

Appendix C - SAS No. 109

Conditions and Events That May Indicate Risks of Material Misstatement

The following are examples of conditions and events that may indicate the existence of risks of material misstatement. The examples provided cover a broad range of conditions and events; however, not all conditions and events are relevant to every audit engagement and the list of examples is not necessarily complete.

- Operations in regions that are economically unstable, for example, countries with significant currency devaluation or highly inflationary economies
- Operations exposed to volatile markets, for example, futures trading
- High degree of complex regulation
- Going concern and liquidity issues, including loss of significant customers
- Marginally achieving explicitly stated strategic objectives.
- Constraints on the availability of capital and credit
- Changes in the industry in which the entity operates
- Changes in the supply chain
- Developing or offering new products or services, or moving into new lines of business.
- Expanding into new locations
- Changes in the entity, such as large acquisitions, reorganizations, or other unusual events
- Entities or divisions likely to be sold
- Complex alliances and joint ventures
- Use of off-balance-sheet finance, special-purpose entities, and other complex financing arrangements
- Significant transactions with related parties
- Lack of personnel with appropriate accounting and financial reporting skills
- Changes in key personnel, including departure of key executives
- Weaknesses in internal control, especially those not addressed by management
- Inconsistencies between the entity's information technology (IT) strategy and its business strategies
- Changes in the IT environment
- Installation of significant new IT systems related to financial reporting
- Inquiries into the entity's operations or financial results by regulators or government bodies
- Past misstatements, history of errors, or a significant amount of adjustments at period end
- Significant amount of non-routine or non-systematic transactions, including intercompany transactions and large revenue transactions at period end
- Transactions that are recorded based on management's intent such as debt refinancing, etc.
- Application of new accounting pronouncements
- Complex processes related to accounting measurements
- Events or transactions that result in significant measurement uncertainty, including accounting estimates
- Pending litigation