

**Agenda Item 3B**



Proposed Amendments to AU-C Section 930, *Interim Financial Information*

Introduction, Effective Date, Objectives, Definition, and Requirements	Application and Other Explanatory Material
<p><del><i>Inquiry Concerning an Entity's Ability to Continue as a Going Concern</i></del></p>	<p><del><i>Inquiry Concerning an Entity's Ability to Continue as a Going Concern</i></del> (Ref: <a href="#">par. -16</a>)</p>
<p><u>.15a If the applicable financial reporting framework includes requirements for management to assess the entity's ability to continue as a going concern for a reasonable period of time in preparing interim financial statements, the auditor should perform interim review procedures related to management's assessment and the adequacy of the related disclosures in the interim financial information. (Ref: par. .A23a-A23b)</u></p>	<p><u>.A23a The nature and extent of the auditor's interim review procedures is a matter of the auditor's professional judgment. For example, when a history of profitable operations and ready access to financing exists, inquiry alone might be sufficient to review the entity's ability to continue as a going concern for a reasonable period of time.</u></p> <p><u>.A23b. Certain financial reporting frameworks require management to assess the entity's ability to continue as a going concern for a reasonable period of time in preparing interim financial statements. For example, GAAP requires management to evaluate whether conditions and events, considered in the aggregate, raise substantial doubt exist about an entity's ability to continue as a going concern for a reasonable period of time.<sup>1</sup> Under GAAP, a reasonable period of time is defined as one year after the date that the financial statements are issued (or available to be issued when applicable).<sup>2</sup></u></p>

<sup>1</sup>Accounting Standards Codification (ASC) 205-40-50-1 of Financial Accounting Standards Board's Accounting Standards Update No. 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*.

<sup>2</sup> FASB ASC 205-40-50-1

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<p><b>.16</b> <u>If the applicable financial reporting framework does not include a requirement for management to assess the entity’s ability to continue as a going concern for a reasonable period time in preparing interim financial statements then:</u> <del>If</del> (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 <u>for a reasonable period of time</u>, the auditor should:</p>	
<p>a. <del>I</del>nquire of management about its plans for dealing with the adverse effects of the conditions <del>and-or</del> events, and (Ref: <u>par. .A23</u>)</p>	<p><b>.A23</b> 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 <u>for a reasonable period of time</u>. However, conditions or events that may cast substantial doubt on the entity’s ability to continue as a going concern <u>for a reasonable period of time</u> may have existed at the date of the prior period financial statements or may be identified as a result of inquiries of management or in the course of performing other review procedures. When performing a review engagement, the auditor is not required to obtain evidence in support of the information that mitigates the effects of the conditions <u>or</u> events.</p>
<p>b. <del>e</del>Consider the adequacy of the disclosure about such matters in the interim financial information. (Ref: <u>par. .A24</u>)</p>	<p><b>.A24</b> <u>Section 570</u>, <i>The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern</i>, may provide useful guidance to the auditor when considering whether <del>there is-</del>adequate and appropriate disclosure <u>exists</u> in the interim financial information about the entity’s <del>possible inability</del><u>ability</u></p>

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	<p>to continue as a going concern <u>for a reasonable period of time</u>.  <sup>fn 4</sup> When</p> <ul style="list-style-type: none"> <li>a. conditions or events <del>exist</del> <u>have been identified</u> as of the interim reporting date covered by the review <u>and substantial doubt about the entity's that might be indicative of the entity's possible inabilityability</u> to continue as a going concern <u>for a reasonable period of time exists or does not exist</u>, or</li> <li>b. the auditor's report for the prior year end contained an emphasis-of-matter paragraph indicating the existence of substantial doubt about the entity's ability to continue as a going concern, and the conditions that raised such doubt continued to exist as of the interim reporting date covered by the review.<sup>5</sup></li> </ul>
<p style="text-align: center;"><u>...</u></p>	<p style="text-align: center;">...</p>

<sup>fn 4</sup> Paragraphs 4921 and 220 Paragraph 12 of section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*. [Footnote revised, August 2012, to reflect conforming changes necessary due to the issuance of SAS No. 126.]

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	<p><b>.A46</b> If the interim financial information adequately discloses <del>the existence of substantial doubt about the entity's ability to continue as a going concern (see paragraph .16)</del> or a lack of consistency in the application of accounting principles affecting the interim financial information, the auditor may, but is not required to, include an emphasis-of-matter paragraph in the auditor's review report.</p>
<p><b><u>Emphasis-of-Matter in the Auditor's Review Report</u></b></p>	<p><b><u>Emphasis-of-Matter in the Auditor's Review Report</u></b></p>
<p>36a. <u>The auditor should include an emphasis-of-matter paragraph<sup>3</sup> in the auditor's review report in any of the following circumstances:</u></p> <p><u>a. An emphasis-of-matter paragraph when a going concern emphasis-of-matter paragraph was included in the prior year's auditor's report, and:</u></p> <p><u>i. conditions or events giving rise to the emphasis-of-matter paragraph continue to exist;</u></p> <p><u>ii. conditions or events raise substantial doubt about an entity's ability to continue as a going concern and management's plans do not alleviate them; and</u></p> <p><u>iii. the Company is required under the financial reporting framework to include a statement in the notes to the financial statement that substantial doubt exists;</u></p>	<p><b><u>A48a. See Appendix D for illustrative examples of the emphasis-of-matter paragraphs.</u></b></p> <p><b><u>A48b. If conditions or events have been identified during the interim review that raise substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time but no statement is included in the notes to the financial statements because management's plans have alleviated the substantial doubt or a statement is not required to be included in the notes to the financial statements, the auditor may include an emphasis-of-matter paragraph in accordance with AU-C Section 706 if management has disclosed in the notes to the financial statements the conditions or events.<sup>4</sup></u></b></p>

<sup>3</sup> Paragraphs 6–7 of AU-C section 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report* (AICPA, Professional Standards), address requirements concerning emphasis-of-matter paragraphs.

<sup>4</sup> Paragraphs 6–7 of AU-C Section 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report*.

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<p><u><i>b.</i> An emphasis-of-matter paragraph when a going concern emphasis-of-matter paragraph was included in the prior year’s auditor’s report, and</u></p> <p><u><i>i.</i> same as <i>a(i) – (ii)</i> above, and</u></p> <p><u><i>ii.</i> the Company is not required under the financial reporting framework to include a statement in the notes to the financial statement that substantial doubt exists;</u></p> <p><u><i>c.</i> An emphasis-of-matter paragraph when a going concern emphasis-of-matter paragraph was not included in the prior year’s auditor’s report, and:</u></p> <p><u><i>i.</i> management is required under the financial reporting framework to include a statement in the notes to the financial statements that substantial doubt exists; and</u></p> <p><u><i>ii.</i> management has included such statement in the notes to the financial statements</u></p> <p><del><u><i>d.</i></u></del></p>	

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**Exhibit C — Illustrations of Example Modifications to the Auditor’s Review Report Due to Departures From the Applicable Financial Reporting Framework (Ref: par. A47)**

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**Exhibit D — Illustrations of Example Emphasis-of-Matter paragraphs in the Auditor’s Review Report (Ref: par. A48a)**

**Illustration 1 — Emphasis-of-Matter Paragraph When Substantial Doubt is Disclosed in the Notes to the Financial Statements and a Going Concern Emphasis-of-Matter Paragraph Was Included in the Prior Year’s Audit Report, and Conditions Giving Rise to the Emphasis-of-Matter Paragraph Continue to Exist**

The following is an example of situations in which: (i) conditions or events raise substantial doubt about an entity’s ability to continue as a going concern continue to exist from the prior year and management’s plans do not alleviate them, (ii) the Company is required under the financial reporting framework to include a statement in the notes to the financial statement that substantial doubt exists; and (iii) an emphasis-of-matter paragraph related to substantial doubt about the entity’s ability to continue as a going concern was included in the prior year’s auditor’s report.

*[Emphasis-of-Matter Paragraph]*

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. Note 4 of the Company’s audited financial statements as of December 31, 20X1, and for the year then ended, includes a statement that substantial doubt exists about the Company’s ability to continue as a going concern. Note 4 of the Company’s audited financial statements also discloses the conditions, events, and management’s plans regarding these matters including the fact that the Company was unable to renew its line of credit or obtain alternative financing at December 31, 20X1. Our auditor’s report on those financial statements includes an emphasis-of-matter paragraph referring to the matters in Note 4 of those financial statements, and indicating that these matters raised substantial doubt about the Company’s ability to continue as a going concern. As indicated in Note 3 of the Company’s unaudited interim financial information as of March 31, 20X2, and for the three months then ended, the Company still includes a statement that substantial doubt exists about the Company’s ability to continue as a going concern as Note 3 indicates the Company was still unable to renew its line of credit or obtain alternative financing as of March 31, 20X2, and these events or conditions, along with other matters as set forth in Note 3, still indicate that substantial doubt exists about the Company’s ability to continue as a going concern. The accompanying interim financial information does not include any adjustments that might result from the outcome of this uncertainty.

**Illustration 2— Emphasis-of-Matter Paragraph When Substantial Doubt is Not Disclosed in the Notes to the Financial Statements and a Going Concern Emphasis-of-Matter Paragraph Was Included in the Prior Year’s Audit Report, and Conditions Giving Rise to the Emphasis-of-Matter Paragraph Continue to Exist**

The following is an example of situations in which: (i) conditions or events raise substantial doubt about an entity’s ability to continue as a going concern continue to exist from the prior year and management’s plans do not alleviate them, (ii) the Company is not required under the financial reporting framework to include a statement in the notes to the financial statement that substantial doubt exists; and (iii) an emphasis-of-matter paragraph related to substantial doubt about the entity’s ability to continue as a going concern was included in the prior year’s auditor’s report;

[Emphasis-of-Matter Paragraph]

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. Note 4 of the Company's audited financial statements as of December 31, 20X1, and for the year then ended, discloses that the Company was unable to renew its line of credit or obtain alternative financing at December 31, 20X1. Our auditor's report on those financial statements includes an emphasis-of-matter paragraph referring to the matters in Note 4 of those financial statements indicating that these matters raised substantial doubt about the Company's ability to continue as a going concern. As indicated in Note 3 of the Company's unaudited interim financial information as of March 31, 20X2, and for the three months then ended, the Company was still unable to renew its line of credit or obtain alternative financing as of March 31, 20X2. Management's plans in regard to these matters are also disclosed in Note 3. The accompanying interim financial information does not include any adjustments that might result from the outcome of this uncertainty.

**Illustration 3 — Emphasis-of-Matter Paragraph When Management is Required Under the Financial Reporting Framework to Include a Statement in the Notes to the Financial Statements that Substantial Doubt Exists; Such Statement is Included in the Notes to the Financial Statements; and a Going Concern Emphasis-of-Matter Paragraph Was Not Included in the Prior Year's Audit Report.**

The following is an example of an emphasis-of-matter paragraph when: (i) management is required under the financial reporting framework to include a statement in the notes to the financial statements that substantial doubt exists, (ii) such statement is included in the notes to the financial statements, and (iii) an emphasis-of-matter paragraph related to substantial doubt about the entity's ability to continue as a going concern was not included in the prior year's auditor's report.

[Emphasis-of-Matter Paragraph]

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As indicated in Note 3, events or conditions, as set forth in Note X, indicate that substantial doubt exists about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note X. The accompanying interim financial information does not include any adjustments that might result from the outcome of this uncertainty.