APPENDIX A

EXTRACTS FROM THE APPLICABLE STANDARDS

Extracts from ICAEW Code of Ethics

100.2 This Code contains *four* parts. Part A establishes the fundamental principles of professional ethics for professional accountants and provides a conceptual framework that professional accountants shall apply to:

(a) Identify threats to compliance with the fundamental principles;

(b) Evaluate the significance of the threats identified; and

(c) Apply safeguards, when necessary, to eliminate the threats or reduce them to an acceptable level. Safeguards are necessary when the professional accountant determines that the threats are not at a level at which a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances available to the professional accountant at that time, that compliance with the fundamental principles is not compromised.

A professional accountant shall use professional judgment in applying this conceptual framework.

Where a professional accountant decides to accept or continue an engagement, appointment, task or employment in a situation where a significant threat to the fundamental principles has been identified, the professional accountant is expected to be able to demonstrate that the availability and effectiveness of safeguards has been considered and that it was reasonable to conclude that those safeguards will adequately preserve their compliance with the fundamental principles. It may be useful to document the reasoning and other evidence which supports the evaluation of threats and safeguards to such an extent that it enables a reasonable and informed third party to conclude that the decisions are acceptable.

100.5 A professional accountant shall comply with the following fundamental principles:

(a) **Integrity** – to be straightforward and honest in all professional and business relationships.

(b) **Objectivity** – to not allow bias, conflict of interest or undue influence of others to override professional or business judgments.

(c) **Professional Competence and Due Care** – to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional services based on current developments in practice, legislation and techniques and act diligently and in accordance with applicable technical and professional standards.

100.12 Threats may be created by a broad range of relationships and circumstances. When a relationship or circumstance creates a threat, such a threat could compromise, or could be perceived to compromise, a professional accountant's compliance with the fundamental principles. A circumstance or relationship may create more than one threat, and a threat may affect compliance with more than one fundamental principle. Threats fall into one or more of the following categories:

(a) Self-interest threat ─ the threat that a financial or other interest will inappropriately influence the professional accountant's judgment or behaviour;

(b) Self-review threat – the threat that a professional accountant will not appropriately evaluate the results of a previous judgment made or service performed by the professional accountant, or by another individual within the professional accountant's firm or employing organisation, on which the accountant will rely when forming a judgment as part of providing a current service;

(c) Advocacy threat – the threat that a professional accountant will promote a client's or employer's position to the point that the professional accountant's objectivity is compromised;

(d) Familiarity threat – the threat that due to a long or close relationship with a client or employer, a professional accountant will be too sympathetic to their interests or too accepting of their work; and

(e) Intimidation threat – the threat that a professional accountant will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the professional accountant.

Parts B and C of this Code explain how these categories of threats may be created for professional accountants in public practice and professional accountants in business, respectively. Professional accountants in public practice may also find Part C relevant to their particular circumstances. Part D deals with professional accountants undertaking insolvency work.

Professional accountants shall note that each of the categories of threat discussed above may arise in relation to the professional accountant's own person or in relation to connected persons such as members of their family or partners or persons who are close to the professional accountants for some other reason, for instance by reason of a past or present association, obligation or indebtedness.

SECTION 110 - INTEGRITY

110.1 The principle of integrity imposes an obligation on all professional accountants to be straightforward and honest in all professional and business relationships. Integrity also implies fair dealing and truthfulness.

It follows that a professional accountant's advice and work must be uncorrupted by self-interest and not be influenced by the interests of other parties.

110.2 A professional accountant shall not knowingly be associated with reports, returns, communications or other information where the professional accountant believes that the information:

(a) Contains a materially false or misleading statement;

(b) Contains statements or information furnished recklessly; or

(c) Omits or obscures information required to be included where such omission or obscurity would be misleading.

When a professional accountant becomes aware that the accountant has been associated with such information, the accountant shall take steps to be disassociated from that information.

110.3 A professional accountant will be deemed not to be in breach of paragraph 110.2 if the professional accountant provides a modified report in respect of a matter contained in paragraph 110.2.

Further discussion on integrity, which is not part of the Code requirements, is available at www.icaew.com/ethics.

SECTION 120 – OBJECTIVITY

120.1 The principle of objectivity imposes an obligation on all professional accountants not to compromise their professional or business judgment because of bias, conflict of interest or the undue influence of others.

Objectivity is the state of mind which has regard to all considerations relevant to the task in hand but no other.

120.2 A professional accountant may be exposed to situations that may impair objectivity. It is impracticable to define and prescribe all such situations. A professional accountant shall not perform a professional service if a circumstance or relationship biases or unduly influences the accountant's professional judgment with respect to that service.

SECTION 130 – PROFESSIONAL COMPETENCE AND DUE CARE

130.1 The principle of professional competence and due care imposes the following obligations on all professional accountants:

(a) To maintain professional knowledge and skill at the level required to ensure that clients or employers receive competent professional service; and

(b) To act diligently in accordance with applicable technical and professional standards when providing professional services.

130.2 Competent professional service requires the exercise of sound judgment in applying professional knowledge and skill in the performance of such service. Professional competence may be divided into two separate phases:

(a) Attainment of professional competence; and

(b) Maintenance of professional competence.

130.3 The maintenance of professional competence requires a continuing awareness and an understanding of relevant technical, professional and business developments. Continuing professional development enables a professional accountant to develop and maintain the capabilities to perform competently within the professional environment.

Further guidance on continuing professional development is available at www.icaew.com/cpd and in the Regulations relating to learning and professional development which are available at www.icaew.com/regulations.

130.4 Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis.

130.5 A professional accountant shall take reasonable steps to ensure that those working under the professional accountant's authority in a professional capacity have appropriate training and supervision.

130.6 Where appropriate, a professional accountant shall make clients, employers or other users of the accountant's professional services aware of the limitations inherent in the services.

Threats and Safeguards

200.3 Compliance with the fundamental principles may potentially be threatened by a broad range of circumstances and relationships. The nature and significance of the threats may differ depending on whether they arise in relation to the provision of services to an audit client and whether the audit client is a public interest entity, to an assurance client that is not an audit client, or to a non-assurance client.

Threats fall into one or more of the following categories:

(a) Self-interest;

(b) Self-review;

(c) Advocacy;

(d) Familiarity; and

(e) Intimidation.

These threats are discussed further in Part A of this Code.

The paragraphs below set out examples of the circumstances that may result in threat and the types of safeguards that may be applicable, depending on the particular circumstances. They are not an exhaustive list nor do they imply that such circumstances will always create a significant threat. Regard should be had to the specific requirements in sections 210 to 291, when the circumstances are the same as, or analogous to, those addressed by them.

200.4 Examples of circumstances that create self-interest threats for a professional accountant in public practice include:

- A member of the assurance team having a direct financial interest in the assurance client.
- A firm having undue dependence on total fees from a client.
- A member of the assurance team having a significant close business relationship with an assurance client.
- A firm being concerned about the possibility of losing a significant client.
- A member of the audit team entering into employment negotiations with the audit client.
- A firm entering into a contingent fee arrangement relating to an assurance engagement.
- A professional accountant discovering a significant error when evaluating the results of a previous professional service performed by a member of the professional accountant's firm.

200.7 Examples of circumstances that create familiarity threats for a professional accountant in public practice include:

- A member of the engagement team having a close or immediate family member who is a director or officer of the client.
- A member of the engagement team having a close or immediate family member who is an employee of the client who is in a position to exert significant influence over the subject matter of the engagement.

- A director or officer of the client or an employee in a position to exert significant influence over the subject matter of the engagement having recently served as the engagement partner.

- A professional accountant accepting gifts or preferential treatment from a client, unless the value is trivial or inconsequential.

- Senior personnel having a long association with the assurance client.

<u>Extracts from APB Ethical Standards</u>

<u>APB ETHICAL STANDARD 1 (REVISED)</u>

INTEGRITY, OBJECTIVITY AND INDEPENDENCE

6 Auditors shall conduct the audit of the financial statements of an entity with integrity, objectivity and independence.

Integrity

7 Integrity is a prerequisite for all those who act in the public interest. It is essential that auditors act, and are seen to act, with integrity, which requires not only honesty but a broad range of related qualities such as fairness, candour, courage, intellectual honesty and confidentiality.

Objectivity

10 Objectivity is a state of mind that excludes bias, prejudice and compromise and that gives fair and impartial consideration to all matters that are relevant to the task in hand, disregarding those that are not. Like integrity, objectivity is a fundamental ethical principle and requires that the auditor's judgment is not affected by conflicts of interest.

11 The need for auditors to be objective arises from the fact that many of the important issues involved in the preparation of financial statements do not relate to questions of fact but rather to questions of judgment. For example, there are choices to be made by the board of directors in deciding on the accounting policies to be adopted by the entity: the directors have to select the ones that they consider most appropriate and this decision can have a material impact on the financial statements. Furthermore, many items included in the financial statements cannot be measured with absolute precision and certainty. In many cases, estimates have to be made and the directors may have to choose one value from a range of possible outcomes. When exercising discretion in these areas, the directors have regard to the applicable financial reporting framework. If the directors, whether deliberately or inadvertently, make a biased judgment or an otherwise inappropriate decision, the financial statements may be misstated or misleading.

12 It is against this background that the auditor is required to express an opinion on the financial statements. The audit involves considering the process followed and the choices made by the directors in preparing the financial statements and concluding whether the result gives a true and fair view. The auditor's objectivity requires that an impartial opinion is expressed in the light of all the available audit evidence and the auditor's professional judgment. Objectivity also requires that the auditor adopts a rigorous and robust approach and is prepared to disagree, where necessary, with the directors' judgments.

Independence

13 Independence is freedom from situations and relationships which make it probable that a reasonable and informed third party would conclude that objectivity either is impaired or could be impaired. Independence is related to and underpins objectivity. However, whereas objectivity is a personal behavioural characteristic concerning the auditor's state of mind, independence relates to the circumstances surrounding the audit, including the financial, employment, business and personal relationships between the auditor and the audited entity and its connected parties. Relationships with parties whose interests may be contrary to the interests of the audited entity (for example, a hostile bidder) may also be relevant to the appearance of the auditor's independence.

14 The need for independence arises because, in most cases, users of the financial statements and other third parties do not have all the information necessary for judging whether the auditor is, in fact, objective. Although the auditor may be satisfied that the auditor's objectivity is not impaired by a particular situation, a third party may reach a different conclusion. For example, if a third party were aware that the auditor had certain financial, employment, business or

personal relationships with the audited entity, that individual might reasonably conclude that the auditor could be subject to undue influence from the directors or would not be impartial or unbiased. Public confidence in the auditor's objectivity could therefore suffer as a result of this perception, irrespective of whether there is any actual impairment.

15 Accordingly, in evaluating the likely consequences of such situations and relationships, the test to be applied is not whether the auditor considers that the auditor's objectivity is impaired but whether it is probable that a reasonable and informed third party would conclude that the auditor's objectivity either is impaired or is likely to be impaired. As a result of the influence that the board of directors and management have over the appointment and remuneration of the auditor absolute independence cannot be achieved or maintained. The audit engagement partner considers the application of safeguards where there are threats to auditor independence (both actual and perceived).

IDENTIFICATION AND ASSESSMENT OF THREATS

30 The auditor identifies and assesses the circumstances which could adversely affect the auditor's objectivity ('threats'), including any perceived loss of independence, and applies procedures ('safeguards'), which will either:

(a) eliminate the threat (for example, by eliminating the circumstances, such as removing an individual from the engagement team or disposing of a financial interest in the audited entity); or

(b) reduce the threat to an acceptable level, that is a level at which it is not probable that a reasonable and informed third party would conclude that the auditor's objectivity is impaired or is likely to be impaired (for example, by having the audit work reviewed by another partner or by another audit firm).

When considering safeguards, where the audit engagement partner chooses to reduce rather than to eliminate a threat to objectivity and independence, he or she recognises that this judgment may not be shared by users of the financial statements and that he or she may be required to justify the decision.

35 The principal types of threats to the auditor's objectivity and independence are:

• **self-interest threat**

A self-interest threat arises when the auditor has financial or other interests which might cause the auditor to be reluctant to take actions that would be adverse to the interests of the audit firm or any individual in a position to influence the conduct or outcome of the audit (for example, where the auditor has an investment in the audited entity, is seeking to provide additional services to the audited entity or needs to recover long-outstanding fees from the audited entity).

…

• **familiarity (or trust) threat**

A familiarity (or trust) threat arises when the auditor is predisposed to accept, or is insufficiently questioning of, the audited entity's point of view (for example, where close personal relationships are developed with the audited entity's personnel through long association with the audited entity).

IDENTIFICATION AND ASSESSMENT OF SAFEGUARDS

43 **If the audit engagement partner identifies threats to the auditor's objectivity, including any perceived loss of independence, he or she shall identify and assess the effectiveness of the available safeguards and apply such safeguards as are sufficient to eliminate the threats or reduce them to an acceptable level.**

APB ETHICAL STANDARD 4 (REVISED)

14 Contingent fee arrangements in respect of non-audit services provided by the auditor in respect of an audited entity can create significant self interest threats to the auditor's objectivity and independence as the auditor may have, or may appear to have, an interest in the outcome of the non-audit service.

18 For non-audit services provided on a contingent fee basis, other than those prohibited under paragraph 15, the audit engagement partner assesses the significance of the self-interest threat and considers whether there are safeguards that could be applied which would be effective to eliminate the threat or reduce it to an acceptable level. The significance of the self-interest threat will depend on factors such as:

• the range of possible fee amounts;

• the nature of the non-audit service;

• the effect of the outcome of the non-audit service on the financial statements of the audited entity.

APB ETHICAL STANDARD 5 (REVISED)

NON-AUDIT SERVICES PROVIDED TO AUDITED ENTITIES

3 Whenever a possible or actual breach of an APB Ethical Standard is identified, the audit engagement partner, in the first instance, and the Ethics Partner, where appropriate, assess the implications of the breach, determine whether there are safeguards that can be put in place or other actions that can be taken to address any potential adverse consequences and consider whether there is a need to resign from the audit engagement.

17 Before the audit firm accepts a proposed engagement to provide a non-audit service, the audit engagement partner shall:

(a) consider whether it is probable that a reasonable and informed third party would regard the objectives of the proposed engagement as being inconsistent with the objectives of the audit of the financial statements; and

(b) identify and assess the significance of any related threats to the auditor's objectivity, including any perceived loss of independence; and

(c) identify and assess the effectiveness of the available safeguards to eliminate the threats or reduce them to an acceptable level.

18 When assessing the significance of threats to the auditor's objectivity and independence, the audit engagement partner considers the following factors:

• The likely relevance and impact of the subject matter on the financial statements;

• The extent to which performance of the proposed engagement will involve the exercise of professional judgment;

• The size of the engagement and the associated fee;

• The basis on which the fee is to be calculated;

…

26 A **self-interest threat** exists when the auditor has financial or other interests which might cause the auditor to be reluctant to take actions that would be adverse to the interests of the audit firm or any individual in a position to influence the conduct or outcome of the audit. In relation to non-audit services, the main self-interest threat concerns fees and economic dependence and these are addressed in APB Ethical Standard 4.

27 Where substantial fees are regularly generated from the provision of non-audit services and the fees for non-audit services are greater than the annual audit fees, the audit engagement partner has regard to the possibility that there may be perceived to be a loss of independence resulting from the expected or actual level of fees for non-audit services. The audit engagement partner determines whether there is any risk that there will be an actual loss of independence and objectivity by the engagement team. In making that assessment, the audit engagement partner considers matters such as whether the engagement or engagements giving rise to the fees for non-audit services were:

- audit related services;
- provided on a contingent fee basis;
- consistent with the engagements undertaken and fees received on a consistent basis in previous years;
- in the case of a group, disproportionate in relation to any individual group entity;
- unusual in size but unlikely to recur; and/or
- of such a size and nature that a reasonable and informed third party would be concerned at the effect that such engagements would have on the objectivity and independence of the engagement team.

Having made that assessment, the audit engagement partner determines whether the threats to independence from the level of fees for non-audit services are at an acceptable level (or can be reduced to an acceptable level by putting in place appropriate safeguards) and appropriately informs those charged with governance of the position on a timely basis in accordance with paragraphs 48 to 50 of this Standard.

Extracts from International Standards on Auditing (UK and Ireland) (“ISAs”)

ISA 200: Overall objectives of the independent auditor and the conduct of an audit in accordance with International Standards on Auditing

Professional Skepticism

15. The auditor shall plan and perform an audit with professional skepticism recognizing that circumstances may exist that cause the financial statements to be materially misstated. (Ref: Para. A18-A22)

ISA 220: Quality control for an audit of financial statements

Leadership Responsibilities for Quality on Audits

8. The engagement partner shall take responsibility for the overall quality on each audit engagement to which that partner is assigned.

Relevant Ethical Requirements

Independence

11. The engagement partner shall form a conclusion on compliance with independence requirements that apply to the audit engagement. In doing so, the engagement partner shall: (Ref: Para. A5)

    (a) Obtain relevant information from the firm and, where applicable, network firms, to identify and evaluate circumstances and relationships that create threats to independence;

    (b) Evaluate information on identified breaches, if any, of the firm’s independence policies and procedures to determine whether they create a threat to independence for the audit engagement; and

    (c) Take appropriate action to eliminate such threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the audit engagement, where withdrawal is possible under applicable law or regulation. The engagement partner shall promptly report to the firm any inability to resolve the matter for appropriate action. (Ref: Para. A6-A7)

Assignment of Engagement Teams

14. The engagement partner shall be satisfied that the engagement team, and any auditor’s experts who are not part of the engagement team, collectively have the appropriate competence and capabilities to:

    (a) Perform the audit engagement in accordance with professional standards and applicable legal and regulatory requirements; and

    (b) Enable an auditor’s report that is appropriate in the circumstances to be issued. (Ref: Para. A10-A12)

Engagement Performance

Direction, Supervision and Performance

15. The engagement partner shall take responsibility for:

(a) The direction, supervision and performance of the audit engagement in compliance with professional standards and applicable legal and regulatory requirements; and (Ref: Para. A13-A15, A20)

(b) The auditor's report being appropriate in the circumstances.

Reviews

16. The engagement partner shall take responsibility for reviews being performed in accordance with the firm's review policies and procedures. (Ref: Para. A16-A17, A20)

17. On or before the date of the auditor's report, the engagement partner shall, through a review of the audit documentation and discussion with the engagement team, be satisfied that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued. (Ref: Para. A18-A20)

Documentation

24. The auditor shall include in the audit documentation:

   (a) Issues identified with respect to compliance with relevant ethical requirements and how they were resolved.

   (b) Conclusions on compliance with independence requirements that apply to the audit engagement, and any relevant discussions with the firm that support these conclusions.

   (c) Conclusions reached regarding the acceptance and continuance of client relationships and audit engagements

   (d) The nature and scope of, and conclusions resulting from, consultations undertaken during the course of the audit engagement. (Ref: Para. A35)

<u>ISA 330: The Auditor's Responses to Assessed Risks</u>

Requirements

Overall Responses

5. The auditor shall design and implement overall responses to address the assessed risks of material misstatement at the financial statement level. (Ref: Para. A1-A3)

Test of Controls

8. The auditor shall design and perform tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of relevant controls if:

   (a) The auditor's assessment of risks of material misstatement at the assertion level includes an expectation that the controls are operating effectively (that is, the auditor intends to rely on the operating effectiveness of controls in determining the nature, timing and extent of substantive procedures); or

   (b) Substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level. (Ref: Para. A20-A24)

Substantive Procedures

18. Irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance, and disclosure. (Ref: Para. A42-A47).

Substantive Procedures Related to the Financial Statement Closing Process

20. The auditor's substantive procedures shall include the following audit procedures related to the financial statement closing process:

    (a) Agreeing or reconciling the financial statements with the underlying accounting records; and

    (b) Examining material journal entries and other adjustments made during the course of preparing the financial statements. (Ref: Para. A52)

ISA 500: Audit Evidence

Sufficient Appropriate Audit Evidence

6. The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence. (Ref: Para. A1-A25)

Information to be Used as Audit Evidence

9. When using information produced by the entity, the auditor shall evaluate whether the information is sufficiently reliable for the auditor's purposes, including as necessary in the circumstances:

    (a) Obtaining audit evidence about the accuracy and completeness of the information; and (Ref: Para. A49-A50)

    (b) Evaluating whether the information is sufficiently precise and detailed for the auditor's purposes. (Ref: Para. A51)

Inconsistency in, or Doubts over Reliability of, Audit Evidence

11. If:

    (a) audit evidence obtained from one source is inconsistent with that obtained from another; or

    (b) the auditor has doubts over the reliability of information to be used as audit evidence,

    the auditor shall determine what modifications or additions to audit procedures are necessary to resolve the matter, and shall consider the effect of the matter, if any, on other aspects of the audit. (Ref: Para. A57)

ISA 550: Related Parties

4. Even if the applicable financial reporting framework establishes minimal or no related party requirements, the auditor nevertheless needs to obtain an understanding of the entity's related party relationships and transactions sufficient to be able to conclude whether the financial statements, insofar as they are affected by those relationships and transactions: (Ref: Para. A1)

    (a) Achieve fair presentation (for fair presentation frameworks); or (Ref: Para. A2)

    (b) Are not misleading (for compliance frameworks). (Ref: Para. A3)

Identification and Assessment of the Risks of Material Misstatement Associated with Related Party Relationships and Transactions

18. In meeting the ISA (UK and Ireland) 315 requirement to identify and assess the risks of material misstatement, the auditor shall identify and assess the risks of material misstatement

associated with related party relationships and transactions and determine whether any of those risks are significant risks. In making this determination, the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks.

<u>ISA 560: Subsequent Events</u>

Objectives

4. The objectives of the auditor are:

   (a) To obtain sufficient appropriate audit evidence about whether events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework; and

   (b) To respond appropriately to facts that become known to the auditor after the date of the auditor's report, that, had they been known to the auditor at that date, may have caused the auditor to amend the auditor's report.

Requirements

Events Occurring between the Date of the Financial Statements and the Date of the Auditor's Report

6. The auditor shall perform audit procedures designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements have been identified. The auditor is not, however, expected to perform additional audit procedures on matters to which previously applied audit procedures have provided satisfactory conclusions. (Ref: Para. A6)

8. If, as a result of the procedures performed as required by paragraphs 6 and 7, the auditor identifies events that require adjustment of, or disclosure in, the financial statements, the auditor shall determine whether each such event is appropriately reflected in those financial statements in accordance with the applicable financial reporting framework.

Written Representations

9. The auditor shall request management and, where appropriate, those charged with governance, to provide a written representation in accordance with ISA (UK and Ireland) 580 that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.

<u>ISA 570: Going concern</u>

Responsibilities of the Auditor

6. The auditor's responsibility is to obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern. This responsibility exists 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.

Objectives

9. The objectives of the auditor are:

(a) To obtain sufficient appropriate audit evidence regarding the appropriateness of management's use of the going concern assumption in the preparation of the financial statements;

(b) To conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; and

(c) To determine the implications for the auditor's report.

Evaluating Management's Assessment

14. In evaluating management's assessment, the auditor shall consider whether management's assessment includes all relevant information of which the auditor is aware as a result of the audit.

Period beyond Management's Assessment

15. The auditor shall inquire of management as to its knowledge of events or conditions beyond the period of management's assessment that may cast significant doubt on the entity's ability to continue as a going concern. (Ref: Para. A13-A14)

Additional Audit Procedures When Events or Conditions Are Identified

16. If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists through performing additional audit procedures, including consideration of mitigating factors. These procedures shall include: (Ref: Para. A15)

(a) Where management has not yet performed an assessment of the entity's ability to continue as a going concern, requesting management to make its assessment.

(b) Evaluating management's plans for future actions in relation to its going concern assessment, whether the outcome of these plans is likely to improve the situation and whether management's plans are feasible in the circumstances. (Ref: Para. A16)

(c) Where the entity has prepared a cash flow forecast, and analysis of the forecast is a significant factor in considering the future outcome of events or conditions in the evaluation of management's1a plans for future action: (Ref: Para. A17-A18)

(i) Evaluating the reliability of the underlying data generated to prepare the forecast; and

(ii) Determining whether there is adequate support for the assumptions underlying the forecast.

(d) Considering whether any additional facts or information have become available since the date on which management made its assessment.

(e) Requesting written representations from management and, where appropriate, those charged with governance, regarding their plans for future action and the feasibility of these plans.

Audit Conclusions and Reporting

17. Based on the audit evidence obtained, the auditor shall conclude whether, in the auditor's judgment, a material uncertainty exists related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern. A material uncertainty exists when the magnitude of its potential impact and likelihood of occurrence is such that, in the auditor's judgment, appropriate disclosure of the nature and implications of the uncertainty is necessary for: (Ref: Para. A19 – A19-2)

    (a) In the case of a fair presentation financial reporting framework, the fair presentation of the financial statements, or

    (b) In the case of a compliance framework, the financial statements not to be misleading.

Use of Going Concern Assumption Appropriate but a Material Uncertainty Exists

18. If the auditor concludes that the use of the going concern assumption is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether the financial statements:

    (a) Adequately describe the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans to deal with these events or conditions; and

    (b) Disclose clearly that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business. (Ref: Para. A20)

19. If adequate disclosure is made in the financial statements, the auditor shall express an unmodified opinion and include an Emphasis of Matter paragraph in the auditor's report to:

    (a) Highlight the existence of a material uncertainty relating to the event or condition that may cast significant doubt on the entity's ability to continue as a going concern; and to

    (b) Draw attention to the note in the financial statements that discloses the matters set out in paragraph 18. (See ISA (UK and Ireland) 706) (Ref: Para. A21-A22)

<u>ISA 600: Special considerations – audits of group financial statements (including the work of component auditors</u>

Significant Components

26. For a component that is significant due to its individual financial significance to the group, the group engagement team, or a component auditor on its behalf, shall perform an audit of the financial information of the component using component materiality.

<u>ISA 700: The independent auditor's report on financial statements</u>

Date of Report

23. The date of an auditor's report on a reporting entity's financial statements shall be the date on which the auditor signed the report expressing an opinion on those financial statements. (Ref. Para A19)

Extracts from Accounting Standards

FRS 11: Impairment of Fixed Assets and Goodwill

36. The expected future cash flows of the income-generating unit, including any allocation of central overheads but excluding cash flows relating to financing and tax, should be based on reasonable and supportable assumptions. The cash flows should be consistent with the most up-to-date budgets and plans that have been formally approved by management. Cash flows for the period beyond that covered by formal budgets and plans should assume a steady or declining growth rate. Only in exceptional circumstances should:

(a) the period before the steady or declining growth rate is assumed extend to more than five years; or

(b) the steady or declining growth rate exceed the long-term average growth rate for the country or countries in which the business operates.

FRS 21: Events after the Balance Sheet Date

Adjusting Events after the Balance Sheet date

8. An entity shall adjust the amounts recognised in its financial statements to reflect adjusting events after the balance sheet date.