

# Audit Evidence – ISA 500

## Definition

ISA 500 DEFINES AUDIT EVIDENCE AS “THE INFORMATION USED BY THE AUDITOR IN ARRIVING AT THE CONCLUSIONS ON WHICH THE AUDIT OPINION IS BASED AND INCLUDES THE INFORMATION CONTAINED IN THE ACCOUNTING RECORDS UNDERLYING THE FINANCIAL STATEMENTS AND OTHER INFORMATION FROM OTHER SOURCES”



## **Audit Evidence – ISA 500**

- THE STANDARD SPECIFICALLY STATES THAT “THE AUDITOR SHOULD OBTAIN SUFFICIENT AND APPROPRIATE AUDIT EVIDENCE TO BE ABLE TO DRAW REASONABLE CONCLUSIONS ON WHICH TO BASE THE AUDIT OPINION”

# Audit Evidence – ISA 500

TO COMPLY WITH THE ABOVE THE AUDITOR WILL NEED TO CARRY OUT 2 KINDS OF TEST:-

- TEST OF CONTROLS WHICH ARE TEST PERFORMED TO OBTAIN AUDIT EVIDENCE ABOUT THE SUITABILITY OF DESIGN AND EFFECTIVE OPERATION OF ACCOUNTING AND INTERNAL CONTROL SYSTEMS. THESE ARE DONE PRIOR TO/DURING THE PLANNING STAGE OF THE AUDIT.
- SUBSTANTIVE PROCEDURES WHICH ARE TESTS PERFORMED TO OBTAIN AUDIT EVIDENCE TO DETECT MATERIAL MISSTATEMENTS IN THE FINANCIAL STATEMENTS AND ARE OF TWO TYPES:



# Audit Evidence – ISA 500

- TEST OF DETAILS OF TRANSACTIONS AND BALANCES.
- ANALYTICAL REVIEWS.

# Audit Evidence – ISA 500

## 1. INSPECTION

INSPECTION CONSISTS OF EXAMINING RECORDS, DOCUMENTS OR TANGIBLE ASSETS. THREE MAJOR CATEGORIES OF DOCUMENTARY AUDIT EVIDENCE:

- DOCUMENTARY AUDIT EVIDENCE CREATED AND HELD BY 3RD PARTIES – LOAN CONTRACTS, LEASES, DEBENTURES, BANK STATEMENTS.
- DOCUMENTARY EVIDENCE CREATED BY 3RD PARTIES AND HELD BY ENTITIES – SUPPLIERS INVOICES
- DOCUMENTARY EVIDENCE CREATED AND HELD BY ENTITY EG. PAID CHEQUES.



# Audit Evidence – ISA 500

## **2. OBSERVATION**

THIS CONSISTS OF LOOKING AT A PROCESS OR PROCEDURE BEING PERFORMED BY THE CLIENT'S EMPLOYEES.

E.g.: OBSERVING THE COUNTING OF THE CLIENT'S INVENTORY AT YEAR END.



# Audit Evidence – ISA 500

## **3. INQUIRY AND REPRESENTATION**

INQUIRY IS THE SEEKING OF INFORMATION OF KNOWLEDGEABLE PERSONS INSIDE OR OUTSIDE THE ENTITY.

INQUIRY INCLUDES FORMAL INQUIRIES OR INFORMAL, ORAL INQUIRIES.



# Audit Evidence – ISA 500

## 4. CONFIRMATION

CONFIRMATION CONSISTS OF A RESPONSE TO AN ENQUIRY TO CORROBORATE INFORMATION CONTAINED IN THE ACCOUNTING RECORDS. EG: AUDITOR NORMALLY REQUEST DIRECT CONFIRMATION OF ACCOUNTS RECEIVABLE.





# Audit Evidence – ISA 500

## 5. COMPUTATION

THE CHECKING OF THE ARITHMETICAL ACCURACY OF SOURCE DOCUMENTS AND ACCOUNTING RECORDS OR THE PERFORMING OF INDEPENDENT CALCULATIONS.



# Audit Evidence – ISA 500

## **6. ANALYTICAL REVIEW**

ANALYTICAL PROCEDURES CONSIST OF THE ANALYSIS OF SIGNIFICANT RATIOS AND TRENDS INCLUDING THE RESULTING INVESTIGATION OF FLUCTUATIONS AND RELATIONSHIPS THAT ARE INCONSISTENT WITH OTHER RELEVANT INFORMATION OR DEVIATE FROM PREDICTED AMOUNTS.

RATIOS ARE USED TO ANALISE MAJOR AREAS OF THE FINANCIAL STATEMENTS AND THE RESULT ARE EVALUATED FOR REASONABLENESS AND DIVERGENCE FROM EXPECTED TRENDS.



# Audit Evidence – ISA 500

## 7. QUANTITY OF EVIDENCE

THE QUANTITY OF THE EVIDENCE IS DETERMINED BY THE ASSESSMENT OF RISK. THE GREATER THE RISK THE MORE AUDIT EVIDENCE IS REQUIRED.

- IF YOUR ASSESSMENT OF THE ACCOUNTING PROCEDURE AND INTERNAL CONTROL SYSTEMS INDICATE THAT CONTROL RISK IS HIGH, THIS WOULD REQUIRE THE AUDITOR TO GATHER ENOUGH EVIDENCE TO SUPPORT HIS OPINION. EG: INACCURACIES IN COMPUTATION OF PAYROLL/UNAUTHORISED OVERTIME.
- BUSINESS WHERE THERE IS STIFF COMPETITION. EG. SALES PERSONS ARE PAID COMMISSION BASED ON SALES VOLUME.



# Audit Evidence – ISA 500

## 8. MATERIALITY OF ITEMS BEING TESTED:

- ITEMS THAT ARE MATERIAL IN THE FINANCIAL STATEMENT , INDIVIDUALLY OR AGGREGATED REQUIRE THE AUDITOR TO GATHER ENOUGH EVIDENCE TO SUPPORT HIS OPINION.
- EXPERIENCE GAINED IN PREVIOUS AUDIT.
- RESULTS OF AUDIT PROCESS – FRAUD, MATERIAL ERROR FOUND.



# Audit Evidence – ISA 500

## RELIABILITY OF EVIDENCE

- AUDIT EVIDENCE IS MORE RELIABLE WHEN IT IS OBTAINED FROM SOURCES INDEPENDENT OF THE ENTITY.
- AUDIT EVIDENCE THAT IS GENERATED INTERNALLY ARE MORE RELIABLE WHEN THE SYSTEM OF INTERNAL CONTROLS IS EFFECTIVE.
- AUDIT EVIDENCE OBTAINED DIRECTLY BY THE AUDITOR EG: OBSERVATION OF THE APPLICATION IS SUPERIOR TO EVIDENCE OBTAINED INDIRECTLY OR BY INQUIRY ABOUT THE APPLICATION OF A CONTROL.



# Audit Evidence – ISA 500

## REALIABILITY OF EVIDENCE

- AUDIT EVIDENCE IS MORE RELIABLE WHEN IT EXIST IN DOCUMENTARY FORM (HARD COPY OR ELECTRONIC) THAN ORAL REPRESENTATION OF MATTERS DISCUSSED.
- AUDIT EVIDENCE EXISTING IN THE FORM OF ORIGINAL DOCUMENTS ARE MORE RELIABLE THAN PHOTOCOPIES.



# NOTE WELL

FOR EVIDENCE TO BE RELEVANT IT MUST RELATE TO THE ASSERTIONS BEING CONSIDERED.

- EG: OBSERVATION OF STOCK IS AUDIT EVIDENCE THAT SUPPORTS EXISTENCE OF THE ASSET BUT NOT OWNERSHIP AND VALUATION.
- WHILE ANALYSIS OF THE AGING OF ACCOUNTS RECEIVABLE AND SUBSEQUENT COLLECTIONS PROVIDES AUDIT EVIDENCE RE THE VALUATION ASSERTION.



# ASSERTIONS

## 1) EXISTENCE

IT IS ASCERTAINING THAT THE ASSET/LIABILITY EXISTS AT BALANCE SHEET DATE. FOR TANGIBLE ASSETS THESE MAY INVOLVE CONFIRMING EXISTENCE THROUGH PHYSICAL INSPECTION. FOR DEBTORS, CASH AT BANK AND LOANS THIS CAN BE ACHIEVED THROUGH THIRD PARTY CONFIRMATIONS.

## 2) OWNERSHIP

IT IS ASCERTAINING THAT AN ASSET/LIABILITY PERTAINS TO THE ENTITY AT BALANCE SHEET DATE. THIS CAN BE ACHIEVED THROUGH INSPECTION OF TITLED DOCUMENTS, WHERE THERE IS NO TITLE DEEDS, PROOF OF PURCHASE.





# ASSERTIONS

## 3. OCCURRENCE

IT IS ASCERTAINING THAT A TRANSACTION TOOK PLACE WITHIN THE RELEVANT PERIOD. TESTED THROUGH INSPECTION OF DOCUMENT RAISED IN CARRYING OUT THE TRANSACTION **EG.** PURCHASE ORDER.

## 4. COMPLETENESS

IT IS ASCERTAINING THAT THERE ARE NO UNRECORDED ASSETS, LIABILITIES, TRANSACTIONS OR EVENTS OR UNDISCLOSED ITEMS.

TESTS THAT CAN ACHIEVE THIS ARE:

- TEST OF NUMERICAL SEQUENCE WHERE DOCUMENTS ARE PRE-NUMBERED.
- CUTOFF PROCEDURES.
- RECONCILIATION REVIEWS.



# ASSERTIONS

## 5. VALUATION

IT IS ASCERTAINING THAT AN ASSET OR LIABILITY IS RECORDED AT THE APPROPRIATE CARRYING VALUE. APPROPRIATE MEANS IN ACCORDANCE WITH COMPANIES ACT AND CONSISTENT WITH ACCOUNTING POLICIES. THE AUDITOR WILL:

- DETERMINE THE CLIENTS ACCOUNTING POLICY APPLIED.
- TEST SUITABILITY AND APPROPRIATENESS OF THAT POLICY.



# ASSERTIONS

## 6. MEASUREMENT

IT IS ASCERTAINING THAT AN EVENT/TRANSACTION IS RECORDED AT THE PROPER AMOUNT AND THE REVENUE OR THE EXPENSE IS ALLOCATED TO THE PROPER PERIOD.



# ASSERTIONS

## **7. PRESENTATION AND DISCLOSURE**

IT IS ASCERTAINING THAT AN ITEM IS DISCLOSED AND CLASSIFIED IN THE FINANCIAL STATEMENT IN ACCORDANCE WITH APPLICABLE FINANCIAL REPORTING FRAMEWORK EG: TANGIBLE NON-CURRENT ASSETS IN ACCORDANCE WITH IAS 16.



## IAS 10 – EVENTS AFTER REPORTING DATE

- **SUBSEQUENT EVENTS**

EVENTS AFTER THE REPORTING PERIOD ARE THOSE EVENTS, BOTH FAVOURABLE AND UNFAVOURABLE, WHICH OCCUR BETWEEN THE REPORTING DATE AND THE DATE IN WHICH THE FINANCIAL STATEMENTS ARE APPROVED FOR ISSUE BY THE BOARD OF DIRECTORS.



# IAS 10 – EVENTS AFTER REPORTING DATE

- **ADJUSTING EVENTS**

ADJUSTING EVENTS ARE EVENTS AFTER THE REPORTING DATE WHICH PROVIDE ADDITIONAL EVIDENCE OF CONDITIONS EXISTING AT REPORTING DATE.

EXAMPLES: -

- IRRECOVERABLE DEBTS ARISING AFTER THE REPORTING DATE, WHICH MAY HELP TO QUANTIFY THE ALLOWANCE FOR RECEIVABLES AT THE REPORTING DATE.
- ALLOWANCE FOR INVENTORY DUE TO EVIDENCE OF NET REALISABLE VALUE.
- AMOUNT RECEIVED/RECEIVABLE IN RESPECT OF INSURANCE CLAIMS WHICH WERE BEING NEGOTIATED AT REPORTING DATE.
- THE DISCOVERY OF FRAUD OR MATERIAL ERRORS.



# IAS 10 – EVENTS AFTER REPORTING DATE

## NON-ADJUSTING EVENTS

- NON-ADJUSTING EVENTS ARE EVENTS AFTER THE REPORTING DATE WHICH CONCERN CONDITIONS THAT AROSE AFTER THE REPORTING DATE.

## EXAMPLES:

- A MAJOR BUSINESS COMBINATION AFTER REPORTING DATE.
- THE DESTRUCTION OF A MAJOR PRODUCTION PLANT BY FIRE AFTER THE REPORTING DATE.



## **IAS 10 – EVENTS AFTER REPORTING DATE**

### **ACCOUNTING FOR ADJUSTING AND NON-ADJUSTING EVENT:**

ADJUSTING EVENTS REQUIRE THE ADJUSTMENT OF AMOUNTS RECOGNISED IN THE FINANCIAL STATEMENTS.

NON-ADJUSTING EVENTS SHOULD BE DISCLOSED BY NOTE IF THEIR IMPORTANCE IS SUCH THAT THEIR NON-DISCLOSURE WOULD AFFECT THE ABILITY OF THE USERS OF THE FINANCIAL STATEMENTS TO MAKE PROPER EVALUATIONS AND DECISIONS.





## IAS 10 – EVENTS AFTER REPORTING DATE

### THE NOTE SHOULD DISCLOSE:

- THE NATURE OF THE EVENTS;
- AN ESTIMATE OF ITS FINANCIAL EFFECT OR A STATEMENT THAT SUCH AN ESTIMATE CANNOT BE MADE.

**EG:** - SHORTLY AFTER REPORTING DATE A MAJOR CREDIT CUSTOMER WENT INTO LIQUIDATION OWING XYZ CO. LTD \$2.5M. \$2M OF THE AMOUNT WAS INCLUDED IN RECEIVABLES AT BALANCE SHEET DATE. THE REMAINDER RELATES TO SALES MADE ON THE FIRST TWO TRADING DAYS OF THE NEW FINANCIAL YEAR.

EXPLAIN TO THE MANAGING DIRECTOR HOW THESE AMOUNTS ARE TO BE TREATED IN THE FINANCIAL STATEMENT.



# GOING CONCERN

ISA 570 SPECIFIES THAT UNDER THE GOING CONCERN ASSUMPTION, AN ENTITY IS ORDINARILY VIEWED AS CONTINUING IN BUSINESS FOR THE FORESEABLE FUTURE WITH NEITHER THE INTENTION NOR THE NECESSITY OF GOING INTO RECEIVERSHIP OR BANKRUPTCY.

ACCORDINGLY, THE ASSETS AND LIABILITIES ARE RECORDED ON THE BASIS THAT THE ENTITY WILL BE ABLE TO REALISE ITS ASSETS AND DISCHARGE ITS LIABILITIES IN THE NORMAL COURSE OF BUSINESS.



# GOING CONCERN

UNDER IAS 1 “PRESENTATION OF FINANCIAL STATEMENTS” REQUIRES MANAGEMENT TO MAKE AN ASSESSMENT OF AN ENTITY’S ABILITY TO CONTINUE AS A GOING CONCERN.



# GOING CONCERN

## IT FURTHER STATES:

- FINANCIAL STATEMENTS SHALL BE PREPARED ON A GOING CONCERN BASIS UNLESS MANAGEMENT INTEND TO LIQUIDATE THE ENTITY, CEASE TRADING OR HAS NO REALISTIC ALTERNATIVE BUT TO DO SO.
- WHEN MANAGEMENT IS AWARE, IN MAKING THE ASSESSMENT, OF MATERIAL UNCERTAINTIES, THOSE UNCERTAINTIES MUST BE DISCLOSED.



# GOING CONCERN

- WHEN FINANCIAL STATEMENTS ARE NOT PREPARED ON A GOING CONCERN BASIS, THAT FACT SHALL BE DISCLOSED, TOGETHER WITH THE BASIS USED AND THE REASON WHY THE GOING CONCERN ASSUMPTION IS NOT APPROPRIATE.
- IN DETERMINING THE APPLICABILITY OF THE GOING CONCERN ASSUMPTION, MANAGEMENT IS REQUIRED TO TAKE INTO ACCOUNT ALL AVAILABLE INFORMATION ABOUT THE FUTURE, WHICH IS AT LEAST, BUT NOT LIMITED TO, 12 MONTHS FROM BALANCE SHEET DATE.



# GOING CONCERN

THE DEGREE OF CONSIDERATION DEPENDS ON THE FACTS. IN THE CASE OF AN ENTITY WITH A HISTORY OF PROFITABLE OPERATIONS AND READY ACCESS TO FINANCIAL RESOURCES, A CONCLUSION THAT THE GOING CONCERN BASIS IS APPROPRIATE MAY BE REACHED WITHOUT ANY DETAILED ANALYSIS.



# GOING CONCERN

IN THE CASE OF AN ENTITY WITH PERSISTENT LOSSES, NET WORKING CAPITAL AND SHAREHOLDER DEFICITS, MANAGEMENT MAY NEED TO CONSIDER A WIDE RANGE OF FACTORS RELATING TO CURRENT AND EXPECTED PROFITABILITY, DEBT REPAYMENT SCHEDULE AND POTENTIAL SOURCES OF REPLACEMENT FINANCING BEFORE IT CAN SATISFY ITSELF THAT THE GOING CONCERN BASIS IS APPROPRIATE.



# GOING CONCERN

THE OBJECTIVES OF THE AUDITOR ARE:

- TO OBTAIN SUFFICIENT APPROPRIATE AUDIT EVIDENCE ABOUT WHETHER MANAGEMENT'S USE OF THE GOING CONCERN ASSUMPTION IN THE PREPARATION OF THE FINANCIAL STATEMENTS IS APPROPRIATE IN THE CIRCUMSTANCES, AND
- TO CONCLUDE, BASED ON 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 IF SUCH A MATERIAL UNCERTAINTY EXISTS, TO CONSIDER THE IMPLICATION FOR THE AUDIT REPORT.





# GOING CONCERN

## RISK ASSESSMENT

- WHEN PERFORMING RISK ASSESSMENT PROCEDURES TO OBTAIN AN UNDERSTANDING OF THE ENTITY, THE AUDITOR SHALL:



# GOING CONCERN

## RISK ASSESSMENT CONT'D.

- a. INQUIRE OF MANAGEMENT AS TO WHETHER EVENTS OR CONDITIONS EXIST THAT, INDIVIDUALLY OR COLLECTIVELY, THAT MAY CAST SIGNIFICANT DOUBT ABOUT THE GOING CONCERN ASSUMPTION: AND EITHER



# GOING CONCERN

## RISK ASSESSMENT CONT'D.

- b. CONSIDER MANAGEMENT'S ASSESSMENT OF THE ENTITY'S ABILITY TO CONTINUE AS A GOING CONCERN, IF SUCH AN ASSESSMENT HAS BEEN PERFORMED, TO DETERMINE WHETHER MANAGEMENT HAS IDENTIFIED EVENTS OR CONDITIONS THAT MAY CAST SIGNIFICANT DOUBT ON THE ENTITY'S ABILITY TO CONTINUE AS A GOING CONCERN AND MANAGEMENT'S PLAN TO ADDRESS THEM; OR



# GOING CONCERN

## RISK ASSESSMENT CONT'D.

- c. DISCUSS WITH MANAGEMENT THE BASIS FOR ITS INTENDED USE OF THE GOING CONCERN ASSUMPTION, IF MANAGEMENT HAS NOT YET PERFORMED SUCH AN ASSESSMENT.

THE AUDITOR SHALL REMAIN ALERT THROUGHOUT THE AUDIT FOR AUDIT EVIDENCE OF EVENTS OR CONDITIONS THAT MAY CAST SIGNIFICANT DOUBT ON THE ENTITY'S ABILITY TO CONTINUE AS A GOING CONCERN.



# GOING CONCERN

## POSSIBLE INDICATORS

- NET SHAREHOLDER DEFICIT OR NET WORKING CAPITAL DEFICIT.
- FIXED - TERM BORROWING MATURING WITHOUT REALISTIC PROSPECTS OF RENEWAL OR REPAYMENT OR EXCESSIVE RELIANCE ON SHORT TERM BORROWING TO FINANCE LONG TERM ASSETS.
- LOSS OF MAJOR CREDITOR OR DEBTOR.
- ADVERSE FINANCIAL RATIOS.



# GOING CONCERN

## POSSIBLE INDICATORS

- SUBSTANTIAL OPERATING LOSS OR SIGNIFICANT DETERIORATION IN THE VALUE OF ASSETS USED TO GENERATE CASH FLOWS.
- INABILITY TO PAY CREDITORS ON DUE DATE.
- INABILITY TO COMPLY WITH THE TERMS OF LOAN AGREEMENTS.
- INABILITY TO OBTAIN FINANCING FOR ESSENTIAL NEW PRODUCT DEVELOPMENTS.



# GOING CONCERN

## POSSIBLE INDICATORS

- LOSS OF THE KEY MANAGEMENT PERSONNEL WITHOUT REPLACEMENT.
- LOSS OF MAJOR MARKET, FRANCHISE, LICENCE OR PRINCIPAL SUPPLIER.
- NON-COMPLIANCE WITH STATUTORY REQUIREMENTS.
- PENDING LEGAL PROCEEDINGS AGAINST THE ENTITY THAT IF SUCCESSFULL, MAY RESULT IN CLAIMS THAT ARE UNLIKELY TO BE SATISFIED.
- CHANGES IN LEGISLATION OR GOVERNMENT POLICY EXPECTED TO ADVERSELY AFFECT THE ENTITY.



# GOING CONCERN

## FURTHER AUDIT PROCEDURES WHERE UNCERTAINTY EXISTS:

- REVIEW MANAGEMENT'S PLANS FOR FUTURE ACTIONS BASED ON ITS GOING CONCERN ASSESSMENT;
- GATHER SUFFICIENT APPROPRIATE AUDIT EVIDENCE TO CONFIRM WHETHER OR NOT A MATERIAL UNCERTAINTY EXISTS.
- SEEK WRITTEN REPRESENTATIONS FROM MANAGEMENT REGARDING THE PLANS FOR FUTURE ACTION.





# GOING CONCERN

## AUDIT CONCLUSION

A MATERIAL UNCERTAINTY EXISTS WHEN THE MAGNITUDE OF ITS POTENTIAL IMPACT IS SUCH THAT, IN THE AUDITORS JUDGEMENT, APPROPRIATE DISCLOSURE OF THE NATURE AND IMPLICATIONS OF THE UNCERTAINTY IS NECESSARY FOR THE FAIR PRESENTATION OF THE FINANCIAL STATEMENTS.

# **GOING CONCERN**

## **AUDIT CONCLUSION**

**WHERE THE GOING CONCERN ASSUMPTION IS APPROPRIATE  
BUT A MATERIAL UNCERTAINTY EXISTS:**

THE AUDITOR SHALL CONCLUDE WHETHER THE FINANCIAL  
STATEMENTS:

- ADEQUATELY DESCRIBE THE PRINCIPAL EVENTS OR CONDITIONS THAT CAST DOUBT ON THE ENTITY'S ABILITY TO CONTINUE AS A GOING CONCERN AND MANAGEMENT'S PLAN TO DEAL WITH SAID EVENTS/ CONDITIONS.



# GOING CONCERN

## AUDIT CONCLUSION

DISCLOSE CLEARLY THAT THERE IS A MATERIAL UNCERTAINTY RELATED TO SAID CONDITIONS/EVENTS AND THAT THE ENTITY MAY BE UNABLE TO REALISE ITS ASSETS AND DISCHARGE ITS LIABILITIES IN THE NORMAL COURSE OF BUSINESS.

# GOING CONCERN

## AUDIT CONCLUSION

IF ADEQUATE DISCLOSURE IS MADE IN THE FINANCIAL STATEMENTS, THE AUDITOR SHALL EXPRESS AN UNMODIFIED OPINION BUT SHALL INCLUDE AN EMPHASIS OF MATTER PARAGRAPH IN THE AUDIT REPORT, TO:

- HIGHLIGHT THE EXISTENCE OF THE MATERIAL UNCERTAINTY;
- DRAW ATTENTION TO NOTE IN FINANCIAL STATEMENTS THAT DISCLOSE THE MATTER.

# GOING CONCERN

## AUDIT CONCLUSION

- IF ADEQUATE DISCLOSURE IS NOT MADE IN THE FINANCIAL STATEMENTS, THE AUDITOR SHALL EXPRESS A QUALIFIED OR ADVERSE OPINION AS APPROPRIATE.

# GOING CONCERN

## AUDIT CONCLUSION

- IF IN THE AUDITOR'S JUDGEMENT, THE ENTITY WILL NOT BE ABLE TO CONTINUE AS A GOING CONCERN, THE AUDITOR SHALL EXPRESS AN ADVERSE OPINION, IF THE FINANCIAL STATEMENTS HAVE BEEN PREPARED ON A GOING CONCERN BASIS, REGARDLESS OF WHETHER OR NOT APPROPRIATE DISCLOSURE HAS BEEN MADE.

# GOING CONCERN

## SPECIMEN AUDIT REPORTS

### EMPHASIS OF MATTER

“WITHOUT QUALIFYING OUR OPINION, WE DRAW ATTENTION TO NOTE X IN THE FINANCIAL STATEMENTS WHICH INDICATES THAT THE COMPANY INCURRED A NET LOSS OF ZZZ DURING THE YEAR ENDED 31, 20X1 AND, AS OF THAT DATE, THE COMPANY’S CURRENT LIABILITIES EXCEEDED ITS TOTAL ASSETS BY YYY. THESE CONDITIONS, ALONG WITH OTHER MATTERS AS SET FORTH IN NOTE X, INDICATE THE EXISTENCE OF A MATERIAL UNCERTAINTY WHICH MAY CAST SIGNIFICANT DOUBT ABOUT THE COMPANY’S ABILITY TO CONTINUE AS A GOING CONCERN.”

# **GOING CONCERN SPECIMEN AUDIT REPORTS**

IN EXTREME CASES, SUCH AS SITUATIONS INVOLVING MULTIPLE MATERIAL UNCERTAINTIES THAT ARE SIGNIFICANT TO THE FINANCIAL STATEMENTS, THE AUDITOR MAY CONSIDER IT APPROPRIATE TO EXPRESS A DISCLAIMER OF OPINION INSTEAD OF ADDING AN EMPHASIS OF MATTER PARAGRAPH. IAS 705 (REVISED) ESTABLISHES REQUIREMENTS AND PROVIDES GUIDANCE ON THIS ISSUE.



# GOING CONCERN SPECIMEN AUDIT REPORTS

- **QUALIFIED OPINION**

“THE COMPANY’S FINANCING ARRANGEMENTS EXPIRE AND AMOUNTS OUTSTANDING ARE PAYABLE ON MARCH 19, 20X1. THE COMPANY HAS BEEN UNABLE TO RE-NEGOTIATE OR OBTAIN REPLACEMENT FINANCING. THIS SITUATION INDICATES THE EXISTENCE OF A MATERIAL UNCERTAINTY WHICH MAY CAST SIGNIFICANT DOUBT ON THE COMPANY’S ABILITY TO CONTINUE AS A GOING CONCERN AND THEREFORE IT MAY BE UNABLE TO REALISE ITS ASSETS AND DISCHARGE ITS LIABILITIES IN THE NORMAL COURSE OF BUSINESS. THE FINANCIAL STATEMENTS (AND NOTES THERETO) DO NOT FULLY DISCLOSE THIS FACT.



# GOING CONCERN

## SPECIMEN AUDIT REPORTS

- IN OUR OPINION, EXCEPT FOR THE INCOMPLETE DISCLOSURE OF THE INFORMATION INCLUDED IN THE PRECEDING PARAGRAPH, THE FINANCIAL STATEMENT GIVES A TRUE AND FAIR VIEW OF (PRESENT FAIRLY, IN ALL MATERIAL RESPECTS) THE FINANCIAL POSITION OF THE COMPANY AT DECEMBER 31, 20X0 AND OF ITS FINANCIAL PERFORMANCE AND ITS CASH FLOWS FOR THE YEAR ENDED IN ACCORDANCE WITH...”

# GOING CONCERN SPECIMEN AUDIT REPORTS

- **ADVERSE OPINION**

“THE COMPANY’S FINANCING ARRANGEMENTS EXPIRED AND THE AMOUNT OUTSTANDING WAS PAYABLE ON DECEMBER 31, 20X0. THE COMPANY HAS BEEN UNABLE TO RE-NEGOTIATE OR OBTAIN REPLACEMENT FINANCING AND IS CONSIDERING FILING FOR BANKRUPTCY. THESE EVENTS INDICATE A MATERIAL UNCERTAINTY WHICH MAY CAST SIGNIFICANT DOUBT ON THE COMPANY’S ABILITY TO CONTINUE AS A GOING CONCERN AND THEREFORE IT MAY BE UNABLE TO REALISE ITS ASSETS AND DISCHARGE ITS LIABILITIES IN THE NORMAL COURSE OF BUSINESS. THE FINANCIAL STATEMENTS (AND NOTES THERETO) DO NOT DISCLOSE THIS FACT.



# GOING CONCERN SPECIMEN AUDIT REPORTS

IN OUR OPINION, BECAUSE OF THE OMISSION OF THE INFORMATION MENTIONED IN THE PRECEDING PARAGRAPH, THE FINANCIAL STATEMENTS DO NOT GIVE A TRUE AND FAIR VIEW OF THE FINANCIAL POSITION OF THE COMPANY AS AT DECEMBER 31, 20X0, AND OF ITS FINANCIAL PERFORMANCE AND ITS CASH FLOWS FOR THE YEAR THEN ENDED IN ACCORDANCE WITH... (AND DO NOT COMPLY WITH...)...”