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**Abstract.** This article examines the methodological aspects and practical challenges associated with the auditor's assessment of the going concern assumption in audit engagements. The going concern principle represents a fundamental basis for the preparation of financial statements, and its proper evaluation is critical for ensuring the reliability of financial reporting. The study identifies key risk factors, including liquidity problems, excessive leverage, operating losses, and external economic instability, which may cast significant doubt on an entity's ability to continue as a going concern. Based on International Standards on Auditing (ISA 570) and empirical analysis, an improved methodological framework for evaluating going concern risk, collecting audit evidence, and enhancing disclosure quality is proposed. The findings contribute to improving audit quality and strengthening stakeholders' confidence in financial statements.

**Keywords:** going concern, audit risk, ISA 570, financial distress, audit evidence, material uncertainty, financial reporting.

**INTRODUCTION.** The going concern assumption is a fundamental principle underlying the preparation of financial statements. It presumes that an entity will continue its operations for the foreseeable future and has neither the intention nor the necessity to liquidate or significantly curtail its activities. Auditors are required to evaluate the appropriateness of management's use of the going concern basis of accounting and determine whether material uncertainties exist that may cast significant doubt on the entity's ability to continue operating.

In recent years, economic instability, financial crises, and market volatility have increased the complexity of going concern assessments. The COVID-19 pandemic and geopolitical uncertainties have further highlighted the importance of robust audit procedures in evaluating financial sustainability. Consequently, assessing going concern has become one of the most challenging and risk-sensitive areas of audit practice.

The purpose of this study is to analyze methodological issues related to going concern assessment and to develop practical recommendations aimed at improving audit procedures and enhancing reliability in financial reporting.

**METHODS.** This research applies a qualitative methodological approach combining:

Comparative analysis of International Standards on Auditing and financial reporting requirements;

Risk-based audit framework analysis;

Review of financial indicators associated with financial distress;

Analytical procedures applied in audit engagements;

Synthesis and generalization of theoretical and practical findings.

The object of the study is the auditor's evaluation process of the going concern assumption within financial statement audits.

### **RESULTS AND DISCUSSION.**

The findings indicate that going concern assessment is inherently judgmental and involves significant estimation uncertainty. Financial forecasting and management assumptions often contain subjective elements, increasing the likelihood of misstatement.

The study suggests that auditors should enhance the robustness of analytical procedures, strengthen stress-testing mechanisms, and apply scenario analysis when evaluating management

forecasts. Furthermore, incorporating early warning models and financial distress prediction tools can improve risk detection.

Improving communication between auditors and those charged with governance is also essential to ensure transparency regarding material uncertainties.

Beyond financial metrics, operational and external indicators also play a crucial role in going concern evaluation. Loss of key customers, dependence on a limited supplier base, significant legal claims, regulatory sanctions, or adverse macroeconomic conditions may threaten business continuity. Market volatility, geopolitical instability, and industry-specific downturns can further exacerbate financial vulnerabilities. Therefore, auditors must adopt a comprehensive risk-based approach that integrates financial analysis with qualitative assessment to determine whether material uncertainty exists.

Table 1

**Key Risk Indicators Affecting Going Concern Assessment<sup>1</sup>**

No	Risk Indicator	Category	Potential Impact on Going Concern	Audit Risk Level
1	Recurring operating losses	Financial	Erosion of equity and reduced sustainability	High
2	Negative operating cash flows	Financial	Liquidity shortage and inability to meet obligations	High
3	High leverage ratio	Financial	Increased financial distress risk	High
4	Breach of loan covenants	Financial	Immediate repayment obligations	High
5	Loss of major customers	Operational	Revenue instability	Medium–High
6	Significant legal proceedings	External	Financial penalties and reputational damage	Medium–High
7	Adverse economic conditions	External	Reduced demand and cash flow pressure	Medium

Audit procedures related to the assessment of going concern are primarily risk-oriented and require the application of professional skepticism. In accordance with ISA 570 (Revised), auditors must evaluate management’s assessment of the entity’s ability to continue as a going concern and determine whether material uncertainty exists. This process typically begins with reviewing management’s cash flow forecasts, budgets, and strategic plans. Auditors assess the reasonableness of underlying assumptions, such as revenue growth rates, cost structures, refinancing expectations, and macroeconomic projections. Where forecasts are involved, sensitivity analysis is often performed to evaluate the impact of adverse scenarios on liquidity and solvency.

In addition to forecast evaluation, auditors perform substantive and analytical procedures to

<sup>1</sup> Made by author

corroborate management representations. These procedures include reviewing loan agreements for covenant compliance, obtaining confirmations from financial institutions, analyzing subsequent events, and calculating key financial ratios (e.g., current ratio, debt service coverage ratio, and interest coverage ratio). Particular attention is given to refinancing arrangements and post-balance sheet developments that may mitigate or aggravate going concern risks. When significant uncertainty is identified, auditors must assess the adequacy of disclosures and determine whether an emphasis of matter or a modified opinion is required.

Table 2

**Audit Procedures Applied in Going Concern Assessment<sup>2</sup>**

No.	Audit Procedure	Objective	Evidence Type	Risk Coverage
1	Review of management’s going concern assessment	Evaluate assumptions and forecasts	Internal documentation	High
2	Analysis of cash flow projections	Assess liquidity sustainability	Forecast models, budgets	High
3	Loan covenant compliance testing	Identify breach risk	Loan agreements, confirmations	High
4	Ratio and trend analysis	Detect financial distress indicators	Financial statements	Medium–High
5	Subsequent events review	Identify post-reporting developments	Board minutes, transactions	Medium
6	Bank confirmations	Verify debt balances and refinancing	External confirmations	High
7	Written representations from management	Confirm management assertions	Representation letter	Medium

The findings indicate that going concern assessment is inherently judgmental and involves significant estimation uncertainty. Financial forecasting and management assumptions often contain subjective elements, increasing the likelihood of misstatement.

The study suggests that auditors should enhance the robustness of analytical procedures, strengthen stress-testing mechanisms, and apply scenario analysis when evaluating management forecasts. Furthermore, incorporating early warning models and financial distress prediction tools can improve risk detection.

Improving communication between auditors and those charged with governance is also essential to ensure transparency regarding material uncertainties.

**CONCLUSION.** The assessment of going concern remains one of the most critical and judgment-intensive areas in audit engagements. This study confirms that financial distress indicators, liquidity constraints, high leverage, and external economic uncertainties significantly increase audit risk and require enhanced professional skepticism. The analysis demonstrates that going concern evaluation cannot rely solely on historical financial performance but must incorporate forward-

<sup>2</sup> Made by author

looking information, management forecasts, and sensitivity analyses.

The findings highlight the importance of applying a structured, risk-based audit approach in accordance with ISA 570. Effective audit procedures—such as reviewing cash flow projections, testing loan covenant compliance, analyzing subsequent events, and obtaining sufficient external confirmations—are essential for forming a well-supported audit opinion. Particular emphasis must be placed on evaluating the reasonableness of management assumptions and ensuring that disclosures adequately reflect material uncertainties.

Implementing the proposed methodological framework strengthens audit quality and enhances the reliability of financial reporting. By integrating quantitative indicators with qualitative risk assessment, auditors can improve their ability to detect material uncertainty related to going concern. Ultimately, a rigorous and transparent going concern assessment contributes to greater stakeholder confidence and reinforces the credibility of audited financial statements.

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