

Problems of Professional Judgment Application in Evaluating the Company's Going Concern

Olga Ivanovna Shvyreva* and Zinaida Ivanovna Kruglyak

Kuban State Agrarian University, Krasnodar, Russia; oshvyreva@mail.ru, Kruglyakz@mail.ru

Abstract

Background/Objectives: The main purpose of this article is to develop ways of improving the audit technology of audited entity's ability to continue as a going concern to overcome the drawbacks of available procedures. **Methods:** Such scientific methods as observation, abstraction, analogy, deduction, abduction, induction, analysis, synthesis, formalization and modeling, as well as specific methods: retrospective analysis, comparative analysis and data grouping were used. A distinctive feature of the author's technique is risk-based modeling of in-house audit standards with respect to evaluating the entity's ability to continue as a going concern, based on the identification of labile areas of audit opinion and neutralizing them through the establishment of professional judgment borders. **Findings/Improvements:** The article has identified the main areas of uncertainty of preparation of accounting (financial) statements in a liquidation (bankruptcy) situation, as well as the problem of identifying these areas by the auditors in the course of the risk assessment and substantive procedures determined by the existing International Standards on Auditing (ISA 570). In the context of quality problem solution, the main risks in inadequate identification and assessment of importance of separate features of the audited entity's ability to continue as a going concern have been determined. The main directions of in-house testing standardization of going concern assumption of an audited entity have been proposed and substantiated. **Application:** Implementation of these proposals will allow the independent auditors (audit organizations) and internal auditors to ensure the principles of objectivity, adequate diligence and audit rationality.

Keywords: Audit Evidence, Auditor's Judgment, Economic Activities Risks, Going Concern Assumption

1. Introduction

Accounting as an information system is based on a number of basic principles, which in the course of historical development were evolved and transformed. One of the fundamental accounting principles is the going concern principle¹⁻⁶.

For an auditor inspecting the accounting (financial) statements, the confirmation of compliance of going concern assumption of an audited entity is one of the major problems^{7,8}. Nevertheless, the problems of identifying the risks of activity termination and preparation of the accounting (financial) statements not oriented on these risks exist. This is supported by studies of European and American scientists and economists⁸⁻¹⁰. In Russia the situation is illustrated by the statistics of work quality assurance by auditors and audit firms. Thus, at the end

of 2013, violations of the requirements concerning the auditor's activity to check the legality of actions of the application the entity's ability assumption to continue as a going concern in the preparation of the accounting (financial) statements entered the Top 10 of the most common violations of auditing standards by audit organizations and auditors in the Russian Federation.

An analysis of existing normative acts and the views of economists and scientists allows identifying two main reasons for poor audit quality in the considered area:

- firstly, defining role of the auditor's judgment, sometimes not entirely objective, when assessing the risks of non-compliance of this assumption^{5,9};
- secondly, the lack of regulatory deficiencies in the areas of identification of organization termination factors

*Author for correspondence

and preparation of statements in terms of a probable liquidation (bankruptcy)^{11,12}.

The need to solve methodological problems of professional judgment application in the audit of organizations' going concern led to the choice of the research topic.

2. Concept Headings

Scientific novelty of the results of the study involves solving important problems in the field of going concern audit using the scientific tools of risk-based audits, which are essential for the development of theory and methods of control and analytical activity and expressed in the developing areas of in-house audit standards. Formalization and demarcation of professional judgment by the proposed method will allow a more rational inspecting and obtaining more reliable audit evidence to make a decision on the modification of the auditor's report as a result of violation of going concern principle by the audited entity.

The scientific research has been carried out on the basis of general theoretical (philosophical) method, the concrete application and special techniques. The methods of dialectical logic, applied to investigate the problem of objectivity in the application of professional judgment were an effective means to understand auditing as a social system. The philosophical methodology, the contents of which constitute general principles of cognition and categorical structure of science as a whole contributed to the study of audit as scientific knowledge in terms of the conditions and boundaries of its application in the aspect of the judgment on the continuity of the audited entity's activities, the adequacy of the objective reality and the interpretation of its results when forming an opinion about the significance of risks of termination of the audited object's activities.

Normative methodological knowledge in the form of regulations and standards, which define the content and sequence of certain activities, applied in this scientific article, provided posing problems both in terms of content and form. The employed method of legal regulation as an institutional aspect of audit, the content of which is the streamlining and setting elements of reality, has enabled to establish the boundaries of professional judgment within the relationship regulated by audit, techniques and methods to establish the truth in assessing the

risks of non-compliance of the norms of legislative and regulatory acts by the audited entities, as well as to determine the mandatory and discretionary nature of legal norms and the specifics of legal liability in the field of auditing.

Factual and statistical basis of research was made by the official materials of the Federal State Statistics Service, normative documents and analytical materials of the International Federation of Accountants and the Ministry of Finance of the Russian Federation, publications on the problems of auditing in the scientific journals of the U.S., EU and own analytical insights of the authors.

3. Results

3.1 Normative Regulation of Going Concern in the Accounting and Audit Aspects

The conceptual basis of IFRS, in addition to the principle of accrual the going concern is defined as a fundamental assumption in respect of the accounting (financial) statements for external users. There is a direct reference in the IFRS (IAS) 1 "Presentation of Financial Statements" to follow these principles. The going concern assumption means that the company normally operates and will operate for the foreseeable future. A period of 12 months after the statements date is meant under the "foreseeable future"¹³.

It should be noted that the relationship between international accounting and audit standards is manifested in the unity of terminology, and also in the use of IFRS by auditors as a criterion of compliance of checked statements with the established requirements (Table 1)³.

Thus, the current version of ISA 570 "Going Concern" includes references to IFRS 1 on the definition of assumptions and appropriateness of its application⁷.

The considered principle is a necessary condition for the existence of dynamic accounting, predetermining the concept of the accounting period (fiscal year) and periodic (annual) calculation of the financial result. It also justifies the assessment by the original (historical) cost as a basis one in a dynamic concept in the Russian standards.

The most important characteristic of external influence of going concern principle on the users' perception of financial information statements was identified by Hendriksen and Van Breda¹⁴. They noted that the reason for including a provision on the going concern in the

Table 1. Disclosure of the going concern assumption essence in the regulatory and non-regulatory documents

Document (regulatory or non-regulatory)	Going concern assumption essence
Conceptual bases of financial statements	The financial statement is normally prepared basing on the assumption that the organization operates continuously and will continue to implement it in the foreseeable future. Thus, the assumption that the organization has neither the intention nor the need to cease its existence, or to substantially reduce the volume of its activity is accepted; in case if there is such an intention or need, making financial statement on a different basis may be required, with information on this basis to be disclosed.
IFRS (IAS) 1 “Financial Statements Presentation”	In assessing whether the going concern assumption is correct, the management takes into account all available information about the future, which covers no less than twelve months after the statements period, but is not limited to this period.
IAS 570 “Going concern”	Going concern assumption is a fundamental principle of the preparation of financial statements. In accordance with the going concern assumption the entity is generally regarded as continuing to carry out its business in the foreseeable future and has no intention or need for liquidation, cease trading or seeking protection from creditors pursuant in accordance to laws and regulations. Accordingly, assets and liabilities are accounted on the basis that the entity will be able to fulfill its obligations and realize its assets in the course of its normal business.

main accounting principles consists in supporting the assessment of profit theory and the use of historical cost (cost value) as a counter to liquidation value. Information about a particular company should be presented in such a way that the users of financial statements can make their own assessment of this business prospects. Going concern implies some connection between the past and the future, although this does not mean that the future will be a repetition of the past. International standards of accounting, statements and audit are aimed at the implementation of this objective by requiring for the auditor expressing an opinion on economic unit’s ability to continue functioning as a going concern for a reasonable period of time.

According to international standards, if the company intends to eliminate or significantly reduces the volume of its operations, then its financial statement should be prepared on certain principles: the property in this case is reflected according to the liquidation value, all balance sheet items are treated as short-term. These provisions are contained in IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”.

Comparative analysis of the reflection of fixed assets in the financial statements in the case of continuing and discontinued operations in accordance with IFRS is shown in Table 2.

In addition, with the termination or reduction of activity the allowance is made, associated with the discontinuation of contracts and the economic sanctions, in accordance with IFRS (IAS) 37 “Provisions, Contingent Liabilities and Contingent Assets”.

As a result, the ambiguity of the going concern principle should be noted. It is one of the principles of accounting and audit, determining the perception of the company’s activity as focused on the continuation of the activity and development, not limited by framework conditions.

3.2. Indicators of Non-going Concern Assumption by Organization

In the normative audit field there was an attempt to formalize the criteria for economic entity’s going concern.⁷

Table 2. Reflection of fixed assets in statements in case of continuing and discontinued operations

Accounting object – fixed assets	Continuing operation	Discontinued operation
Applied standard	IAS 16 “Fixed assets”	IFRS 5 “Discontinued operation and retiring long-term assets”, IAS 10
Balance sheet section	Long-term assets	Short-term assets
Balance sheet item	Fixed assets	Retiring long-term assets held for sale
Depreciation	Allocated	Not allocated
Evaluation	According to net assets value	According to the lowest assessment rule: net assets value or fair market value

Indicators of violation of this requirement include financial, operational and other symptoms.

In our opinion, the basic financial indicators are:

- negative value of net assets, or failure of established requirements in respect to the net assets;
- significant deviation of the main factors, characterizing the financial position of the audited entity, from normal (common) values;
- significant operating losses;
- inability to repay accounts payable at the appropriate time;
- borrowings, a maturity of which is approaching, with no real prospects for a refund or an extension of the loan or the unjustified use of short-term borrowings to finance long-term assets;
- changing scheme of payment for goods to suppliers based on commercial credit or payment by installments, compared with payment while delivering goods;
- difficulties in complying with the terms of the loan agreement;
- economically unsustainable debt;
- failure to provide funding for the development or the implementation of other important investments;
- arrearage or discontinuance of payment of dividends;
- bankruptcy signs established by the legislation.

Production signs of non-compliance of organization's going concern assumption principle, which according to authors' research are the most typical in a crisis of the economy, include:

- the dismissal of key management personnel without an adequate replacement;
- the loss of the sales area, licenses or the main supplier;
- problems with labor forces or deficit in major means of production;
- significant dependence on the successful execution of a specific project;
- significant amount of sales of raw materials, which is comparable to the volume of revenue from sales of products or exceeding it.

We consider that other features typical of modern organizations, regardless of industry sector, are:

- failure to comply with the requirements for the formation of the audited entity's authorized capital, established by the legislation;
- lawsuits against the audited entity, which are in the process of consideration and may, in case of success of claimant, result in the court decision not feasible for that entity;
- changes in legislation or changes in the political situation.

Analysis of the legislation and normative documents showed that both in the Russian Federation and in other countries, only a small part of the signs is described by particular legal documents¹⁵. The identification of others is carried out on the results of the survey of the audited entity's senior staff, analytical procedures, queries, receiving confirmations from third parties, observation, inspection of company's documents.

In assessing the results of these procedures, the role of professional judgment is so high that an unpunished manifestation of auditor's excessive loyalty to the client becomes possible, sometimes to the detriment of the interests of the users of audited accounting (financial) statements in this way⁸.

3.3. Factors of the Audited Entity's Going Concern, Assessed by the Auditor's Professional Judgment

A significant group of "symptoms" of non-compliance of going concern of audited entity's activity is in the field of the auditor's professional judgment. It includes the vast majority of the going concern evaluation factors described above. Analytical procedures in this evaluation play a decisive role. However, the choice of teaching methods of analysis and normative (theoretically sufficient, restrictive and so on) values, the so-called "decision boundaries", is rather ambiguous⁹.

The existing theoretical techniques of financial analysis including the prediction of the company's financial crisis, whose authors are Beaver¹⁶, Altman¹⁷, Saifulin, Kadykov, Sheremet, Savitskaya, Melnik, Endovitskiy et al.^{2,18} sometimes give so different results with respect to the same organization that the reliability of the results of any of them can be questioned. In addition, the choice of the model, more "loyal" to the client's problems, casts doubt on the audit ethics, in particular, on a due care⁶.

The risk of misjudgment about the essence and significance of influence of financial and non-financial factors, is as large, as greater the number of uncertainties (risks) arises when evaluating factors.

Thus, in assessing the factors related to the audited entity's contractual obligations, inadequate risk assessment by the auditor may cause users' unreadiness to rapid bankruptcy (Table 3).

When ignoring or with loyal audit assessment of factors related to funding sources, it is possible to mislead a user in relation to the profit distribution and dynamics of business activity, and from the position of the managing body – the growth of fictitious facts of economic life and assets (Table 4).

When assessing the factors associated with the problems of material and human resources, inadequate risk assessment by the auditor may lead to the investors' unpreparedness for a significant reduction in the economic entity's competitiveness (Table 5).

“Turning a blind eye” on political factors and legal risks, the auditors will inevitably provoke owners' inadequate decisions about the use of profit, reduction of economic entity's goodwill (Table 6).

It is clear that even with the use of all necessary and adequate procedures for obtaining audit evidence relating to signs of non-compliance of going concern assumption of audited entity, not controlled by regulatory legal acts, the auditor may not identify these signs or incorrectly assess their significance. This significantly reduces the quality of the audit engagement. In other words, on condition of not detecting significant misstatements in the accounting (financial) statements, and the absence of audited entity's signs regulated by regulatory legal acts, described earlier, the auditor may issue an unmodified audit report if:

- the audited entity's senior staff composed an obviously false, but very plausible plan (forecast, budget) for future periods;

Table 3. The risks of inadequate identification and assessment of the significance of the audited entity's going concern signs, related to the contractual obligations

Signs	Identification of the presence and significance of a sign		Inadequate assessment of a sign	
	Audit evidence	Audit procedures	Risk factors	Consequences of sign / its impact on the economic decisions of users of financial statements
Borrowings with an approaching maturity, with no real prospects for a refund or an extension of the repayment or renewal of loan. Unjustified use of short-term borrowings to finance long-term assets. Difficulties in compliance with the loan agreement	Credit agreements, loan agreements, additional agreements to them, payment orders, plans (budgets and forecasts), of the company, correspondence with credit institutions (lenders)	Requests, analytical procedures	The risk of deliberate concealment of information about received loans of audited entity (for example, from related parties). The risk of providing inaccurate information about the plans and forecasts of income and the use of cash and cash equivalents	Bankruptcy under the initiative of a creditor (lender)
Changing the schedule of goods payment to suppliers on the basis of credit terms or payment by installments, compared with the payment with the delivery of goods. Economically unsustainable debt	Agreements for supply, purchase and sale, lease, contract, etc. with suppliers and customers, additional agreements to them, plans (budgets and forecasts), of the company correspondence with debtors and creditors	Requests, analytical procedures	The risk of deliberate concealment of information about the concluded contracts, as well as about “imaginary” and “sham” contracts. The risk of providing inaccurate information about the plans and forecasts of income and the use of cash and cash equivalents	Bankruptcy under the creditor's initiative. Reducing liquidity and business activity due to decrease in revenue, growth in current liabilities and assets in the calculations, irregular cash receipts and payments, reduced profitability

Table 4. The risks of inadequate identification and assessment of the significance of signs of going concern of audited entity, associated with funding sources

Sign	Identification of a presence and significance of a sign		Inadequate assessment of a sign	
	Audit evidence	Audit procedures	Risk factors	Consequences of sign / its impact on the economic decisions of financial statement users
Failure to provide the financing of development activity and the implementation of other important investments	Accounting (financial) statement, plans (budgets and forecasts) of audited entity	Analytical procedures	The risk of providing inaccurate information about the plans and forecasts of income and the use of cash and cash equivalents	Reduced business activity and liquidity, the expected business profitability
Significant operating loss	Accounting (financial) statement	Analytical procedures	The risk of deliberate distortion of the accounting (financial) statements data due to the non-reflection of costs, registration of "imaginary" and "sham" sales and other incomes	Inadequate decisions on using a non-existent profit

Table 5. The risks of inadequate identification and assessment of the significance of the audited entity's going concern signs, associated with its resource potential

Sign	Identification of the presence and significance of a sign		Inadequate assessment of a sign	
	Audit evidence	Audit procedures	Risk factors	Consequences of sign / its impact on the economic decisions of users of financial statements
A significant volume of sales, raw materials, which is comparable to the volume of revenue from sales of goods (works, services) or exceeds it. Deficiency of major means of production.	Accounting (financial) statements, registers of analytical and synthetic accounting on financial and resulting accounts and asset accounting	Inspection, analytical procedures	The risk of deliberate distortion of data of the accounting (financial) statements, due to non-reflection of sale, other assets, violations of classification of substantive and other activities	Inadequate decisions on using a non-existent material and production base and profit
Staffing issues: dismissal of the main production and management personnel without adequate replacement	Staff documents (personal files, orders on employment, dismissal etc.)	Inspection	The risk of ignoring the problem by the senior staff (the owners)	Non-fulfillment of the projects (orders), business competitiveness decline. The growth of fixed costs, profits decrease, profitability

- in the organization the facts of economic life, adversely affecting the performance of financial condition, or "imaginary" and "sham" facts of economic life, improving the financial picture, are not reflected, besides, there are opportunities for the veiling of these processes (for example, as a result of cash turnover, transactions with related parties, "gaps" in the law);
 - the audited entity's senior staff deliberately ignores or is loyal to the problems of work-related nature, business risk assessment and management.
- At the same time the auditor's responsibility for the failure to identify certain characteristics, for example, by displaying an excessive loyalty to the oral and written

Table 6. The risks of inadequate identification and assessment of the significance of the audited entity's going concern signs, associated with judicial and political factors

Sign	Identification of the presence and significance of a sign		Inadequate assessment of a sign	
	Audit evidence	Audit procedures	Risk factors	Consequences of sign / its impact on the economic decisions of financial statement users
Lawsuits against the audited entity, which are in the process of consideration and may, in case of success of a claimant, lead to the court decision not feasible for that entity	Information about lawsuits from the media (on a portal of the arbitral tribunal), correspondence with legal partners, an independent legal assessment of litigation	Requests, inspection, legal expertise	The risk of failure to provide information on the lawsuits of civil law and criminal character. The risk of ignoring the probable unfavorable outcome of legal action for the audited entity by the senior staff	Inadequate decisions on the use of lost profits. Reduced business reputation and competitiveness of the organization.
Changes in legislation or change in the political situation,	Information from the media, plans (budgets and forecasts) of the company	Requests	The risk of ignoring the problem by the senior staff (the owners). The risk of providing inaccurate information about the respond plans to changed business conditions.	Inadequate decisions on the use of lost profits. Reduced business activity and competitiveness of the organization

statements and explanations by the audited entity's senior staff, is not provided by standards "de jure"¹¹.

Experience of many countries severely affected by unscrupulous financial reports, confirmed by major international audit companies (Enron Corporation cases, Bernard L. Madoff Investment Securities LLC, Parmalat, etc.), shows that the parameters of the division of responsibility between the auditor and the client, as well as the seriousness of this responsibility, is necessary to be revised.

Thus, in the United States Sarbanes-Oxley Act and the New wording of torts expand the scope of auditors' responsibility for negligence in order to allow protecting the rights of any group of users, limited within certain limits and clearly defined, who will rely on the result of the auditor's work, for example, creditors, even if these creditors are not exactly known at the time when the auditor performs his/her work^{19,20}.

However, any negligence or intentional concealment of information will be unpunished; if criteria of quality inspection are not indicated and necessary audit procedures are restricted to inquiries and analytical calculations.

4. Discussion

4.1 The Solution of Problems of Quality Verification of the Audited Entity's Going Concern Assumption

We consider that the main problem of methodology of going concern audit is in the specifics of the process of obtaining the audit evidence (usually as a result of inquiries and analytical procedures, either is inferior in reliability to other evidence) and the high role of professional judgment in evaluating the results of audit procedures.

The problem can be solved by increasing the number and proportion of questions in the total survey, related to the identification and significance of business interruption risks, not allowing ambiguous interpretation, i.e. by reducing the role of the auditor's subjective judgment.⁹

In order to reduce the risk of not detecting signs of non-compliance with the fundamental principle of accounting (financial) statements formation, a technique of evaluating a going concern is proposed, which is oriented on reducing audit risk according to directions and issues presented in Tables 7, 8, 9.

Table 7. Risk-oriented formation of a questionnaire for assessing compliance with going concern assumption by the audited entity according to the current and comparative financial indicators

The issue on the assessment of the presence and significance of a sign	Risk of the auditor's ambiguous interpretation of test results	
	significance	reduction measures
1. Are there any negative net assets or net assets of less than the minimum authorized capital established for this organizational-legal form?	Low	
2. Are significant losses on the main and other activities reflected?	Medium	Securing borders of applied importance within the in-home standards in assessing the importance of financial results and their dynamics
3. Was there a significant decrease in the most liquid and quickly liquid assets (cash generating flows)?	Medium	Securing borders of applied importance within the in-home standards in assessing the separate assets types and their dynamics
4. Was there the cessation of dividends (income) payment to founders or delay in payment?	Low	
5. Do the values of the indicators of financial stability and solvency correspond to theoretically sufficient quantities?	High	Securing the list of the analyzed indicators and their "critical" values, as well as the interpretation in conjunction with other indicators within the in-home standards
6. Is substantial / systemic excess of operating profit (operating profit minus interest on loans and taxes charged by other expenses) over the net cash flow from operating activities observed?	Medium	Securing borders of applied importance in assessing the deviations within the in-home standards
7. Was there a significant decrease in the turnover of accounts receivable and payable?	Medium	Securing borders of applied importance in assessing the dynamics indices within the in-home standards
8. Were there any cases of non-current assets funding by means of short-term debt?	Low	
9. Is a cash flow from operating activities stable?	Medium	Securing borders of applied importance in assessing the dynamics indices within the in-home standards

The proposed working documents – questionnaires – fully ensure compliance with audit standards requirements, but significantly reduce the potential for unfair information held back by the audited entity's senior staff, on the one hand, and negligence, and prejudicial professional judgment of an auditor, on the other hand, due to the following "key" moments:

- questions are concrete, in most cases prevent ambiguity;
- response to the auditor's request can be cross-checked with little difficulty;
- the risk of ambiguous auditor's interpretation of the seriousness of the threat of non-compliance with going concern assumption by most valued features is low or medium; in doubtful situations (when the risk is assessed as medium and above) the in-house regulations of the audit organization (a certain auditor), reducing the risk of inadequate professional judgment, should be developed and strictly adhered to.

Thus, in assessing the audited entity's financial condition for the current and comparable periods (Table 7) the auditor's judgment should be based on in-house regulations, defining:

- calculation and limits of applied materiality in respect to relevant items of the accounting (financial) statements and dynamics performance;
- enumeration, the calculation methodology and critical values of used indicators of financial analysis.

For a more accurate assessment of existing and potential funding problems (Table 8) in addition to the above mentioned regulations, the "Situations that Require High Reliability of Audit Evidence" in-house standard should be added. It is referred to getting external confirmations, the auditor's participation in inventory and expert evaluations in cases when the inspection and the inquiries were supposed to be confined to during pre-planning.

Table 8. Risk-oriented formation of a questionnaire for assessing the problems with the volume and regularity of funding in order to verify compliance with the going concern assumption by the audited entity

The issue on the assessment of the presence and significance of a sign	Risk of the auditor's ambiguous interpretation of test results	
	significance	reduction measures
1. Is there any evidence of satisfaction of accounts payable delayed?	Medium	Improving the reliability level of audit evidence when checking settlements with creditors, the identification of related parties and "controlled" transactions
2. Are there cases of delayed collection of receivables?	Medium	Improving the reliability level of audit evidence when checking accounts receivable, identification of related parties and "controlled" transactions
3. Were the terms of contracts with suppliers and buyers, worsening the financial situation of the audited entity (for example, switching to a delay in payment by buyers, reducing the term of payment on delivery) significantly changed?	Low	
4. Is there the need for the audited entity in restructuring accounts payable?	Medium	Improving the reliability level of audit evidence when checking accounts receivable
5. Are there any cases of refusals from credit institutions and other lenders to provide financing?	Low	
6. Does the dynamics of income and expenditure for ordinary business (including interest on borrowings) correspond to cash flows for current operations?	Medium	Securing borders of applied importance in assessing the deviations and dynamics indices within the in-home standards
7. Is the going concern assumption based on the alleged financial investments of shareholders or third parties?	Medium	Improving the reliability level of audit evidence when checking settlements with shareholders, debtors and creditors, audited entity's forecasts and plans

Table 9. Formation of a questionnaire of evaluating business risks associated with external factors and influenced the going concern by the audited entity

The issue on the assessment of the presence and significance of a sign	Risk of ambiguous interpretation of test results by the auditor	
	significance	reduction measures
1. Are business risks concentrated on specific industries, products, services?	Medium	Securing indexes of specialization and concentration of production and their "critical" values within the in-home standards
2. Is there any decline in the industry in which the audited entity carries out its main activities?	Medium	Systematic monitoring of statistical and other reliable information
3. Was there any bankruptcy of organizations of the same industry sector in the analyzed period?	Low	
4. Is there any market dominance of undesirable competitor in the industry?	Medium	Systematic monitoring of statistical or other reliable information
5. Are there any adverse changes in the legislation or the political situation substantially affecting the company's economic activities of?	Medium	Systematic monitoring of legislative, regulatory and other reliable information
6. Is there any information on the termination of the state and other targeted subsidies of the audited entity?	Medium	Improving the reliability level of audit evidence when checking plans, forecasts, estimates, settlements with shareholders and sponsors
7. Were there any outages, interruptions in supplies and other production problems in the review period?	Low	
8. Were there any natural disasters or other emergencies that could significantly affect the audited entity's economic activity?	Medium	Securing borders of applied importance in assessing the significance of possible losses within the in-home standards

As part of going concern such situations may include:

- state of accounts receivable and payable;
- measures taken to settle bad debts.

To assess the importance of other business risks related to the influence of external factors (Table 9), the development and the use of in-house standards establishing the methodology and frequency of monitoring of statistical, legal and other information from the media, affecting on the customers' business risks and forecasts of market conditions of their functioning are proposed in addition to the above described regulations.

With regard to the assessment of the significance of business risks associated with the effect of intra-factors, the development and the use of in-house standards, establishing an enumeration, the calculation methodology and the critical values of applied indicators of the analysis of production specialization and concentration, security and staff traffic of the audited entity, is suggested.

5. Conclusion

The method of in-house compliance assessing standardization of going concern assumption of audited entity proposed by the authors, will enhance the audit quality by reducing the probability of an intentional or accidental breach objectivity principles and due care by the auditor. The issues relating to the availability and compliance with the internal regulations of a risk-based planning and inspection of going concern assumption by the audited entities are encouraged to be included in the programs of the external control of work quality by (EWQC) auditors and audit firms. The author's recommendations on methodological support of such standards, set out in the article, are designed to ensure the EWQC objectivity and rationality.

A set of internal regulations and going concern assessment procedures, proposed by the authors, is applicable for internal audit and compliance control in organizations of various forms of ownership and activities.

6. References

1. Gerasimova LN. Accounting (financial) statements in the light of RAS and IFRS. *International Accounting*. Garant Legal Reference System; 2012. p. 18.
2. Krasnov VD. Analysis of the factors that cause doubt in going concern, and their impact on the financial position of the organization. *International Accounting*. 2013; 43:37–43.
3. Cernius G. The new role the going concern concept in corporate finance management. *Perspectives of Innovations, Economics and Business*. 2012; 12(3):76–85.
4. Fülbier RU, Klein M. Balancing past and present: The impact of accounting internationalization on German accounting regulations. *Accounting History*. 2015; 20:342–74.
5. Hollingsworth C, Li C. Investors' perceptions of auditors' economic dependence on the client: post-SOX evidence. *Journal of Accounting, Auditing & Finance*. 2012; 27:100–122.
6. William Hahn. Going-concern assumption: its journey into GAAP. *The CPA Journal*. 2011:26–8.
7. International Standard on Auditing 570 "Going Concern"; 2008.
8. Kausar A, Taffler RJ, Tan C. Legal regimes and investor response to the auditor's going-concern opinion. *Journal of Accounting, Auditing & Finance*. 2015.
9. Tepalagul N, Lin L. Auditor independence and audit quality. A Literature Review. *Journal of Accounting, Auditing & Finance*. 2015; 30(1):101–21.
10. The auditor's consideration of an entity's ability to continue as a going concern [Internet]. [Cited 2016 Feb 21]. Available from: [http://www.ey.com/Publication/vwLUAssets/AICPAProposedRule_GoingConcern_11November2011/\\$FILE/AICPAProposedRule_GoingConcern_11November2011.pdf](http://www.ey.com/Publication/vwLUAssets/AICPAProposedRule_GoingConcern_11November2011/$FILE/AICPAProposedRule_GoingConcern_11November2011.pdf).
11. Kochinev YuYu, Chernenko DYu. Features of disclosure of the activities of the organization risks audit. *Auditor*. Garant Legal Reference System; 2014. p. 9.
12. Sapunova AP. Concept of going concern principle of the organization of internal audit. Current state and prospects of development of accounting, economic analysis and audit. *International Scientific-Practical Conference Materials, Irkutsk*. 2013:402–7.
13. Averchev IV. IFRS-2012. Comments and application practice. *Accounting Journal Addition*. Moscow: The Accounting editorial staff. 2012; 1:552.
14. Hendriksen ES, Van Breda MF. *Accounting Theory*. Sokolova YaV, editor. Moscow: Finances and Statistics; 2000.
15. Zhminko SI et al. *Audit Theory. Study Guide*. Rostov-on-Don: Fenix; 2013.
16. Beaver WH. Financial ratios as predictors of failure. *Journal of Accounting Research*. 1966; 4:71–111.
17. Altman EI, Marco G, Varetto F. Corporate distress diagnosis: comparisons using linear discriminant analysis and neural

- networks (the Italian Experience). *Journal of Banking and Finance*. 1994; 18(3):60–80.
18. Yefimova OV. *Financial analysis: modern tool for economic decision-making*. Textbook. Moscow: Omega-L; 2013.
 19. Corporate Law – Securities Regulation – Congress Expands Incentives for Whistleblowers to Report Suspect Violations to the SEC. *Harvard Law Review*. p. 124.
 20. Kevin Rubenstein internal whistleblowing and Sarbanes-Oxley section 806: Balancing the interests of employee and employer. *NY L. Sch. Law Review*. 2007–2008; 52:637–50.