

Agenda Item 1B



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

Introduction, Effective Date, Objectives, Definition, and Requirements	Application and Other Explanatory Material
<p><i>An Entity's Ability to Continue as a Going Concern</i></p>	<p><i>An Entity's Ability to Continue as a Going Concern</i> (Ref: par. 15a-16)</p>
<p>.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<u>information</u>, the auditor should perform interim review procedures related to <i>(a) whether the going concern basis of accounting is appropriate, (b) management's assessment-evaluation if there are conditions or events that raised substantial doubt about the entity's ability to continue as a going concern, (c)</i> and the adequacy of the related disclosures in the interim financial information. (Ref: par. .A23a-<u>.A23b</u>)</p>	<p>.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.</p> <p>.A23b. Certain financial reporting frameworks require management to assess-evaluate the entity's ability to continue as a going concern for a reasonable period of time in preparing interim financial statements<u>information</u>.¹ For example, GAAP requires<u>FASB standards require</u> management to evaluate whether there are conditions and 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.² Under GAAP<u>FASB standards, a-the reasonable-evaluation</u> period of time is defined as one year after the date</p>

Commented [MAP1]: Suggest deleting since did not read right with it.

¹ See paragraph 11 of the proposed SAS, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*, for the definition of reasonable period of time.

² 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*.

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	that the financial statements are issued (or <u>are</u> available to be issued when applicable). ³
<p>.16 If the applicable financial reporting framework does not include a requirement for management to <u>assess-evaluate</u> the entity's ability to continue as a going concern for a reasonable period time in preparing interim financial <u>statementsinformation</u></p> <p><i>i.</i>: if (a) 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> 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<u>raise substantial doubt about the entity's ability</u> to continue as a going concern for a reasonable period of time, the auditor should:</p>	
<p><u>a. Inquire of management whether the going concern basis of accounting is appropriate.</u></p> <p>a<u>b.</u> Inquire of management about its plans for dealing with the adverse effects of the conditions or events, and (Ref: <u>par. .A23</u>)</p>	<p>.A23 A review of interim financial information is not designed to identify conditions or events that may indicate substantial doubt about an-the entity's ability to continue as a going concern for a reasonable period of time. However, conditions or events that may ea<u>raise</u> substantial doubt on-<u>about</u> the entity's ability to continue as a going concern for a reasonable period of time 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</p>

³ FASB ASC 205-40-50-1

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	support of the information that mitigates the effects of the conditions or events.
<p>bc. Consider the adequacy of the disclosure about such matters in the interim financial information. (Ref: par. A24)</p>	<p>A24 <u>Section 570, The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern, A24</u> AU-C Section 570 may provide useful guidance to the auditor when considering whether adequate and appropriate disclosure exists in the interim financial information about the entity's ability to continue as a going concern for a reasonable period of time. ^{fn4} When</p> <ul style="list-style-type: none"> a. conditions or events have been identified as of the interim reporting date covered by the review and substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time exists or does not exist, or 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 <u>for a reasonable period of time</u>, and the conditions that raised such doubt continued to exist as of the interim reporting date covered by the review. <p><u>the auditor is not required to modify the report if there is adequate and appropriate disclosure about these conditions or events in the interim financial information. However, if the auditor determines that the disclosure related to substantial doubt</u></p>

^{fn4} Paragraphs ~~2122~~ and ~~2223~~ of ~~section~~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><u>about the entity's ability to continue as a going concern is inadequate, resulting in a departure from the applicable financial reporting framework, the auditor is required by paragraph .34 to modify the report.</u></p>
<p>...</p>	<p>...</p>
	<p>.A46 If the interim financial information adequately discloses 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>Emphasis-of-Matter in the Auditor's Review Report</p>	<p>Emphasis-of-Matter in the Auditor's Review Report (<u>Ref: par. .36a</u>)</p>
<p>36a. The auditor should include an emphasis-of-matter paragraph⁴ in paragraph in the auditor's review report in any of the following circumstances (<u>Ref: par. .A48a-A48b</u>):</p> <p>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:</p> <p>i. <u>These</u> conditions or events giving rise to the emphasis-of-matter paragraph continue to exist; <u>and</u></p>	<p>A48a. See Appendix D for illustrative examples of the emphasis-of-matter paragraphs.</p> <p>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:</p> <ul style="list-style-type: none"> no statement <u>relating to substantial doubt</u> is included<u>disclosed</u> in the notes to the <u>interim</u> financial statements<u>information</u> because management's plans

⁴ 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.

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<p>ii. These conditions or events raise substantial doubt about an entity's ability to continue as a going concern <u>for a reasonable period of time</u> and management's plans do not alleviate them; and</p> <p><u>This requirement does not depend whether or not</u> the Company is required under the financial reporting framework to include a statement in the notes to the <u>interim</u> financial statement that substantial doubt exists;</p> <p>An emphasis of matter paragraph when a</p> <p>b.—A going concern emphasis-of-matter paragraph was <u>not</u> included in the prior year's auditor's report; and</p> <p>i. same as a(i) —(ii) above, and</p> <p>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;</p> <p>e.—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:</p> <p>i. management is required under the financial reporting framework to include a statement in the notes to the <u>interim</u> financial statements<u>information</u> that substantial doubt exists; and</p> <p>ii. management has included such statement in the notes to the <u>interim</u> financial statements<u>information</u></p> <p>d.b.. (Ref: par. .A48b and A48c)</p>	<p>have alleviated the substantial doubt; or a statement is not required to be included</p> <ul style="list-style-type: none"> <u>the financial reporting framework does not require disclosure of such statement</u> in the notes to the <u>interim</u> financial statements, the information, <p><u>A48c. The auditor may include an emphasis-of-matter paragraph in accordance with AU-C Section 706</u> if management has disclosed in the notes to the financial statements the conditions or events;⁵ <u>in the notes to the financial statements but a statement related to substantial doubt is not required to be included. The following is an illustration of an emphasis-of-matter paragraph when no statement relating to substantial doubt is disclosed in the notes to the interim financial information but conditions or events are disclosed.</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.</u></p>

⁵ Paragraphs 6-7 of AU-C Section 706, *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report.*

Proposed Amendments to AU-C 930
ASB Meeting, May 24-26, 2016

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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 a going concern emphasis-of-matter paragraph was included in the prior year’s auditor’s report,~~ (ii) substantial doubt about an entity’s ability to continue as a going concern ~~continue~~ continues to exist from the prior year, and ~~management’s plans do not alleviate them,~~ (ii)(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; ~~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. 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. The accompanying unaudited 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 a going concern emphasis-of-matter paragraph was included in the prior year’s auditor’s report,~~ (ii) 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)(iii) 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 unaudited 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 Interim Financial Statements Information that Substantial Doubt Exists; Such Statement is included in the Notes to the Interim Financial Statements Information; 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) a going concern emphasis-of-matter paragraph was not included in the prior year's auditor's report, (ii) management is required under the financial reporting framework to include a statement in the notes to the interim financial statements information that substantial doubt exists, ~~(and (iii) such statement is included in the notes to the interim 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-information.~~

[Emphasis-of-Matter Paragraph]

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As ~~indicated~~discussed in Note 3 to the financial statements, ~~events or conditions, as set forth in Note X, indicate~~the Company has included a statement that substantial doubt exists about the Company's ability to continue as a going concern. ~~Management's~~The Company has suffered recurring losses from operations and has a net capital deficiency; these events, conditions, and management's plans in regard to ~~regarding~~ these matters are also described in Note ~~X~~3. The accompanying unaudited interim financial information does not include any adjustments that might result from the outcome of this uncertainty.