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## LETTER OF FINANCIAL SUPPORT

The going concern assumption is a fundamental principle in the preparation of financial statements. Auditors are expected to comply with Malaysian Approved Standards on Auditing ISA 570 – Going Concern in the performance of audit to consider the appropriateness of management’s use of the going concern assumption in the preparation of the financial statements. ISA 570 highlights events and conditions that an auditor should consider that individually or collectively may cast significant doubt about the going concern assumption. Auditors are required to consider whether there are material uncertainties and future outcome of events or conditions which are inherently uncertain; and to perform adequate audit procedures to satisfy themselves that the going concern assumption used by the management in the preparation of financial statement is appropriate. User of this document is advised to refer to the full text of the Malaysian Approved Standards on Auditing ISA 570 Going Concern for complete reference.

There are situations where continuing financial support from a third party is required by the management, and is sought by means of a letter of financial support. As stated in para 28 of ISA 570, obtaining financial support letter to confirm the existence, legality and enforceability of arrangements to provide or maintain financial support with related and third parties and assessing the financial ability of such parties to provide funds is one of the audit procedures that may be performed when events or conditions are identified which may cast significant doubt on the entity’s ability to continue as a going concern.

The letter of financial support is an undertaking, usually but not necessary by a holding company giving comfort about financial support to be provided to its subsidiary company.

The letter of financial support is used as a mean of obtaining audit evidence for events which may give rise to business risks such as from the financial perspective, a net liability or net current liability position that may cast significant doubt about the going concern assumption of the company.

The following are some of the pointers to be observed with regards to the letter of financial support:

1. The wordings of the letter of financial support might not necessarily create a binding legal obligation, and auditors should therefore seek to satisfy himself as to the intention and legal enforceability of the letter. Where the letter is merely indicates a general intention to provide support it may not be enforceable.
2. The auditor should exercise his judgment as to whether or not legal advice should be obtained in determining the adequacy and enforceability of the letter of financial support as audit evidence.
3. When obtaining the letter of financial support, the auditor should take into consideration the intention and ability of the provider of the support to comply with the terms.
4. The auditor should obtain the relevant period audited financial statement of the company providing the support and ensure that the company is in a position to provide the financial support.
5. The letter of financial support should be dated the same date as date of auditor’s report.

6. The holding company, the provider of the support, should pass a Board of Directors resolution to confirm the Board's consent to provide financial support to its subsidiary company.
7. The financial support should be for a period of 12 months from the date of the balance sheet.

**The list of pointers above is not exhaustive, the audit firm should establish its policies and procedures designed to achieve the comfort level required.**

The following are extracts of Malaysian Approved Standards on Auditing ISA 570 (which is not-exhaustive) that are pertinent for reference:

**Auditor's Responsibility (paragraph 9)**

The auditor considers the appropriateness of management's use of the going concern assumption even if the financial reporting framework used in the preparation of the financial statements does not include an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern.

**Evaluating Management's Assessment (paragraph 17 and 18)**

The auditor should evaluate management's assessment of the entity's ability to continue as a going concern.

The auditor should consider the same period as that used by management in making its assessment under the applicable financial report framework. If management's assessment of the entity's ability to continue as a going concern covers less than 12 months from the balance sheet date, the auditor should ask management to extend its assessment period to 12 months from the balance sheet date.

**Further audit procedures when events or conditions are identified (paragraph 26)**

When events or conditions have been identified which may cast significant doubt on the entity's ability to continue as a going concern, the auditor should:

- (a) review management's plans for future actions based on its going concern assessment;
- (b) gather sufficient appropriate audit evidence to confirm or dispel whether or not a material uncertainty exists through carrying out audit procedures considered necessary, including considering the effect of any plans of management and other mitigating factors; and
- (c) seek written representations from management regarding its plans for future action.

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