Institute of Chartered Accountants Australia

21 November 2013

The Chairman
International Auditing and Assurance Standards Board
529 5th Avenue, 6th Floor
New York, New York 10017

Submission via IAASB website

Dear Mr Schilder

**ED Reporting on Auditing Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs)**

The Institute of Chartered Accountants Australia is please to respond to the exposure draft *Auditing Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs)*. We set out our overall comments in the body of this letter and provide responses to your specific questions in the Appendix.

The Institute is the professional body for Chartered Accountants in Australia and members operating throughout the world.

Representing more than 73,000 current and future professionals and business leaders, the Institute has a pivotal role in upholding financial integrity in society. Members strive to uphold the profession's commitment to ethics and quality in everything they do, alongside an unwavering dedication to act in the public interest.

Chartered Accountants hold diverse positions across the business community, as well as in professional services, government, not-for-profit, education and academia. The leadership and business acumen of members underpin the Institute's deep knowledge base in a broad range of policy areas impacting the Australian economy and domestic and international capital markets.

The Institute of Chartered Accountants Australia was established by Royal Charter in 1928 and today has more than 61,000 members and 12,000 talented graduates working and undertaking the Chartered Accountants Program.

The Institute is a founding member of both the Global Accounting Alliance (GAA), which is an international coalition of accounting bodies and an 800,000-strong network of professionals and leaders worldwide; and Chartered Accountants Worldwide, which brings together leading Institutes of Chartered Accountants in Australia, England and Wales, Ireland, New Zealand, Scotland and South Africa to support, develop and promote over 320,000 Chartered Accountants in more than 180 countries around the world.

## Overall comments on the exposure draft

The Institute is a strong supporter of enhanced auditor reporting. We believe that clear and informative audit reporting is of value to the users of financial statements. We also believe that auditor reporting which demonstrates the value of audit to the users of the financial statements is key in retaining confidence in the audit process which, in turn, is key to maintaining strong capital markets.

**Customer Service Centre**
1300 137 322

**NSW**
33 Erskine Street
Sydney NSW 2000

GPO Box 9985
Sydney NSW 2001

Phone 61 2 9290 1344
Fax 61 2 9262 1512

**ACT**
L10, 60 Marcus Clarke Street
Canberra ACT 2601

GPO Box 9985
Canberra ACT 2601

Phone 61 2 6122 6100
Fax 61 2 6122 6122

**Qld**
L32, Central Plaza One,
345 Queen Street,
Brisbane Qld 4000

GPO Box 9985
Brisbane Qld 4001

Phone 61 7 3233 6500
Fax 61 7 3233 6555

**SA / NT**
L29, 91 King William Street
Adelaide SA 5000

GPO Box 9985
Adelaide SA 5001

Phone 61 8 8113 5500
Fax 61 8 8231 1982

**Vic / Tas**
L3, 600 Bourke Street
Melbourne Vic 3000

GPO Box 9985
Melbourne Vic 3001

Phone 61 3 9641 7400
Fax 61 3 9670 3143

**WA**
L11, 2 Mill Street
Perth WA 6000

GPO Box 9985
Perth WA 6848

Phone 61 8 9420 0400
Fax 61 8 9321 5141

However we are concerned that the current proposals will make the auditors' report more lengthy without necessarily providing the most relevant information for users. While supportive of the IAASB's project, we do not believe that the current proposals deliver benefits that would outweigh the costs of implementation. However on the basis that the proposals will continue to be pursued, we are providing detailed comments on the specific matters raised in the ED in the Appendix to this letter.

We trust you find our comments of value and should you require further information on any of our views, please contact Liz Stamford, Head of Audit Policy via email at liz.stamford@charteredaccountants.com.au.

Yours sincerely

Lee White
Chief Executive Officer

# APPENDIX

## IAASB ED Reporting on Auditing Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs)

The Institute is a strong supporter of enhanced auditor reporting. We believe that clear and informative audit reporting is of value to the users of financial statements. We also believe that auditor reporting which demonstrates the value of audit to the users of the financial statements is key in retaining confidence in the audit process which, in turn, is key to maintaining strong capital markets. In our consideration of the proposals set out in the ED, we have consulted widely with our members and other stakeholders.

In Australia there are mixed responses to the proposals set out in the Exposure Draft. There is a general sentiment that it is still unclear as to what problem the proposals are intending to fix. Specifically there was debate over whether the problem is an 'information gap', i.e. that users of financial reports find them overly complex and do not readily understand the information they contain, or an 'expectation gap' that users do not understand the audit process and what an auditor does? Our consultation suggests that the clarity of an entity's financial information is the key concern of investors, and not the role of the auditor.

Our belief, as expressed in our response to your earlier Invitation to Comment *Improving the Auditors Report*, is that any changes to the auditor's report should focus on being useful to users in understanding information about the audit and the auditor's role. As noted previously, addressing financial report complexity and preventing corporate failure cannot be addressed by amending auditor reporting.

Given this background we are therefore concerned that the intended benefit of the proposals – to provide more relevant information to users based on the audit that was performed – will not be achieved. We are concerned that the proposals will make the report more lengthy without necessarily providing the most relevant information. Although transparency is welcomed, there is a potential for significant costs to auditors and companies in implementing the proposals. There are also concerns that the proposed standards are very prescriptive. Care needs to be taken that there is still scope for National Standard Setters to respond to local regulatory issues in adopting the standards for their jurisdictions. Therefore, while supportive of the IAASB's project, we do not believe that the current proposals deliver benefits that would outweigh these costs.

On the basis that the proposals will continue to be pursued, we are providing comments on the specific matters raised in the ED.

### 1. Do users of the audited financial statements believe that the introduction of a new section in the auditor's report describing the matters the auditor determined to be of most significance in the audit will enhance the usefulness of the auditor's report? If not, why?

We believe that the inclusion of KAM, if done well, in the auditor's report has potential to increase the value of the audit to the users by increasing their awareness of significant matters that the auditor addressed during the audit and by increasing their understanding of the work performed by the auditor.

However this benefit needs to be evaluated in terms of cost.

There is a potential for delay in the finalisation of the audit because agreeing, drafting, reviewing and finalising the KAM will require significant time from the engagement partner and senior members of the engagement team. This time could also potentially raise the cost of compliance for audit recipients.

The form and content of the section would need to be discussed with those charged with governance which could incur direct additional cost. Furthermore, this may create practical tension within the auditor-director/management relationship, which could result in pressure which is not conducive to achieving a quality audit.

There were a number of other common issues and concerns about the usefulness of KAM raised by members during our consultations. We list these below and recommend that the board specifically addresses these issues when finalising the requirements and clarity of guidance in relation to the inclusion of KAM:

- There was some concern that KAM could be viewed as repetitive if they duplicate disclosures already made in the notes, specifically if they only cover what is included in Note 1 to the financial statements about accounting policies. The proposals should have a clear focus on requiring the KAM to explain why specific issues are significant to the audit of the financial statements.

- There was a recognition that the text would need to be in plain English recognising the potentially divergent range of users.

- There were many challenges about the applicability of summarising complex issues down to a paragraph or two or bullet point commentary. The guidance in the standard would need to be clear, detailed and specific to provide a clear roadmap for what a KAM disclosure needs to include about the audit. There remain concerns that KAM will become boilerplate over time and therefore lose any benefit to the users.

- Concerns were expressed about the length of the report. Four or more pages may be off-putting for users to read. Also a report of that length would likely mean the importance of the opinion could be lost. Both of these would negate any value of the additional information.

- There were some views that regulators may seek to impose their own interpretation of the requirements about what would constitute a KAM. This would increase risk adverse behaviour and reduce the benefit of open reporting. This could be mitigated by a better focus on explaining why an item was a KAM. Also increasing the clarity of the guidance material particularly in relation to the number of items and how to set out the issue would assist.

- Concerns were also raised about whether there will be consistency in the matters identified as KAM, both at a local jurisdiction level and global, so clarifying the guidance material as discussed in the previous point would also assist with this.

- A number of members believed that a model such as the UK audit committee model could better meet the needs of users. Under this model the audit committee reports on their review of the financial reports (as well as their oversight of the external audit process). This model allows the company to provide insights into matters of financial significance that occurred during the year. The auditor also has an opportunity to comment if they wish, on the disclosures made by the company.

- In general, there was little appetite for this change amongst the preparers and directors in our consultation. The view was that this was another regulator-imposed layer of reporting that will increase costs. They did not see great value in the proposals.

- Investor groups represented at our consultations took the general view that more disclosure is preferable but appeared to believe that the disclosure would provide insight into the company's business or operations.

- There was some concern about potential costs from unexpected market reactions to KAM disclosures and resulting impact on share prices. Part of this stemmed from a potential misunderstanding about what the auditor can and should report. Communication and outreach will be needed to educate all capital market participants on the purpose and content of KAM.

- Finally, there were concerns that disclosure of KAM could potentially increase an auditor's Professional Indemnity Insurance costs. It was thought that third parties may use KAM as a point of litigation (particularly in relation to choice of KAM disclosed if a matter that wasn't disclosed as a KAM later causes an issue).

To address some of these concerns, we suggest that the KAM need to focus on why the matter was identified as such during the audit. We believe the standard could include better formatted examples, and promote the use of bullet points to show that the KAM can be set out in a concise and specific manner. We expand on these points at question 4.

There will need to be a strong outreach program to assist auditors with implementing the changes and gaining acceptance of the change amongst their clients.

**2. Do respondents believe the proposed requirements and related application material in proposed ISA 701 provide an appropriate framework to guide the auditor's judgment in determining the key audit matters? If not, why? Do respondents believe the application of proposed ISA 701 will result in reasonably consistent auditor judgments about what matters are determined to be the key audit matters? If not, why?**

We do not think parts (b) or (c) of the definition of KAM included in paragraph 8 of proposed ISA 701 are required. Both are effectively covered by part (a). Specifically in relation to part (c), a number of practitioners expressed the view that reporting internal control deficiencies would be problematic. Any issues highlighted during the audit would have been disclosed and reported to the board/audit committee and dealt with accordingly. If there were residual impacts on the financial statements, this would be included in a modified report. Internal controls are not considered in their own right, but to assess their impact on the financial statements and the audit of those statements.

We therefore support changing the definition as "areas identified as significant risks in accordance with ISA 315 (Revised) or involving significant auditor judgement". This encompasses areas of difficulty encountered during the audit, and circumstances where the risk assessments and/or planned approach changed during the engagement. Expansion and examples can be made in the guidance material rather than set out as separate considerations.

In relation to other guidance, we identified some areas in our response to question 1. In addition, further guidance will be necessary to cover areas of commercial sensitivity. In practice these are likely to be relatively common and will likely be an area of contention with companies. The IAASB needs to address this directly.

The question of the number of KAM was raised a several times in our consultations. Some members believed it would be useful for an expected range for the number of KAM to be included in the standard. Otherwise it was felt that external pressures could push working practice to either reporting as few issues as possible or reporting every issue discussed with the audit committee to limit liability or fulfil regulator expectations.

As discussed in our response to Question 8 and 9, more guidance on the interaction between EOM, going concern disclosures and KAM would be helpful.

**3. Do respondents believe the proposed requirements and related application material in proposed ISA 701 provide sufficient direction to enable the auditor to appropriately consider what should be included in the descriptions of individual key audit matters to be communicated in the auditor's report? If not, why?**

We believe that KAM should focus on why a particular matter is a key audit risk rather than providing detail on procedures performed or the accounting treatment adopted. Detailed descriptions of procedures run the risk of becoming boilerplate descriptions of audit procedures or jargon heavy and therefore potentially not understood. Focusing the disclosures on bullet point text highlighting the reason it was a KAM will enable better direction of practical application of the standard.

**4. Which of the illustrative examples of key audit matters, or features of them, did respondents find most useful or informative, and why? Which examples, or features of them, were seen as less useful or lacking in informational value, and why? Respondents are invited to provide any additional feedback on the usefulness of the individual examples of key audit matters, including areas for improvement.**

The value for users of additional auditor reporting will be to highlight those areas which may give rise to future volatility in the financial statements. It is the areas of uncertainty, subjectivity and volatility which are of concern to investors/users.

We do not believe that the current examples provide that focus nor are they written in a "user-friendly" manner.

Several of the examples (revenue and valuation of financial instruments) have wording that could be interpreted as providing additional assurance on the individual areas reported (the valuation of financial instruments example includes the word 'concluded'). The guidance needs to make it clear that this is not appropriate and the examples should be worded to avoid this. We have concerns that users will interpret KAM as providing additional assurance or assurance on specific balances, so the wording must be appropriate to avoid adding to this potential interpretation.

The examples should be presented in plain English and avoid the use of auditor 'jargon' as much as possible. A high percentage of those we consulted preferred the layout and wording of the UK Vodafone Group plc audit report from 31 March 2013. This used bullet points, columns, shorter sentences and paragraphs.

Our members who attempted field tests have indicated that writing the KAM appropriately was very difficult in practice, so the examples provided will be a key piece of practical guidance.

We have provided examples of KAM with a revised format and focus at Appendix A.

**5. Do respondents agree with the approach the IAASB has taken in relation to key audit matters for entities for which the auditor is not required to provide such communication – that is, key audit matters may be communicated on a voluntary basis but, if so, proposed ISA 701 must be followed and the auditor must signal this intent in the audit engagement letter? If not, why? Are there other practical considerations that may affect the auditor's ability to decide to communicate key audit matters when not otherwise required to do so that should be acknowledged by the IAASB in the proposed standards?**

If auditors who are voluntarily disclosing KAM are allowed to determine alternative approaches it will cause inconsistency in reporting and user confusion. We support requiring auditors voluntarily disclosing KAM to follow proposed ISA 701.

**6. Do respondents believe it is appropriate for proposed ISA 701 to allow for the possibility that the auditor may determine that there are no key audit matters to communicate?**

**a) If so, do respondents agree with the proposed requirements addressing such circumstances?**

**b) If not, do respondents believe that auditors would be required to always communicate at least one key audit matter, or are there other actions that could be taken to ensure users of the financial statements are aware of the auditor's responsibilities under proposed ISA 701 and the determination, in the auditor's professional judgment, that there are no key audit matters to communicate?**

The option should be available but we believe the guidance on when this would be appropriate should be more direct.

One issue that came up in our consultations was whether the auditor would not report KAMs if the KAMs were the same from year to year. We do not believe this is appropriate because the report covers a specific period.

There was also concern that without clear direction in the standard, it was possible that regulators in local jurisdictions may interpret non-reporting of KAM unfavourably. This could lead to additional local regulations, or may drive auditors into reporting KAM where not appropriate. Neither of these would be desirable outcomes.

We support the inclusion of a statement such as the one in proposed ISA 701.13 when an auditor does not include KAM in their report.

**7. Do respondents agree that, when comparative financial information is presented, the auditor's communication of key audit matters should be limited to the audit of the most recent financial period in light of the practical challenges explained in paragraph 65? If not, how do respondents suggest these issues could be effectively addressed?**

We agree that key audit matters should be limited to the audit of the most recent financial period due to the practical difficulties and potential for user confusion associated with trying to address prior periods.

**8. Do respondents agree with the IAASB's decision to retain the concepts of Emphasis of Matter paragraphs and Other Matter paragraphs, even when the auditor is required to communicate key audit matters, and how such concepts have been differentiated in the Proposed ISAs? If not, why?**

The use of Emphasis of Matter (EOM) and Other Matter (OM) paragraphs should be retained.

Auditors of those entities who are not required to, or do not choose to voluntarily adopt, KAM reporting will still need these mechanisms to use where appropriate. Also these concepts have different criteria which remain relevant.

We believe that the interaction between the new approach to going concern reporting, the KAM, and the use of an EOM paragraph for going concern needs to be clearer. The guidance may need to focus on the fundamental difference between the three types of reporting i.e. that the going concern section is used to address going concern matters, KAM address audit matters identified during the audit and EOMs address other matters fundamental to the users' understanding of the financial report.

**9. Do respondents agree with the statements included in the illustrative auditor's reports relating to:**

**a) The appropriateness of management's use of the going concern basis of accounting in the preparation of the entity's financial statements?**

**b) Whether the auditor has identified a material uncertainty that may cast significant doubt on the entity's ability to concern, including when such an uncertainty has been identified (see the Appendix of proposed ISA 570 (Revised)?**

**c) In this regard, the IAASB is particularly interested in views as to whether such reporting, and the potential implications thereof, will be misunderstood or misinterpreted by users of the financial statements.**

Our preference would be for better disclosure by companies, and specifically directors, in relation to their assessment of both the going concern basis of accounting and the going concern status of the company in more generally understood terms (i.e. solvency). The Sharman Enquiry approach in the UK provides a useful framework for this.

However recognising that this is unlikely to be adopted internationally in the short term, and recognising that the IAASB has no authority over company reporting, we provide responses based on current possible options.

Specifically we propose including wording in the section on management's responsibilities that makes it clear that it is the responsibility of those charged with governance to determine that the going concern basis of accounting is appropriate for the financial report and that they have satisfied themselves as to the entity's ability to continue as a going concern. In addition, or alternatively, the going concern statement could set this out more clearly. We provide an example of an alternative going concern statement at Appendix B.

Many practitioners during our consultations considered the inclusion of the proposed going concern statements were problematic. We list these concerns below and recommend that the board specifically addresses these when finalising the requirements and clarity of guidance in relation to going concern.

- There was concern that including a statement on going concern in every audit report will lose the value of the exception-based reporting that the current ISA 570's approach allows. There is a risk that users will become used to seeing going concern mentioned in audit reports with no issues reported and therefore may not pay close enough attention to the wording to notice when there is an issue being reported.

- The consultations highlighted strongly that users are confused about the concept of going concern. There is a lack of understanding in the user community that going concern is not the same as solvency. A number of our members expressed concern about going concern statements being included in the auditor's report ahead of the accounting standards setters appropriately addressing this issue. However, given that the accounting standards setters have not yet defined going concern, we believe that the auditor's report does need a short statement explaining what is meant by going concern.

- The current guidance and wording of 'near miss' situations in relation to going concern, i.e. where there were issues but the entity was ultimately able to resolve them to the auditor's satisfaction, is confusing. Such circumstances generally result in significant amounts of time and auditor attention being spent on going concern which would suggest that the circumstances would warrant inclusion of them as a KAM or commentary similar to a KAM being made in the going concern section of the report,. There were mixed views in our consultations, and some members felt that there was value in bringing the information to the attention of the user through the KAM.

**10. What are respondents' views as to whether an explicit statement that neither management nor the auditor can guarantee the entity's ability to continue as a going concern should be required in the auditor's report whether or not a material uncertainty has been identified?**

We support the inclusion of the statement as it is important that users understand that an audit opinion is not a guarantee of the entity continuing as a going concern. We note that a number of members expressed the view that the similar statement made in the Vodafone Group Plc report "However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern" was a better expression of the statement and encourage the board to reconsider the wording used to ensure it is clearly expressed.

In our consultations with members, there was concern that this statement is not mandatory in circumstances where there are going concern issues being flagged in the audit opinion. There is a strong preference that this statement being included in all instances.

**11. What are respondents' views as to the benefits and practical implications of the proposed requirement to disclose the source(s) of independence and other relevant ethical requirements in the auditor's report?**

In Australia, there have been requirements to make declarations and disclose the source of ethical requirements, which encompass independence requirements, for a number of years.
In the international space, we recommend that group auditors should disclose the ethical and independence requirements applicable to the group audit and which they would have communicated to the component auditors under ISA 600 *Special Considerations – Audits of a Group Financial Report (Including the Work of Component Auditors)*. This would prevent the need to list all the ethical and independence requirements applicable to the audits of the components of the Group, which could be lengthy and potentially confusing to users.

**12. What are respondents' views as to the proposal to require disclosure of the name of the engagement partner for audits of financial statements of listed entities and include a "harm's way exemption"? What difficulties, if any, may arise at the national level as a result of this requirement?**

Disclosure of the name of the audit partner for Corporations Act audits and a range of other entity types has been a requirement in Australia for a number of years

**13. What are respondents' views as to the appropriateness of the changes to ISA 700 described in paragraph 102 and how the proposed requirements have been articulated?**

During our consultations, there was support for including an explanation of the auditor's responsibilities in the body of the auditor's report. Our members expressed strong views that users will not read the auditor's responsibilities if they are placed elsewhere (such as on a national standard setter's website) and that this lack of information will both increase the expectation gap and increase the risk of users' misunderstanding the auditor's report.

In line with our previous comments about drafting, the wording of these responsibilities could be made more concise and straightforward. This will also help address concerns that have been raised about the length of the example report.

**14. What are respondents' views on the proposal not to mandate the ordering of sections of the auditor's report in any way, even when law, regulation or national auditing standards do not require a specific order? Do respondents believe the level of prescription within proposed ISA 700 (Revised) (both within the requirements in paragraphs 20–45 and the circumstances addressed in paragraphs 46–48 of the proposed ISA) reflects an appropriate balance between consistency in auditor reporting globally when reference is made to the ISAs in the auditor's report, and the need for flexibility to accommodate national reporting circumstances?**

While we believe there is merit in global consistency, we support the need for flexibility so that national standard setters can mandate an order that is appropriate for their local jurisdiction.

# Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance when undertaking our audit of the consolidated financial statements. Key audit matters have been discussed with [*those charged with governance*], but are not intended to represent all matters that were discussed with them.

Our audit procedures relating to these matters were designed in the context of our audit of the consolidated financial statements as a whole and not to express a separate opinion on these individual matters. The audit procedures conducted in relation to key audit matters form only part of the procedures performed during the audit. Also any procedures highlighted are only part of the evidence contributing to our understanding of these matters.

Our opinion on the consolidated financial statements as a whole is not modified with respect to any of these key audit matters.

**Goodwill**

- The Group's assets include goodwill from the acquisition of [various businesses] over the group's history, representing [Y%] of the Group's assets. Goodwill calculations use assumptions and estimates.
- The Group annually assesses the amount of goodwill to determine whether it is impaired and whether the amount recognised as an asset needs to be reduced in the financial statements.
- The Group's assessment process is complex and highly judgemental and uses assumptions which may change depending on future market or economic conditions particularly in [countries X&Y]
- As part of our audit procedures, we tested the cash flow projections, discount rates, and sensitivities used by management to undertake their assessment, particularly in relation to the forecasts of revenue growth and profit margin for [business lines], and used a valuation expert to assist us evaluate the assumptions and methodologies.
- We also evaluated the disclosures made by the Group in Note 3 to the financial statements which highlight the financial impact if other reasonable estimates or judgements were used in the valuations used in assessing goodwill impairment.

**Valuation of financial instruments**

- The Group's investments in structured financial instruments represent [x%] of the total amount of financial instruments as disclosed in Note 5.
- There are no quoted prices in active markets to enable an objective valuation of these instruments.
- The Group used a model they developed themselves to value the instruments and determine the amount at which they are recorded in the financial statements.
- As part of our audit procedures, we tested the appropriateness of this model, including evaluating whether there were other market options to value these instruments and whether the assumptions used were appropriate.

**Acquisition of XYZ business**

- The Group completed a major acquisition of XYZ business during the year, as disclosed in Note 2.
- XYZ Business was a division of a large private company and the value of the assets and liabilities acquired were not separately determined, disclosed or audited.
- The amounts calculated and disclosed by the Group in the financial statements are preliminary accounting estimates and may change.
- As part of our audit procedures, we evaluated the assumptions and valuation methods used by management and particularly management decisions on the useful lives of the acquired intangible assets. These are highly subjective estimates and we focused on how management had applied the principles in [IAS 138] which sets out matters to consider when valuing intangible assets.
- We also evaluated the disclosures made by the Group in Note 2 to the financial statements which highlight the financial impact if other estimates or judgements were used in the valuation of these assets,

**Revenue recognition relating to long term contracts**

- The Group has many long term contracts in its [name of segment] business. Revenue from these contracts is recognised over more than one financial statement period, as disclosed in Note 4.
- The revenue from these contracts forms a significant portion of Group revenue. Due to the complex nature of the contracts, management judgement is involved in determining the revenue which can be recognised in the current period.
- Over the period of the contract, new or amended terms may be negotiated or agreed which may impact revenue recognition.
- As part of our audit procedures we tested the controls that the Group has put in place over its processes to enter into and record these contracts and any subsequent amendments to them.
- We also confirmed the current terms and conditions of a sample of the contracts directly with customers and tested journal entries made by management which impacted on revenue recognition in the financial statements.

# Going Concern

The consolidated financial statements of the Group have been prepared using the going concern basis of accounting. The use of this basis of accounting is permissible, under the IASB Framework, when the entity has neither the intention nor the need to liquidate or curtail materially the scale of its operations. The Group assesses this based on expected operations over a 12 month period. This basis of accounting does not mean the Group is solvent nor that future market or economic conditions may not have a negative impact on the Group's operations. Rather it is a concept to determine the valuation of items in the financial statements.

Management have determined that the use of the going concern basis of accounting in the financial statements is appropriate. As part of our audit we have concluded that this basis of accounting is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Company's ability to continue as a going concern.