

## Agenda Item 1A



**PROPOSED STATEMENT ON AUDITING STANDARDS**  
***THE AUDITOR'S CONSIDERATION OF AN ENTITY'S ABILITY***  
***TO CONTINUE AS A GOING CONCERN***

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## **Proposed Statement on Auditing Standards *The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern***

### **Introduction**

#### **Scope of This Statement on Auditing Standards**

1. This Statement on Auditing Standards (SAS) addresses the auditor’s responsibilities in the audit of financial statements relating to the entity’s ability to continue as a going concern and the implications for the auditor’s report. 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 evaluation of the entity’s ability to continue as a going concern.

#### **Going Concern Basis of Accounting**

2. 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 a reasonable period of time. (Ref: par. ~~A1A1A1~~).

3. A complete set of general purpose financial statements is prepared using the going concern basis of accounting, unless the liquidation basis of accounting is appropriate. 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 applicable (for example, the going concern basis of accounting is not applicable for financial statements prepared on the cash basis of accounting, but is applicable to financial statements prepared in accordance with the AICPA’s Financial Reporting Framework for Small- and Medium-Sized Entities). (Ref: par. A1–A3)

#### **Responsibility for the Evaluation of the Entity’s Ability to Continue as a Going Concern**

##### ***When Management Is Required to Make a Specific Evaluation Under the Financial Reporting Framework***

4. Some financial reporting frameworks explicitly require management to evaluate the entity’s ability to continue as a going concern for a reasonable period of time ~~or~~ and provide disclosures related to the entity’s ability to continue as a going concern. For example, the FASB standards require management to 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).<sup>1</sup> Similarly, GASB statements require financial statement preparers to evaluate whether there is substantial doubt about a governmental entity’s ability to continue as a going concern for 12 months beyond the financial

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<sup>1</sup> “Pending Content” in FASB *Accounting Standards Codification* (ASC) 205-40-50-1.

statement date. GASB statements further require that if information is 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.<sup>2</sup> Law or regulation may also set forth requirements regarding management's responsibility to evaluate the entity's ability to continue as a going concern for a defined period of time and related financial statement disclosures. (Ref: par. A4)

5. 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:

- a. 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.
- b. 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.
- c. 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). [Reasonably knowable refers to the notion that an entity should make a reasonable effort to identify conditions and events that it may not readily know, but would be able to identify without undue cost and effort.](#) Subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made. (Ref: par. A5)

### ***When Management Is Not Required to Make a Specific Evaluation Under the Financial Reporting Framework***

6. Other financial reporting frameworks may ~~not have~~ ~~no~~ have an explicit requirement for management to evaluate the entity's ability to continue as a going concern for a reasonable period of time. Nevertheless, when 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 evaluate~~ the entity's ability to continue as a going concern for a reasonable period of time [is an important consideration in the preparation of the financial statements even if the financial reporting framework does not include an explicit requirement to do so.](#)

### ***Responsibilities of the Auditor***

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<sup>2</sup> Paragraph 16 of GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*.

7. ~~Left blank. The auditor's responsibilities are as follows:~~

- ~~a. 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~~
- ~~b. To conclude, based on the audit evidence obtained, 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 exists.~~

~~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 evaluation of the entity's ability to continue as a going concern.~~

8. However, as described in AU-C section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*,<sup>3</sup> the potential effects of inherent limitations on the auditor's ability to detect material misstatements are greater for future events or conditions, 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. 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 of the entity's ability to continue as a going concern for a reasonable period of time.

### Effective Date

9. If adopted, this SAS will be effective for audits of financial statements for periods ending on or after December 15, 2017.

### Objectives

10. The objectives of the auditor are as follows:

- 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 ~~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 exists
- c. To evaluate the possible financial statement effects, including the adequacy of

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<sup>3</sup> 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*.

disclosure regarding the entity's ability to continue as a going concern for a reasonable period of time

- d. To report in accordance with this SAS

## Definition

11. For purposes of this SAS, the following term has the meaning attributed as follows:

**Reasonable period of time.** The period of time required by the applicable financial reporting framework or if no such requirement exists, one year from the date the financial statements are issued or are available to be issued. (Ref: par. A6)

## Requirements

### Risk Assessment Procedures and Related Activities

#### *Conditions or Events That Raise Substantial Doubt About an Entity's Ability to Continue as a Going Concern*

12. When performing risk assessment procedures as required by AU-C section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*,<sup>4</sup> the auditor should consider 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. In doing so, the auditor should determine whether management has already performed a preliminary evaluation of whether ~~there are such~~ conditions or events ~~exists that raise substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time~~: (Ref: par A7–A14)

- a. If such an evaluation has been performed, the auditor should discuss the evaluation with management and determine whether management has identified conditions or events that raise substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time and, if so, understand management's plans to address them.
- b. If such an 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 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.

#### *Remaining Alert Throughout the Audit for Audit Evidence About Conditions or Events*

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<sup>4</sup> Paragraph .05 of AU-C section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*.

**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)

### **Management's Evaluation and Supporting Analysis and the Auditor's Evaluation**

**14.** The auditor's evaluation should:

- a. ~~evaluate~~ assess management's evaluation 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. (Ref: par. A16–A21)
- b. ~~The auditor's evaluation should~~ cover the same period as that used by management in its evaluation as required by the applicable financial reporting framework.
- c. ~~The auditor should~~ consider whether management's evaluation includes all relevant information of which the auditor is aware as a result of the audit.

**15.** Left Blank

**14.16.** Left Blank

### **Period Beyond Management's Evaluation**

**15.17.** The auditor should inquire of management regarding its knowledge of conditions or events beyond the period of management's evaluation ~~that raise substantial doubt~~ about the entity's ability to continue as a going concern. (Ref: par. A20, A22–A23)

### **Additional Audit Procedures When Events or Conditions Are Identified**

**16.18.** The auditor should obtain sufficient appropriate audit evidence to determine whether the conditions and events identified, considered in the aggregate, 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 the following: (Ref: par. A25)

- a. Requesting management to make an evaluation when management has not yet performed an evaluation
- b. Evaluating management's plans in relation to its going concern evaluation, with regard to whether it is probable that (Ref: par. A26)
  - 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
- 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. A27–A26a)
  - i. evaluating the reliability of the underlying data generated to prepare the forecast

and

- ii. determining whether there is adequate support for the assumptions underlying the forecast, [including considering contradictory audit evidence](#)
- d. Considering whether any additional facts or information have become available since the date on which management made its evaluation

**18a.** [When management's assumptions include continued support by third parties or the entity's owner-manager, whether through the subordination of loans, commitments to maintain or provide additional funding, or guarantees, and such support is essential in evaluating the conditions or events that raised substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time, the auditor should request a written confirmation \(including of terms and conditions\) from those parties and obtain evidence of their ability to provide such support. \(Ref: par. A21, A26b-A26g\)](#)

### Written Representations

**17.19.** If the auditor believes, before consideration of management's plans pursuant to paragraph 18, that substantial doubt exists about the entity's ability to continue as a going concern for a reasonable period of time, the auditor should request the following written representations from management: (Ref: par. A29-[A28a](#))

- a. ~~Its~~ [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 probability that those plans can be effectively implemented
- 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 and management's plans

### Auditor Conclusions

#### *Use of the Going Concern Basis of Accounting*

**18.20.** The auditor should evaluate whether sufficient appropriate audit evidence has been obtained and conclude on the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

#### *Substantial Doubt About the Entity's Ability to Continue as a Going Concern*

**19.21.** Based on the audit evidence obtained, the auditor should conclude whether, in the auditor's judgment, 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.

*Adequacy of Disclosure When Conditions or Events Have Been Identified and Substantial Doubt Exists*

**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. A30–A31**b**)

*Adequacy of Disclosures When Conditions or Events Have Been Identified But Substantial Doubt Has Been Alleviated by Management's Plans*

**21.23.** 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 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. A32–A34)

**Implications for the Auditor's Report**

*Use of Going Concern Basis of Accounting Is Inappropriate*

**22.24.** If the financial statements have been prepared 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 preparation of the financial statements is inappropriate, the auditor should express an adverse opinion. (Ref: par. A35–A37)

*Use of the Going Concern Basis of Accounting Is Appropriate But Substantial Doubt Exists*

**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.<sup>5</sup> (Ref: par. A38–A44)

**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 of terms **required by consistent with those included in** 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.

*Adequate Disclosure About an Entity's Ability to Continue as a Going Concern Is Not Made in the Financial Statements*

**25.27.** If adequate disclosure about an entity's ability to continue as a going concern for a

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<sup>5</sup> Paragraphs .06–.07 of AU-C section 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report*, address requirements concerning emphasis-of-matter paragraphs.

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 705, *Modifications to the Opinion in the Independent Auditor's Report*.<sup>6</sup> (Ref: par. [A43A43a](#))

#### *Management Unwilling to Make or Extend Its Evaluation*

**26.28.** If management is unwilling to [make-perform](#) or extend its evaluation [to meet the period of time required by the financial reporting framework](#) when requested to do so by the auditor, the auditor should consider the implications for the auditor's report. (Ref: par. A45)

#### **Communication With Those Charged With Governance**

**27.29.** Unless all those charged with governance are involved in managing the entity,<sup>7</sup> the auditor should communicate with those charged with governance conditions and 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. Such communication with those charged with governance should include

- 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.
- ~~b.c.~~ the adequacy of related disclosures in the financial statements.
- ~~e.d.~~ when applicable, the implications for the auditor's report.

#### **Comparative Presentations**

**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. A46–A47)

#### **Eliminating a Going-Concern Emphasis-of-Matter Paragraph From a Reissued Report**

**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

- 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.

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<sup>6</sup> See AU-C section 705, *Modifications to the Opinion in the Independent Auditor's Report*.

<sup>7</sup> Paragraph .09 of AU-C section 260, *The Auditor's Communication With Those Charged With Governance*.

- b. performing the procedures listed in AU-C section 560, *Subsequent Events and Subsequently Discovered Facts*, at or near the date of reissuance, [including adequacy of the disclosures regarding management's plans](#).<sup>8</sup>
- c. considering the matters described in paragraphs 18–19 of this 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 section 560.<sup>9</sup> (Ref: par.A48–A49)

### Significant Delay in the Issuance of Financial Statements

**30.32.** If there is significant delay in the [expected](#) issuance of the financial statements by management or those charged with governance ~~after the date of the financial statements (or the availability to be issued)~~ [auditor's report](#), the auditor should inquire as to the reasons for the delay. If the auditor believes that the delay could be related to the evaluation of whether there is substantial doubt about the entity's ability to continue as a going concern, the auditor should perform those additional audit procedures necessary, as described in paragraph 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.

### Documentation

**31.33.** If the auditor believes [there is, or](#) before consideration of management's plans, there ~~is~~ [was](#) substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time, the auditor should document the following: (Ref: par. A50)

- a. The conditions or events that led the auditor to believe that there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time.
- b. The elements of management's plans that the auditor considered to be particularly significant to overcoming the conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern, [if applicable](#).
- c. The audit procedures performed to evaluate the significant elements of management's plans and evidence obtained, [if applicable](#).
- d. The auditor's conclusion as to whether substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time remains or is alleviated. If substantial doubt remains, the auditor also should document the possible effects of the conditions or events on the financial statements and the adequacy of the related disclosures. If substantial doubt is alleviated, the auditor also should document the

<sup>8</sup> Paragraphs .09–.11~~0~~ of AU-C section 560, *Subsequent Events and Subsequently Discovered Facts*.

<sup>9</sup> Paragraph .13 of AU-C section 560.

auditor's conclusion as to the need for, and, if applicable, the adequacy of, disclosure of the principal conditions or events that initially caused the auditor to believe there was substantial doubt and management's plans that alleviated the substantial doubt.

- e. The auditor's conclusion with respect to the effects on the auditor's report.

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## Application and Other Explanatory Material

### Going Concern Basis of Accounting (Ref: par. 3)

**A1.** 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.<sup>10</sup> 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.

**A2.** AU-C section 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*, addresses audits of special purpose financial statements, including applicability of this SAS. AU-C section 800 and AU-C section 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement*, also address consideration of management's disclosures related to risks and uncertainties.<sup>11</sup>

### Considerations Specific to Public SectorGovernmental Entities

**A3.** Management's use of the going concern basis of accounting is also relevant to financial statements of public sectorgovernmental entities. For example, GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, addresses the issue of the ability of public sectorgovernmental entities to continue as a going concern for one year beyond the financial statement date, with consideration of information known to the government that may raise substantial doubt shortly thereafter (for example, within an additional three months)a reasonable period of time.<sup>12</sup> Going concern indicators may arise in, but are not limited to, situations in which public sectorgovernmental 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

<sup>10</sup> FASB ASC 205-30.

<sup>11</sup> 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*.

<sup>12</sup> Paragraphs 16–19 of GASB Statement No. 56.

the ~~public sector~~governmental entities may include situations in which the ~~public sector~~governmental entity lacks funding for its continued existence or when policy decisions are made that affect the services provided by the ~~public sector~~governmental entity.

### **Responsibility for the Evaluation of the Entity's Ability to Continue as a Going Concern**

#### ***When Management Is Required to Make a Specific Evaluation Under the Financial Reporting Framework (Ref: par. 4–5)***

**A4.** The FASB standards define substantial doubt about an entity's ability to continue as a going concern as follows:

Substantial doubt about an entity's ability to continue as a going concern exists when conditions and events, considered in the aggregate, indicate that it is probable that the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable). The term *probable* is used consistently with its use in topic 450 on contingencies.<sup>13</sup>

Other applicable financial reporting frameworks may use different terms that are similar to substantial doubt. For example, International Financial Reporting Standards (IFRS) use the terms *material uncertainty* and *significant doubt*. Also, other applicable financial reporting frameworks may not use *probable* as their threshold. For example, IFRS uses "may cast significant doubt on the entity's ability to continue as a going concern." This SAS uses the terminology of the FASB standards and GASB statements; if an audit is performed on financial statements prepared under another financial reporting framework, the requirements and application guidance may need to be adapted as necessary.

**A5.** In addition to the factors in paragraph 5, the FASB standards require management to consider quantitative and qualitative information about the following conditions and events:<sup>14</sup>

- a. 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)
- b. 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)
- c. 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
- d. The other conditions and events, when considered in conjunction with the items above

<sup>13</sup> "Pending Content" in FASB ASC 205-40-20.

<sup>14</sup> "Pending Content" in FASB ASC 205-40-50-5.

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

**Definition (Ref: par. 11)**

**A6.** Most financial reporting frameworks requiring an explicit management evaluation of the entity's ability to continue as a going concern specify the period of time ~~for events or conditions~~ to be evaluated. For example, the following financial reporting frameworks specify such period of time as follows:

- a. FASB—one year after the date that the financial statements are issued (or are available to be issued, when applicable).<sup>15</sup>
- b. GASB—one year beyond the financial statement date. GASB further requires that if a governmental entity currently knows information that may raise substantial doubt shortly thereafter (for example, within an additional three months), such information also should be considered.<sup>16</sup>
- c. International Accounting Standards Board—at least, but not limited to, one year from the end of the reporting period ~~(that is, the financial statement date)~~.<sup>17</sup>

**Risk Assessment Procedures and Related Activities**

***Conditions or Events That Raise Substantial Doubt About an Entity's Ability to Continue as a Going Concern (Ref: par. 12)***

**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. This listing is not all-inclusive. The existence of one or more of these conditions or events does not determine that there is substantial doubt about the entity's ability to continue as a going concern. 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. 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 consider their anticipated timing.<sup>18</sup>

- a. Negative financial trends, for example, recurring operating losses, working capital deficiencies, negative cash flows from operating activities, and other adverse key financial ratios

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<sup>15</sup> "Pending Content" in FASB ASC 205-40-50-1.

<sup>16</sup> Paragraph 16 of GASB Statement No. 56.

<sup>17</sup> Paragraph 26 of International Accounting Standards No. 1, *Presentation of Financial Statements*.

<sup>18</sup> "Pending Content" in FASB ASC 205-40-55-2.

- b. 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
- c. 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
- d. 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

A7a. The GASB statements also include examples of indicators where there may be substantial doubt about a governmental entity's ability to continue as a going concern as follows:<sup>19</sup>

- a. Negative trends—for example, recurring periods in which expenses or expenditures significantly exceed revenues, recurring unsubsidized operating losses in business-type activities, consistent working capital deficiencies, continuing negative operating cash flows from business-type activities, or adverse key financial ratios
- b. Other indications of possible financial difficulties—for example, default on bonds, loans, or similar agreements; proximity to debt and tax limitations; denial of usual trade credit from suppliers; restructuring of debt (other than refundings); noncompliance with statutory capital or reserve requirements; or the need to seek new sources or methods of financing or to dispose of substantial assets
- c. Internal matters—for example, work stoppages or other labor difficulties, substantial dependence on the success of a particular project or program, uneconomic long-term commitments (burdensome labor contracts, for example), or the need to significantly revise operations
- d. External matters—for example, legal proceedings, legislation, or similar matters that might jeopardize intergovernmental revenues and the fiscal sustainability of key governmental programs; loss of a critical license or patent for a business-type activity; loss of a principal customer, taxpayer, or supplier; or uninsured or underinsured catastrophe such as a drought, earthquake, or flood

**A8.** The significance of such events or conditions often can be mitigated by other factors. The following are examples ~~in the FASB standards~~ of 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 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

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<sup>19</sup> Paragraph 17 of GASB Statement No. 56.

probable<sup>20</sup> the plan will be effectively implemented within one year after the date that the financial statements are issued.<sup>21</sup>

- a. Plans to dispose of an asset or business:
  - i. 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
  - ii. Marketability of the asset or business that management plans to sell
  - iii. Possible direct or indirect effects of disposal of the asset or business
- b. Plans to borrow money or restructure debt:
  - i. 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
  - ii. Existing or committed arrangements to restructure or subordinate debt or to guarantee loans to the entity
  - iii. Possible effects on management's borrowing plans of existing restrictions on additional borrowing or the sufficiency of available collateral
- c. Plans to reduce or delay expenditures:
  - i. Feasibility of plans to reduce overhead or administrative expenditures, to postpone maintenance or research and development projects, or to lease rather than purchase assets
  - ii. Possible direct or indirect effects on the entity and its cash flows of reduced or delayed expenditures
- d. Plans to increase ownership equity:
  - i. Feasibility of plans to increase ownership equity, including existing or committed arrangements to raise additional capital
  - ii. Existing or committed arrangements to reduce current dividend requirements or to accelerate cash infusions from affiliates or other investors

[A8a. Also, the indicators listed in paragraph A7a may be mitigated by other factors. For example, taxing power and borrowing capabilities together with the constant demand for the provision of public services are factors that may diminish the possibility that a government would be unable to continue as a going concern.](#)<sup>22</sup>

**A9.** In the absence of guidance provided by the applicable financial reporting framework that illustrates adverse conditions or events that raise substantial doubt about the entity's ability to

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<sup>20</sup> FASB ASC glossary defines *probable* as the future event or events are likely to occur.

<sup>21</sup> "Pending Content" in FASB ASC 205-40-55-3.

<sup>22</sup> [Paragraph 18 of GASB Statement No. 56.](#)

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 paragraphs A7–A8.

**A10.** Under the FASB standards, determining whether substantial doubt exists about an entity's ability to 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).<sup>23</sup> Other applicable financial reporting frameworks may contain other criteria.

**A11.** The risk assessment procedures required by paragraph 12 are intended to assist the auditor in determining whether substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time is likely to be an important issue in planning and performing 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.

**A12.** If management is preparing interim financial statements, the FASB standards require [management to perform](#) a going concern evaluation for the interim periods.<sup>24</sup> As a result, the auditor may consider management's interim evaluation(s) of 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 in completing the risk assessment procedures in paragraph 12.

*Considerations Specific to Smaller, Less Complex Entities*

**A13.** 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.

**A14.** 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, franchise, or other legal agreement.

***Remaining Alert Throughout the Audit for Audit Evidence About Conditions or Events (Ref: par. 13)***

**A14.A15.** AU-C 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.<sup>25</sup> If conditions or events that raise substantial doubt 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 of this SAS, the auditor's assessment of the risks of material misstatement may need to be revised. The existence of such

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<sup>23</sup> "Pending Content" in FASB ASC 205-40-50-3.

<sup>24</sup> "Pending Content" in FASB ASC 205-40-50-1.

<sup>25</sup> Paragraph .32 of AU-C section 315.

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 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*, establishes requirements and provides guidance on this issue.<sup>26</sup>

**Management's Evaluation and Supporting Analysis and the Auditor's Evaluation (Ref: par. 14-15)**

**A15.A16.** Management's evaluation 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 is ~~a key part~~ an important consideration with respect to the auditor's conclusion on management's use of the going concern basis of accounting and whether substantial doubt exists.

**A16.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 evaluation may not prevent the auditor from concluding whether substantial doubt exists in the circumstances. For example, when a history of profitable operations and a ready access to financial resources exists, management may make its evaluation without detailed analysis. In this case, the auditor's evaluation of the appropriateness of management's evaluation may be made without performing detailed evaluation procedures if the auditor's other audit procedures are sufficient to enable the auditor to conclude whether there is substantial doubt in the circumstances. In situations in which management is required by the financial reporting framework to make an evaluation 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. An evaluation is required to determine whether this constitutes a significant deficiency or material weakness in accordance with AU-C section 265, *Communicating Internal Control Related Matters Identified in an Audit*.

**A17.A18.** In other circumstances, evaluating management's evaluation of whether there is substantial doubt as required by paragraph 14 ~~may~~ include an evaluation of the process management followed to make its evaluation, the assumptions on which the evaluation is based, management's plans, and whether management's plans are feasible in the circumstances to alleviate substantial doubt.

**A18.A19.** ~~Some~~ For financial reporting frameworks that require the entity to perform an evaluation about whether there is substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time, for example, the FASB standards and the GASB statements, ~~require the entity to make an evaluation about whether there is substantial doubt.~~<sup>27</sup> ~~In these circumstances,~~ the auditor's conclusions might be ~~principally~~ primarily based on the auditor's procedures performed to test management's compliance with the applicable financial reporting framework.

<sup>26</sup> AU-C section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*.

<sup>27</sup> "Pending Content" in FASB ASC 205-40 and paragraphs 16-19 of GASB Statement No. 56.

*Considerations Specific to Smaller, Less Complex Entities (Ref: par. 14-1519)*

~~A19-A20.~~ In many cases, management of smaller entities may not have prepared a detailed evaluation of whether there is substantial doubt, but instead may rely on in-depth knowledge of the business and anticipated future prospects. Nevertheless, in accordance with the requirements of this SAS, the auditor is required to evaluate management's evaluation of whether there is substantial doubt. For smaller entities, it may be appropriate to discuss the medium and long-term financing of the entity with management. ~~Provided that management's contentions can be corroborated by sufficient appropriate evidence and are not inconsistent with the auditor's understanding of the entity, the requirement in paragraph 17 for the auditor to request management to extend its evaluation 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.~~

~~A20-A21.~~ Continued support by owner-managers is often important to smaller entities' ability to continue as a going concern. When 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. When 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 (See paragraphs .A26b – A26g for further guidance about owner-manager continued support.~~

**Period Beyond Management's Evaluation (Ref: par. 17)**

~~A21-A22.~~ Left blank

~~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 evaluation used by management that may bring into question whether there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time. Since the degree of uncertainty associated with the outcome of an event or condition increases as the occurrence of the event or condition is further into the future, in considering events or conditions further in the future, the indications of going concern issues related to those events or conditions need to be significant before the auditor considers taking further action. If such events or conditions are identified, the auditor may need to request management to evaluate consider the potential significance of the event or condition on in its evaluation of whether substantial doubt exists. In these circumstances, the procedures in paragraph 18 apply.

~~A23.~~ The inquiry required by paragraph 17 is not requiring management to extend its evaluation beyond what is required by the applicable financial reporting framework. Other than inquiry of management, the auditor does not have a responsibility to perform any other audit procedures to identify conditions or events ~~that raise substantial doubt~~ about the entity's

ability to continue as a going concern for a reasonable period of time beyond the period evaluated by management.

A23a If conditions or events exists beyond the evaluation period required by the financial reporting framework, the applicable financial reporting framework may provide guidance on how that impacts the evaluation of whether substantial doubt about an entity's ability to continue as a going concern exists. For example, GASB statements require if a governmental entity currently knows of information that may raise substantial doubt shortly after one year beyond the financial statement date, such information should be considered in the evaluation of substantial doubt.<sup>28</sup> FASB standards require the evaluation to be one year after the date the financial statements are issued (or available to be issued, when applicable);<sup>29</sup> therefore, the conditions or events known after this time period may not impact the substantial doubt conclusion but it may impact other disclosure requirements or consideration of whether the financial statements are fairly presented.

A23b. If management is not required to make an evaluation about 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, then the period for the auditor to evaluate is one year from the date the financial statements are issued or are available to be issued, as discussed in paragraph 11.

#### **Additional Audit Procedures When Events or Conditions Are Identified (Ref: par. 18)**

A23-A24. Audit procedures that are relevant to the requirement in paragraph 18 may include the following:

- a. Analyzing and discussing cash flow, profit and other relevant forecasts with management
- b. Analyzing and discussing the entity's latest available interim financial statements
- c. Reading the terms of debentures and loan agreements and determining whether any have been breached
- d. Reading minutes of the meetings of shareholders, those charged with governance, and relevant committees for reference to financial difficulties
- e. Inquiring of the entity's legal counsel regarding the existence of litigation and claims and the reasonableness of management's evaluations of their outcome and the estimate of their financial implications
- ~~f. Confirming the existence, legality, and enforceability 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~~
- ~~g.f.~~ Evaluating the entity's plans to deal with unfilled customer orders

<sup>28</sup> Paragraph 16 of GASB Statement No. 56.

<sup>29</sup> "Pending Content" in FASB ASC 205-40-50-1.

- h.g. Performing audit procedures regarding subsequent events to identify those that either mitigate ~~or otherwise affect~~ exacerbate substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time
- h. Confirming the existence, terms, and adequacy of borrowing facilities
- i. Obtaining and reviewing reports of regulatory actions
- j. Determining the adequacy of support for any planned disposals of assets

***Evaluating Management's Plans for Future Actions (Ref: par. 18[b-c])***

A24-A25. 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. For governmental entities, evaluating management's plans may also include management's plans for future actions, including, for example, its plans to increase taxes to the extent allowable by law (as well as obtaining the necessary approvals to do so), or issue additional debt up to the legal debt limit ~~S~~(see paragraphs A8 and A8a for examples of other 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).

A25-A26. In addition to the procedures required in paragraph 18(c), the auditor may compare

- a. the prospective financial information used in recent prior periods with historical results and
- b. the prospective financial information used in the current period with results achieved to date.

A26a. For example, when evaluating a cash flow forecast, contradictory evidence may include the revenue growth rate assumption in the cash flow forecast is inconsistent with the revenue growth rate applied to forecasts used for other purposes within the entity. Such other purposes include forecasts used to evaluate the recoverability of deferred tax assets, forecasts used to evaluate impairment of goodwill or forecasts used in the evaluation of the impairment of long-lived assets.

A26b. Paragraph 18a requires the auditor to request a written confirmation from third parties or owner-managers (sometimes referred to as "support letters") if such support is essential in evaluating the conditions or events that raised substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time. For example, this support might be essential to the auditor's evaluation if it is the primary evidence of management's plans to mitigate substantial doubt about the entity's ability to continue as a going concern. However, even if such support letter is not deemed essential in evaluating the conditions or events that raised substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time, the auditor may choose to request such written confirmation.

A26c. In cases in which the continued support is provided by an owner-manager, the

written confirmation may be in the form of a support letter or a written management representation<sup>30</sup>.

A26d. A written confirmation serves primarily as audit evidence about the parties' willingness to support the entity and not necessarily as to the parties' ability to support the entity. The example procedures set out in paragraph A24 may provide guidance to address the parties' ability to support the entity.

A26e. The failure to receive the written confirmation constitutes a lack of audit evidence as to the willingness of the confirming party to provide such support and factors into the overall analysis as to whether substantial doubt about the entity's ability to continue as a going concern exists. If written confirmation is considered essential in order to evaluate whether substantial doubt exists about the entity's ability to continue as a going concern, the lack of receipt of a written confirmation would result in an auditor conclusion that substantial doubt exists. If the written confirmation is not considered essential in order to evaluate whether substantial doubt exists about the entity's ability to continue as a going concern, the auditor may conclude substantial doubt does not exist depending upon other audit evidence and alternative procedures performed.

A26f. The purpose of the written confirmation is to demonstrate the parties' willingness to provide financial support to the entity, including additional material facts and circumstances that may be pertinent to the determination of whether substantial doubt exists about the entity's ability to continue as a going concern. Confirmation wording such as the following may be used:

- (Confirming party name) has the intent and ability to fully support the operating, investing, and financing activities of (entity name) through at least one year and a day beyond the date the financial statements are issued (or available for issuance).
- (Confirming party name) has the intent and ability to fully support the operating, investing, and financing activities of (entity name) through at least through one year and a day beyond the date the financial statements are issued (or available for issuance). This also applies to any amounts that may end up being due to the Internal Revenue Service as a result of the recent judgment against (entity name).
- (Confirming party name) has the intent and ability to fully support the operating, investing, and financing activities of (entity name) for the foreseeable future, which is at least through one year and a day beyond the date the financial statements are issued (or available for issuance). This also applies should the (entity name)'s debt not be refinanced when the debt becomes due in the next year.
- (Confirming party name) will, and has the ability to, provide continued financial support to (entity name) for a minimum of one year and a day from the date the financial statements are issued (or available for issuance). Financial support includes, but is not limited to, the funding of operational losses, working capital deficiencies, operating, investing, and financing cash flow requirements and any potential uninsured commitments and contingencies at least through the date stated above.

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<sup>30</sup> See AU-C section 580, *Written Representations*.

A26g. Other considerations regarding written confirmations include:

- The legality and enforceability of such arrangements.
- When the entity and confirming party are in different countries, the ability of the necessary funds (or other financial support) to be transferred from the confirming party to the entity. Factors such as trade embargos, financial transfer restrictions, and war, may limit the ability for the necessary financial support to be transferred.

A26-A27. Left bank

**Written Representations (Ref: par. 19)**

A28. The auditor may consider it appropriate to request specific written representations beyond those required in paragraph 19 in support of audit evidence obtained regarding management's plans in relation to its going concern evaluation and the feasibility of those plans to alleviate substantial doubt.

A28a. Paragraph .26 of AU-C section 580, *Written Representations*, address situations if management does not provide one or more of the requested written representations.

**Auditor Conclusions**

***Substantial Doubt About the Entity's Ability to Continue as a Going Concern (Ref: par. 21–22)***

*Adequacy of Disclosure When Conditions or Events Have Been Identified and Substantial Doubt Exists*

A27-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.

A28-A30. For example, under the 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 statements 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<sup>31</sup>

- 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.

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<sup>31</sup> "Pending Content" in FASB ASC 205-40-50-13.

- 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 a reasonable period of time.

A30a. For example, under the GASB statements, if it is determined that there is substantial doubt about a governmental entity's ability to continue as a going concern, the notes to the financial statements are required to include disclosure of the following, as appropriate:<sup>32</sup>

- a. Pertinent conditions and events giving rise to the assessment of substantial doubt about the government's ability to continue as a going concern for a reasonable period of time.
- b. The possible effects of such conditions and events.
- c. Government officials' evaluation of the significance of those conditions and events and any mitigating factors.
- d. Possible discontinuance of operations.
- e. Government officials' plans (including relevant prospective financial information).
- f. Information about the recoverability or classification of recorded asset amounts or the amounts or classification of liabilities.

A30b. Under the GASB statements, a discussion in Management's Discussion & Analysis ("MD&A") is required of currently known facts, decisions, or conditions that are expected to have a significant effect on the government's financial position or results of operations. If it is determined that there is substantial doubt about a governmental entity's ability to continue as a going concern, it may be necessary to include a discussion of going concern issues in the MD&A, depending on the facts and circumstances.<sup>33</sup> This discussion of going concern issues is presented as Required Supplementary Information and the auditor is required to perform procedures on the Required Supplementary Information in accordance with AU-C 730, *Required Supplementary Information*, as applicable.<sup>34</sup>

*Adequacy of Disclosures When Conditions or Events Have Been Identified But Substantial Doubt Has Been Alleviated by Management's Plans (Ref: par. 23)*

A29-A31. Even in situations when events or conditions that raise substantial doubt about an entity'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 its plans, the auditor is required by paragraph 23 to evaluate the adequacy of the financial statement disclosures required by the applicable financial reporting framework. For example, the FASB standards state-discusses 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 shall disclose in a note to the financial

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<sup>32</sup> Paragraph 19 of GASB Statement No. 56.

<sup>33</sup> Paragraph 11(h) of GASB Statement No. 34, and paragraph 19 of GASB Statement No. 56.

<sup>34</sup> Paragraph 129 of GASB Statement No. 34.

statements information that enables users of the financial statements to understand [all of](#) the following [\(or refer to similar information disclosed elsewhere in the footnotes\)](#).<sup>35</sup>

- 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
- 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

**A30.A32.** The auditor's evaluation about 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.<sup>36</sup> Depending on the facts and circumstances, the auditor may determine that additional disclosures are necessary to achieve fair presentation.

**A31.A33.** In the absence of disclosures explicitly required by the applicable financial reporting framework that address management's evaluation 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 A31–A33 in considering whether the financial statements are fairly presented.

### **Implications for the Auditor's Report**

#### ***Use of Going Concern Basis of Accounting Is Inappropriate (Ref: par. 24)***

**A32.A34.** The requirement in paragraph 24 for the auditor to express an adverse opinion applies regardless of whether the financial statements include disclosure of the inappropriateness of management's use of the going concern basis of accounting.

**A33.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 the FASB standards, the entity is required to comply with FASB ASC 205-30 [and prepare the financial statements using the liquidation basis of accounting](#) when an entity's liquidation becomes imminent).

**A34.A36.** Interpretation No. 1, "Reporting on Financial Statements Prepared on a Liquidation Basis of Accounting" (AU-C sec. 9700 par. .01–.05), of AU-C section 700, *Forming an Opinion and Reporting on Financial Statements*, addresses the situation in which 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.

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<sup>35</sup> "Pending Content" in FASB ASC 205-40-50-12.

<sup>36</sup> Paragraph .17 of AU-C section 700, *Forming an Opinion and Reporting on Financial Statements*.

***Use of the Going Concern Basis of Accounting Is Appropriate But Substantial Doubt Exists  
(Ref: par. 25–26)***

**A35.A37.** When the FASB standards [or the GASB statements](#) are 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 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 *substantial doubt* and *going concern* may be appropriate.

**A36.A38.** The following is an illustration of a going-concern emphasis-of-matter paragraph when (a) the auditor concludes substantial doubt exists about the entity's ability to continue as a going concern for a reasonable period of time; (b) management's plans do not alleviate the substantial doubt, and (c) the entity is required under the financial reporting framework to include a statement in the notes to the financial statements that substantial doubt exists.

***Emphasis of Matter Regarding Going Concern***

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 [suffered recurring losses from operations, has a net capital deficiency, and has stated ~~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, Management's evaluation of the events and 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.

**A37.A39.** The following is an illustration of a going-concern emphasis-of-matter paragraph when (a) the auditor concludes that substantial doubt exists about the entity's ability to continue as a going concern for a reasonable period of time; (b) management's plans do not alleviate the substantial doubt, and (c) the entity is not required under the financial reporting framework to include a statement in the notes to the financial statements that substantial doubt exists.

***Emphasis of Matter Regarding Going Concern***

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 [evaluation of the events and conditions and management's](#) plans ~~in regard to~~ 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.

**A38.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 has been alleviated by management's plans, the auditor may include an emphasis-of-matter paragraph in accordance with AU-C section 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report*, making reference to management's disclosures related to the conditions and events and management's plans related to those conditions and events.<sup>37</sup>

**A39.A41.** The following is an illustration of an emphasis-of-matter paragraph when management has disclosed (a) 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, (b) its evaluation of the significance of those conditions or events, considered in the aggregate, in relation to the entity's ability to meet its obligations, and (c) the 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.

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 evaluation of the events and conditions and Mmanagement's plans in regards to regarding these matters are also described in Note X. Our opinion is not modified with respect to this matter.

**A40.A42.** Examples of conditional language that is inappropriate to use in the emphasis-of-matter paragraph include the following:

- a. 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
- b. 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

~~*Adequate Disclosure About an Entity's Ability to Continue as a Going Concern Is Not Made in the Financial Statements*~~

### ***Communication With Regulators***

**A41.A43.** 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. 25~~27~~)

~~*Adequate Disclosure About an Entity's Ability to Continue as a Going Concern Is Not Made in the Financial Statements (Ref: par.27)*~~

<sup>37</sup> Paragraphs .06-.07 of AU-C section 706.

A43a. A situation in which the auditor concludes that substantial doubt about the entity's ability to continue as a going concern exists but management does not include a statement in the notes to the financial statements that such substantial doubt exists when required by the applicable financial reporting framework represents an accounting error that the auditor is required to evaluate and consider its implications for the auditor's report.

***Management Unwilling to Make or Extend Its Evaluation (Ref: par. 28)***

A44. In certain circumstances, the auditor may believe it necessary to request management to ~~make perform~~ or extend its evaluation to meet the period of time required by the financial reporting framework. If management is unwilling to do so, a qualified opinion or a disclaimer of opinion in the auditor's 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. Management may be unwilling because they believe they have done enough to conclude whether substantial doubt exists about the entity's ability to continue as a going concern when the applicable financial reporting framework requires management to make this evaluation. If management has not done enough for their own conclusion it may result in a adverse or qualified opinion for a departure from the applicable financial reporting framework. AU-C section 705, Modifications to the Opinion in the Independent Auditor's Report, provides guidance related to the modification of the auditor's opinion. when management has imposed a limitation on the scope of the audit that the auditor considers likely to result in a qualified opinion or a disclaimer of opinion in the auditor's report. In addition, management's unwillingness to make or extend its evaluation to 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 265.

***Comparative Presentations (Ref: par. 30)***

A42-A45. 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 700, *Forming an Opinion and Reporting on Financial Statements*, 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.

A43-A46. 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.<sup>38</sup>

### **Eliminating a Going-Concern Emphasis-of-Matter Paragraph From a Reissued Report (Ref: par. 31)**

**A44.A47.** 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 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.

**A45.A48.** The auditor may perform procedures in addition to those required by paragraph 31 that the auditor deems necessary in the circumstances.

### **Documentation (Ref: par. 33)**

**A46.A49.** AU-C section 230, *Audit Documentation*, addresses the auditor's responsibility to prepare audit documentation for an audit of financial statements.<sup>39</sup> AU-C section 230 applies to the audit procedures performed under the SAS. The documentation requirements of paragraph 33 of this SAS are incremental to AU-C section 230 and apply when the auditor believes there is 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.

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<sup>38</sup> "Pending Content" in FASB ASC 205-40-50-14.

<sup>39</sup> Paragraph .01 of AU-C section 230, *Audit Documentation*.

A47-A50.

**Appendix—Amendments to Various Sections in Statement on Auditing Standards No. 122,  
*Statements on Auditing Standards: Clarification and Recodification***

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

1. These amendments are effective for audits of financial statements for periods ending on or after December 15, 2017.

(*Boldface italics* denotes new language. Deleted text is shown in ~~strikethrough~~.)

[No amendments to paragraphs .01–.A20. Paragraph .17 included for contextual information only.]

***Fair Presentation (Ref: par. .A19–.A23A27)***

.17 Section 700 requires the auditor to evaluate whether the financial statements achieve fair presentation.<sup>7</sup> 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.

<sup>7</sup> [Footnote omitted for purposes of this SAS.]

~~.A21-A22~~ ***As explained in SAS No. 13X, The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern, 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.***<sup>18</sup>

~~.A22-A23~~ ***For audits of special purpose financial statements to which the going concern basis of accounting is applicable, SAS No. 13X, The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern, applies.***

~~.A24-A22~~ The auditor is required by paragraph .17 to 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 may be necessary for the special purpose financial statements to achieve fair presentation. For example, these disclosures may include matters about related party transactions, restrictions on assets and owners’ equity.

subsequent events, and ~~significant risks and~~ uncertainties. For example, the auditor may consider FASB Accounting Standards Codification (ASC) 275, Risks and Uncertainties, and FASB ASC 450, Contingencies, when evaluating the appropriateness of disclosures of risks and uncertainties related to financial reporting. A risk or uncertainty 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. Other financial reporting frameworks may have similar requirements that the auditor may consider. In such circumstances, the special purpose financial statements would include the same disclosure required by GAAP or disclosure that communicates the substance of those requirements. A risk or uncertainty 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.

~~.A23 In evaluating whether the financial statements achieve fair presentation, the auditor is required to evaluate, among other things, whether the financial statements properly disclose the entity's risks and uncertainties. The auditor may consider FASB Accounting Standards Codification (ASC) 275, Risks and Uncertainties, and FASB ASC 450, Contingencies, when evaluating the appropriateness of disclosures of risks and uncertainties related to financial reporting. A risk or uncertainty 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.~~

***<sup>18</sup> Paragraph 3 of SAS No. 13X, The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern.***

[Paragraphs .A21–.A35 and footnote 18 renumbered. No further amendments to AU-C section 800.]

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

2. These amendments are effective for audits of single financial or specific elements, accounts, or items of a financial statement statements for periods ending on or after December 15, 2017.

*(Boldface italics denotes new language. Deleted text is shown in strikethrough.)*

[No amendments to paragraphs .01–.A11. Paragraphs .10–.11 included for contextual information only.]

#### **Acceptability of the Financial Reporting Framework (Ref: par. .A8–~~.A11.A12~~)**

**.10** Section 210, *Terms of Engagement*, requires the auditor to determine the acceptability of the financial reporting framework applied in the preparation of the financial statements.<sup>2</sup> In the

case of an audit of a single financial statement or a specific element of a financial statement, the auditor should obtain an understanding of

- a. the purpose for which the single financial statement or specific element of a financial statement is prepared,
- b. the intended users, and
- c. the steps taken by management to determine that the application of the financial reporting framework is acceptable in the circumstances.

**.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.

<sup>2</sup> [Footnote omitted for purposes of this SAS.]

*.A12 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, among other things, whether the single financial statements and specific elements, accounts, or items of a financial statement properly disclose the entity's risks and uncertainties. For example, the auditor may consider FASB Accounting Standards Codification (ASC) 275, Risks and Uncertainties, and FASB ASC 450, Contingencies, when evaluating the appropriateness of disclosures of risks and uncertainties related to financial reporting. A risk or uncertainty may not be applicable to the single financial statement or specific elements, accounts, or items of a financial statement if it is related to a specific account or disclosure that is not part of the single financial statement or the specific element, account, or item, for example, certain concentration disclosures. Other financial reporting frameworks may have similar requirements that the auditor may consider.*

[Paragraphs .A12–.A25 renumbered. No further amendments to AU-C section 805.]

### **AU-C section 930, *Interim Financial Information***

3. These amendments are effective for reviews of interim financial information for ~~of~~ interim ~~for~~ periods beginning after ~~of~~ fiscal years ending on or after December 15, 2017.

(***Boldface italics*** denotes new language. Deleted text is shown in ~~strikethrough~~.)

[No amendments to paragraphs .01–.15.]

*.16 If the applicable financial reporting framework includes requirements for management to assess/evaluate the entity's ability to continue as a going concern for a reasonable period of time in preparing interim financial information, the auditor should perform interim review*

*procedures related to (a) whether the going concern basis of accounting is appropriate, (b) management's evaluation of whether there are conditions or events that raised substantial doubt about the entity's ability to continue as a going concern, and (c) the adequacy of the related disclosures in the interim financial information. (Ref: par. .A23–A24)*

**.1617** *If the applicable financial reporting framework does not include a requirement for management to evaluate the entity's ability to continue as a going concern for a reasonable period time in preparing interim financial information and (a) conditions or events that ~~may indicate~~ raise substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time 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 raise substantial doubt about the entity's ability that might be indicative of the entity's possible inability to continue as a going concern, the auditor should*

- a. inquire of management whether the going concern basis of accounting is appropriate,*
- ~~a~~*b. inquire of management about its plans for dealing with the adverse effects of the conditions and events, and (Ref: [par. .A23.A25](#))*
- ~~b~~*c. consider the adequacy of the disclosure about such matters in the interim financial information. (Ref: [par. .A24.A26](#))*

[Paragraphs .17–.37 renumbered.]

**.38** *The auditor should include an emphasis-of-matter paragraph in the auditor's review report in any of the following circumstances, regardless of whether the entity is required under the financial reporting framework to include a statement in the notes to the interim financial statement that substantial doubt exists: (Ref: par. .A49–.A50):*

- a. a going concern emphasis-of-matter paragraph was included in the prior year's auditor's report and*
  - i. the conditions or events giving rise to the emphasis-of-matter paragraph continue to exist and*
  - ii. these conditions or events raise substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time and management's plans do not alleviate them. ([Ref: par. .A49a](#))*
- b. A going concern emphasis-of-matter paragraph was not included in the prior year's auditor's report and*

*i. management is required under the financial reporting framework to include a statement in the notes to the interim financial information that substantial doubt exists and*

*ii. management has included such statement in the notes to the interim financial information. (Ref: par. .A50–.A51)*

[Paragraphs .38–.43 renumbered. No amendments to paragraphs .A1–.A22.]

*.A23 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.*

*.A24 Certain financial reporting frameworks require management to evaluate the entity’s ability to continue as a going concern for a reasonable period of time in preparing interim financial information.<sup>4</sup> For example, FASB standards require management to 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.<sup>5</sup> Under FASB standards, the evaluation period is one year after the date that the financial statements are issued (or are available to be issued when applicable).<sup>6</sup>*

<sup>4</sup> See paragraph 11 of SAS No. 13X, *The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern*, for the definition of reasonable period of time.

<sup>5</sup> “Pending Content” in FASB Accounting Standards Codification (ASC) 205-40-50-1.

<sup>6</sup> “Pending Content” in FASB ASC 205-40-50-1.

~~.A23.~~**A25** A review of interim financial information is not designed to identify conditions or events that ~~may indicate raise~~ 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 raise~~ substantial doubt ~~on~~**about** 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 support of the information that mitigates the effects of the conditions ~~and~~**or** events.

~~.A24.~~**A26** ~~Section 570-SAS No. 13X, *The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern*~~, may provide useful guidance to the auditor when considering whether there is adequate and appropriate disclosure in the interim financial information about the entity’s ~~possible inability~~**ability** to continue as a going concern *for a reasonable period of time* <sup>4,7</sup> when

- a. conditions or events ~~exist~~ **have been identified** as of the interim reporting date covered by the review ~~that might be indicative of~~ **and substantial doubt** about the

entity's ~~possible inability~~ **ability** to continue as a going concern *for a reasonable period of time exists* 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 *for a reasonable period of time*, and the conditions that raised such doubt continued to exist as of the interim reporting date covered by the review.<sup>5</sup>

~~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~~ If the auditor determines that the disclosure *related to substantial doubt* about the entity's ~~possible inability~~ **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~~ **.35** to modify the report.

<sup>47</sup> ~~Paragraphs .12 22–23~~ of **SAS No. 13X**, *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.]

[Paragraphs .A25–.A45 and footnote 5 renumbered.]

~~.A46~~**.A48** If the interim financial information adequately discloses ~~the existence of substantial doubt about the entity's ability to continue as a going concern (see paragraph .16)~~ or a lack of consistency in the application of accounting principles affecting the interim financial information, the auditor may, but is not required to, include an emphasis-of-matter paragraph in the auditor's review report.

[Paragraphs .A47–.A50 renumbered.]

### **Emphasis-of-Matter in the Auditor's Review Report (Ref: par. .37)**

*.A51 See exhibit D, "Illustrations of Example Emphasis-of-Matter Paragraphs in the Auditor's Review Report," for illustrative examples of the emphasis-of-matter paragraphs.*

*.A52 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*

*a. no statement relating to substantial doubt is included in the notes to the interim financial information because management's plans have alleviated the substantial doubt or*

*b. the financial reporting framework does not require inclusion of such statement in the notes to the interim financial information,*

*the auditor may include an emphasis-of-matter paragraph when management has disclosed the conditions or events in the notes to the financial statements but a statement related to substantial doubt is not required to be included by the financial reporting framework. The following is an illustration of an emphasis-of-matter paragraph when no statement relating to substantial doubt is included in the notes to the interim financial information but conditions or events are disclosed.*

*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.*

[Paragraphs .A51–.A57 renumbered.]

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

**.A58A62**

Illustration 1—Modification Due to a Departure From the Applicable Financial Reporting Framework

Illustration 2—Modification Due to Inadequate Disclosure

Illustration 3—Emphasis of Matter Paragraph When 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

Illustration 4—Emphasis of Matter Paragraph When a Going Concern Emphasis of Matter Paragraph Was Not Included in the Prior Year's Audit Report, and Conditions or Events Exist as of the Interim Reporting Date Covered by the Review That Might Be Indicative of the Entity's Possible Inability to Continue as a Going Concern

~~Illustration 3—Emphasis of Matter Paragraph When 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 an emphasis of matter paragraph when 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:

*[Emphasis of Matter Paragraph]*

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 and indicating that these matters raised substantial doubt about the

~~Company's ability to continue as a going concern. As indicated in note 3 of the Company's unaudited interim financial information as of March 31, 20X2, and for the three months then ended, the Company was still unable to renew its line of credit or obtain alternative financing as of March 31, 20X2. The accompanying interim financial information does not include any adjustments that might result from the outcome of this uncertainty.~~

~~Illustration 4—Emphasis of Matter Paragraph When a Going Concern Emphasis of Matter Paragraph Was Not Included in the Prior Year's Audit Report, and Conditions or Events Exist as of the Interim Reporting Date Covered by the Review That Might Be Indicative of the Entity's Possible Inability to Continue as a Going Concern~~

~~The following is an example of an emphasis of matter paragraph when a going concern emphasis of matter paragraph was not included in the prior year's audit report, and conditions or events exist as of the interim reporting date covered by the review that might be indicative of the entity's possible inability to continue as a going concern:~~

~~[Emphasis of Matter Paragraph]~~

~~As indicated in note 3, certain conditions indicate that the Company may be unable to continue as a going concern. The accompanying interim financial information does not include any adjustments that might result from the outcome of this uncertainty.~~

***Exhibit D—Illustrations of Emphasis-of-Matter Paragraphs in the Auditor's Review Report (Ref: par. .A51)***

***.A63***

***Illustration 1—Emphasis-of-Matter Paragraph When Substantial Doubt is Disclosed in the Notes to the Financial Statements, 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***

***Illustration 2—Emphasis-of-Matter Paragraph When Substantial Doubt is Not Disclosed in the Notes to the Financial Statements, 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***

***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 Information that Substantial Doubt Exists; Such Statement is included in the Notes to the Interim Financial Information; and a Going Concern Emphasis-of-Matter Paragraph Was Not Included in the Prior Year's Audit Report***

***Illustration 1—Emphasis-of-Matter Paragraph When Substantial Doubt is Disclosed in the Notes to the Financial Statements, 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 (a) a going concern emphasis-of-matter paragraph was included in the prior year’s auditor’s report, (b) substantial doubt continues to exist ~~from the prior year~~, and (c) the entity is required under the financial reporting framework to include a statement in the notes to the ~~financial statement~~ interim financial information that substantial doubt exists.

**[Emphasis-of-Matter Paragraph]**

The accompanying ~~financial statements~~ interim financial information ~~have~~ has been prepared assuming that the Entity will continue as a going concern. Note 4 of the Entity’s audited financial statements as of December 31, 20X1, and for the year then ended, includes a statement that substantial doubt exists about the Entity’s ability to continue as a going concern. Note 4 of the Entity’s audited financial statements also discloses the ~~conditions~~, events and conditions, management’s evaluation of the events and conditions, and management’s plans regarding these matters including the fact that the Entity 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 Entity’s ~~unaudited interim~~ unaudited interim financial information as of March 31, 20X2, and for the three months then ended, ~~the Entity still includes a statement that substantial doubt exists about the Entity’s ability to continue as a going concern as Note 3 indicates~~ the Entity was still unable to renew its line of credit or obtain alternative financing as of March 31, 20X2 and has stated that substantial doubt exists about the ~~Company~~ Entity’s ability to continue as a going concern. 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, 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 (a) a going concern emphasis-of-matter paragraph was included in the prior year’s auditor’s report, (b) substantial doubt continue to exist ~~from the prior year~~, and (c) the entity is not required under the financial reporting framework to include a statement in the notes to the ~~financial statement~~ interim financial information that substantial doubt exists.

**[Emphasis-of-Matter Paragraph]**

*The accompanying ~~financial statements~~interim financial information ~~have~~has been prepared assuming that the Entity will continue as a going concern. Note 4 of the Entity's audited financial statements as of December 31, 20X1, and for the year then ended, discloses that the Entity 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 Entity's ability to continue as a going concern. As indicated in Note 3 of the Entity's accompanying unaudited interim financial information as of March 31, 20X2, and for the three months then ended, the Entity was still unable to renew its line of credit or obtain alternative financing as of March 31, 20X2. Management's evaluation of the conditions and events and ~~M~~management's plans ~~in regard to~~regarding 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 Information that Substantial Doubt Exists; Such Statement is included in the Notes to the Interim Financial 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 (a) a going concern emphasis-of-matter paragraph was not included in the prior year's auditor's report, (b) ~~management~~the entity is required under the financial reporting framework to include a statement in the notes to the interim financial information that substantial doubt exists, and (c) such statement is included in the notes to the interim financial information.*

**[Emphasis-of-Matter Paragraph]**

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

[No further amendments to AU-C section 930.]