Twelve of the 20 largest bankruptcy filings in U.S. history took place in 2001 and 2002. In total, these 12 companies brought $381 billion of assets into bankruptcy.

EXHIBIT
LARGEST BANKRUPTCY FILINGS IN THE U.S. IN 2001 AND 2002

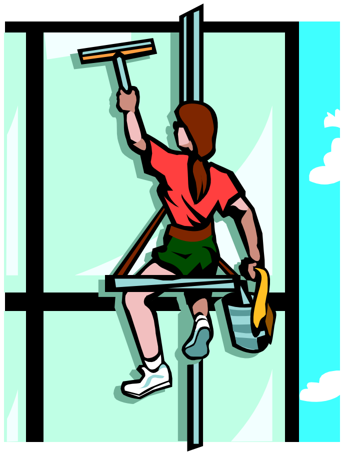
Company	Bankruptcy Date	Assets Listed in Filing (in millions)
WorldCom	July 21, 2002	$103,900
Enron	December 2, 2001	63,300
Conseco, Inc.	December 18, 2002	61,392
Global Crossing	January 28, 2002	30,185
UAL Corp.	December 9, 2002	25,197
Adelphia Communications	June 25, 2002	21,499
Pacific Gas and Electric	April 6, 2001	21,470
Kmart Corp	January 22, 2002	14,630
The Finova Group	March 7, 2001	14,050
NTL	May 8, 2002	13,026
Reliance Group Holdings	June 12, 2001	12,598
Federal-Mogul Corp	October 1, 2001	10,150
Total		$381,247

Source: BankruptcyData.com, a Division of New Generation Research, Inc.

A survey was conducted of the publicly traded companies which filed for bankruptcy in 2001. Out of the 257 companies, 202 companies were surveyed which revealed that only 96 companies (48%) contained a separate paragraph indicating the auditor’s doubt about the company’s ability to continue as a going concern.

Why Auditors Fail to Comment on Exceptions to the Going-Concern Assumption?

- Self-fulfilling Prophecy



- Opinion Shopping
- Fundamental misunderstanding of the assumption

International Standard on Auditing 570

Going Concern by

Shumaila Halo, ACA

Manager-Education & Training

What does the Going Concern Principle mean?

The entity shall continue its business for the foreseeable future with neither the intention nor the necessity of:

- liquidation
- ceasing trading or
- seeking protection from its creditors pursuant to laws or regulations

Management's Responsibility

- Assess the entity's ability to continue as a going concern (for at least the next 12 months)

- The assessment period should be at least 12 months if not, auditor should ask management to extend it to 12 months

Examples of events or conditions which may cast significant doubt on the going concern assumption

Financial

- Net liability position
- Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment, or excessive reliance on short term borrowings to finance long term assets.
- Indications of withdrawal of financial support by debtors and other creditors

Continued....

- Negative operating cash flows indicated by historical or prospective financial statements
- Adverse key financial ratios
- Substantial operating losses or significant deterioration in the value of assets used to generate cash flows
- Arrears or discontinuance of dividends

Continued....

- Inability to pay creditors on due dates
- Inability to comply with the terms of loan agreements
- Change from credit to cash on delivery transactions with suppliers
- Inability to obtain financing for essential new product development or other essential investments

Operating

- Loss of key management without replacement
- Loss of major market, franchise, license or principal supplier
- Labor difficulties or shortages of important supplies

Ratios Models

Altman Z Score Model

- Working capital to total assets
- Retained earnings to total assets
- Earnings before interest and taxes to total assets
- Book value of equity to book value of total liabilities
- Sales to total assets

- 1.21 = Co. has a high potential to fail
- 1.21–2.9 = Co. is in grey area and cannot be classified either way
- <2.91 = Co. is unlikely to fail in the near future.

Lincolin indicators model

The ratios used in this model are:

- Net operating profit before tax and significant non-recurring items to current liabilities
- Retained profits to total assets less intangible assets
- Current assets to total assets less intangible assets
- Current liabilities to total liabilities
- Quick assets to current assets
- Quick liabilities to current liabilities

Benchmarks are:

- 0 to 0.10 = strong financial health
- 0.11 to 0.30 = satisfactory financial health
- 0.31 to 0.50 = early signs of financial weakness
- 0.51 to 0.80 = marginal-significant level of strong financial weakness
- 0.81 to 10 = high risk of failure

Other Factors

- Non-compliance with capital or other statutory requirements
- Pending legal or regulatory proceedings against the entity that may, if successful, result in claims that are unlikely to be satisfied
- Changes in legislation or government policy expected to adversely affect the entity

Auditor's Responsibility

It is to consider:

-the appropriateness of management's use of going concern assumption in the preparation of financial statements

-Whether there are material uncertainties about the entity's ability to continue as a going concern to be disclosed in the financial statements

Planning the Audit and Performing Risk Assessment Procedures

Auditor should be alert for audit evidence of events or conditions and related business risks which may cast significant doubt on the entity's ability to continue as a going concern.

Management has made Preliminary Assessment

- Review the assessment to check if indicators are identified, if yes;
- Review management's plans to address them

Management has not made Preliminary Assessment

- Discuss with management the basis to use going-concern assumption;
- Inquire of existence of indicators;
- Request management to make the assessment.

How to Evaluate Management's assessment?

Consider:

- the process management followed to make its assessment;
- the assumption on which the assessment is based;
- management's plans for future action; and
- Whether all information known to auditors are incorporated in the assessment.

If Such Events or Conditions are Identified

The auditor should:

- Review management's plan for future actions based on its going concern assessment;

- Gather sufficient appropriate audit evidence
- Seek written representations from management regarding its plan for future action
- Consider whether they affect the auditor's assessment of the risks of material misstatement

Guidelines on Projections

- Whether senior management and those charged with governance have been appropriately involved and have given proper attention to forecasts;

- Whether the assumption use in the forecasts are consistent with the assumptions that have been used in asset valuations and models for impairment;

- Whether the forecasts have been prepared on a monthly basis and if so how the forecasts reflect expected payment pattern

- Whether the forecasts indicate months of insufficient cash, if so, management's plans to deal with any shortfalls

Continued....

- Whether forecasts reflect an inappropriate management bias, in particular as broadly as compared to others in a particular industry;
- How management's budget for the current period compares with results achieved to date;
- Whether the forecasts consider potential losses of revenue, including an inability of an entity to obtain L/Cs affects its international trade;
- Whether increase in the existing costs of borrowing have been forced into management's analysis, including potential increases in margins sought by banks and the effect of alternative sources of financing;

Continued….

- Whether the forecasts account for trends typically noted in recessionary periods such as reduced revenues, increased bad debts and extended credit terms to customers;

- Whether forecasts imply any future concerns over the entity’s inability to meet debt covenant requirements

- How the forecast deals with asset realizations, including whether these realizations are practicable and realistic in amounts

- Whether management has performed an appropriate sensitivity analysis, such as considering the effect of loss of key customer or key suppliers due to bankruptcies.

Period beyond management's assessment

Auditor should inquire of management as to its knowledge of events or conditions and related business risks beyond the period of assessment used by management

Audit Conclusions and Reporting

Based on audit evidence obtained the auditor should determine as per his judgment whether a material uncertainty exists which may cast significant doubt on the entity's ability to continue as a going concern

Required Disclosures in F/S

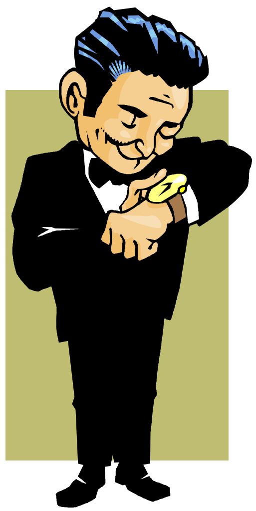
Outcome	Required disclosure in Financial Statements
- Going Concern assumption is appropriate - No material uncertainties identified	Explain the conclusion on going concern.
Going Concern assumption is appropriate but material uncertainties identified	•Principal events and conditions •Management's plans •Material uncertainty •Unable to realize assets and liabilities in normal course of business
Going Concern assumption is not appropriate	Explain the basis of the conclusion and the accounting policies applied in drawing up financial statements on a non-going concern basis

Types of Opinions

Emphasis of Matter Para	Qualified Opinion	Disclaimer of Opinion	Adverse Opinion
If the company has appropriately disclosed material uncertainties.	If the company has not made appropriate disclosures.	When there are multiple material uncertainties	If the company has not made appropriate disclosures.
Going concern assumption inappropriate and F/S prepared on alternative authoritative basis. (refer IFRS 5 fore details)	Management is unwilling to make or extend its assessment, when requested by auditors.		If going concern assumption is inappropriate but F/S have been prepared on going concern basis.

Components of Audit Report

- Introduction
- Management’s responsibility for the financial statements
- Auditor’s responsibility
- Auditor’s opinion
- Other reporting responsibilities



Drafting of Audit Report

Emphasis of Matter Paragraph Scenario 1

Criteria

Material uncertainty exists but required disclosure is made in F/S

The modification Para shall be added after “Opinion Paragraph” and before “Other Reporting”.

Wordings of Modification Para

Add “Without qualifying our opinion we draw attention to the note xxx (that discloses the matter).

Highlight:

- The event; and
- Existence of material uncertainty that cast significant doubt to continue as a going concern

Emphasis of Matter Paragraph Scenario 2

Criteria

Going concern assumption inappropriate and F/S prepared on alternative authoritative basis.

The modification Para may be added after “Opinion Paragraph” and before “Other Reporting”.

Wordings of the Modification Para

Add “Without qualifying our opinion we draw attention to the note xxx (that discloses the matter).

Qualified Opinion

Criteria:

Material uncertainty exists but required disclosure is not made in F/S

The modification para will be added before "Opinion Paragraph"

Wordings of Modification Para

- Indicate the event
- Existence of material uncertainty that cast doubt
- Unable to realize assets and discharge liabilities in normal course of business
- This fact is not disclosed in the F/S

Wordings of Opinion Para

" Except for the omission of the information included in the preceding paragraph"

Disclaimer of Opinion

Criteria

Multiple material uncertainties exist.

The Modification Para will be added before "Opinion Paragraph"

Wordings of Modification Para

- Indicate the event
- Existence of material uncertainty that cast doubt
- Unable to realize assets and discharge liabilities in normal course of business

Continued....

“Wordings of other Paras

Introduction: Instead of we have audited, write “ we were engaged to audit”

Auditors Responsibility: (1) Omit the sentence stating the responsibility of auditors
(2) omit or amend Para related to Scope of audit

Add Modification Para: Wordings discussed above

Opinion Para: Because of the significance of the matter discussed in the preceding paragraph, we do not express an opinion on the financial statements”

Adverse Opinion Scenario 1

Criteria

- Material uncertainty exists but required disclosure is not made in F/S;

The Modification Para shall be added before “Opinion Paragraph”

Wordings of Modification Para

- Indicate the event
- Existence of material uncertainty that cast doubt
- Unable to realize assets and discharge liabilities in normal course of business
- This fact is not disclosed in the F/S

Wordings of Opinion Para

“ Because of the omission of the information mentioned in the preceding paragraph, the F/S do not give true and fair view”.

Adverse Opinion Scenario 2

Criteria

- Going concern assumption inappropriate and F/S prepared on going concern basis.

The Modification Para shall be added before “Opinion Paragraph”

Wordings of Modification Para

- Indicate the event
- Existence of material uncertainty that cast doubt
- Unable to realize assets and discharge liabilities in normal course of business
- This fact is not disclosed in the F/S(if not disclosed)

Wordings of Opinion Para

“ Because of the omission of the information mentioned in the preceding paragraph, the F/S do not give true and fair view”.

Significant Delay in the Signature or approval of financial statements

- Auditor consider the reason for the delay
- If the delay is related to events or conditions relating to going concern assessment :

  - perform additional audit procedures

  - Consider its impact on the auditor's report

Thank You