



## Agenda Item 5

### *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*

#### Objective of Agenda Item

To discuss the issues in this agenda item, the matrix related to the proposed revisions to SAS No. 126, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* (SAS No. 126 or AU-C section 570), and the amendments to AU-C 930, *Interim Financial Information*.

Task Force members are:

- Marc Panucci—PwC (Chair)
- Jennifer Haskell—D&T
- Mike Santay—GT
- Chris Smith—BDO
- Michael Westervelt—CliftonLarson (TIC)

#### Background

ASB

In January 2015, the Auditing Standards Board (ASB) issued four new auditing interpretations to SAS No. 126 (the Interpretations). The issuance of these Interpretations represented a short-term initiative by the ASB to address the more significant consequential effects of the FASB Accounting Standards Update (ASU) No. 2014-15, *Presentation of Financial Statements—Going Concern* (Subtopic 205-40): *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* and GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards* (GASB No. 56). Subtopic 205-40 is effective for annual periods ending after December 15, 2016, and for interim periods thereafter with early application permitted. GASB No. 56 is currently in effect.

The interpretations addressed the following topics:

- a. Definition of Substantial Doubt About an Entity's Ability to Continue as a Going Concern
- b. Definition of Reasonable Period of Time

- c. Interim Financial Information, and
- d. Consideration of Financial Statements Effects

The Interpretations are included as an exhibit to this issues paper as a reminder of their content. One of the principles in developing the Interpretations was that the auditor should follow the same model to determine whether substantial doubt exists as required by the applicable financial reporting framework for management, if applicable.

At the time the ASB decided to issue the Interpretations, it contemplated that in the long-term, the ASB would undertake a more comprehensive or holistic project to amend AU-C 570 and align it with the various accounting and auditing standards.

The Auditor Reporting Task Force is leading a project to revise the suite of auditor reporting standards using the IAASB revised auditor reporting standards as a base.

#### *IAASB*

At its September 2014 meeting, the IAASB approved to issue the standards and conforming amendments related to its Auditor Reporting Standards, which included a revised ISA 570. The following are the key aspects of the ISA 570 (Revised):

1. *Exception-Based Reporting*—The IAASB decided to retain the exception-based reporting model, that is, including discussion in the auditor’s report only in situations where a material uncertainty (MU) related to events or conditions that may cast significant doubt on an entity’s ability to continue as a going concern has been identified.
2. *Expansion of Management’s and Auditor’s Responsibilities*—The IAASB decided that additional language would be useful in explaining both management’s and the auditor’s responsibilities with respect to going concern. This additional language will be included as part of the standard language for all reports regardless if there are events or conditions that have been identified that may cast significant doubt on the entity’s ability to continue as a going concern.
3. *Close Call Situations*—The IAASB decided to address situations in which the auditor identifies events or conditions that may give rise to a material uncertainty but decides that no material uncertainty exists based on management’s plan to alleviate the uncertainty (these situations are often referred to as “close calls”).

The IAASB auditor reporting standards are effective for audits of financial statements for periods ending on or after December 15, 2016.

#### *PCAOB*

The PCAOB’s agenda includes a project to consider revising its going concern standard, AU section 341, *The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern* (AU 341).

On September 22, 2014, the PCAOB issued a Staff Audit Practice Alert to remind auditors to continue to follow existing PCAOB standards when considering a company's ability to continue as a going concern. Accordingly, a determination that no disclosure is required under the FASB or IAS 1 standards is not conclusive as to whether an explanatory paragraph is required under AU 341. Auditors should make a separate evaluation of the need for disclosure in the auditor's report in accordance with the requirements of AU 341.

The PCAOB is expected to issue a staff consultation paper related to the going concern standard soon. The follow-up to a staff consultation paper will be at least one proposal before the PCAOB approves a final standard and then any final standard is subject to SEC approval. As a result, the timing of a final standard is uncertain.

#### *AITF*

At its July 8, 2015 meeting, the AITF discussed the status of the Going Concern project. As explained above, the ASB decided that it would undertake a more comprehensive or holistic project to amend AU-C 570 and align it with the various accounting and auditing standards. That strategy included considering the effects of any changes to the PCAOB's standards related to going concern. However, because the timing of the PCAOB Going Concern project is uncertain, it appears likely that the PCAOB revised standard may not be finalized by the time the FASB Subtopic 205-40 becomes effective or becomes effective right before the effective date of Subtopic 205-40.

An issue that the AITF discussed was whether the Interpretations issued by the ASB in January 2015 currently provide sufficient guidance to auditors or whether it is preferable to have a final AU-C 570 standard related to the performance requirements before the effective date of Subtopic 205-40, which means not waiting on the direction of the PCAOB.

The AITF directed the Task Force to move ahead and revise AU-C 570 to consider Subtopic 205-40 and converge with the revised ISA 570 but only with respect to the performance requirements—not the reporting requirements—because such requirements will be addressed as part of the broader auditor reporting project.

### **Issues for Discussion**

#### *Auditor Reporting Issues*

Considerations related to emphasis-of-matter paragraphs - As explained above, the IAASB decided to retain the exception-based reporting model. This reporting model is consistent with the model in extant AU-C section 570. An issue to be discussed by the ASB, is that now that GAAP has explicit requirements for management to declare an explicit statement in the footnotes when there is substantial doubt and other disclosures when substantial doubt is not alleviated whether an emphasis-of-matter is necessary by the auditor in these circumstances. If an emphasis-of-matter is required should it continue to contain a substantial doubt conclusion by the auditor or simply reference management's disclosure and conclusion? In a prior ASB meeting, the ASB discussed this issue and had a tentative view that rescinding the requirement for the

auditor to include an emphasis-of-matter paragraph and a conclusion related to substantial doubt when an applicable financial reporting framework requires a conclusion be made by management would not be in the public interest and would be inconsistent with the IAASB exception based reporting. The Task Force agrees with this view but also proposes a change to the illustrated emphasis-of-matter paragraph included in the application guidance to not just reference management's plans but to also reference management's conclusion that substantial doubt exists when the applicable financial reporting framework requires such conclusion. See paragraph A27c of Agenda Item 5A.

Other reporting requirements and application guidance not included in the IAASB - Extant AU-C section 570 contains requirements and application guidance that are part of its auditor reporting model that are not included in the IAASB standards. The requirements and application guidance relate to disclaimers (paragraph 18), Comparative Presentations (paragraph 20), and Eliminating a Going Concern emphasis-of-matter paragraph (paragraph 21). The Task Force believes that these requirements and application guidance address important matters within the auditor reporting model and should be retained. The Task Force thus proposes carrying over these requirements in the proposed revised AU-C section 570.

### **Expected ASB Action**

Does the ASB agree with retaining the required exception-based reporting model that includes a separate auditor conclusion related to the entity's ability to continue as a going concern?

Does the ASB agree to the modification in the illustrative language that references management's conclusion related to substantial doubt when the applicable financial reporting framework requires management to conclude?

Does the ASB agree with retaining the requirements and application guidance related Disclaimers, Comparative Presentations, and Eliminating the Going Concern Emphasis-of-Matter Paragraph?

### *Interim Financial Information*

Extant AU-C 930, *Interim Financial Information* (AU-C 930), paragraph A23 discusses that a review of interim financial information is not designed to identify conditions or events that may indicate substantial doubt about an entity's ability to continue as a going concern. Paragraph A23 also discusses, the auditor is not required to obtain evidence in support of the information that mitigates the effects of the conditions and events. This guidance in AU-C 930 was written before management had an explicit requirement under U.S. GAAP to evaluate the entity's ability to continue as a going concern in the interim financial statements.

As a result of management's explicit requirement related to interim financial statements, the Interpretations included guidance that when the applicable financial reporting framework includes explicit requirements for management to evaluate the entity's ability to continue as a going concern in preparing interim financial information, the auditor is required to perform interim review procedures related to management's evaluation of the entity's ability to continue

as a going concern and the adequacy of the related disclosures in the interim financial information. In asking the auditor to perform review procedures related to management's evaluation about the entity's ability to continue as a going concern, it might be inferred that there would also be reporting and a conclusion by the auditor related to the entity's ability to continue as a going concern at the time the interim financial information and the auditor's review report is issued.

Currently, AU-C 930 does not require reporting by the auditor related to the entity's ability to continue as a going concern but provides the auditor an option to include an emphasis-of-matter paragraph to reference management's disclosures. Paragraph A46 of extant AU-C 930 states, in part, the following:

A46 If the interim financial information adequately discloses the existence of substantial doubt about the entity's ability to continue as a going concern (see paragraph .16)... the auditor may, but is not required to, include an emphasis-of-matter paragraph in the auditor's review report.

Illustrations 3 and 4 of Exhibit C in AU-C 930 relate to emphasis-of-matter paragraphs related to going concern. Neither illustration is the auditor concluding on an interim basis on the entity's ability to continue as a going concern but rather including reference to management's disclosure and/or the previous audit report.

To address this issue, the Task Force identified the following two options when the applicable financial reporting framework requires management to conclude on the entity's ability to continue as a going concern on an interim basis:

1. The auditor would conclude and report on the entity's ability to continue as a going concern consistent with the responsibilities in a year-end audit. Under this model, the auditor would be required to perform more than just review procedures as similar evidence would need to be obtained in order to conclude on whether there is substantial doubt related to the entity's ability to continue as a going concern. For example, AU-C 930 could be amended to require the auditor to perform procedures similar to what is included in paragraphs 11-16a in the Proposed SAS column of the matrix. Some of these procedures may need to be adapted for an interim review, but the Task Force discussed that if a conclusion and reporting were required then corresponding procedures and evidence would be needed to support the emphasis-of-matter paragraph in the auditor's report. The Task Force acknowledges that AU-C 930 does not require audit type procedures but since management has an explicit requirement under certain applicable financial reporting frameworks and the importance of the going concern matter, the Task Force has included this as an option.
2. Retain the model in extant AU-C 930 which is not to conclude separately in the review report but allow for an option to include an emphasis-of-matter paragraph when management's disclosures are adequate. This option would include a requirement for the auditor to perform interim review procedures related to management's evaluation of the entity's ability to continue as a going concern similar to the Interpretations. Under this option, the auditor would be performing these review procedures in support of its overall

conclusion of whether the auditor is aware of any material modifications that should be made to the interim financial information but not obtaining sufficient appropriate evidence for a separate conclusion regarding the entity's ability to continue as a going concern. A variation of this option could be to require the auditor to include an emphasis-of-matter paragraph referencing management's disclosures related to the entity's ability to continue as a going concern when included in the interim financial information.

It should be noted that the amendments in AU-C 930 proposed by the Task Force reflect option 2 as the Task Force wanted direction from the ASB before making the changes that would be needed under option 1.

### **Expected ASB Action**

Which option does the ASB prefer or are there other options to explore?

#### *Reasonable Period of Time*

The financial reporting frameworks have different definitions of the period for which management is required to make an assessment about the entity's ability to continue as a going concern. For example, U.S. GAAP requires an assessment of 12 months from the financial statements being issued or available to be issued, while IFRS requires management to make its assessment at least, but is not limited to, one year from the date of the financial statements. GASB also has its own definition that is different from the FASB (the GASB definition is one year beyond the financial statement date but also requires if there is information currently known that may raise substantial doubt shortly thereafter, such information should also be considered). In extant AU-C 570, the time period is not to exceed one year beyond the date of the financial statements being audited.

In finalizing the Interpretations, it was also considered that it is possible a financial reporting framework may not require management to evaluate the entity's ability to continue as a going concern; therefore, there is not an explicit period of time or the time period for a financial reporting framework might be less than twelve months from the date of the financial statements. As a result, the Interpretation included guidance that the auditor's assessment would be for the same period of time as required by the applicable financial reporting framework if the applicable financial reporting framework required management to evaluate whether there are conditions and events that raise substantial doubt for a period of time greater than one year from the date of the financial statements.

The Task Force proposes the following definition for reasonable period of time:

*A period of time required by the applicable financial reporting framework or if no such requirement exists, the period of time is twelve months from the date of the financial statements being issued or available to be issued.*

The Task Force concluded to propose an amendment to extant AU-C 570 to focus on the issuance or available to be issued date instead of the financial statement date. This would allow

for a twelve-month assessment in all cases when there is no requirement in the applicable financial reporting framework and is consistent with the requirement of the FASB.

IFRS time period is considered a minimum time period, while U.S. GAAP is considered a maximum time period for management to assess its ability to continue as a going concern. As a result, paragraph 15 of the proposed SAS might be interpreted that the auditor is requiring management to consider an assessment for a longer period of time as required by U.S. GAAP or potentially other applicable financial reporting frameworks. As the procedure is limited to inquiry and the application guidance provides context when this is needed, the Task Force proposes that this requirement and application guidance remain.

Finally, the Task Force proposes including the term “a reasonable period of time” when the term “the entity’s ability to continue as a going concern” is used in order to make it clearer the period of time for which the auditor is responsible, where appropriate.

### **Expected ASB Action**

What are the ASB’s views about the Task Force’s definition of reasonable period of time?

Does the ASB agree with the Task Force’s proposal to include the requirement in paragraph 15 of the proposed SAS?

Does the ASB agree with including the term reasonable period of time when discussing the responsibility to evaluate the entity’s ability to continue as a going concern?

### *Evaluating the Adequacy of Disclosures*

Paragraph 19 of ISA 570 reads as follows:

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.

By using terms such as “material uncertainty” and “significant doubt,” the disclosure requirements set out in paragraph 19 are written more from an IFRS perspective. Also, FASB’s Subtopic 205-40 requires specific disclosures that are slightly different than what is in ISA 570. As a result, the Task Force proposes edits to the paragraph to make the requirement more

framework-neutral, and then, include application guidance (see paragraphs A23a, A24, and A25a) to illustrate the disclosure requirements in U.S. GAAP and provide guidance for the auditor to consider the U.S. GAAP disclosures when the applicable financial reporting framework does not require specific disclosures.

**Expected ASB Action**

Does the ASB agree with the views of the Task Force?

*Terminology*

The Task Force’s view is that the models in ISA 570 and SAS No. 126 are consistent after consideration of the Interpretations but the terminology needs to be adapted to the U.S. environment. ISA 570 contains certain terminology that is more relevant to the IFRS accounting framework such as “material uncertainty” and “significant doubt.” As a result, in making the revisions to the proposed revised AU-C section 570, Task Force reviewed all of the terminology used in ISA 570 and changed it to be more consistent with the U.S. environment and provided guidance in A2a of the proposed SAS if an applicable financial reporting framework uses different terms or a model in evaluating an entity’s ability to continue as a going concern.

One change in terminology that we wanted to specifically highlight to the ASB is that ISA 570 uses if events or conditions have been identified that *may* cast significant doubt on the entity’s ability to continue as a going concern where the FASB uses whether the conditions and events identified *raise* substantial doubt about an entity’s ability to continue as a going concern (*emphasis added*). The phrase “may cast significant doubt on the entity’s ability to continue as a going concern” is derived from the IAS 1. The Task Force also considered PCAOB’s language and the PCAOB does not use the term “may” but instead uses the phrase “indicate there could be substantial doubt about the entity’s ability to continue as a going concern.” Based upon the FASB and PCAOB do not use the term “may,” the Task Force drafted the Proposed SAS column in the matrix using the FASB language to be consistent with the using language that is used in the U.S. environment. The Task Force did highlight this in the application guidance of the proposed SAS (paragraph A2a).

**Expected ASB Action**

What are the ASB’s views about the Task Force’s proposed changes to the ISA 570 terminology and align it to the U.S. environment and the guidance provided in A2a?

Specifically, does the ASB agree with using the term “*raise*” instead of the term “*may*” and the application guidance in A2a?

**Items Presented**

Agenda Item 5 – Issues Paper

Agenda Item 5A – AU-C section 570 Matrix

Agenda Item 5B – Proposed conforming amendments to AU-C 930

Mr. Panucci will refer to the Issues Paper and agenda items 5A and 5B in leading the discussion.

## AU-C Section 9570

### *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern: Auditing Interpretations of AU-C Section 570*

#### FASB and GASB Standards on Going Concern

In August 2014, FASB issued Accounting Standards Update (ASU) No. 2014-15, *Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. FASB Accounting Standards Codification (ASC) 205-40 provides guidance in U.S. generally accepted accounting principles (GAAP) about management's responsibility to evaluate an entity's ability to continue as a going concern and to provide related footnote disclosures. Previously, no such guidance existed in GAAP issued by FASB.

In summary, FASB ASC 205-40 provides the following new guidance as a result of the issuance of ASU No. 2014-15:

- a. Defines the term *substantial doubt about an entity's ability to continue as a going concern* (substantial doubt) as follows:

Substantial doubt about an entity's ability to continue as a going concern exists when conditions and events, considered in the aggregate, indicate that it is probable that the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable). The term *probable* is used consistently with its use in Topic 450 on contingencies.

- b. Requires an evaluation every reporting period, including interim periods
- c. Provides that the mitigating effect of management's plans should be considered only to the extent it is probable the plans will be effectively implemented and mitigate the conditions or events giving rise to substantial doubt
- d. Requires certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans
- e. Requires an explicit statement in the footnotes that there is substantial doubt and other disclosures when substantial doubt is not alleviated
- f. Requires an evaluation for a period of one year after the date that the financial statements are issued (or available to be issued)

FASB ASC 205-40 applies to all entities required to comply with standards issued by FASB and becomes effective for annual periods ending after December 15, 2016, and for interim periods thereafter. Early application is permitted.

GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, establishes requirements related to going concern for governmental entities and is currently effective. Although GASB Statement No. 56 generally adopted the guidance included in AU-C section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* (AICPA, *Professional Standards*), including providing indicators related to when there may be a substantial doubt about a governmental entity's ability to continue as a going concern, GASB made certain modifications to require that financial statement preparers evaluate whether there is substantial doubt about a governmental entity's ability to continue as a going concern for 12 months beyond the financial statement date. GASB Statement No. 56 further requires that if there is information currently known to the governmental entity that may raise substantial doubt shortly thereafter (for example, within an additional 3 months), such information also should be considered. Additionally, GASB Statement No. 56 establishes disclosure requirements when a governmental entity determines that there is substantial doubt.

### **1. Definition of *Substantial Doubt About an Entity's Ability to Continue as a Going Concern***

**.01** *Question*—AU-C section 570 refers to the term *substantial doubt about an entity's ability to continue as a going concern* but does not define it. For example, AU-C section 570 requires the auditor to evaluate whether there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time.<sup>1</sup> In applying AU-C section 570, how should an auditor apply the term *substantial doubt about an entity's ability to continue as a going concern* when the term is defined in the applicable financial reporting framework?

**.02** *Interpretation*—AU-C section 700, *Forming an Opinion and Reporting on Financial Statements* (AICPA, *Professional Standards*), requires the auditor to form an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.<sup>2</sup> As a result, when the applicable financial reporting framework includes a definition of *substantial doubt about an entity's ability to continue as a going concern*, that definition would be used by the auditor when applying AU-C section 570. For example, if an entity is required to comply with, or has elected to adopt, FASB ASC 205-40 early, the definition of *substantial doubt about an entity's ability to continue as a going concern* set out in FASB ASC 205-40 would be used by the auditor.

<sup>1</sup> Paragraph .08 of AU-C section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* (AICPA, *Professional Standards*).

<sup>2</sup> Paragraph .13 of AU-C section 700, *Forming an Opinion and Reporting on Financial Statements* (AICPA, *Professional Standards*).

[Issue Date: January 2015.]

## **2. Definition of *Reasonable Period of Time***

**.03** *Question*—AU-C section 570 requires the auditor to evaluate whether there is substantial doubt about the entity’s ability to continue as a going concern for a reasonable period of time.<sup>3</sup> AU-C section 570 defines *reasonable period of time* as “a period of time not to exceed one year beyond the date of the financial statements being audited.”<sup>4</sup> How should an auditor apply this definition when the applicable financial reporting framework requires management to evaluate whether there are conditions and events that raise substantial doubt for a period of time greater than one year from the date of the financial statements?

**.04** *Interpretation*—As noted in Auditing Interpretation No. 1, “Definition of *Substantial Doubt About an Entity’s Ability to Continue as a Going Concern*,” the auditor is required to form an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.<sup>5</sup> As a result, when the applicable financial reporting framework requires management to evaluate whether there are conditions and events that raise substantial doubt for a period of time greater than one year from the date of the financial statements, the auditor’s assessment of management’s going concern evaluation would be for the same period of time as required by the applicable financial reporting framework in forming an opinion on whether the financial statements are presented fairly, in all material respects, and determining whether an emphasis-of-matter paragraph is required.

**.05** For example, if an entity is required to comply with, or has elected to adopt, FASB ASC 205-40 early, the auditor’s assessment of management’s going concern evaluation would need to be for the same period of time as required by FASB ASC 205-40 (that is, one year after the date that the financial statements are issued or available to be issued) in forming an opinion on whether the financial statements are presented fairly, in all material respects, and determining whether an emphasis-of-matter paragraph is required.

[Issue Date: January 2015.]

## **3. Interim Financial Information**

**.06** *Question*—AU-C section 930, *Interim Financial Information* (AICPA, *Professional Standards*), states that the objective of the auditor when performing an engagement to review interim financial information is to obtain a basis for reporting whether the auditor is aware of any material modifications that should be made to the interim financial information for it to be in accordance with the applicable financial reporting framework through performing limited

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<sup>3</sup> Paragraph .08 of AU-C section 570.

<sup>4</sup> Paragraph .07 of AU-C section 570.

<sup>5</sup> Paragraph .02 of Auditing Interpretation No. 1, “Definition of *Substantial Doubt About an Entity’s Ability to Continue as a Going Concern*,” of AU-C section 570 (AICPA, *Professional Standards*, AU-C sec. 9570 par. 01–.02).

procedures.<sup>6</sup> AU-C section 930 addresses the auditor's responsibility about when to make an inquiry concerning an entity's ability to continue as a going concern.<sup>7</sup>

**.07** What are the auditor's responsibilities when the applicable financial reporting framework contains explicit requirements concerning management's responsibilities related to evaluating the entity's ability to continue as a going concern for interim financial information (for example, if an entity is required to comply with, or has elected to adopt, FASB ASC 205-40 early, management is required to comply with FASB ASC 205-40 when preparing interim financial information, including, when applicable, providing disclosures if substantial doubt about an entity's ability to continue as a going concern exists or has been alleviated)?

**.08** *Interpretation*—In accordance with AU-C section 930, if (a) conditions or events that may indicate substantial doubt about an entity's ability to continue as a going concern existed at the date of prior period financial statements, regardless of whether the substantial doubt was alleviated by the auditor's consideration of management's plans, or (b) in the course of performing review procedures on the current period interim financial information, the auditor becomes aware of conditions or events that might be indicative of the entity's possible inability to continue as a going concern, the auditor is required to

- a. inquire of management about its plans for dealing with the adverse effects of the conditions and events, and
- b. consider the adequacy of the disclosure about such matters in the interim financial information.<sup>8</sup>

The consideration of the adequacy of management's disclosures about the entity's ability to continue as a going concern in the interim financial information includes a consideration of whether the entity's financial statements are presented in accordance with the applicable financial reporting framework. As a result, when the applicable financial reporting framework includes explicit requirements for management to evaluate the entity's ability to continue as a going concern in preparing interim financial information, the auditor is required to perform interim review procedures related to management's evaluation of the entity's ability to continue as a going concern and the adequacy of the related disclosures in the interim financial information.

[Issue Date: January 2015.]

#### **4. Consideration of Financial Statements Effects**

**.09** *Question*—AU-C section 570 establishes requirements for the auditor to consider the possible effects on the financial statements and the adequacy of the related disclosure in situations when the auditor concludes there is substantial doubt or when concern about

<sup>6</sup> Paragraph .05 of AU-C section 930, *Interim Financial Information* (AICPA, *Professional Standards*).

<sup>7</sup> Paragraph .16 of AU-C section 930.

<sup>8</sup> See footnote 7.

substantial doubt has been alleviated after consideration of management's plans.<sup>9</sup> In addition, in assessing the adequacy of the disclosures, the related application guidance in AU-C section 570 provides examples of matters that management might disclose in the financial statements.<sup>10</sup> How should an auditor apply this guidance when the applicable financial reporting framework contains disclosure requirements related to management's going concern evaluation?

**.10** *Interpretation*—As noted in Auditing Interpretation No. 1, the auditor is required to form an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.<sup>11</sup> As a result, when the applicable financial reporting framework provides disclosure requirements related to management's evaluation of substantial doubt, the auditor's assessment of the financial statement effects under AU-C section 570 would be based on the disclosure requirements of the applicable financial reporting framework.<sup>12</sup>

[Issue Date: January 2015.]

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<sup>9</sup> Paragraphs .12–.13 of AU-C section 570.

<sup>10</sup> Paragraph .A4 of AU-C section 570.

<sup>11</sup> Paragraph .02 of Auditing Interpretation No. 1.

<sup>12</sup> Paragraphs .12–.13 and .A4 of AU-C section 570.