

Agenda Item 1A



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

Introduction, Effective Date, Objectives, Definition, and Requirements	Application and Other Explanatory Material
Introduction	
Scope of This Proposed SAS	Scope of This Proposed SAS (Ref: par. 1)
<p>1. This Statement on Auditing Standards (SAS) addresses the auditor's responsibilities in the audit of financial statements relating to going concern and the implications for the auditor's report. This SAS applies to all audits of financial statements, single financial statements, and specific elements of a financial statement regardless of whether the financial statements are prepared in accordance with a general purpose or a special purpose framework (Ref: par. A1-A5).</p>	<p>A1.— Special purpose financial statements may or may not be prepared in accordance with a financial reporting framework for which the going concern basis of accounting is applied.</p> <p>A2.— AU C section 800 states that in an audit of special purpose financial statements when the special purpose financial statements contain items that are the same as, or similar to, those in financial statements prepared in accordance with GAAP, the auditor should evaluate whether the financial statements include informative disclosures similar to those required by GAAP. The auditor should also evaluate whether additional disclosures, beyond those specifically required by the framework, related to matters that are not specifically identified on the face of the financial statements or other disclosures are necessary for the financial statements to achieve fair presentation.⁺</p> <p>A3.— AU C section 805 states that when forming an opinion and reporting on a single financial statement or a specific element of a financial statement, the auditor should apply the requirements in section 700, <i>Forming an Opinion and Reporting</i></p>

⁺ Paragraph 17 of AU C section 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*.

Introduction, Effective Date, Objectives, Definition, and Requirements	Application and Other Explanatory Material
	<p>on <i>Financial Statements</i>, adapted as necessary in the circumstances of the engagement.² AU C 805 further states that section 700 requires the auditor, in forming an opinion, to evaluate whether the financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements.³</p> <p>A4. As a result, regardless if special purpose financial statements or single financial statement or specific element of a financial statement are prepared in accordance with a financial reporting framework for which the going concern basis of accounting is not applied, the auditor has responsibilities to obtain sufficient appropriate audit evidence on whether conditions or events that raise substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time exist in order to evaluate whether disclosures related to those conditions or events and management's plans are needed in order to achieve a fair presentation. If the auditor has already included an emphasis of matter paragraph related to substantial doubt about the entity's ability to continue as a going concern in the auditor's report of the general purpose financial statements; then, the auditor may reference this emphasis of matter paragraph in the audit of a special purpose framework, single financial statement, or specific element of a financial statement instead of repeating the emphasis of matter paragraph.</p> <p>Considerations Specific to Public Sector Entities</p> <p>Management's use of the going concern basis of accounting is also relevant to public sector entities. For example, GASB statement No. 56 (GASB Statement No. 56), <i>Codification of</i></p>

² Paragraph 15 of AU C section 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement.*

³ Paragraph A17 of AU C section 805.

Introduction, Effective Date, Objectives, Definition, and Requirements	Application and Other Explanatory Material
	<p>Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards addresses the issue of the ability of public sector entities to continue as a going concern for a reasonable period of time.⁴ Going concern risks may arise, but are not limited to, situations where public sector entities operate on a for-profit basis, where government support may be reduced or withdrawn, or in the case of privatization. Conditions or events that raise substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time in the public sector may include situations where the public sector entity lacks funding for its continued existence or when policy decisions are made that affect the services provided by the public sector entity.</p>
<p>Going Concern Basis of Accounting</p>	<p>Going Concern Basis of Accounting (Ref: par. 2-3)</p>
<p><u>2.</u> Under the going concern basis of accounting, the financial statements are prepared on the assumption that the entity is a going concern and will continue its operations for the foreseeable future. (Ref: par. A1)</p>	<p><u>A1.</u> The applicable financial reporting framework might contain explicit requirements regarding when the liquidation basis of accounting is appropriate. For example, the FASB standards require that, if and when an entity's liquidation becomes imminent, financial statements should be prepared under the liquidation basis of accounting.⁵ Accordingly, this SAS does not apply to an audit of a complete set of general purpose financial statements prepared under the liquidation basis of accounting.</p>
<p>2.3. A Under U.S. generally accepted accounting principles (GAAP), complete set of general purpose financial statements are prepared on using the assumption that the entity is a going concern basis of accounting, unless the entity's liquidation becomes imminent. When the use of basis of accounting is appropriate. Audits of</p>	<p><u>A2.</u> AU-C Section 800 addresses audits of special purpose financial statements, including applicability of this proposed SAS. AU-C Section 800 and AU-C Section 805 also address consideration of disclosures related to risks and uncertainties.⁶</p>

⁴ Paragraphs 16-19 of GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*.

⁵ Accounting Standards Codification (ASC) 205-30, *Presentation of Financial Statements—Liquidation Basis of Accounting*.

⁶ See AU-C Section 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*, and AU-C Section 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement*.

Introduction, Effective Date, Objectives, Definition, and Requirements	Application and Other Explanatory Material
<p>accounts, special purpose financial statements may or may not be prepared in accordance with a financial reporting framework for which the going concern basis of accounting is appropriate, assets and liabilities are recorded on the basis that the entity will be able to meet its obligations as they become due for a reasonable period of time-relevant (for example, the going concern basis of accounting is not relevant for financial statements prepared on the cash basis of accounting). (Ref: par. A6)A2-A3)</p>	<p><u>Considerations Specific to Public Sector Entities</u></p> <p>A5.A3. Management's use of the going concern basis of accounting is also relevant to public sector entities. For example, GASB statement No. 56 (GASB Statement No. 56), <i>Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards</i> addresses the issue of the ability of public sector entities to continue as a going concern for a reasonable period of time.⁷ Going concern risks may arise, but are not limited to, situations where public sector entities operate on a for-profit basis, where government support may be reduced or withdrawn, or in the case of privatization. Conditions or events that raise substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time in the public sector may include situations where the public sector entity lacks funding for its continued existence or when policy decisions are made that affect the services provided by the public sector entity. The applicable financial reporting framework might contain explicit requirements regarding when the liquidation basis of accounting is appropriate. For example, GAAP requires that, if and when an entity's liquidation becomes imminent, financial statements should be prepared under the liquidation basis.⁸</p>
<p>Responsibility for the Assessment-Evaluation of the Entity's Ability to Continue as a Going Concern</p>	<p>Responsibility for <u>the -Evaluation</u> Assessment of the Entity's Ability to Continue as a Going Concern</p>
<p><i>When Management Is Required to Make a Specific Assessment-Evaluation Under the Financial Reporting Framework</i></p>	<p><i>When Management Is Required to Make a Specific <u>Assessment-Evaluation</u> Under the Financial Reporting</i></p>

⁷ Paragraphs 16-19 of GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*.

⁸ ~~Accounting Standards Codification (ASC) 205-40-05-1 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*.~~

Introduction, Effective Date, Objectives, Definition, and Requirements	Application and Other Explanatory Material
<p>3-4. Some financial reporting frameworks contain an explicit requirement for explicitly require management to make a specific assessment of evaluate the entity's ability to continue as a going concern for a reasonable period of time or provide disclosures to be made in connection with going concern. For example, GAAP requires the FASB standards require management to make an evaluation of evaluate whether there are conditions and events, considered in the aggregate, that raise substantial doubt about an entity's ability to continue as a going concern within one year after the date the financial statements are issued (or within one year after the date the financial statements are available to be issued when applicable).⁹ Similarly, the U.S. Governmental Accounting Standards Board ("GASB") statements requires require financial statement preparers to evaluate whether substantial doubt about a governmental entity's ability to continue as a going concern exists for twelve months beyond the financial statement date. GASB statements further requires if there is information currently known to the governmental entity that may raise substantial doubt shortly thereafter (for example, within an additional three months), such information also should be considered. The detailed¹⁰ Law or regulation may also set forth requirements regarding management's responsibility to assess evaluate the entity's ability to continue as a going concern for a defined period of time and related financial statement disclosures may also be set out in law or regulation. (Ref: par. A7). (Ref: par. A4)</p>	<p>A6-A4. GAAP defines The FASB standards define substantial doubt about an entity's ability to continue as a going concern as follows:</p> <p style="padding-left: 40px;">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 <i>probable</i> is used consistently with its use in topic 450 on contingencies.¹¹</p> <p>Other applicable financial reporting frameworks may use different terms that are similar to substantial doubt. for For example, International Accounting Financial Reporting Standards (IAS), uses IFRS, use the terms <i>material uncertainty</i> and <i>significant doubt</i>. Also, other applicable financial reporting frameworks may not use <i>probable</i> as their threshold. For example, IAS/IFRS uses "may cast significant doubt on the entity's ability to continue as a going concern." This proposed SAS uses the terminology of GAAP the FASB standards and GASB statements but; if an audit is performed under another financial reporting framework, the requirements and application guidance may need to be adapted as necessary.</p>

⁹Accounting 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*.

¹⁰ Paragraph 16 of GASB Statement No. 56.

¹¹FASB ASC 205-40-20.

Introduction, Effective Date, Objectives, Definition, and Requirements	Application and Other Explanatory Material
<p>5. <u>[Moved from paragraph 7]</u> Management’s evaluation of the entity’s ability to continue as a going concern for a reasonable period of time involves making a judgment, at a particular point in time, about inherently uncertain future outcomes of conditions or events. The following factors are relevant to that judgment:</p> <ul style="list-style-type: none"> • The degree of uncertainty associated with the outcome of a condition or event increases significantly the further into the future a condition or event or the outcome occurs. For that reason, most financial reporting frameworks that require an explicit management evaluation specify the period for which management is required to take into account all available information. • The size and complexity of the entity, the nature and condition of its business and the degree to which it is affected by external factors affect the judgment regarding the outcome of conditions or events. • Any judgment about the future is based on conditions or events that are known and reasonably knowable at the date that the financial statements are issued (or at the date that the financial statements are available to be issued). Subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made. (Ref: par. Error! Reference source not found.A5) 	<p>A5. <u>[Moved from below]</u> In addition to the factors enumerated in paragraph 5, the FASB standards include the following factors:¹²</p> <ul style="list-style-type: none"> • The entity’s current financial condition, including its liquidity sources at the date that the financial statements are issued (for example, available liquid funds and available access to credit) • The entity’s conditional and unconditional obligations due or anticipated within one year after the date that the financial statements are issued (regardless of whether those obligations are recognized in the entity’s financial statements) • The funds necessary to maintain the entity’s operations considering its current financial condition, obligations, and other expected cash flows within one year after the date that the financial statements are issued • The other conditions and events, when considered in conjunction with the items above that may adversely affect the entity’s ability to meet its obligations within one year after the date the financial statements are issued. See paragraph A7 for examples of those conditions and events.
<p><i>When Management Is Not Required to Make a Specific Assessment Evaluation Under the Financial Reporting Framework</i></p>	<p><i>When Management Is Not Required to Make a Specific Assessment Under the Financial Reporting Framework</i> (Ref: par. 4)</p>
<p>4.6. In other financial reporting frameworks, there may be no explicit requirement for management to <u>make a specific assessment of/evaluate</u> the entity’s ability to continue as a going concern for a reasonable period of time. Nevertheless,</p>	<p>See paragraphs A1-A4 that discuss the auditor’s responsibilities related to audits of special purpose financial statements, single financial statements, or specific elements of financial statements.</p>

¹² FASB ASC 205-40-50-5.

Introduction, Effective Date, Objectives, Definition, and Requirements	Application and Other Explanatory Material
<p>wherewhen the going concern basis of accounting is a fundamental principle in the preparation of financial statements as discussed in paragraph 2, the preparation of the financial statements requires management to assessevaluate the entity's ability to continue as a going concern for a reasonable period of time even if the financial reporting framework does not include an explicit requirement to do so. (Ref: par. A8)</p>	
<p><i>Responsibilities of the Auditor</i></p>	
<p>5.7. The auditor's responsibilities are to obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, and to conclude, based on the audit evidence obtained, whether conditions or events, <u>considered in the aggregate</u>, that raise substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time exist. These responsibilities exist even if the financial reporting framework used in the preparation of the financial statements does not include an explicit requirement for management to make a specific assessmentevaluation of the entity's ability to continue as a going concern.</p>	
<p>6.8. However, as described in AU-C sectionSection 200,¹³ the potential effects of inherent limitations on the auditor's ability to detect material misstatements are greater for future events or conditions that may cause an entity to cease to continue as a going concern.¹⁴ The auditor cannot predict such future conditions or events. Accordingly, the absence of any reference to substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time in an auditor's report cannot be viewed as a guarantee as to the entity's ability to continue as a going concern for a reasonable period of time.</p>	
<p>Effective Date</p>	

¹³ Paragraphs A49–A50 of AU-C Section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards* (AICPA, *Professional Standards*)

¹⁴ Paragraphs A49–A50 of AU-C section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*.

Introduction, Effective Date, Objectives, Definition, and Requirements	Application and Other Explanatory Material
<p>7.9. This proposed SAS is effective for audits of financial statements for periods ending on or after _____.</p>	
<p>Objectives</p>	
<p>8.10. The objectives of the auditor are:</p> <ul style="list-style-type: none"> a. To obtain sufficient appropriate audit evidence regarding, and to conclude on, the appropriateness of management’s use of the going concern basis of accounting in the preparation of the financial statements; b. To conclude, based on the audit evidence obtained, whether conditions or events, <u>considered in the aggregate</u>, that raise substantial doubt about an entity’s ability to continue as a going concern for a reasonable period of time exist; c. <u>To assess</u>evaluate the possible financial statement effects, including the adequacy of disclosure regarding the entity’s ability to continue as a going concern for a reasonable period of time; and d. To report in accordance with this proposed SAS. 	
<p>Definition</p>	<p>Definition (Ref: par.<u>11</u>)</p>
<p>9.11. For purposes of this proposed SAS, the following term has the meaning attributed as follows:</p>	
<p>Reasonable period of time. The period of time required by the applicable financial reporting framework or if no such requirement exists, the period of time is twelve months a year from the date the financial statements are issued or <u>are</u> available to be issued. (Ref: par. A10–A11)<u>A6</u>)</p>	<p>A7-A6. Most financial reporting frameworks requiring an explicit management assessment<u>evaluation of the entity’s ability to continue as a going concern</u> specify the period <u>of time to be evaluated</u> for which management is required to take into account all available information that is known or reasonably knowable, that is, a reasonable period of time. For example, the following financial reporting frameworks specify a</p>

Introduction, Effective Date, Objectives, Definition, and Requirements	Application and Other Explanatory Material
	<p>reasonablesuch period of time as follows:</p> <ul style="list-style-type: none"> • GAAPFASB – one year after the date that the financial statements are issued (or <u>are</u> available to be issued, when applicable).¹⁵ • GASB – one year beyond the financial statement date. GASB 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.¹⁶ • IASIASB – at least, but not limited to, one year from the end of the reporting period (i.e. financial statement date).¹⁷ • Paragraph A2 explains that in an audit of special purpose financial statements when the special purpose financial statements contain items that are the same as, or similar to, those in financial statements prepared in accordance with GAAP, the auditor is required to evaluate whether the financial statements include informative disclosures similar to those required by GAAP. This evaluation would include following the definitions set out in GAAP, for example, the definition of reasonable period of time. Similarly, if the special purpose frameworks contain items that are the same as, or similar to, those in financial statements prepared in accordance with a financial reporting framework other than GAAP, the auditor's evaluation would follow the

¹⁵ FASB ASC 205-40-50-1.

¹⁶ Paragraph 16 of GASB No. 56.

¹⁷ Paragraph 26 of International Accounting Standards (IAS) No 1.

Introduction, Effective Date, Objectives, Definition, and Requirements	Application and Other Explanatory Material
	definitions set out by that financial reporting framework.
Requirements	
Risk Assessment Procedures and Related Activities	Risk Assessment Procedures and Related Activities
<i>Conditions or Events That Raise Substantial Doubt About an Entity's Ability to Continue as a Going Concern</i>	<i>Conditions or Events That Raise Substantial Doubt About an Entity's Ability to Continue as a Going Concern</i> (Ref: par. 12)
<p>10.12. When performing risk assessment procedures as required by AU-C sectionSection 315,¹⁸ the auditor should consider whether conditions or events exist that raise substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time.¹⁹ In doing so, the auditor should determine whether management has already performed a preliminary assessment/evaluation of the conditions or events that exist that raise substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time, and (Ref: par A12-A17)A7-A14)</p> <p>a. If such an assessment/evaluation has been performed, the auditor should discuss the assessment/evaluation with management and determine whether management has identified events or conditions or events that, individually or in the aggregate, raise substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time and, if so, management's plans to address them; or</p> <p>b. If such an assessment/evaluation has not yet been performed, the auditor should discuss with management the basis for the intended use of the going concern basis of accounting, and inquire of management</p>	<p>A8-A7. The following are examples of adverse conditions and events that may raise substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time, as set out in GAAPthe FASB standards.²⁰ This listing is not all-inclusive, nor does it The existence of one or more of these conditions or events items does not determine that a there is substantial doubt about the entity's ability to continue as a going concern exists. Similarly, the absence of these conditions or events does not determine that there is no substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time does not exist. Determining whether there is substantial doubt depends on an assessment of relevant conditions and events, in the aggregate, that are known and reasonably knowable at the date that the financial statements are issued (or at the date the financial statements are available to be issued when applicable). An entity should weigh the likelihood and magnitude of the potential effects of the relevant conditions and events, and</p>

¹⁸ Paragraph 5 of AU-C Section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement* (AICPA, Professional Standards).

¹⁹ Paragraph 5 of AU-C section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*.

²⁰ FASB ASC 205-40-55-2.

Introduction, Effective Date, Objectives, Definition, and Requirements	Application and Other Explanatory Material
<p>whether events or conditions <u>or events</u> exist that, individually or in the aggregate, raise substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time.</p>	<p><u>consider their anticipated timing.</u>²¹</p> <ul style="list-style-type: none"> • Negative financial trends, for example, recurring operating losses, working capital deficiencies, negative cash flows from operating activities, and other adverse key financial ratios • Other indications of possible financial difficulties, for example, default on loans or similar agreements, arrearages in dividends, denial of usual trade credit from suppliers, a need to restructure debt to avoid default, noncompliance with statutory capital requirements, and a need to seek new sources or methods of financing or to dispose of substantial assets • Internal matters, for example, work stoppages or other labor difficulties, substantial dependence on the success of a particular project, uneconomic long-term commitments, and a need to significantly revise operations • External matters, for example, legal proceedings, legislation, or similar matters that might jeopardize the entity's ability to operate; loss of a key franchise, license, or patent; loss of a principal customer or supplier; and an uninsured or underinsured catastrophe such as a hurricane, tornado, earthquake, or flood. <p>A9-A8. The significance of such events or conditions often can be mitigated by other factors. The following are examples in GAAP <u>the FASB standards</u> of plans that management may implement to mitigate conditions or events that raise substantial</p>

²¹ FASB ASC 205-40-55-2.

Introduction, Effective Date, Objectives, Definition, and Requirements	Application and Other Explanatory Material
	<p>doubt about an entity’s ability to continue as a going concern for a reasonable period of time.²²The examples are not all-inclusive. <u>The examples are not all-inclusive. Below each example is a list of the types of information that management should consider at the date that the financial statements are issued in evaluating the feasibility of the plans to determine whether it is probable²³ the plan will be effectively implemented within one year after the date that the financial statements are issued.</u>²⁴</p> <ul style="list-style-type: none"> • Plans to dispose of an asset or business: <ul style="list-style-type: none"> — Restrictions on disposal of an asset or business, such as covenants that limit those transactions in loan or similar agreements, or encumbrances against the asset or business — Marketability of the asset or business that management plans to sell — Possible direct or indirect effects of disposal of the asset or business • Plans to borrow money or restructure debt: <ul style="list-style-type: none"> — Availability and terms of new debt financing, or availability and terms of existing debt refinancing, such as term debt, lines of credit, or arrangements for factoring receivables or sale-leaseback of assets — Existing or committed arrangements to restructure or subordinate debt or to guarantee loans to the entity — Possible effects on management’s borrowing

²² FASB ASC 205-40-55-3.

²³ FASB’s Master Glossary defines *probable* as the future event or events are likely to occur.

²⁴ FASB ASC 205-40-55-3.

Introduction, Effective Date, Objectives, Definition, and Requirements	Application and Other Explanatory Material
	<p>plans of existing restrictions on additional borrowing or the sufficiency of available collateral</p> <ul style="list-style-type: none"> • Plans to reduce or delay expenditures: <ul style="list-style-type: none"> — Feasibility of plans to reduce overhead or administrative expenditures, to postpone maintenance or research and development projects, or to lease rather than purchase assets — Possible direct or indirect effects on the entity and its cash flows of reduced or delayed expenditures • Plans to increase ownership equity: <ul style="list-style-type: none"> — Feasibility of plans to increase ownership equity, including existing or committed arrangements to raise additional capital — Existing or committed arrangements to reduce current dividend requirements or to accelerate cash infusions from affiliates or other investors. <p><u>A10.A9.</u> In the absence of guidance provided by the applicable financial reporting framework that illustrateillustrates adverse conditions or events thatwhich may raise substantial doubt about the entity’s ability to continue as a going concern for a reasonable period of time or plans that management may implement to mitigate conditions or events that raise substantial doubt about an entity’s ability to continue as a going concern for a reasonable period of time, the auditor may consider the guidance in this paragraphin paragraphs A7 and A8.</p> <p><u>A11.A10.</u> Under GAAPthe FASB standards, determining whether substantial doubt exists about an entity’s ability to</p>

Introduction, Effective Date, Objectives, Definition, and Requirements	Application and Other Explanatory Material
	<p>continue as a going concern for a reasonable period of time depends on an evaluation of relevant conditions and events, in the aggregate, that are known and reasonably knowable at the date that the financial statements are issued (or at the date the financial statements are available to be issued when applicable).²⁵ Other applicable financial reporting frameworks may contain other criteria.</p> <p>A12:A11. <u>A11.</u> The risk assessment procedures required by paragraph <u>12</u> help the auditor to determine whether management's use of the going concern basis of accounting is likely to be an important issue and its impact on planning the audit. These procedures also allow for more timely discussions with management, including a discussion of management's plans and resolution of any identified going concern issues.</p> <p>A13:A12. <u>A12.</u> If management is preparing interim financial statements, GAAP requires <u>the FASB standards require</u> a going concern assessment <u>evaluation</u> for the interim periods.²⁶ As a result, the auditor may consider management's interim assessment <u>evaluation</u> in completing the risk assessment procedures in paragraph <u>12</u>.</p> <p><i>Considerations Specific to Smaller Entities</i></p> <p>A14:A13. <u>A13.</u> The size of an entity may affect its ability to withstand adverse conditions. Small entities may be able to respond quickly to exploit opportunities but may lack reserves to sustain operations.</p> <p>A15:A14. <u>A14.</u> Conditions of particular relevance to small entities include the risk that banks and other lenders may cease to support the entity as well as the possible loss of a principal supplier, major customer, key employee, or the right to operate under a license,</p>

²⁵ FASB ASC 205-40-50-3.

²⁶ ASC 205-40-50-1.

Introduction, Effective Date, Objectives, Definition, and Requirements	Application and Other Explanatory Material
	franchise, or other legal agreement.
<i>Remaining Alert Throughout the Audit for Audit Evidence About Conditions or Events</i>	<i>Remaining Alert Throughout the Audit for Audit Evidence About Conditions or Events</i> (Ref: par. 13)
11-13. The auditor should remain alert throughout the audit for audit evidence of conditions or events that raise substantial doubt about an entity’s ability to continue as a going concern for a reasonable period of time. (Ref: par. A15)	A16,A15. AU-C section Section 315 requires the auditor to revise the auditor’s risk assessment and modify the further planned audit procedures accordingly when additional audit evidence is obtained during the course of the audit that affects the auditor’s assessment of risk. ²⁷ If conditions or events that raise substantial doubt on about the entity’s ability to continue as a going concern for a reasonable period of time are identified after the auditor’s initial risk assessments are made, in addition to performing the procedures in paragraph 18 , the auditor’s assessment of the risks of material misstatement may need to be revised. The existence of such conditions or events may also affect the nature, timing, and extent of the auditor’s further procedures in response to the assessed risks. AU-C section Section 330 establishes requirements and provides guidance on this issue. ²⁸⁻²⁹
Evaluating Management’s AssessmentEvaluation	Evaluating Management’s AssessmentEvaluation
<i>Management’s AssessmentEvaluation and Supporting Analysis and the Auditor’s Evaluation</i>	<i>Management’s AssessmentEvaluation and Supporting Analysis and the Auditor’s Evaluation</i> (Ref: par. 13-14 14-15)

²⁷ Paragraph 32 of AU-C Section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatements*.

²⁸ AU-C section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*.

²⁹ AU-C section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*.

Introduction, Effective Date, Objectives, Definition, and Requirements	Application and Other Explanatory Material
<p>12.14. The auditor should evaluate management’s assessmentevaluation of whether there are conditions or events, considered in the aggregate, that raise substantial doubt about an entity’s ability to continue as a going concern for a reasonable period of time exist. (Ref: par. A19–A24)A16–A21)</p> <p>13.15. In evaluating management’s assessmentevaluation of whether there are conditions or events, considered in the aggregate, that raise substantial doubt exist about an entity’s ability to continue as a going concern for a reasonable period of time, the auditor’s evaluationevaluation should cover the same period as that used by management to make its assessmentevaluation as required by the applicable financial reporting framework, or by law or regulation if it specifies a longer period.</p> <p>-</p>	<p>A17.A16. Management’s assessmentevaluation of whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity’s ability to continue as a going concern for a reasonable period of time and whether substantial doubt exists is a key part of the auditor’s conclusion ofon management’s use of the going concern basis of accounting and whether substantial doubt exists.</p> <p>A18.A17. It is not the auditor’s responsibility to rectify the lack of analysis by management. In some circumstances, however, the lack of detailed analysis by management to support its assessmentevaluation may not prevent the auditor from concluding whether management’s use of the going concern basis of accounting or whether substantial doubt exists is appropriate in the circumstances. For example, when a history of profitable operations and a ready access to financial resources exist, management may make its assessmentevaluation without detailed analysis. In this case, the auditor’s evaluation of the appropriateness of management’s assessmentevaluation may be made without performing detailed evaluation procedures if the auditor’s other audit procedures are sufficient to enable the auditor to conclude whether management’s use of the going concern basis of accounting in the preparation of the financial statementsthere is appropriatesubstantial doubt in the circumstances. In situations where the management is required by the financial reporting framework to make an assessmentevaluation about the entity’s ability to continue as a going concern for reasonable period of time, a lack of a detailed analysis when needed may be an indicator of a deficiency in internal control that is required to be evaluated as to whether it constitutes a significant deficiency or material weakness in accordance with AU-C sectionSection 265, <i>Communicating Internal Control Related Matters Identified in an Audit</i>.</p>

Introduction, Effective Date, Objectives, Definition, and Requirements	Application and Other Explanatory Material
	<p>A19,A18. In other circumstances, evaluating management’s assessmentevaluation of the entity’s ability to continue as a going concern for a reasonable period of time and whether there is substantial doubt exists, as required by paragraph 14, may include an evaluation of the process management followed to make its assessmentevaluation, the assumptions on which the assessmentevaluation is based, and management’s plans and whether management’s plans are feasible in the circumstances to alleviate substantial doubt.</p> <p>A20,A19. Some financial reporting frameworks, for example, GAAPthe FASB standards and the GASB statements, require the entityentity to make an assessmentevaluation about the entity’s ability to continue as a going concern for a reasonable period of time and whether there is substantial doubt exists.³⁰ In these circumstances, the auditor’s conclusions might be principally based on procedures performed to test management’s compliance with the applicable financial reporting framework.</p> <p><i>Considerations Specific to Smaller Entities</i> (Ref: par. 14-15)</p> <p>A21,A20. In many cases, management of smaller entities may not have prepared a detailed assessmentevaluation of the entity’s ability to continue as a going concern for a reasonable period of time or whetherwhether there is substantial doubt exists, but instead may rely on in-depth knowledge of the business and anticipated future prospects. Nevertheless, in accordance with the requirements of this proposed SAS, the auditor is required to evaluate management’s assessmentevaluation of the entity’s ability to continue as a going concern for a reasonable period of time and whether there is substantial doubt exists. For smaller entities, it may</p>

³⁰ Paragraphs 16-19 of FASB ASC 205-40 and paragraphs 16-19 of GASB No.56.

Introduction, Effective Date, Objectives, Definition, and Requirements	Application and Other Explanatory Material
	<p>be appropriate to discuss the medium and long-term financing of the entity with management, provided. <u>Provided</u> that management's contentions can be corroborated by sufficient documentary evidence and are not inconsistent with the auditor's understanding of the entity. Therefore, the requirement in paragraph 17 for the auditor to request management to extend its assessment<u>evaluation</u> may, for example, be satisfied by discussion, inquiry and inspection of supporting documentation, for example, orders received for future supply, evaluated as to their feasibility or otherwise substantiated.</p> <p>A22.<u>A21.</u> Continued support by owner-managers is often important to smaller entities' ability to continue as a going concern. Where<u>When</u> a small entity is largely financed by a loan from the owner-manager, it may be important that these funds are not withdrawn. For example, the continuance of a small entity in financial difficulty may be dependent on the owner-manager subordinating a loan to the entity in favor of banks or other creditors, or the owner-manager supporting a loan for the entity by providing a guarantee with his or her personal assets as collateral. In such circumstances, the auditor may obtain appropriate documentary evidence of the subordination of the owner-manager's loan or of the guarantee. Where<u>When</u> an entity is dependent on additional support from the owner-manager, the auditor may evaluate the owner-manager's ability to meet the obligation under the support arrangement. In addition, the auditor may request written confirmation of the terms and conditions attaching to such support and the owner-manager's intention or understanding.</p>
<p>14.16. In evaluating management's assessment<u>evaluation</u>, the auditor should consider whether management's assessment<u>evaluation</u> includes all relevant information of which the auditor is aware as a result of the audit.</p>	

Introduction, Effective Date, Objectives, Definition, and Requirements	Application and Other Explanatory Material
<p>Period Beyond Management’s AssessmentEvaluation</p>	<p>Period Beyond Management’s AssessmentEvaluation (Ref: par. 17)</p>
<p>15-17. In audits of financial statements in which the reasonable period of time defined by the applicable financial reporting framework is expressed as a minimum time period, theThe auditor should inquire of management as to its knowledge of conditions or events beyond the period of management’s assessmentevaluation that raise –substantial doubt about the entity’s ability to continue as a going concern. (Ref: par. A25A22–A23)</p>	<p>A23. An example of a financial reporting framework that defines reasonable period of time as a minimum time period is IFRS as the reasonable period of time is defined as “at least, but not limited to, one year from the end of the reporting period.”</p> <p>A24-A22. As required by paragraph 13, the auditor remains alert to the possibility that there may be known events, scheduled or otherwise, or conditions that will occur beyond the period of assessmentevaluation used by management that may bring into question the appropriateness of management’s use of the going concern basis of accounting in preparing the financial statements whether there is substantial doubt. Since the degree of uncertainty associated with the outcome of an event or condition increases as the event or condition is further into the future, in considering events or conditions further in the future, the indications of going concern issues need to be significant before the auditor needs to considers taking further action. If such events or conditions are identified, the auditor may need to request management to evaluate the potential significance of the event or condition on its assessmentevaluation of the entity’s ability to continue as a going concern whether substantial doubt exists. In these circumstances, the procedures in paragraph 18 apply. Some financial reporting frameworks may not define reasonable period of time as a minimum time period. Nevertheless, the financial reporting framework may have other disclosure requirements about the conditions or events that may need to be considered even if not part of management’s assessment of the entity’s ability to continue as a going concern. apply.</p> <p>A25.A23. Other than inquiry of management, the auditor</p>

Introduction, Effective Date, Objectives, Definition, and Requirements	Application and Other Explanatory Material
	<p>does not have a responsibility to perform any other audit procedures to identify conditions or events that raise substantial doubt on<u>about</u> the entity's ability to continue as a going concern for a reasonable period of time beyond the period assessed<u>evaluated</u> by management unless management is not required to make an assessment<u>evaluation</u>; then the period for the auditor to assess<u>evaluate</u> is twelve months a year from the date of the financial statements are issued or <u>are</u> available to be issued, as discussed in paragraph <u>11</u>.</p>
<p>Additional Audit Procedures When Events or Conditions Are Identified</p>	<p>Additional Audit Procedures When Events or Conditions Are Identified (Ref: par. <u>18</u>)</p>
<p>16,18. The auditor should obtain sufficient appropriate audit evidence to determine whether the conditions and events identified, <u>considered in the aggregate</u>, raise substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time by performing additional audit procedures, including consideration of mitigating factors. These procedures should include: (Ref: par. <u>A24</u>)</p>	<p>A26,A24. Audit procedures that are relevant to the requirement in paragraph <u>18</u> may include the following:</p> <ul style="list-style-type: none"> • Analyzing and discussing cash flow, profit and other relevant forecasts with management. • Analyzing and discussing the entity's latest available interim financial statements. • Reading the terms of debentures and loan agreements and determining whether any have been breached. • Reading minutes of the meetings of shareholders, those charged with governance and relevant committees for reference to financing difficulties. • Inquiring of the entity's legal counsel regarding the existence of litigation and claims and the reasonableness of management's assessments<u>evaluations</u> of their outcome and the estimate of their financial implications. • Confirming the existence, legality and enforceability

Introduction, Effective Date, Objectives, Definition, and Requirements	Application and Other Explanatory Material
	<p>of arrangements to provide or maintain financial support with related and third parties and assessing the financial ability of such parties to provide additional funds.</p> <ul style="list-style-type: none"> • Evaluating the entity’s plans to deal with unfilled customer orders. • Performing audit procedures regarding subsequent events to identify those that either mitigate or otherwise affect the entity’s ability to continue as a going concern for a reasonable period of time. • Confirming the existence, terms and adequacy of borrowing facilities. • Obtaining and reviewing reports of regulatory actions. • Determining the adequacy of support for any planned disposals of assets.
<p>a. When <u>Requesting management to make an evaluation when management has not yet performed an assessmentevaluation requesting management to make an assessment.</u></p>	
	<p><i>Evaluating Management’s Plans for Future Actions</i> (Ref: par. 18(b-c))</p>
<p>b. Evaluating management’s plans in relation to its going concern assessmentevaluation, with regard to whether it is probable that: (Ref: par. <u>A25</u>)</p> <ol style="list-style-type: none"> i. Management’s plans will be effectively implemented, and ii. The plans will mitigate the relevant conditions or events that raise substantial doubt about the entity’s ability to continue as a going concern for a reasonable period of time. 	<p>A27-A25. <u>A25.</u> Evaluating management’s plans may include performing audit procedures that the auditor considers necessary in the circumstances regarding management’s plans for future action, including, for example, its plans to liquidate assets, borrow money or restructure debt, reduce or delay expenditures, or increase capital (see paragraph A12A8 for examples of <u>other</u> plans that management may implement to mitigate conditions or events that raise substantial doubt about an entity’s ability to</p>

Introduction, Effective Date, Objectives, Definition, and Requirements	Application and Other Explanatory Material
	continue as a going concern for a reasonable period of time).
<p>c. When the entity has prepared a cash flow forecast, and analysis of the forecast is a significant factor in considering the future outcome of conditions or events in the evaluation of management’s plans for future actions: (Ref: par. A26-A27)</p> <p>i. Evaluating the reliability of the underlying data generated to prepare the forecast, and</p> <p>ii. Determining whether there is adequate support for the assumptions underlying the forecast.</p>	<p>A28-A26. In addition to the procedures required in paragraph 18(c), the auditor may compare:</p> <ul style="list-style-type: none"> The prospective financial information for-used in recent prior periods with historical results and The prospective financial information for-used in the current period with results achieved to date. <p>A29-A27. Where<u>When</u> management’s assumptions include continued support by third parties, whether through the subordination of loans, commitments to maintain or provide additional funding, or guarantees, and such support is important to-in assessing the condition or event that raised substantial doubt about an entity’s ability to continue as a going concern for a reasonable period of time and whether substantial doubt exists, the auditor may need to consider requesting written confirmation (including of terms and conditions) from those third parties and to obtain evidence of their ability to provide such support.</p>
<p>d. Considering whether any additional facts or information have become available since the date on which management made its assessment<u>evaluation</u>.</p>	
Written Representations	Written Representations (Ref: par. 19)

Introduction, Effective Date, Objectives, Definition, and Requirements	Application and Other Explanatory Material
<p>17<u>19</u>. If the auditor believes, before consideration of management’s plans pursuant to paragraph 13<u>18</u> of this proposed SAS, that substantial doubt exists about the entity’s ability to continue as a going concern for a reasonable period of time, the auditor should obtain written representations from management: (Ref: par. <u>A28</u>)</p> <ol style="list-style-type: none"> a. Regarding its plans that are intended to mitigate the adverse effects of conditions or events that indicate there is substantial doubt about the entity’s ability to continue as a going concern for a reasonable period of time, and the likelihood<u>probability</u> that those plans can be effectively implemented, and b. That the financial statements disclose all the matters of which management is aware that are relevant to the entity’s ability to continue as a going concern for a reasonable period of time, including principal conditions or events, <u>considered in the aggregate</u>, and management’s plans. 	<p>A30<u>A28</u>. The auditor may consider it appropriate to obtain specific written representations beyond those required in paragraph 18<u>19</u> in support of audit evidence obtained regarding management’s plans in relation to its going concern <u>assessment/evaluation</u> and the feasibility of those plans to alleviate any substantial doubt.</p>
Auditor Conclusions	Auditor Conclusions
<i>Use of the Going Concern Basis of Accounting</i>	<i>Use of the Going Concern Basis of Accounting</i>
<p>18<u>20</u>. The auditor should evaluate whether sufficient appropriate audit evidence has been obtained and conclude <u>regarding-on</u> the appropriateness of management’s use of the going concern basis of accounting in the preparation of the financial statements.</p>	
<i>Substantial Doubt About the Entity’s Ability to Continue as a Going Concern</i>	<i>Substantial Doubt About the Entity’s Ability to Continue as a Going Concern</i> (Ref: par. A20-A21 <u>21-22</u>)
<p>19<u>21</u>. Based on the audit evidence obtained, the auditor should conclude whether, in the auditor’s judgment, conditions or events, considered in the aggregate, exist that raise substantial doubt about an entity’s ability to continue as a going concern</p>	

Introduction, Effective Date, Objectives, Definition, and Requirements	Application and Other Explanatory Material
for a reasonable period of time.	
<i>Adequacy of Disclosure When Conditions or Events Have Been Identified and Substantial Doubt Exists</i>	<i>Adequacy of Disclosure When Conditions or Events Have Been Identified and Substantial Doubt Exists</i>
<p>20-22. If the auditor concludes that management’s use of the going concern basis of accounting is appropriate in the circumstances but substantial doubt exists about an entity’s ability to continue as a going concern for a reasonable period of time, the auditor should evaluate the adequacy of the financial statement disclosures as required by the applicable financial reporting framework. (Ref: par. A33–A34A29–A30)</p>	<p>A31-A29. Some financial reporting frameworks provide requirements about management’s responsibilities to evaluate whether substantial doubt exists about an entity’s ability to continue as a going concern for a reasonable period of time and provide explicit requirements about financial statement disclosures.</p> <p>A32-A30. For example, under GAAPthe FASB standards, if, after considering management’s plans, substantial doubt about an entity’s ability to continue as a going concern for a reasonable period of time is not alleviated, that is, substantial doubt exists, the entity is required to include a statement in the notes to the financial statement indicating that there is substantial doubt about the entity’s ability to continue as a going concern within one year after the date that the financial statements are issued. Additionally, the entity is required to disclose information that enables users of the financial statements to understand all of the following:³¹</p> <ul style="list-style-type: none"> a. Principal conditions or events that raise substantial doubt about the entity’s ability to continue as a going concern for a reasonable period of time, b. Management’s evaluation of the significance of those conditions or events in relation to the entity’s ability to meet its obligations, and c. Management’s plans that are intended to mitigate the conditions or events that raise substantial doubt about the entity’s ability to continue as a going concern for

³¹ FASB ASC 205-40-50-132.

Introduction, Effective Date, Objectives, Definition, and Requirements	Application and Other Explanatory Material
	a reasonable period of time.
<i>Adequacy of Disclosures When Conditions or Events Have Been Identified But No Substantial Doubt Exists</i>	<i>Adequacy of Disclosures When Events or Conditions Have Been Identified But No Substantial Doubt Exists</i> (Ref: par. 23)
<p>21-23. If conditions or events, <u>considered in the aggregate</u>, have been identified that raise substantial doubt about the entity’s ability to continue as a going concern for a reasonable period of time but, based on the audit evidence obtained, the auditor concludes, that substantial doubt about the entity’s ability to continue as a going concern for a reasonable period of time has been alleviated by management’s plans, the auditor should evaluate the adequacy of the financial statement disclosures required by the applicable financial reporting framework. (Ref: par. <u>A31-A33</u>)</p>	<p>A33-A31. Even in situations when events or conditions that raise substantial doubt about an entityentity’s ability to continue as a going concern for a reasonable period of time have been identified but management concludes that no substantial doubt exists after considering management’s plans, the auditor is required by paragraph 23 to evaluate the adequacy of the financial statement disclosures. Some required by the applicable financial reporting frameworks may address such disclosures framework. For example, GAAPthe FASB standards requiresstate that if, after considering management’s plans, substantial doubt about an entity’s ability to continue as a going concern for a reasonable period of time is alleviated as a result of consideration of management’s plans, an entity <u>shall</u> disclose in a note to the financial statements information that enables users of the financial statements to understand all of the following:³²</p> <ul style="list-style-type: none"> a. Principal conditions or events that raised substantial doubt about the entity’s ability to continue as a going concern for a reasonable period of time (before consideration of management’s plans), b. Management’s evaluation of the significance of those conditions or events in relation to the entity’s ability to meet its obligations, and c. Management’s plans that alleviated substantial doubt about the entity’s ability to continue as a going concern for a reasonable period of time.

³² FASB ASC 205-40-50-12.

Introduction, Effective Date, Objectives, Definition, and Requirements	Application and Other Explanatory Material
	<p>A34,A32. The auditor’s evaluation as to whether the financial statements achieve fair presentation includes the consideration of the overall presentation, structure, and content of the financial statements, and whether the financial statements, including the related notes, represent the underlying transactions and events in a manner that achieves fair presentation.³³ Depending on the facts and circumstances, the auditor may determine that additional disclosures are necessary to achieve fair presentation. This may be the case, for example, when conditions or events have been identified that raise substantial doubt on the entity’s ability to continue as a going concern but, based on the audit evidence obtained, the auditor concludes that no substantial doubt exist about the entity’s ability to continue as a going concern for a reasonable period of time, and no disclosures are explicitly required by the applicable financial reporting framework regarding these circumstances.</p> <p>A35-A33. In the absence of disclosures explicitly required by the applicable financial reporting framework that address management’s assessmentevaluation of the entity’s ability to continue as a going concern for a reasonable period of time, the auditor may consider the disclosure guidance set out in paragraphs A30-A32 in considering whether the financial statements are fairly presented.</p>
Implications for the Auditor’s Report	Implications for the Auditor’s Report
<i>Use of Going Concern Basis of Accounting Is Inappropriate</i>	<i>Use of Going Concern Basis of Accounting Is Inappropriate</i> (Ref: par. 24)
22,24. If the financial statements have been prepared using the going concern basis	A36,A34. If the financial statements have been prepared

³³ Paragraph 17 of AU-C section 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*.

Introduction, Effective Date, Objectives, Definition, and Requirements	Application and Other Explanatory Material
<p>of accounting but, in the auditor’s judgment, management’s use of the going concern basis of accounting in the preparation of the financial statements is inappropriate, the auditor should express an adverse opinion. (Ref: par. A34–A36)</p>	<p>using the going concern basis of accounting but, in the auditor’s judgment, management’s use of the going concern basis of accounting in the financial statements is inappropriate, the requirement in paragraph 24 for the auditor to express an adverse opinion applies regardless of whether or not the financial statements include disclosure of the inappropriateness of management’s use of the going concern basis of accounting.</p> <p>A37-A35. A37-A35. When the use of the going concern basis of accounting is not appropriate in the circumstances, management may be required, or may elect, to prepare the financial statements on another basis (for example, under GAAPthe FASB standards, the entity is required to comply with subtopic 205-30, <i>Liquidation Basis of Accounting</i>, when an entity’s liquidation becomes imminent).</p> <p>A38-A36. A38-A36. AU-C sectionSection 9700, <i>Reporting on Financial Statements Prepared on a Liquidation Basis of Accounting</i>, addresses the situation when an auditor issues an unmodified opinion on the entity’s financial statements prepared under the liquidation basis of accounting and the auditor determines an emphasis-of-matter paragraph is appropriate.</p>
<p><i>Use of Going Concern Basis of Accounting Is Appropriate But Substantial Doubt Exists</i></p>	<p><i>Use of the Going Concern Basis of Accounting Is Appropriate But Substantial Doubt Exists</i> (Ref: par. 25–2526)</p>
<p>23-25. 23-25. If, after considering identified conditions or events and management’s plans, the auditor concludes that substantial doubt about the entity’s ability to continue as a going concern for a reasonable period of time remains, the auditor should include an emphasis-of-matter paragraph in the auditor’s report.³⁴ (Ref: par. A37–A43)</p> <p>24-26. 24-26. The emphasis-of-matter paragraph about the entity’s ability to continue as a going concern for a reasonable period of time should be expressed through the use</p>	<p>A39-A37. A39-A37. When GAAPthe FASB standards isare the applicable financial reporting framework used in the preparation of the financial statements, the auditor’s conclusion about the entity’s ability to continue as a going concern is expressed through the use of the phrase "substantial doubt about its (the entity’s) ability to continue as a going concern." In other</p>

³⁴ 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.

Introduction, Effective Date, Objectives, Definition, and Requirements	Application and Other Explanatory Material
<p>of terms required by the applicable financial reporting framework. In a going-concern emphasis-of-matter paragraph, the auditor should not use conditional language concerning the existence of substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time.</p>	<p>financial reporting frameworks, a similar term may be appropriate depending on the requirements of the applicable financial reporting framework. If the applicable financial reporting framework does not include comparable terms, then wording that includes the terms <i>substantial doubt</i> and <i>going concern</i> may be appropriate.</p> <p>A40.A38. <u>A41.A38.</u> The following is an illustration of a going-concern emphasis-of-matter paragraph when: (i) the auditor concludes substantial doubt exists about the entity's ability to continue as a going concern for a reasonable period of time; (ii) management's plans do not alleviate the substantial doubt, and (iii) the Company entity is required under the financial reporting framework to include a statement in the notes to the financial statements that substantial doubt exists:</p> <p style="text-align: center;">Emphasis of Matter Regarding Going Concern</p> <p>The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As stateddiscussed in Note X to the financial statements, the Company has included a statement that substantial doubt exists about the Company's ability to continue as a going concern. The Company has suffered recurring losses from operations and has a net capital deficiency; these events, conditions, and management's plans regarding these matters are also described in Note X. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.</p> <p>A41.A39. <u>A41.A39.</u> The following is an illustration of a going-concern emphasis-of-matter paragraph when: (i) the auditor concludes that substantial doubt exists about the entity's ability</p>

Introduction, Effective Date, Objectives, Definition, and Requirements	Application and Other Explanatory Material
	<p>to continue as a going concern for a reasonable period of time; (ii) management’s plans do not alleviate the substantial doubt, and (iii) the Company entity is not required under the financial reporting framework to include a statement in the notes to the financial statements that substantial doubt exists:</p> <p style="text-align: center;">Emphasis of Matter Regarding Going Concern</p> <p>The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note X to the financial statements, the Company has suffered recurring losses from operations and has a net capital deficiency that raise substantial doubt about its ability to continue as a going concern. Management’s plans in regard to these matters are also described in Note X. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.</p> <p>A40. If conditions or events, considered in the aggregate, have been identified that raise substantial doubt about the entity’s ability to continue as a going concern for a reasonable period of time but, based on the audit evidence obtained, the auditor concludes, that substantial doubt about the entity’s ability to continue as a going concern for a reasonable period of time has been alleviated by management’s plans, the auditor may include an emphasis-of-matter paragraph in accordance with AU-C Section 706 making reference to management’s disclosures related to the conditions or events and that and events and management’s plans related to those conditions and events.³⁵</p> <p>A42.A41. The following is an illustration of an emphasis-</p>

³⁵ Paragraphs 6–7 of AU-C Section 706. *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor’s Report.*

Introduction, Effective Date, Objectives, Definition, and Requirements	Application and Other Explanatory Material
	<p><u>of-matter paragraph when management has disclosed (i) conditions or events, considered in the aggregate, that raised substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time and (ii) its valuation of the significance of those conditions or events, considered in the aggregate, in relation to the entity's ability to meet its obligations and (iii) the substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time has been alleviated³⁶ by management's plans.</u></p> <p><u>As discussed in Note X to the financial statements, the Company has suffered recurring losses from operations and has a net capital deficiency. Management's plans in regards to these matters are also described in Note X. Our opinion is not modified with respect to this matter.</u></p> <p><u>A43,A42.</u> Examples of conditional language that is inappropriate to use in the emphasis-of-matter paragraph include the following:</p> <ul style="list-style-type: none"> • "If the Company continues to suffer recurring losses from operations and continues to have a net capital deficiency, there may be substantial doubt about its ability to continue as a going concern." • "The Company has been unable to renegotiate its expiring credit agreements. Unless the Company is able to obtain financial support, there is substantial doubt about its ability to continue as a going concern." <p><u>A44,A43.</u> Disclaiming an opinion, rather than expressing an opinion and including a going concern emphasis-of-matter paragraph in the auditor's report, does not obviate the need for disclosure in the auditor's report of the matter giving rise to the</p>

³⁶ Paragraphs 6-7 of AU C Section 706, *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*.

Introduction, Effective Date, Objectives, Definition, and Requirements	Application and Other Explanatory Material
	disclaimer.
<i>Adequate Disclosure About an Entity's Ability to Continue as a Going Concern Is Not Made in the Financial Statements</i>	<i>Adequate Disclosure About an Entity's Ability to Continue as a Going Concern Is Not Made in the Financial Statements</i>
25-27. If adequate disclosure about an entity's ability to continue as a going concern for a reasonable period of time is not made in the financial statements, the auditor should express a qualified opinion or adverse opinion, as appropriate, in accordance with AU-C section <u>Section</u> 705 (Revised); ³⁷ (Ref: par. A47 <u>A44</u>)	A45-A44. When the auditor of a regulated entity considers that it may be necessary to include a reference to going concern matters in the auditor's report, the auditor may have a duty to communicate with the applicable regulatory, enforcement, or supervisory authorities. (Ref: par. 27)
<i>Disclaiming an Opinion in Cases Involving Uncertainties</i>	<i>Disclaiming an Opinion in Cases Involving Uncertainties</i> (Ref: par. 27)
Nothing in this proposed SAS precludes an auditor from disclaiming an opinion in cases involving uncertainties. When the auditor disclaims an opinion, the report should not include the going concern emphasis of matter paragraph described in paragraph 24 of this proposed SAS but, rather, describe the substantive reasons for the auditor's disclaimer of opinion in the auditor's report as required by AU-C section 705. ³⁸ The auditor should consider the adequacy of disclosure of the uncertainties and their possible effects on the financial statements as described in paragraphs 21 and 22 of this proposed SAS even when disclaiming an opinion. (Ref: par. A48)	A46. In situations involving multiple uncertainties that are significant to the financial statements as a whole, the auditor may consider it appropriate in extremely rare cases to express a disclaimer of opinion instead of including the emphasis of matter paragraph required by paragraph 24. AU-C section 705 (Revised) provides guidance on this issue. ³⁹
<i>Management Unwilling to Make or Extend Its AssessmentEvaluation</i>	<i>Management Unwilling to Make or Extend Its AssessmentEvaluation</i> (Ref: par. 28)
26-28. In situations described in paragraphs 16 and 17, if management is unwilling to make or extend its assessment evaluation when requested to do so by the auditor, the auditor should consider the implications for the auditor's report. (Ref: par. A49 <u>A45</u>)	A47-A45. In certain circumstances, the auditor may believe it necessary to request management to make or extend its assessment evaluation. If management is unwilling to do so, a qualified opinion or a disclaimer of opinion in the auditor's

³⁷ AU-C ~~s~~Section 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*.

³⁸ Paragraph 17 of AU-C section 705, *Modifications to the Opinion in the Independent Auditor's Report* (AICPA, *Professional Standards*).

³⁹ Paragraph 10 of AU-C section 705 (Revised).

Introduction, Effective Date, Objectives, Definition, and Requirements	Application and Other Explanatory Material
	<p>report may be appropriate, because it may not be possible for the auditor to obtain sufficient appropriate audit evidence regarding management’s use of the going concern basis of accounting in the preparation of the financial statements, such as audit evidence regarding the existence of plans management has put in place or the existence of other mitigating factors. In addition, management’s unwillingness to make or extend its evaluation when requested by the auditor because management’s evaluation did not meet the period of time required by the applicable financial reporting framework may be an indicator of a deficiency in internal control that is required to be evaluated as to whether it constitutes a significant deficiency or material weakness in accordance with AU-C Section 265⁴⁰.</p>
<p>Communication With Those Charged With Governance</p>	
<p>27-29. Unless all those charged with governance are involved in managing the entity,⁴¹ the auditor should communicate with those charged with governance conditions and events, considered in the aggregate, that exist that raise substantial doubt about an entity’s ability to continue as a going concern for a reasonable period of time. ⁴²-Such communication with those charged with governance should include the following:</p> <ul style="list-style-type: none"> a. Whether the conditions or events, considered in the aggregate, that raise substantial doubt about an entity’s ability to continue as a going concern for a reasonable period of time constitute substantial doubt; b. Whether management’s use of the going concern basis of accounting is appropriate in the preparation of the financial statements; c. The adequacy of related disclosures in the financial statements; and 	

⁴⁰ [Communicating Internal Control Related Matters Identified in an Audit](#)

⁴¹ [Paragraph 9 of AU-C Section 260, The Auditor’s Communication With Those Charged With Governance.](#)

⁴² ~~[Paragraph 9 of AU-C 260, The Auditor’s Communication With Those Charged With Governance.](#)~~

Introduction, Effective Date, Objectives, Definition, and Requirements	Application and Other Explanatory Material
<p>d. Where<u>When</u> applicable, the implications for the auditor's report.</p>	
<p>Comparative Presentations</p>	<p>Comparative Presentations (Ref: par. 30)</p>
<p>28.30. If substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time existed at the date of prior period financial statements that are presented on a comparative basis and that doubt has been removed in the current period, the going-concern emphasis-of-matter paragraph included in the auditor's report on the financial statements of the prior period should not be repeated. (Ref: par. A50<u>A46</u>)</p>	<p><u>A46.</u> Substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time that arose in the current period does not imply that a basis for such doubt existed in the prior period and, therefore, does not affect the auditor's report on the financial statements of the prior period that are presented on a comparative basis. AU-C section<u>Section</u> 700, <i>Forming an Opinion and Reporting on Financial Statements</i> (AICPA, <i>Professional Standards</i>), provides guidance on reporting when financial statements of one or more prior periods are presented on a comparative basis with financial statements of the current period.</p> <p>A48.<u>A47.</u> <u>A financial reporting framework may contain disclosure requirements in a subsequent period in which substantial doubt no longer exists. For example, FASB standards state that for the period in which substantial doubt no longer exists (before or after consideration of management's plans), an entity shall disclose how the relevant conditions or events that raised substantial doubt were resolved.</u>⁴³</p>

⁴³ FASB ASC 205-40-50-14.

Introduction, Effective Date, Objectives, Definition, and Requirements	Application and Other Explanatory Material
<p>Eliminating a Going-Concern Emphasis-of-Matter Paragraph From a Reissued Report</p>	<p>Eliminating a Going-Concern Emphasis-of-Matter Paragraph From a Reissued Report (Ref: par. 31)</p>
<p>29.31. The auditor may be requested to reissue an auditor’s report and eliminate a going-concern emphasis-of-matter paragraph contained therein. Although an auditor has no obligation to reissue the report, if the auditor decides to reissue the report, the auditor should reassess the going-concern status of the entity by:</p> <ul style="list-style-type: none"> a. Performing audit procedures related to the event or transaction that prompted the request to reissue the report without the going-concern emphasis-of-matter paragraph. b. Performing the procedures listed in AU-C sectionSection 560, <i>Subsequent Events and Subsequently Discovered Facts</i> (AICPA, Professional Standards), at or near the date of reissuance.⁴⁴ c. Considering the matters described in paragraphs 4718 and 4819 of this proposed SAS based on the conditions or circumstances at the date of reissuance. d. Considering the implications for the auditor’s report in accordance with AU-C sectionSection 560.⁴⁵ (Ref: par. A51–A52, A48–A49) 	<p>A49. A48. After the auditor has issued the auditor’s report containing a going-concern emphasis-of-matter paragraph, the auditor may be asked to reissue the auditor’s report on the financial statements and eliminate the going-concern emphasis-of-matter paragraph that appeared in the original report. Such requests ordinarily occur after the conditions or events, <u>considered in the aggregate</u>, that gave rise to substantial doubt about the entity’s ability to continue as a going concern for a reasonable period of time have been resolved. For example, subsequent to the date of the auditor’s original report, an entity might obtain needed financing.</p> <p>A50. A49. The auditor may perform procedures in addition to those required by paragraph 3431 of this proposed SAS that the auditor deems necessary in the circumstances—<u>when reassessing the entity’s ability to continue as a going concern for a reasonable period of time.</u></p>
<p>Significant Delay in the Approval of Financial Statements</p>	
<p>30.32. If there is significant delay in the <u>approval</u> issuance (or the availability to be issued) of the financial statements by management or those charged with governance after the date of the financial statements, the auditor should inquire as to the reasons for the delay. If the auditor believes that the delay could be related to <u>the conditions or events relating to evaluation of whether substantial doubt about the entity’s ability to continue as a going concern assessment exists</u>, the auditor should perform those additional audit procedures necessary, as described</p>	

⁴⁴ Paragraphs .9–.10 of AU-C ~~s~~Section 560, *Subsequent Events and Subsequently Discovered Facts* (AICPA, Professional Standards).

⁴⁵ Paragraph 13 of AU-C ~~s~~Section 560.

Introduction, Effective Date, Objectives, Definition, and Requirements

Application and Other Explanatory Material

in paragraph ~~17~~18, as well as consider the effect on the auditor's conclusion regarding the existence of substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time, as described in paragraph 21.

Conforming Amendments

AU-C 580, *Written Representations*

...

Preparation and Fair Presentation of the Financial Statements

.10 The auditor should request management to provide a written representation that it has fulfilled its responsibility, as set out in the terms of the audit engagement,

a. for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework;
b. *for completing its evaluation related to whether there is substantial doubt about the entity's ability to continue as a going concern [when the financial reporting framework requires management to evaluate whether there is substantial doubt about the entity's ability to continue as a going concern], and*

c. for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. fn 2 (Ref: par. .A7–.A10, .A22, and .A29)

AU-C 800, Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks

Requirement	Application Guidance
<p>Fair Presentation (Ref: par. .A19—.A23)</p> <p>17. Section 700 requires the auditor to evaluate whether the financial statements achieve fair presentation.⁷ In an audit of special purpose financial statements when the special purpose financial statements contain items that are the same as, or similar to, those in financial statements prepared in accordance with GAAP, the auditor should evaluate whether the financial statements include informative disclosures similar to those required by GAAP. The auditor should also evaluate whether additional disclosures, beyond those specifically required by the framework, related to matters that are not specifically identified on the face of the financial statements or other disclosures are necessary for the financial statements to achieve fair presentation. <u>In evaluating whether the financial statements achieve fair presentation, the auditor should evaluate whether the financial statements properly disclose the entity’s risks and uncertainties related to financial reporting.</u></p> <p>⁷ Paragraph .17 of sectionSection 700.</p>	<p>.A19 Financial statements, including the related notes that achieve a fair presentation include all informative disclosures that are appropriate for the applicable financial reporting framework, including matters that affect their use, understanding, and interpretation. Also refer to paragraph A11.</p> <p>.A20 When the special purpose financial statements contain items that are the same as, or similar to, those in financial statements prepared in accordance with GAAP, informative disclosures similar to those required by GAAP are necessary to achieve fair presentation. For example, financial statements prepared on a tax basis or on a modified cash basis of accounting usually reflect depreciation, long-term debt, and owners’ equity. Thus, the informative disclosures for depreciation, long-term debt, and owners’ equity in such financial statements would be comparable to those in financial statements prepared in accordance with GAAP.</p> <p><u>A20a. As explained in the proposed AU-C Section 570, special purpose financial statements may or may not be prepared in accordance with a financial reporting framework for which the going concern basis of accounting is applied.⁴⁶</u></p> <p><u>A20b. For audits of special purpose financial statements where the going concern basis of accounting is applicable, AU-C Section 570 applies.</u></p> <p><u>A20c. Regardless if AU-C sectionSection 570 applies, if the auditor has already included an emphasis-of-matter paragraph related to substantial doubt about the entity’s ability to continue as a going concern in the auditor’s report of the general purpose financial statements, the auditor may reference this emphasis-of-matter paragraph in the audit of a special purpose framework instead of repeating the emphasis-of-matter paragraph.</u></p>

Formatted: Font: Not Bold, Not Italic

Formatted: Font: Not Bold, Not Italic

⁴⁶ Paragraph 3 of proposed AU-C section 570, *The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern* (AICPA, Professional Standards).

Requirement	Application Guidance
	<p><u>if the general purpose financial statements are available to the users of the special purpose financial statements. AU-C Section 810 provides an explanation with respect when financial statements are deemed to be available.⁴⁷</u></p> <p><u>A20d. In evaluating whether the financial statements achieve fair presentation, the auditor is required to evaluate whether the financial statements properly disclose the entity’s risks and uncertainties. As result, even if the special purpose financial statements are prepared in accordance with a financial reporting framework for which the going concern basis of accounting is not applied, the auditor has responsibilities to obtain sufficient appropriate audit evidence on whether the entity has disclosed its risks and uncertainties related to financial reporting in order to achieve a fair presentation. The auditor may consider FASB ASC 275, <i>Risks and Uncertainties</i>, and ASC 450, <i>Contingencies</i>, as guidance of risk and uncertainties related to financial reporting. Certain of these uncertainties may not be applicable to the special purpose financial statements if it is related to a specific account or disclosure that is not part of the special purpose financial statements, for example, certain concentration disclosures.</u></p>

Paragraph A7 of AU-C Section 810, *Engagements to Report on Summary Financial Statements*.

AU-C ~~section~~Section 805, Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement

<u>Requirement</u>	<u>Application Guidance</u>
<p>.11 The auditor’s determination required by paragraph 10 should include consideration of whether the application of the financial reporting framework will result in a presentation that provides adequate disclosures to enable the intended users to understand the information conveyed in the financial statement or the specific element and the effect of material transactions and events on the information conveyed in the financial statement or the specific element. <u>In evaluating whether the single financial statement and specific elements, accounts, or items of a financial statement achieve fair presentation, the auditor should evaluate whether the financial statements or the specific element properly disclose the entity’s risks and uncertainties related to financial reporting.</u></p>	<p><u>A11a. If in the general purpose financial statements, the auditor has included an emphasis-of-matter paragraph related to substantial doubt about the entity’s ability to continue as a going concern and the general purpose financial statements are available to the users of the single financial statement or specific elements, accounts, or items of a financial statement, the auditor may reference this emphasis-of-matter paragraph in the audit of the single financial statement and specific elements, accounts, or items of a financial statement. AU-C Section 810 provides an explanation with respect when financial statements are deemed to be available.</u>⁴⁸</p> <p><u>A11b. In evaluating whether the single financial statements and specific elements, accounts, or items of a financial statement achieve fair presentation, the auditor is required to evaluate whether the single financial statements and specific elements, accounts, or items of a financial statement properly disclose the entity’s risks and uncertainties. The auditor may consider FASB ASC 275, <i>Risks and Uncertainties</i>, and ASC 450, <i>Contingencies</i>, as guidance of risk and uncertainties related to financial reporting. Certain of these uncertainties may not be applicable to the single financial statements and specific elements, accounts, or items of a financial statement if it is related to a specific account or disclosure that is not part of these financial statements or the specific element, for example, certain concentration disclosures.</u></p>