

Investigation of Auditors' Opinions about their Responsibility for Firm's Going Concern in Saudi Arabia's Market

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Abstract. This study examines the extent to which external auditors are responsible for Assessment of an Entity's ability to continue as a Going Concern. The study was conducted in Saudi Arabia. The study sample was based on external auditors operating in Saudi Arabia during the study period 2016-2017. The data has been collected through a questionnaire and financial annual reports of listed companies. According to the International Standards on Audit (ISA 701, 570 and 510), the external auditors must mention in their report about their doubt, if any, regarding an entity's ability to continue as a going concern. However, the result of the current study shows that auditors are mostly not reporting about the doubtfulness of the entity's ability to continue as a going concern. Generally, the personal relationship between the auditors and the clients influence the non-implementation of International Standards on Audit (ISA 701, 570 and 510) regarding entity's ability to continue as a going concern. Based on this result, we recommend training of auditors, as well as protecting the independency of the external auditors according to International Standards Audit IAS 701.

Keywords: external auditor; International Auditing Standards; auditors' reports; going concern and KSA.

1. Introduction

Many companies all over the world had faced the risk of bankruptcy although the auditors in their reports did not warn about companies' ability to continue as a going concern. Consequently a number of problems, confusions and troubles got created among the auditing companies and clients, (Sanoran, 2018). The scandals of Arnon Company and Arthur Anderson auditing Office are the best examples of this issue. Due to this, many clients have lost their confidence in auditors' reports, and they are no more relying on these companies and the data, which have been audited by the external auditors. Clikeman, (2018) point out that auditors failed to inform the clients about companies' ability to continue as a going concern. The stakeholders have been questioning about so many such cases where the auditors' report did not inform them about the ability of the company to continue as a going concern. Most of the previous studies have given a lot of weight to this aspect that auditors must use the financial analysis as a principal tool to evaluate the ability of company to continue as a going concern. Harom et al., (2009) have referred to the International Standards on Audit (ISA) 570 stating that it is the auditors' responsibility to review and audit all the financial information and on the basis of that assess the companies' ability to continue as a going concern. It has been observed that in many cases, the auditors were not fully following the International Standards Audit 701, 570, and 510. For example, the researchers observed three real cases in Saudi Arabia, where the auditors have not followed the ISA 701, 570, and 510. The first case was related to seven listed companies that have accumulated losses reaching between 50% - 75% of their paid-up capital. The second observed case was related to one listed company for which the accumulated losses were more than 75 percentage of its paid-up capital and finally we found in the third case that losses of three companies exceeded their paid-up capital. In all these three cases stated above, auditors had given a clean opinion (un-qualified opinion) without any hint or responsibility about the companies' ability to continue as a going concern (www.tradawul.com.sa). Zerban, (2017) mentions that a scandal occurred in Saudi market when Deloitte's audit firm failed on June 1st, 2015 to report about loss-making company MMG (Mohammad Al Mojil Group), as well as Etihad Etisalat (Mobily).

In the light of above discussion, the current study addresses the main question: Are the auditors in Saudi Arabia acting in accordance with responsibility for the assessment and reporting of an entity's ability to continue as a going concern according to International Standard on Auditing (ISA) 701, 570, and 510.

This study is important because it focuses on the important problems facing the national economy of Saudi Arabia, which is related to the bankruptcy of companies, and accumulated losses, faced by so many Saudi's listed companies, but the auditors have not given any sign of warning in their final audit report regarding this issue.

The main objective of this study is to empirically investigate the extent to which Saudi auditors are committed to reporting about the future financial problems of Saudi listed companies, in their annual reports. This study also intends to address

whether Saudi auditors are following the International Audit Standards, 701, 510 and 570, which deal with an entity's ability to continue as a going concern.

2. Literature Review

The audit standards board issues many announcements in relation to audit, attestation, and quality control. Mutchler, et al. (1997) stated that the Audit Standard issue No. 34 issued in 1981 specifies the procedure that auditor should follow to evaluate an entity's ability to continue as a going concern. However, it did not force the auditor to report when there is a doubt about entity's ability to continue as a going concern.

Due to large spread of capital market and the reliance of many stakeholders on the auditor's report for taking their strategic decisions, the auditor board in 1988 issued Audit Standard No.59, which required the auditor to study about an entity's ability to continue as a going concern. Moreover, this issue discussed three dimensions of this subject. The first: the auditor has to evaluate the entity's ability to continue as a going concern, the second; the auditors should Modify their opinion, if it comes to their knowledge that there is a doubt about entity's ability to continue as a going concern, and the third: the auditor has a right to issue a qualified report instead of an unqualified report when there is a doubt that entity's ability to continue as a going concern and in this case, it is important to add an explanatory paragraph. Later in 2003 the International Standard on Audit (ISA) 701, 510, 570, was issued. This standard deals with the auditor's responsibility to report about the entity's ability to continue as a going concern.

Quite a number of studies have highlighted the independent status of auditors and their responsibility to give an unbiased opinion (Rau & Moser 1999). However, doubt is created if auditors are involved in performing services other than their audit work.

Matsunmura, et al. (1997) pointed out that before auditor gives any opinion regarding entity's ability to continue as a going concern, the auditors usually deliberate a lot before breaking this News to their clients, because sometimes the clients are not ready to listen about bad news such as the doubt about the entity's ability to continue as a going concern. Therefore, the client might discourage the auditor to report about doubtfulness the entity's ability to continue as a going concern in his annual report.

Most of the previous studies in the literature mention that generally big audit firms are more accurate in their opinion on continuity of the company (Mulford & Comiskey, 2011; Altman, 1968, 2002; Altman, et al. 1977, 1994, 1995; and Turner & Godwin 1999). The auditor might use tools such as Altman Z score model or financial analysis in order to predict the company's ability to continue as a going concern. Hamilton et al. (2002) pointed out that financial analysis could be used for reporting about the continuity ability of the company. Similarly, most of the studies have emphasized that auditors have the ability to predict potential financial crisis. Vermeer et al. (2013) concluded that by using the financial tools and statements,

knowledge and expertise, auditors can forecast the bankruptcy or going concern of the companies. Geiger et al. (2013) and William & Fowle (2005) stated that despite the consensus among all the auditors on the importance of reporting about an entity's ability to continue as a going concern in their report, many auditors' firms in Saudi Arabia market prefer not to report about continuity of the company to avoid losing clients. In fact, the losing of client fees is less costly than failure to report about continuity (Carey, et al. 2008).

Auditor's responsibility for Assessment of an Entity's Ability to Continue as a Going Concern (ISI 570): Koh, & Killough (1990) point out that the audit issues No.(34) in 1981, stated that whenever the auditor received any information regarding the doubt of company's ability to continue as a going concern or the company facing any financial trouble then it is the auditor's responsibility to report about going concern.

Ryu, et al. (2009) stated that audit issue (59), 1988, mentioned that auditor should follow the procedure for reporting company's ability to continue as a going concern. This indicates that the auditors are responsible for evaluating any information related to uncertainty about the entity's ability to continue as a going concern in the seeable future, and also the auditors must modify his/her report if the available information shows that there is any doubt about the returns on financial investment. On 25 July 2013, the International Auditing and Assurance Standards Board (IAASB) issued IAS 701. This standard revised the IAS No. 570, and was made effective from 15\12\2016. The modified of IAS No.570 stated that the auditor must report about the company's ability to continue as a going concern, only when there is a doubt about the ability to continue as a going concern, otherwise the auditor is not required to report if the company does not have any problem. The IAS 701 stated that the auditor must add in his annual report one paragraph mentioning in it his/her opinion about the entity's ability to continue as a going concern in his report. The auditors can use many tools and indicators.

Loft & Humphrey (2009) pointed out that the International Federation of Accountants (IFAC) mentioned that certain indicators should be considered by the auditors while assessment of company's ability to continue as a going concern. These indicators are financial, operating and other indicators, such as increase in current liabilities over current assets, borrowing difficulties, payment difficulties, or the basic ratios not appearing to be in favor of the company. Furthermore, the following hints can give a red flag that there is a doubt of company's ability to continue as a going concern: cumulative losses and delay in distribution of dividend, not being able to settle creditors' payments when they become due, not being able to purchase on credit, not being able to get a loan to finance a necessary project. Al-Melegy (2007) pointed out that there are important operating indicators such as - important managers leaving their job and the company is not being able to replace them. Other indicators such as non-compliance with capital requirements or other legal requirements, or existing legal issue against the company, render the company unable to meet the obligation.

Based on the above discussion, it is clear that according to IAS No.510, 570, and 701 the auditors should take the required steps and follow the procedures when they realize that there is a doubt of company's ability to continue as a going concern.

There have been many legal cases filed against auditors in the past because of lack of commitment from auditors to report about the continuity of a concern. For example in 2015, 32 such legal cases were filed. As a result, the auditors paid a fine in some cases, and in some cases, the court disallowed them to work as auditors. In few other cases, the auditors were even arrested. All these punishments were inflicted upon the auditors because they did not follow IAS No.510, 570 and 701. The number of punishments received by the auditors are presented in the following table which has been taken from the Makka newspaper, 2012 :

Table (1). Penalties for auditors'.

Number of penalties	Type of penalties
48	Prevented
42	Warning
12	Blame
2	Stopped working
5	Prohibited from working
1	Fine

3. Research Methodology

The empirical part of this study is based on the collection of data from annual reports of Saudi listed companies and questionnaire, which has been developed by the researchers and distributed to the related parties, (external auditors). One hundred fifty sets of questionnaire were sent to the respondents through email, WhatsApp and direct delivery. Response was received from 112 respondents which amounts to nearly 75% of the distributed questionnaires. The 2017 annual reports constituted the most recent data available, which were used to examine the extent to which auditors are committed to report the companies' ability to continue as a going concern. After collecting data from companies' annual report and respondents, we analyzed them in order to understand the auditor's responsibility about reporting the continuity of a concern. We divided the questionnaire content into five categories for testing the validity and stability of our data collected by questionnaire. The first section of the questionnaire, intends to collect the general information about the respondents. The second section presents the auditor's responsibility for the company's continuity. Next part deals with the auditors' report about company's continuity in the report and the reasons for auditors not being committed to give their opinion about continuity. The last part explains which procedures are the best for discovering the threats and that may be helpful for the continuity of the companies.

3.1 Hypotheses development

This study examined the following hypotheses:

H₀₋₁: External auditors of the company are neutral about their responsibility to report on the ability of the company as a going concern.

H₀₋₂: External auditors in Saudi audit firms are neutral about acting according to the international standards audit 510, 570, and 710.

H₀₋₃: there are no significant differences between the investors' opinion and auditors' opinion regarding auditors' commitment to report on the ability of the company as a going concern.

3.2 Testing of validity and reliability of the questionnaire

The questionnaire was presented to a group of specialists to review and give their opinion about validity and reliability of the questionnaire. The researcher developed and modified the questionnaire according to the recommendations of the reviewers. We used the Cronbach alpha in order to ensure the reliability of questionnaire (categories). The coefficient Cronbach alpha was found to be 73% in all questionnaire axes, which indicates high level of validity and reliability of the questionnaire, since it is more than 60 - the acceptable level. (Sekaran, & Bougie 2016).

Table (2). Cronbach Alpha test.

Dimensions	Number of paragraph	Stability
General knowledge	25	0.75
Auditors responsibility to report about continuity	3	0.72
Auditors commitment to report about continuity	3	0.78
The reason behind auditors not reported about continuity	7	0.71
The auditors procedure should be taken regarding continuity	9	0.68
Total Dimensions	47	0.73

3.3 Normal distribution test

Table 3 discusses the Kolmogorov-Smirnov normal distribution test, which shows that Z value for all the table dimensions are more than the level of significance (0.05) which indicates that the data follows normal distribution.

Table (3). Kolmogorov-Smirnov normal distribution test.

Dimensions	Z value	level of significance
General information	0.954	0.114
Auditors' responsibility to report about continuity	1.108	0.275
Auditors' commitment to report about continuity	0.877	0.688
Why auditors are not reporting about continuity?	0.781	0.784
The procedure that should be followed by auditors regarding continuity	0.662	0.224

3.5 Characteristics of sample

Sample distribution according to experience in number of years

Table (4). Experience of the related parties, (external auditors) included in the Sample.

No.	No. of years' experience	Frequency	Percentage
1	Less than 3 years	23	21%
2	From 3 – 6 years	19	17%
3	From 6 – 9 years	12	11%
4	From 9 – 12 years	23	21%
5	More than 12 years	35	31%
	Total	112	100%

It is observed from the above table that 31% of the respondents have experience more than 12 years. In addition, more than half of respondents have experience more than 9 years. It confirms that the vast majority of the respondents (more than 80% of the total) has enough work experience and are familiar with the investigated issues which enable them to accurately complete and answer the questionnaire.

Table (5). Sample distribution according to qualification.

No.	Qualification	Frequency	Percentage
3	Bachelor	76	68%
4	Higher diploma	11	10%
5	Master	20	18%
6	Ph.D.	5	4%
	Total	112	100%

From the above table it is seen that 68% hold bachelor's degree, and 94% of the respondents hold bachelor degree or more, which indicates that sample is quite appropriate. The respondents are well educated and would be able to understand and answer the questionnaire. This gives good indicator about the accuracy and reliability of the collected data.

Table (6). Distribution of sample according to Occupation.

No.	Occupation	Frequency	Percentage
1	Academic	7	6%
2	Accountant	64	57%
3	Auditor	4	3%
4	Others	37	34%
	Total	112	100%

The above table shows that 57% of the respondents are accountants, which again confirms the suitability of the sample.

Table (7). Sample distribution according to sectors.

No.	Sector	Frequency	Percentage
1	Manufacturing	24	21%
2	Merchandising	22	20%
3	Services	31	28%
4	Others	35	31%
	Total	112	100%

The above distribution shows that the respondents come from varied sectors, which indicates that it is a representative sample of the industries.

4. Testing of the Hypotheses

H_{01} : External auditors of the company are not responsible to report on the ability of the company as a going concern. In order to test this hypothesis, we present the responses from the sample in table 8, which shows auditors' opinion about their responsibility to report about continuity of a concern. Their responses are measured across three parameters measured on a Likert scale of 1 to 5. It is observed that the score in each parameter is above three and so the overall score is 4.10, which is above 3. It indicates that external auditors of the company believe that they are responsible to report on the ability of the company as a going concern. We therefore reject the null hypothesis and accept the alternative.

Table (8). Mean and Standard Deviation of auditors' opinion about their responsibility to report about the ability of the company continue as a going concern

No.	Response	Arithmetic mean	St. deviation
1	The auditors must give judgment about the financial statement of the company regarding the continuity ability of the company.	4.75	0.99
2	The auditors considered responsible to report about the ability of the company continuity if there is any threat about continuity of the company.	3.81	0.56
3	The auditors should point out to what extent that the company has an continuing ability according to the standard	3.74	0.78
	Average arithmetic mean for all parameters	4.10	-

H_{02} : External auditors in Saudi audit firms were not acting according to the international audit standards No. 510, 570, and 701. According to the analysis shown in table 9, we found that the average of all parameters 1, 2, and 3 is less than three, which means that we are accepting the null hypothesis. Thus, it was observed that the auditors were not committed to give their opinion about the continuity of a concern.

Table (9). Auditors' response about their commitment to give their opinion about continuity of a concern.

No.	Response	Mean	St. deviation
1	The auditor is committed to give his opinion on the financial statement about the ability of the company as a going concern	2.35	1.99
2	The auditor is committed to give his opinion on the financial statement about the ability of the company as a going concern only when there is a doubt about continuity of the company	2.41	1.56
3	The auditor is committed to give his opinion about the ability of continuity of the company when he asked to do so only.	2.54	1.78
Average arithmetic mean for all paragraphs		2.43	

The reasons for auditors' response for non-commitment towards reporting about continuity are presented in Table 10. It is observed that the average score of all parameters from 1 to 8 was 3.65. It indicates that the auditors were not committed to report about continuity of a firm for various reasons.

Table (10). Reasons not to Committed.

No.	Reason behind not commitment	Mean	Ranking
1	The personal relationship between the auditor and the client	4.45	1
2	Lack of professional control	4.32	2
3	Lack of legal commitment.	4.10	3
4	Lack of professional commitment.	3.88	4
5	Lack of moral commitment	3.75	5
6	Lack of continues learning	3.35	6
7	Lack of professional care	2.78	7
8	Weak scientific and practical qualification	2.60	8
Average score for all reasons		3.65	

$H_{0.3}$: There are no significant differences between the investors' opinion and auditors' opinion regarding auditors' commitment to report on the ability of the company as a going concern. In order to test this hypothesis, we conducted independent sample t-test as presented in Table 11,

We observed that all the calculated values of t are less than the Table value of ' t ' at 95% of confidence interval. Therefore, in this way we are accepted the null hypothesis.

Table (11). Student (t) test.

Hypothesis	D.F	Calculated t	Sig	Decision
H0-3	110	0.532	0.776	ACCEPTED H0-3

5. Results and Recommendations

This study examined the auditors' role in reporting about an entity's ability to continue as a going concern: "evidence from Saudi Arabia." The study emphasizes that it is the responsibility of the auditors to report on the ability of the company as a going concern, according to the IAS No.510, 570, and 701. This study also discussed the consequences when auditors are not following these standards. The results of the study are summarized below:

- The auditors are responsible to evaluate the ability of the company as a going concern, and they must report on the ability of the company when they realize that there is a doubt about the ability of the company as a going concern according to the IAS No. 510, 570, and 701.

- Most of the auditors in Saudi Arabia are not following and applying the IAS No. 510, 570, and 701, which evaluates the ability of the company as a going concern.

- The personal relationship between the auditors and clients may negatively affect the auditors' independence for evaluating the ability of the company as a going concern. The lack of professional control and legal commitment, weak educational and professional qualifications also influence auditors' independence to evaluate the ability of the company as a going concern. It is compulsory for the auditors to report the continuity of the company after the issuance of IAS 701.

- The study concludes that there is no significant difference between the investors' opinion and auditors' opinion regarding auditors' commitment to report on the ability of the company as a going concern.

- The IAS 701 standard was issued after IAS 570. IAS 701 is the modified version of IAS 570. According to IAS 701 the auditor must add a new paragraph to his report and auditors must report their opinion about the ability of the company as a going concern.

Based on the above discussion we have the following recommendations:

- The auditors should be well trained and qualified, and they must apply the appropriate models for measuring and evaluating the ability of the company as a going concern.

- According to IAS 701, it is the legal and professional requirement for the auditors to report the companies' ability as a going concern.

- It is also recommended that auditors should perform their duties independently and they should not be pressurized by any one so that they can be able to report on continuity without any bias.

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استقصاء آراء المراجعين عن مسئوليتهم عن الشركة كمنشأة مستمرة في السوق السعودية

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ملخص البحث. تستقصي هذه الدراسة مدى مسؤلية المراجعين الخارجيين عن تقييم قدرة الشركة على الاستمرار كمنشأة. وقد أجريت الدراسة في المملكة العربية السعودية. وتتكون عينة الدراسة من مراجعين خارجيين يعملون داخل المملكة خلال فترة الدراسة ٢٠١٦-٢٠١٧. وقد تم جمع البيانات عن طريق إستبيان إضافة إلى التقارير المالية السنوية عن الشركات المدرجة. ووفقا للمعايير الدولية للمراجعة (ISA ٧٠١، ٥٧٠، و ٥١٠) فيتوجب على المراجعين الخارجيين ان يثيروا في تقاريرهم إلى أية شكوك قد تنتابهم بشأن قدرة الشركة على القاء كمنشأة مستمرة. عموما فإن العلاقة الشخصية بين المراجعين و العملاء تؤثر في عدم تنفيذ المعايير الدولية للمراجعة (ISA ٧٠١، ٥٧٠، و ٥١٠) فيما يختص بقدرة الشركة على البقاء كمنشأة مستمرة. وإستنادا على هذه النتيجة فإننا نوصي بتدريب المراجعين و حماية إستقلاليتهم بما يتفق و المعايير الدولية للمراجعة ISA ٧٠١. **الكلمات المفتاحية:** المراجع الخارجي، المعايير الدولية للمراجعة، تقارير المراجعين، المنشأة المستمرة و المملكة العربية السعودية.