assurance and related services guideline

AuG-17

transactions or conditions reportable under the "well-being reporting requirement" in federal financial institutions legislation

SUPPLEMENT

This supplement sets out the previous wording of paragraphs that have been amended as a consequence of approving CAS 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*.

Transactions or conditions that indicate lack of good faith by management

10. CAS 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Canadian Auditing Standards*, paragraph 15, states: "The auditor shall plan and perform an audit with professional skepticism recognizing that circumstances may exist that cause the financial statements to be materially misstated." Transactions or conditions that the auditor concludes indicate lack of good faith by management are reportable under the well-being reporting requirement, because the absence of good faith on management's part could leave the financial institution vulnerable to material uncertainties. Such transactions or conditions include those involving fraud or other irregularities at the highest levels of management. For example, during the financial statement audit, the auditor may become aware that management has deliberately issued misleading financial information to regulators or to the public, or has deliberately misled the auditor on important matters.

SUPPLEMENT

This supplement sets out the previous wording of paragraphs that have been amended as a consequence of approving CAS 570, *Going Concern*.

5. The going concern assumption is discussed in CAS 570, *Going Concern*. CAS 570, paragraphs 10 and A3-A6, require the auditor to consider whether there are events or conditions that, individually or collectively, may cast significant doubt on the ability of an entity to continue as a going concern, and, therefore, on the validity of using the going concern assumption in preparing the financial statements. The preparation of the financial statements may be affected to the extent that a change in accounting basis is necessary, or to the extent that note disclosure is required to explicitly draw the reader's attention to material uncertainties related to events or conditions that may cast significant doubt upon the financial institution's ability to continue as a going concern. Transactions or conditions are reportable under the well-being reporting requirement if the auditor concludes that they necessitate a change in the basis of accounting, or otherwise require note disclosure in the financial statements because they may cast significant doubt about the ability of the entity to continue as a going concern.

6. In considering the events or conditions set out in CAS 570, *Going Concern*, paragraphs 10 and A3-A6, the auditor may conclude that transactions or conditions encountered during the financial statement audit do not affect the validity of using the going concern assumption in preparing the financial statements. However, such transactions or conditions would still be reportable under the well-being reporting requirement if the auditor concludes they represent material uncertainties that have the potential to jeopardize the ability of the financial institution to continue as a going concern. The auditor would determine whether transactions or conditions encountered during the audit involving material uncertainties are reportable under the well-being reporting requirement by:

   (a) identifying the key events or conditions affecting the material uncertainties;

   (b) considering how these events or conditions could change; and

   (c) assessing whether changes that have more than a remote chance of occurring would affect the financial institution to the extent that its ability to continue as a going concern would be jeopardized.

   In making this determination, the auditor would take into account all the evidence obtained during the financial statement audit, including discussions with management on the above matters and management's assessments with respect to them, and the auditor's understanding of the entity and its environment.