinion	The matters were addressed in forming the opinion on the financial report as a whole
Own section first	A matter causing a modified opinion, or a going concern material uncertainty, is by nature a key audit matter, but it is reported in its own section; the Key Audit Matters section simply refers to it
Leaving one out	Only if law or regulation prevents public disclosure or, in extremely rare cases, the harm of communicating it could reasonably be expected to exceed the benefit to the public. That second reason isn't available once the entity has disclosed the matter itself
Nothing to report	If there are no key audit matters, the section says so

See also: the Exam Reference Pack, page 6 (going concern outcomes) and page 10 (key audit matter, emphasis of matter, other matter or other information).

Practice questions

MODULE 4 | 4.3.2 | TRY THESE BEFORE THE WORKED ANSWERS

Question 1 - Which going concern outcome?

For each company, say which reporting outcome applies under the current going concern standard, and why.

Scenario (all imagined listed companies)	Reporting outcome	Why
(a) **Bulloak Grain Storage Ltd.** A $40 million bank loan is due in five months. In August the bank issued a signed, unconditional offer extending it for three years, and the forecasts show ample headroom.		
(b) **Pademelon Software Ltd.** It has about eight months of cash at its current spending, and its plan relies on a capital raising that isn't yet underwritten. Note 2 explains this clearly and states that a material uncertainty exists.		
(c) **Sandpiper Events Ltd.** It has lost its largest client and breached a loan covenant, and the bank hasn't granted a waiver. The directors refuse to disclose any uncertainty in the notes.		
(d) **Currawong Boatbuilders Ltd.** In July, before the financial report was approved, the directors resolved to stop trading and appoint a liquidator. The report is still prepared on a going concern basis.		
(e) **Lyrebird Testing Laboratories Ltd.** The auditor doubts it can repay a loan due shortly after the period management assessed, and asks the directors to extend their assessment to cover it. They refuse.		

Question 2 - Choose two key audit matters

Wirraway Waste Ltd (imagined), a listed waste-management company, discussed these six matters with its audit committee during the FY2026 audit. Choose the two you would report as key audit matters, and explain why the other four are not.

1. The landfill rehabilitation provision of $62 million, based on engineers' estimates of closure and aftercare costs decades ahead, and on discount rates. The team assessed it as a significant risk.
2. The acquisition in March of a regional recycling business for $48 million, including the first valuation of its assets and of the goodwill that arose.
3. The change of payroll provider in October. The team tested the transfer of payroll data and found no issues.
4. The planned timing of the audit and the staffing of the audit team.
5. A $5,000 coding error between two expense accounts, found by the team and corrected by management.
6. The firm's confirmation of its independence, and its fees for audit and non-audit services.

Question 3 - Draft the why and how

For one of the two matters you chose, draft the 'why it was a key audit matter' paragraph and the 'how our audit addressed it' paragraph for Wirraway's auditor's report.

Worked answers

MODULE 4 | 4.3.2 | WORKED ANSWERS - ATTEMPT THE QUESTIONS FIRST

Question 1 - Going concern outcomes

Company	Reporting outcome	Why
(a) Bulloak Grain Storage	Unmodified; nothing special on going concern (revised standard: a Going Concern section)	The signed, unconditional offer removes the doubt: the basis is appropriate and there is no material uncertainty
(b) Pademelon Software	Unmodified, with a Material Uncertainty Related to Going Concern section pointing to Note 2	A material uncertainty exists, but it is adequately disclosed, so the statements aren't misstated
(c) Sandpiper Events	Qualified or adverse, depending on how pervasive the effect is	A material uncertainty exists and isn't disclosed; the basis for the opinion says so
(d) Currawong Boatbuilders	Adverse	With the directors intending to liquidate before the report was approved, the going concern basis is inappropriate, so the statements are pervasively misstated
(e) Lyrebird Testing Laboratories	Consider the effect on the opinion: a limitation of scope, so a qualified opinion or a disclaimer	Without the extended assessment the auditor may lack sufficient appropriate evidence; tell those charged with governance

Question 2 - Wirraway's key audit matters

- **Key audit matters: 1 and 2.** The rehabilitation provision is a significant risk and an estimate with high estimation uncertainty, needing experts and significant judgement. The acquisition is a significant transaction of the year, with judgemental valuations and goodwill. Both needed significant auditor attention and were of most significance.
- **Not 3:** a routine change, tested without issues; it didn't need significant attention.
- **Not 4 or 6:** planning, independence and fees must be communicated to the audit committee, but they describe the audit's arrangements, not significant matters arising in it.
- **Not 5:** a trivial error that was corrected.

Question 3 - A sample draft (rehabilitation provision)

Why it was a key audit matter: Wirraway's $62 million provision covers the cost of closing its landfill sites and caring for them for decades afterwards. It depends on engineers' estimates of those costs, their timing and the discount rate, and small changes in these assumptions can move the provision by material amounts. We therefore considered it one of the matters of most significance in our audit (see the provisions note).

How our audit addressed it: we assessed the competence and objectivity of the engineers who prepared the estimates; engaged our own expert to challenge the cost assumptions; tested the discount rate against market data; recalculated the provision and its sensitivity to key assumptions; compared past estimates with actual outcomes; and evaluated the disclosure of the estimation uncertainty.