

**CAMBODIAN INTERNATIONAL STANDARD ON AUDITING 570  
(REVISED) GOING CONCERN**

(Effective for audits of financial statements for periods ending on or after  
December 15, 2016)

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| <p>CAMBODIAN INTERNATIONAL STANDARD ON AUDITING (CISA) 570 (Revised), <i>Going Concern</i>, should be read in conjunction with CISA 200, <i>Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Cambodian International Standards on Auditing</i>.</p> |
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## Introduction

### Scope of this CISA

1. This CAMBODIAN INTERNATIONAL STANDARD ON AUDITING (CISA) deals with the auditor's responsibilities in the audit of financial statements relating to going concern and the implications for the auditor's report. (Ref: Para. A1)

### Going Concern Basis of Accounting

2. Under the going concern basis of accounting, the financial statements are prepared on the assumption that the entity is a going concern and will continue its operations for the foreseeable future. General purpose financial statements are prepared using the going concern basis of accounting, unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so. Special purpose financial statements may or may not be prepared in accordance with a financial reporting framework for which the going concern basis of accounting is relevant (e.g., the going concern basis of accounting is not relevant for some financial statements prepared on a tax basis in particular jurisdictions). When the use of the going concern basis of accounting is appropriate, assets and liabilities are recorded on the basis that the entity will be able to realize its assets and discharge its liabilities in the normal course of business. (Ref: Para. A2)

### Responsibility for Assessment of the Entity's Ability to Continue as a Going Concern

3. Some financial reporting frameworks contain an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern, and standards regarding matters to be considered and disclosures to be made in connection with going concern. For example, International Accounting Standard (IAS) 1 requires management to make an assessment of an entity's ability to continue as a going concern.<sup>1</sup> The detailed requirements regarding management's responsibility to assess the entity's ability to continue as a going concern and related financial statement disclosures may also be set out in law or regulation.
4. In other financial reporting frameworks, there may be no explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern. Nevertheless, where the going concern basis of accounting is a fundamental principle in the preparation of financial statements as discussed in paragraph 2, the preparation of the financial statements requires management to assess the entity's ability to continue as a going concern even if the financial reporting framework does not include an explicit requirement to do so.
5. Management's assessment of the entity's ability to continue as a going concern involves making a judgment, at a particular point in time, about inherently uncertain future outcomes of events or conditions. The following factors are relevant to that judgment:
  - The degree of uncertainty associated with the outcome of an event or condition increases significantly the further into the future an event or condition or the outcome occurs. For that reason, most financial reporting frameworks that require an explicit management assessment specify the period for which management is required to take into account all available information.
  - The size and complexity of the entity, the nature and condition of its business and the degree to which it is affected by external factors affect the judgment regarding the outcome of events or conditions.

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<sup>1</sup> CIAS 1, *Presentation of Financial Statements*, paragraphs 25–26

- Any judgment about the future is based on information available at the time at which the judgment is made. Subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made.

### *Responsibilities of the Auditor*

6. The auditor's responsibilities are to obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, and to conclude, based on the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern. These responsibilities exist 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.
7. However, as described in CISA 200,<sup>2</sup> the potential effects of inherent limitations on the auditor's ability to detect material misstatements are greater for future events or conditions that may cause an entity to cease to continue as a going concern. The auditor cannot predict such future events or conditions. Accordingly, the absence of any reference to a material uncertainty about the entity's ability to continue as a going concern in an auditor's report cannot be viewed as a guarantee as to the entity's ability to continue as a going concern.

### **Effective Date**

8. This CISA is effective for audits of financial statements for periods ending on or after December 15, 2016.

### **Objectives**

9. The objectives of the auditor are:
  - (a) To obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting 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 report in accordance with this CISA.

### **Requirements**

#### **Risk Assessment Procedures and Related Activities**

10. When performing risk assessment procedures as required by CISA 315 (Revised),<sup>3</sup> the auditor shall consider whether events or conditions exist that may cast significant doubt on the entity's ability to continue as a going concern. In so doing, the auditor shall determine whether management has already performed a preliminary assessment of the entity's ability to continue as a going concern, and: (Ref: Para. A3–A 6)

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<sup>2</sup> CISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraphs A53–A54

<sup>3</sup> CISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraph 5

- (a) If such an assessment has been performed, the auditor shall discuss the assessment with management and determine whether management has identified events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern and, if so, management's plans to address them; or
  - (b) If such an assessment has not yet been performed, the auditor shall discuss with management the basis for the intended use of the going concern basis of accounting, and inquire of management whether events or conditions exist that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern.
11. 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. (Ref: Para. A 7)

### **Evaluating Management's Assessment**

12. The auditor shall evaluate management's assessment of the entity's ability to continue as a going concern. (Ref: Para. A8–A10, A12–A13)
13. In evaluating management's assessment of the entity's ability to continue as a going concern, the auditor shall cover the same period as that used by management to make its assessment as required by the applicable financial reporting framework, or by law or regulation if it specifies a longer period. If management's assessment of the entity's ability to continue as a going concern covers less than twelve months from the date of the financial statements as defined in CISA 560,<sup>4</sup> the auditor shall request management to extend its assessment period to at least twelve months from that date. (Ref: Para. A11– A13)
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. A14–A15)

### **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 related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (hereinafter referred to as "material uncertainty") through performing additional audit procedures, including consideration of mitigating factors. These procedures shall include: (Ref: Para. A 16)
- (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.

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<sup>4</sup> CISA 560, *Subsequent Events*, paragraph 5(a)

- (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. A17)
- (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’s plans for future actions: ( Ref: Para. A18–A 19)
  - (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 actions and the feasibility of these plans. (Ref: Para. A20)

### **Auditor Conclusions**

- 17. The auditor shall evaluate whether sufficient appropriate audit evidence has been obtained regarding, and shall conclude on, the appropriateness of management’s use of the going concern basis of accounting in the preparation of the financial statements.
- 18. 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. A21–A22)
  - (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.

### *Adequacy of Disclosures When Events or Conditions Have Been Identified and a Material Uncertainty Exists*

- 19. If the auditor concludes that management’s use of the going concern basis of accounting is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether the financial statements: (Ref: Para. A22 A23)
  - (a) Adequately disclose 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.

*Adequacy of Disclosures When Events or Conditions Have Been Identified but No Material Uncertainty Exists*

20. If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained the auditor concludes that no material uncertainty exists, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework, the financial statements provide adequate disclosures about these events or conditions. (Ref: Para. A24–A25)

**Implications for the Auditor's Report**

*Use of Going Concern Basis of Accounting Is Inappropriate*

21. If the financial statements have been prepared using the going concern basis of accounting but, in the auditor's judgment, management's use of the going concern basis of accounting in the preparation of the financial statements is inappropriate, the auditor shall express an adverse opinion. (Ref: Para. A26– A27)

*Use of Going Concern Basis of Accounting Is Appropriate but a Material Uncertainty Exists*

**Adequate Disclosure of a Material Uncertainty Is Made in the Financial Statements**

22. If adequate disclosure about the material uncertainty is made in the financial statements, the auditor shall express an unmodified opinion and the auditor's report shall include a separate section under the heading "Material Uncertainty Related to Going Concern" to: (Ref: Para. A28–A31, A 34)
  - (a) Draw attention to the note in the financial statements that discloses the matters set out in paragraph 19;and
  - (b) State that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the auditor's opinion is not modified in respect of the matter.

**Adequate Disclosure of a Material Uncertainty Is Not Made in the Financial Statements**

23. If adequate disclosure about the material uncertainty is not made in the financial statements, the auditor shall: (Ref: Para. A32–A 34)
  - (a) Express a qualified opinion or adverse opinion, as appropriate, in accordance with CISA 705 (Revised)<sup>5</sup>; and
  - (b) In the Basis for Qualified (Adverse) Opinion section of the auditor's report, state that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the financial statements do not adequately disclose this matter.

**Management Unwilling to Make or Extend Its Assessment**

24. If management is unwilling to make or extend its assessment when requested to do so by the auditor, the auditor shall consider the implications for the auditor's report. (Ref: Para. A35)

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<sup>5</sup> CISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

## Communication with Those Charged with Governance

25. Unless all those charged with governance are involved in managing the entity,<sup>6</sup> the auditor shall communicate with those charged with governance events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern. Such communication with those charged with governance shall include the following:
- (a) Whether the events or conditions constitute a material uncertainty;
  - (b) Whether management's use of the going concern basis of accounting is appropriate in the preparation of the financial statements;
  - (c) The adequacy of related disclosures in the financial statements; and
  - (d) Where applicable, the implications for the auditor's report.

## Significant Delay in the Approval of Financial Statements

26. If there is significant delay in the approval of the financial statements by management or those charged with governance after the date of the financial statements, the auditor shall inquire as to the reasons for the delay. If the auditor believes that the delay could be related to events or conditions relating to the going concern assessment, the auditor shall perform those additional audit procedures necessary, as described in paragraph 16, as well as consider the effect on the auditor's conclusion regarding the existence of a material uncertainty, as described in paragraph 18.

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## Application and Other Explanatory Material

### Scope of this CISA (Ref: Para 1)

- A1. CISA 701<sup>7</sup> deals with the auditor's responsibility to communicate key audit matters in the auditor's report. That CISA acknowledges that, when CISA 701 applies, matters relating to going concern may be determined to be key audit matters, and explains that a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern is, by its nature, a key audit matter.<sup>8</sup>

### Going Concern Basis of Accounting (Ref: Para. 2)

#### *Considerations Specific to Public Sector Entities*

- A2. Management's use of the going concern basis of accounting is also relevant to public sector entities. For example, International Public Sector Accounting Standard (IPSAS) 1 addresses the issue of the ability of public sector entities to continue as going concerns.<sup>9</sup> Going concern risks may arise, but are not limited to, situations where public sector entities operate on a for-profit basis, where government support may be reduced or withdrawn, or in the case of privatization. Events or conditions that may cast significant doubt on an

<sup>6</sup> CISA 260 (Revised), *Communication with Those Charged with Governance*, paragraph 13

<sup>7</sup> CISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

<sup>8</sup> See paragraphs 15 and A41 of CISA 701.

<sup>9</sup> IPSAS 1, *Presentation of Financial Statements*, paragraphs 38–41

entity's ability to continue as a going concern in the public sector may include situations where the public sector entity lacks funding for its continued existence or when policy decisions are made that affect the services provided by the public sector entity.

### **Risk Assessment Procedures and Related Activities**

*Events or Conditions That May Cast Significant Doubt on the Entity's Ability to Continue as a Going Concern* (Ref: Para. 10)

- A3. The following are examples of events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern. This listing is not all-inclusive nor does the existence of one or more of the items always signify that a material uncertainty exists.

#### Financial

- Net liability or net current 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 creditors.
- 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.
- 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

- Management intentions to liquidate the entity or to cease operations.
- Loss of key management without replacement.
- Loss of a major market, key customer(s), franchise, license, or principal supplier(s).
- Labor difficulties.
- Shortages of important supplies.
- Emergence of a highly successful competitor.

## Other

- Non-compliance with capital or other statutory or regulatory requirements, such as solvency or liquidity requirements for financial institutions.
- Pending legal or regulatory proceedings against the entity that may, if successful, result in claims that the entity is unlikely to be able to satisfy.
- Changes in law or regulation or government policy expected to adversely affect the entity.
- Uninsured or underinsured catastrophes when they occur.

The significance of such events or conditions often can be mitigated by other factors. For example, the effect of an entity being unable to make its normal debt repayments may be counter-balanced by management's plans to maintain adequate cash flows by alternative means, such as by disposing of assets, rescheduling loan repayments, or obtaining additional capital. Similarly, the loss of a principal supplier may be mitigated by the availability of a suitable alternative source of supply.

- A4. The risk assessment procedures required by paragraph 10 help the auditor to determine whether management's use of the going concern basis of accounting is likely to be an important issue and its impact on planning the audit. These procedures also allow for more timely discussions with management, including a discussion of management's plans and resolution of any identified going concern issues.

## Considerations Specific to Smaller Entities (Ref: Para. 10)

- A5. The size of an entity may affect its ability to withstand adverse conditions. Small entities may be able to respond quickly to exploit opportunities, but may lack reserves to sustain operations.
- A6. Conditions of particular relevance to small entities include the risk that banks and other lenders may cease to support the entity, as well as the possible loss of a principal supplier, major customer, key employee, or the right to operate under a license, franchise or other legal agreement.

## *Remaining Alert throughout the Audit for Audit Evidence about Events or Conditions* ( Ref: Para. 11)

- A7. CISA 315 (Revised) requires the auditor to revise the auditor's risk assessment and modify the further planned audit procedures accordingly when additional audit evidence is obtained during the course of the audit that affects the auditor's assessment of risk.<sup>10</sup> If events or conditions that may cast significant doubt on the entity's ability to continue as a going concern are identified after the auditor's risk assessments are made, in addition to performing the procedures in paragraph 16, the auditor's assessment of the risks of material misstatement may need to be revised. The existence of such events or conditions may also affect the nature, timing and extent of the auditor's further procedures in response to the assessed risks. CISA 330<sup>11</sup> establishes requirements and provides guidance on this issue.

## **Evaluating Management's Assessment**

### *Management's Assessment and Supporting Analysis and the Auditor's Evaluation* (Ref: Para. 12)

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<sup>10</sup> CISA 315 (Revised), paragraph 31

<sup>11</sup> CISA 330, *The Auditor's Responses to Assessed Risks*

- A8. Management's assessment of the entity's ability to continue as a going concern is a key part of the auditor's consideration of management's use of the going concern basis of accounting.
- A9. It is not the auditor's responsibility to rectify the lack of analysis by management. In some circumstances, however, the lack of detailed analysis by management to support its assessment may not prevent the auditor from concluding whether management's use of the going concern basis of accounting is appropriate in the circumstances. For example, when there is a history of profitable operations and a ready access to financial resources, management may make its assessment without detailed analysis. In this case, the auditor's evaluation of the appropriateness of management's assessment may be made without performing detailed evaluation procedures if the auditor's other audit procedures are sufficient to enable the auditor to conclude whether management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate in the circumstances.
- A10. In other circumstances, evaluating management's assessment of the entity's ability to continue as a going concern, as required by paragraph 12, may include an evaluation of the process management followed to make its assessment, the assumptions on which the assessment is based and management's plans for future action and whether management's plans are feasible in the circumstances.

*The Period of Management's Assessment* (Ref: Para. 13)

- A11. Most financial reporting frameworks requiring an explicit management assessment specify the period for which management is required to take into account all available information.<sup>12</sup>

*Considerations Specific to Smaller Entities* (Ref: Para. 12–13)

- A12. In many cases, the management of smaller entities may not have prepared a detailed assessment of the entity's ability to continue as a going concern, but instead may rely on in-depth knowledge of the business and anticipated future prospects. Nevertheless, in accordance with the requirements of this CISA, the auditor needs to evaluate management's assessment of the entity's ability to continue as a going concern. For smaller entities, it may be appropriate to discuss the medium and long-term financing of the entity with management, provided that management's contentions can be corroborated by sufficient documentary evidence and are not inconsistent with the auditor's understanding of the entity. Therefore, the requirement in paragraph 13 for the auditor to request management to extend its assessment may, for example, be satisfied by discussion, inquiry and inspection of supporting documentation, for example, orders received for future supply, evaluated as to their feasibility or otherwise substantiated.
- A13. Continued support by owner-managers is often important to smaller entity's ability to continue as a going concern. Where a small entity is largely financed by a loan from the owner-manager, it may be important that these funds are not withdrawn. For example, the continuance of a small entity in financial difficulty may be dependent on the owner-manager subordinating a loan to the entity in favor of banks or other creditors, or the owner-manager supporting a loan for the entity by providing a guarantee with his or her personal assets as collateral. In such circumstances, the auditor may obtain appropriate documentary

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<sup>12</sup> For example, CIAS 1 defines this as a period that should be at least, but is not limited to, twelve months from the end of the reporting period.

evidence of the subordination of the owner manager's loan or of the guarantee. Where an entity is dependent on additional support from the owner-manager, the auditor may evaluate the owner-manager's ability to meet the obligation under the support arrangement. In addition, the auditor may request written confirmation of the terms and conditions attaching to such support and the owner-manager's intention or understanding.

**Period beyond Management's Assessment (Ref: Para. 15)**

- A14. As required by paragraph 11, the auditor remains alert to the possibility that there may be known events, scheduled or otherwise, or conditions that will occur beyond the period of assessment used by management that may bring into question the appropriateness of management's use of the going concern basis of accounting in preparing the financial statements. Since the degree of uncertainty associated with the outcome of an event or condition increases as the event or condition is further into the future, in considering events or conditions further in the future, the indications of going concern issues need to be significant before the auditor needs to consider taking further action. If such events or conditions are identified, the auditor may need to request management to evaluate the potential significance of the event or condition on its assessment of the entity's ability to continue as a going concern. In these circumstances, the procedures in paragraph 16 apply.
- A15. Other than inquiry of management, the auditor does not have a responsibility to perform any other audit procedures to identify events or conditions that may cast significant doubt on the entity's ability to continue as a going concern beyond the period assessed by management, which, as discussed in paragraph 13, would be at least twelve months from the date of the financial statements.

**Additional Audit Procedures When Events or Conditions Are Identified (Ref: Para.16)**

- A16. Audit procedures that are relevant to the requirement in paragraph 16 may include the following:
- Analyzing and discussing cash flow, profit and other relevant forecasts with management.
  - Analyzing and discussing the entity's latest available interim financial statements.
  - Reading the terms of debentures and loan agreements and determining whether any have been breached.
  - Reading minutes of the meetings of shareholders, those charged with governance and relevant committees for reference to financing difficulties.
  - Inquiring of the entity's legal counsel regarding the existence of litigation and claims and the reasonableness of management's assessments of their outcome and the estimate of their financial implications.
  - Confirming 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 additional funds.
  - Evaluating the entity's plans to deal with unfilled customer orders.
  - Performing audit procedures regarding subsequent events to identify those that either mitigate or otherwise affect the entity's ability to continue as a going concern.

- Confirming the existence, terms and adequacy of borrowing facilities.
- Obtaining and reviewing reports of regulatory actions.
- Determining the adequacy of support for any planned disposals of assets.

*Evaluating Management's Plans for Future Actions* (Ref: Para. 16(b ))

- A17. Evaluating management's plans for future actions may include inquiries of management as to its plans for future action, including, for example, its plans to liquidate assets, borrow money or restructure debt, reduce or delay expenditures, or increase capital.

*The Period of Management's Assessment* (Ref: Para. 16(c ))

- A18. In addition to the procedures required in paragraph 16(c), the auditor may compare:
- The prospective financial information for recent prior periods with historical results; and
  - The prospective financial information for the current period with results achieved to date.
- A19. Where management's assumptions include continued support by third parties, whether through the subordination of loans, commitments to maintain or provide additional funding, or guarantees, and such support is important to an entity's ability to continue as a going concern, the auditor may need to consider requesting written confirmation (including of terms and conditions) from those third parties and to obtain evidence of their ability to provide such support.

*Written Representations* (Ref: Para. 16(e ))

- A20. The auditor may consider it appropriate to obtain specific written representations beyond those required in paragraph 16 in support of audit evidence obtained regarding management's plans for future actions in relation to its going concern assessment and the feasibility of those plans.

**Auditor Conclusions**

*Material Uncertainty Related to Events or Conditions that May Cast Significant Doubt on the Entity's Ability to Continue as a Going Concern* (Ref: Para. 18)

- A21. The phrase "material uncertainty" is used in IAS 1 in discussing the uncertainties related to events or conditions which may cast significant doubt on the entity's ability to continue as a going concern that should be disclosed in the financial statements. In some other financial reporting frameworks the phrase "significant uncertainty" is used in similar circumstances.

*Adequacy of Disclosure when Events or Conditions Have Been Identified and a Material Uncertainty Exists*

- A22. Paragraph 18 explains that a material uncertainty exists when the magnitude of the potential impact of the events or conditions and the likelihood of occurrence is such that appropriate

disclosure is necessary to achieve fair presentation (for fair presentation frameworks) or for the financial statements not to be misleading (for compliance frameworks). The auditor is required by paragraph 18 to conclude whether such a material uncertainty exists regardless of whether or how the applicable financial reporting framework defines a material uncertainty.

A23. Paragraph 19 requires the auditor to determine whether the financial statement disclosures address the matters set forth in that paragraph. This determination is in addition to the auditor determining whether disclosures about a material uncertainty, required by the applicable financial reporting framework, are adequate. Disclosures required by some financial reporting frameworks that are in addition to matters set forth in paragraph 19 may include disclosures about:

- Management’s evaluation of the significance of the events or conditions relating to the entity’s ability to meet its obligations; or
- Significant judgments made by management as part of its assessment of the entity’s ability to continue as a going concern.

Some financial reporting frameworks may provide additional guidance regarding management’s consideration of disclosures about the magnitude of the potential impact of the principal events or conditions, and the likelihood and timing of their occurrence.

*Adequacy of Disclosures When Events or Conditions Have Been Identified but No Material Uncertainty Exists (Ref: Para. 20)*

A24. Even when no material uncertainty exists, paragraph 20 requires the auditor to evaluate whether, in view of the requirements of the applicable financial reporting framework, the financial statements provide adequate disclosure about events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern. Some financial reporting frameworks may address disclosures about:

- Principal events or conditions;
- Management’s evaluation of the significance of those events or conditions in relation to the entity’s ability to meet its obligations;
- Management’s plans that mitigate the effect of these events or conditions; or
- Significant judgments made by management as part of its assessment of the entity’s ability to continue as a going concern.

A25. When the financial statements are prepared in accordance with a fair presentation framework, the auditor’s evaluation as to whether the financial statements achieve fair presentation includes the consideration of the overall presentation, structure and content of the financial statements, and whether the financial statements, including the related notes, represent the underlying transactions and events in a manner that achieves fair presentation.<sup>13</sup> Depending on the facts and circumstances, the auditor may determine that additional disclosures are necessary to achieve fair presentation. This may be the case, for example, when events or conditions have been identified that may cast significant doubt on the entity’s ability to continue as a going concern but, based on the audit evidence obtained,

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<sup>13</sup> CISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraph 14

the auditor concludes that no material uncertainty exists, and no disclosures are explicitly required by the applicable financial reporting framework regarding these circumstances.

### **Implications for the Auditor's Report**

#### *Use of Going Concern Basis of Accounting is Inappropriate ( Ref: Para. 21)*

- A26. If the financial statements have been prepared using the going concern basis of accounting but, in the auditor's judgment, management's use of the going concern basis of accounting in the financial statements is inappropriate, the requirement in paragraph 21 for the auditor to express an adverse opinion applies regardless of whether or not the financial statements include disclosure of the inappropriateness of management's use of the going concern basis of accounting.
- A27. When the use of the going concern basis of accounting is not appropriate in the circumstances, management may be required, or may elect, to prepare the financial statements on another basis (e.g., liquidation basis). The auditor may be able to perform an audit of those financial statements provided that the auditor determines that the other basis of accounting is acceptable in the circumstances. The auditor may be able to express an unmodified opinion on those financial statements, provided there is adequate disclosure therein about the basis of accounting on which the financial statements are prepared, but may consider it appropriate or necessary to include an Emphasis of Matter paragraph in accordance with CISA 706 (Revised)<sup>14</sup> in the auditor's report to draw the user's attention to that alternative basis of accounting and the reasons for its use.

#### *Use of the Going Concern Basis of Accounting Is Appropriate but a Material Uncertainty Exists (Ref: Para. 22 – 23)*

- A28. The identification of a material uncertainty is a matter that is important to users' understanding of the financial statements. The use of a separate section with a heading that includes reference to the fact that a material uncertainty related to going concern exists alerts users to this circumstance.
- A29. The Appendix to this CISA provides illustrations of the statements that are required to be included in the auditor's report on the financial statements when Cambodian International Financial Reporting Standards (CIFRSs) is the applicable financial reporting framework. If an applicable financial reporting framework other than CIFRSs is used, the illustrative statements presented in the Appendix to this CISA may need to be adapted to reflect the application of the other financial reporting framework in the circumstances.
- A30. Paragraph 22 establishes the minimum information required to be presented in the auditor's report in each of the circumstances described. The auditor may provide additional information to supplement the required statements, for example to explain:
- That the existence of a material uncertainty is fundamental to users' understanding of the financial statements;<sup>15</sup> or
  - How the matter was addressed in the audit (see also paragraph A1).

#### *Adequate Disclosure of a Material Uncertainty Is Made in the Financial Statements ( Ref: Para. 22)*

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<sup>14</sup> CISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

<sup>15</sup> CISA 706 (Revised), paragraph A2

- A31. Illustration 1 of the Appendix to this CISA is an example of an auditor's report when the auditor has obtained sufficient appropriate audit evidence regarding the appropriateness of management's use of the going concern basis of accounting but a material uncertainty exists and disclosure is adequate in the financial statements. The Appendix of CISA 700 (Revised) also includes illustrative wording to be included in the auditor's report for all entities in relation to going concern to describe the respective responsibilities of those responsible for the financial statements and the auditor in relation to going concern.

Adequate Disclosure of a Material Uncertainty Is Not Made in the Financial Statements (Ref: Para. 23)

- A32. Illustrations 2 and 3 of the Appendix to this CISA are examples of auditor's reports containing qualified and adverse opinions, respectively, when the auditor has obtained sufficient appropriate audit evidence regarding the appropriateness of the management's use of the going concern basis of accounting but adequate disclosure of a material uncertainty is not made in the financial statements.
- A33. In situations involving multiple uncertainties that are significant to the financial statements as a whole, the auditor may consider it appropriate in extremely rare cases to express a disclaimer of opinion instead of including the statements required by paragraph 22. CISA 705 (Revised) provides guidance on this issue.<sup>16</sup>

Communication with Regulators (Ref: Para. 22 23)

- A34. When the auditor of a regulated entity considers that it may be necessary to include a reference to going concern matters in the auditor's report, the auditor may have a duty to communicate with the applicable regulatory, enforcement or supervisory authorities.

Management Unwilling to Make or Extend Its Assessment (Ref: Para. 24)

- A35. In certain circumstances, the auditor may believe it necessary to request management to make or extend its assessment. If management is unwilling to do so, a qualified opinion or a disclaimer of opinion in the auditor's report may be appropriate, because it may not be possible for the auditor to obtain sufficient appropriate audit evidence regarding management's use of the going concern basis of accounting in the preparation of the financial statements, such as audit evidence regarding the existence of plans management has put in place or the existence of other mitigating factors.

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<sup>16</sup> CISA 705 (Revised), paragraph 10

## Appendix

( Ref: Para. A29, A31–A 32)

## Illustrations of Auditor's Reports Relating to Going Concern

- Illustration 1: An auditor's report containing an unmodified opinion when the auditor has concluded that a material uncertainty exists and disclosure in the financial statements is adequate.
- Illustration 2: An auditor's report containing a qualified opinion when the auditor has concluded that a material uncertainty exists and that the financial statements are materially misstated due to inadequate disclosure.
- Illustration 3: An auditor's report containing an adverse opinion when the auditor has concluded that a material uncertainty exists and the financial statements omit the required disclosures relating to a material uncertainty.

**Illustration 1 – Unmodified Opinion When a Material Uncertainty Exists and Disclosure in the Financial Statements Is Adequate**

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- **Audit of a complete set of financial statements of a listed entity using a fair presentation framework. The audit is not a group audit (i.e., CISA 600<sup>17</sup> does not apply).**
- **The financial statements are prepared by management of the entity in accordance with CIFRSs (a general purpose framework).**
- **The terms of the audit engagement reflect the description of management's responsibility for the financial statements in CISA 210.<sup>18</sup>**
- **The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.**
- **The relevant ethical requirements that apply to the audit are those of the jurisdiction.**
- **Based on the audit evidence obtained, the auditor has concluded that 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. The disclosure of the material uncertainty in the financial statements is adequate.**
- **Key audit matters have been communicated in accordance with CISA 701.**
- **The auditor has obtained all of the other information prior to the date of the auditor's report and has not yet identified a material misstatement of the other information.**
- **Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.**

<sup>17</sup> CISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

<sup>18</sup> CISA 210, *Agreeing the Terms of Audit Engagements*

- **In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.**

## INDEPENDENT AUDITOR’S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

### Report on the Audit of the Financial Statements<sup>19</sup>

#### Opinion

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of the Company as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with Cambodian International Financial Reporting Standards (CIFRSs).

#### Basis for Opinion

We conducted our audit in accordance with Cambodian International Standards on Auditing (CISAs). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in [jurisdiction], and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Material Uncertainty Related to Going Concern

We draw attention to Note XXX in the financial statements, which indicates that the Company incurred a net loss of ZZZ during the year ended December 31, 20X1 and, as of that date, the Company’s current liabilities exceeded its total assets by YYY. As stated in Note 6, these events or conditions, along with other matters as set forth in Note 6, indicate that a material uncertainty exists that may cast significant doubt on the Company’s ability to continue as a going concern. Our opinion is not modified in respect of this matter.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

[Description of each key audit matter in accordance with CISA 701.]

<sup>19</sup> The sub-title “Report on the Audit of the Financial Statements” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements” is not applicable.

**Other Information [or another title if appropriate such as “Information Other than the Financial Statements and Auditor’s Report Thereon”]**

*[Reporting in accordance with the reporting requirements in CISA 720 (Revised) – see Illustration 1 in Appendix 2 of CISA 720 (Revised).]*

**Responsibilities of Management and Those Charged with Governance for the Financial Statements<sup>20</sup>**

*[Reporting in accordance with CISA 700 (Revised) – see Illustration 1 in CISA 700 (Revised).<sup>21</sup>]*

**Auditor’s Responsibilities for the Audit of the Financial Statements**

*[Reporting in accordance with CISA 700 (Revised) – see Illustration 1 in CISA 700 (Revised).]*

**Report on Other Legal and Regulatory Requirements**

*[Reporting in accordance with CISA 700 (Revised) – see Illustration 1 in CISA 700 (Revised).]*

The engagement partner on the audit resulting in this independent auditor’s report is *[name]*.

*[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]*

*[Auditor Address]*

*[Date]*

**Illustration 2 – Qualified Opinion When a Material Uncertainty Exists and the Financial Statements Are Materially Misstated Due to Inadequate Disclosure**

**For purposes of this illustrative auditor’s report, the following circumstances are assumed:**

- **Audit of a complete set of financial statements of a listed entity using a fair presentation framework. The audit is not a group audit (i.e., CISA 600 does not apply).**
- **The financial statements are prepared by management of the entity in accordance with CIFRSs (a general purpose framework).**
- **The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in CISA 210.**
- **The relevant ethical requirements that apply to the audit are those of the jurisdiction.**
- **Based on the audit evidence obtained, the auditor has concluded that 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. Note yy to the financial statements discusses the magnitude of financing arrangements, the expiration and the total financing arrangements; however the financial statements do not include discussion on the impact or the availability of refinancing or characterize this situation as a material uncertainty.**

<sup>20</sup> Throughout these illustrative auditor’s reports, the terms management and those charged with governance may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction.

<sup>21</sup> Paragraphs 34 and 39 of CISA 700 (Revised) require wording to be included in the auditor’s report for all entities in relation to going concern to describe the respective responsibilities of those responsible for the financial statements and the auditor in relation to going concern.

- **The financial statements are materially misstated due to the inadequate disclosure of the material uncertainty. A qualified opinion is being expressed because the auditor concluded that the effects on the financial statements of this inadequate disclosure are material but not pervasive to the financial statements.**
- **Key audit matters have been communicated in accordance with CISA 701.**
- **The auditor has obtained all of the other information prior to the date of the auditor’s report and the matter giving rise to the qualified opinion on the financial statements also affects the other information.**
- **Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.**
- **In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.**

## INDEPENDENT AUDITOR’S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

### Report on the Audit of the Financial Statements<sup>22</sup>

#### Qualified Opinion

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the incomplete disclosure of the information referred to in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects (or *give a true and fair view of*), the financial position of the Company as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with Cambodian International Financial Reporting Standards (CIFRSs).

#### Basis for Qualified Opinion

As discussed in Note yy, the Company’s financing arrangements expire and amounts outstanding are payable on March 19, 20X2. The Company has been unable to conclude re-negotiations or obtain replacement financing. This situation indicates that a material uncertainty exists that may cast significant doubt on the Company’s ability to continue as a going concern. The financial statements do not adequately disclose this matter.

We conducted our audit in accordance with Cambodian International Standards on Auditing (CISAs). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in [*jurisdiction*], and we

<sup>22</sup> The sub-title “Report on the Audit of the Financial Statements” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements” is not applicable.

have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

**Other Information [or another title if appropriate such as “Information Other than the Financial Statements and Auditor’s Report Thereon”]**

*[Reporting in accordance with the reporting requirements in CISA 720 (Revised) – see Illustration 6 in Appendix 2 of CISA 720 (Revised). The last paragraph of the other information section in Illustration 6 would be customized to describe the specific matter giving rise to the qualified opinion that also affects the other information.]*

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Qualified Opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

*[Descriptions of each key audit matter in accordance with CISA 701.]*

**Responsibilities of Management and Those Charged with Governance for the Financial Statements<sup>23</sup>**

*[Reporting in accordance with CISA 700 (Revised) – see Illustration 1 in CISA 700 (Revised).<sup>24</sup>]*

**Auditor’s Responsibilities for the Audit of the Financial Statements**

*[Reporting in accordance with CISA 700 (Revised) –see Illustration 1 in CISA 700 (Revised).<sup>8</sup>]*

**Report on Other Legal and Regulatory Requirements**

*[Reporting in accordance with CISA 700 (Revised) – see Illustration 1 in CISA 700 (Revised).]*

The engagement partner on the audit resulting in this independent auditor’s report is *[name]*.

*[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]*

*[Auditor Address]*

*[Date]*

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<sup>23</sup> Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

<sup>24</sup> Paragraphs 34 and 39 of CISA 700 (Revised) require wording to be included in the auditor’s report for all entities in relation to going concern to describe the respective responsibilities of those responsible for the financial statements and the auditor in relation to going concern.

### **Illustration 3 – Adverse Opinion When a Material Uncertainty Exists and Is Not Disclosed in the Financial Statements**

For purposes of the illustrative auditor’s report, the following circumstances are assumed:

- **Audit of a complete set of financial statements of an entity other than a listed entity using a fair presentation framework. The audit is not a group audit (i.e., CISA 600 does not apply).**
- **The financial statements are prepared by management of the entity in accordance with CIFRSs (a general purpose framework).**
- **The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in CISA 210.**
- **The relevant ethical requirements that apply to the audit are those of the jurisdiction.**
- **Based on the audit evidence obtained, the auditor has concluded that 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 the Company is considering bankruptcy. The financial statements omit the required disclosures relating to the material uncertainty. An adverse opinion is being expressed because the effects on the financial statements of such omission are material and pervasive.**
- **The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with CISA 701.**
- **The auditor has obtained all of the other information prior to the date of the auditor’s report and the matter giving rise to the adverse opinion on the financial statements also affects the other information.**
- **Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.**
- **In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.**

## **INDEPENDENT AUDITOR’S REPORT**

To the Shareholders of ABC Company [or Other Appropriate Addressee]

### **Report on the Audit of the Financial Statements<sup>25</sup>**

#### **Adverse Opinion**

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of

<sup>25</sup> The sub-title “Report on the Audit of the Financial Statements” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements” is not applicable.

changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, because of the omission of the information mentioned in the *Basis for Adverse Opinion* section of our report, the accompanying financial statements do not present fairly (or *do not give a true and fair view of*), the financial position of the Company as at December 31, 20X1, and of its financial performance and its cash flows for the year then ended in accordance with Cambodian International Financial Reporting Standards (CIFRSs).

### **Basis for Adverse Opinion**

The Company’s financing arrangements expired and the amount outstanding was payable on December 31, 20X1. The Company has been unable to conclude re-negotiations or obtain replacement financing and is considering filing for bankruptcy. This situation indicates that a material uncertainty exists that may cast significant doubt on the Company’s ability to continue as a going concern. The financial statements do not adequately disclose this fact.

We conducted our audit in accordance with Cambodian International Standards on Auditing (CISAs). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in [jurisdiction], and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

### **Other Information [or another title if appropriate such as “Information Other than the Financial Statements and Auditor’s Report Thereon”]**

[Reporting in accordance with the reporting requirements in CISA 720 (Revised) – see Illustration 7 in Appendix 2 of CISA 720 (Revised). The last paragraph of the Other Information section in Illustration 7 would be customized to describe the specific matter giving rise to the adverse opinion that also affects the other information.]

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements<sup>26</sup>**

[Reporting in accordance with CISA 700 (Revised) – see Illustration 1 in CISA 700 (Revised).<sup>27</sup>]

### **Auditor’s Responsibilities for the Audit of the Financial Statements**

[Reporting in accordance with CISA 700 (Revised)– see Illustration 1 in CISA 700 (Revised).]

<sup>26</sup> Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

<sup>27</sup> Paragraphs 34 and 39 of CISA 700 (Revised) require wording to be included in the auditor’s report for all entities in relation to going concern to describe the respective responsibilities of those responsible for the financial statements and the auditor in relation to going concern.

**Report on Other Legal and Regulatory Requirements**

*[Reporting in accordance with CISA 700 (Revised) – see Illustration 1 in CISA 700 (Revised).]*

*[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]*

*[Auditor Address]*

*[Date]*

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