

## AU-C Section 570

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

(Supersedes SAS No. 126.)

Source: SAS No. 132; SAS No. 134; SAS No. 136.

Effective for audits of financial statements for periods ending on or after December 15, 2017, unless otherwise indicated.

## Introduction

### Scope of This Section

**.01** This section 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. This section applies to all audits of a complete set of financial statements, regardless of whether the financial statements are prepared in accordance with a general purpose or a special purpose framework.<sup>1</sup>

**.02** 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. 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. (Ref: par. .A1–.A2)

**.03** Special purpose financial statements<sup>2</sup> may or may not be prepared in accordance with an applicable financial reporting framework for which the going concern basis of accounting is relevant. As a result, when the going concern basis of accounting is not relevant, the requirement of this section to obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting do not apply. However, irrespective of whether the going concern basis of accounting is relevant in the preparation of special purpose financial statements, the requirements of this section apply regarding the auditor's responsibilities to perform the following:

- a. Conclude, based on the audit evidence obtained, whether substantial doubt exists about an entity's ability to continue as a going concern for a reasonable period of time
- b. Evaluate the possible financial statement effects, including the adequacy of disclosure regarding the entity's ability to continue as a going concern for a reasonable period of time

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<sup>1</sup> *General purpose* and *special purpose frameworks* are defined in section 700, *Forming an Opinion and Reporting on Financial Statements*, and section 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*, respectively.

<sup>2</sup> Section 800 addresses audits of a complete set of financial statements prepared in accordance with special purpose frameworks.

.04 The auditor's responsibilities under this section apply even if the applicable 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.

## 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 Applicable Financial Reporting Framework*

.05 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 and provide disclosures related to the entity's ability to continue as a going concern. For example, FASB *Accounting Standards Codification*<sup>®</sup> (ASC) requires 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 that the financial statements are issued (or within one year after the date that the financial statements are available to be issued, when applicable).<sup>3</sup> Similarly, GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, requires 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 date of the financial statements. GASB Statement No. 56 further requires that, if information is currently known to the governmental entity that may raise substantial doubt shortly thereafter (for example, within an additional three months), such information should also be considered.<sup>4</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. .A3)

.06 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

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<sup>3</sup> "Pending Content" in FASB *Accounting Standards Codification* (ASC) 205-40-50-1.

<sup>4</sup> Paragraph 16 of GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*.

statements are available to be issued, when applicable). Subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made. (Ref. par. .A4–.A5)

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

.07 In other financial reporting frameworks, there may be no explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern. Nevertheless, when the going concern basis of accounting is a fundamental principle in the preparation of financial statements, as discussed in paragraphs .02–.03, the preparation of the financial statements requires management to assess the entity's ability to continue as a going concern even if the financial reporting framework does not include an explicit requirement to do so.

### ***Inherent Limitations in Evaluating the Entity's Ability to Continue as a Going Concern***

.08 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**

.09 This section is 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, when relevant, in the preparation of the financial statements
  - b. To conclude, based on the audit evidence obtained, whether 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 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 section

## **Definition**

.11 For purposes of this section, 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, 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). (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 section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*,<sup>5</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 performed a preliminary evaluation of whether such conditions or events exist: (Ref: par .A7–.A16)

- 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***

.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. .A17)

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

.14 The auditor's evaluation should

- a. address 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. .A18–.A24)

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<sup>5</sup> Paragraph .05 of section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*.

- b. cover the same period as that used by management in its evaluation as required by the applicable financial reporting framework. (Ref: par. .A19)
- c. include consideration of whether management's evaluation includes all relevant information of which the auditor is aware as a result of the audit.

## Period Beyond Management's Evaluation

**.15** The auditor should inquire of management regarding its knowledge of conditions or events beyond the period of management's evaluation that may have an effect on the entity's ability to continue as a going concern. (Ref: par. .A23, .A25–.A27)

## Additional Audit Procedures When Events or Conditions Are Identified

**.16** The auditor should obtain sufficient appropriate audit evidence to determine whether 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. .A28)

- 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. .A29)
  - i. management's plans can be effectively implemented and
  - ii. the plans would 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 evaluating management's plans, (Ref: par. .A30–.A31)
  - 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, which includes considering contradictory audit evidence
- d. Considering whether any additional facts or information have become available since the date on which management made its evaluation

## Financial Support by Third Parties or the Entity's Owner-Manager

**.17** When management's plans include financial support by third parties or the entity's owner-manager (hereinafter referred to as "supporting parties") and such support is necessary in supporting management's assertions about the entity's ability to continue as a going concern for a reasonable period of time, the auditor should obtain sufficient appropriate audit evidence about the following:

- a. The intent of such supporting parties to provide the necessary financial support, including written evidence of such intent, and (Ref: par. .A32–.A37)
- b. The ability of such supporting parties to provide the necessary financial support (Ref: par. .A24, .A38)

The failure to obtain the written evidence required by item (a) constitutes a lack of sufficient appropriate audit evidence regarding the intent of the supporting parties to provide financial support. Therefore, the auditor should conclude that management's plans are insufficient to alleviate the determination that substantial doubt exists about the entity's ability to continue as a going concern for a reasonable period of time. (Ref: par. .A32–.A34)

## Written Representations

**.18** If the auditor believes, before consideration of management's plans pursuant to paragraph .16, 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. .A39–.A40)

- a. A description of management's 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*

**.19** 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, when relevant, in the preparation of the financial statements.

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

**.20** 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 Has Not Been Alleviated*

**.21** 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. .A41–.A44)

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

.22 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. .A45–.A47)

## Implications for the Auditor's Report

### *Use of Going Concern Basis of Accounting Is Inappropriate*

.23 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. .A48–.A50)

### *Use of the Going Concern Basis of Accounting Is Appropriate But Conditions and Events Have Been Identified*

.24 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 a separate section in the auditor's report<sup>[6]</sup> with the heading "Substantial Doubt About the Entity's Ability to Continue as a Going Concern" that does the following: (Ref: par. .A53–.A58)

- a. Draws attention to the note in the financial statements that discloses
  - i. the conditions or events identified and management's plans that deal with these conditions or events and
  - ii. that these conditions or events indicate that substantial doubt exists about the entity's ability to continue as a going concern for a reasonable period of time
- b. States that the auditor's opinion is not modified with respect to the matter

[As amended, effective for audits of financial statements for periods ending on or after December 15, 2021, by SAS No. 134.]

.25 The description in the "Going Concern" section about the entity's ability to continue as a going concern for a reasonable period of time should use terms consistent with those included in the applicable financial reporting framework. 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. [As amended, effective for audits of financial statements for periods ending on or after December 15, 2021, by SAS No. 134.]

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<sup>[6]</sup> [Footnote deleted by the issuance of SAS No. 134, May 2019.]

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

**.26** If adequate disclosure about an entity's ability to continue as a going concern for a reasonable period of time is not made in the financial statements, the auditor should do the following:

- a. Express a qualified opinion or adverse opinion, as appropriate, in accordance with section 705, *Modifications to the Opinion in the Independent Auditor's Report*.
- b. In the "Basis for Qualified (Adverse) Opinion" section of the auditor's report, state that
  - i. substantial doubt exists about the entity's ability to continue as a going concern and that the financial statements do not adequately disclose this matter or
  - ii. substantial doubt about the entity's ability to continue as a going concern has been alleviated by management's plans but the financial statements do not adequately disclose this matter.

[As amended, effective for audits of financial statements for periods ending on or after December 15, 2021, by SAS No. 134.]

*Management Unwilling to Perform or Extend Its Evaluation*

**.27** If management is unwilling to perform or extend its evaluation to meet the period of time required by the applicable financial reporting framework when requested to do so by the auditor, the auditor should consider the implications for the auditor's report. (Ref: par. .A59)

## Communication With Those Charged With Governance

**.28** Unless all those charged with governance are involved in managing the entity,<sup>7</sup> the auditor should communicate with those charged with governance regarding 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 the following:

- 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. The auditor's consideration of management's plans
- c. Whether management's use of the going concern basis of accounting, when relevant, is appropriate in the preparation of the financial statements
- d. The adequacy of related disclosures in the financial statements
- e. The implications for the auditor's report

## Comparative Presentations

**.29** 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

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

has been removed in the current period, the going concern section included in the auditor's report on the financial statements of the prior period should not be repeated. (Ref: par. .A60–.A61) [As amended, effective for audits of financial statements for periods ending on or after December 15, 2021, by SAS No. 134.]

## Eliminating a Going Concern Section From a Reissued Report

**.30** Management may request that the auditor reissue an auditor's report and eliminate a "Going Concern" section 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 doing the following:

- a. Performing audit procedures related to the events or transactions that prompted the request to reissue the report without the "Going Concern" section
- b. Performing the procedures listed in section 560, *Subsequent Events and Subsequently Discovered Facts*, at or near the date of reissuance, including procedures to evaluate the adequacy of the proposed disclosures regarding management's plans to mitigate the conditions or events that raised substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time<sup>8</sup>
- c. Considering the matters described in paragraphs .16–.18 of this section based on the conditions or circumstances at the date of reissuance
- d. Considering the implications for the auditor's report in accordance with section 560<sup>9</sup> (Ref: par. .A62–.A63)

[As amended, effective for audits of financial statements for periods ending on or after December 15, 2021, by SAS No. 134.]

## Significant Delay in the Issuance of Financial Statements

**.31** If there is significant delay in the expected issuance of the financial statements by management or those charged with governance, the auditor should inquire about 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 additional audit procedures as necessary, as described in paragraph .16, 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

**.32** If conditions or events are identified that, when considered in the aggregate, raise 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, the auditor should document the following: (Ref: par. .A63)

- 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.

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

<sup>9</sup> Paragraph .13 of section 560.

- 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 regarding 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 should also 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 should also document the auditor's conclusion regarding 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.

## Application and Other Explanatory Material

### Scope of This Section (Ref: par. .02)

.A1 The applicable financial reporting framework might contain explicit requirements regarding when the liquidation basis of accounting is appropriate. For example, FASB ASC requires 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 section does not apply to an audit of a complete set of general purpose financial statements prepared under the liquidation basis of accounting.

### Considerations Specific to Governmental Entities

.A2 Management's use of the going concern basis of accounting is also relevant to financial statements of governmental 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 governmental entities to continue as a going concern for 12 months beyond the financial statement date, and requires consideration of information known to the government that may raise substantial doubt shortly thereafter (for example, within an additional three months).<sup>11</sup> Going concern indicators may arise in, but are not limited to, situations in which governmental 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 a governmental entity's ability to continue as a going concern for a reasonable period of time may include situations in which the governmental entity lacks funding for its continued existence or when policy decisions are made that affect the services provided by the governmental entity.

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

<sup>11</sup> Paragraphs 16–19 of GASB Statement No. 56.

## 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 Applicable Financial Reporting Framework (Ref: par. .05–.06)*

**.A3** FASB ASC defines *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>12</sup>

Other financial reporting frameworks may use different terms that are similar to the concept of substantial doubt. For example, International Financial Reporting Standards (IFRS) use the terms *material uncertainty* and *significant doubt*. Also, other 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."<sup>13</sup> This section uses the terminology of FASB ASC and the GASB statements; if an audit is performed on financial statements prepared under another financial reporting framework, the requirements and application material may need to be adapted as necessary.

**.A4** In addition to the factors in paragraph .06, FASB ASC requires 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 preceding items, 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.

**.A5** As explained by FASB, *reasonably knowable* means 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.<sup>15</sup>

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<sup>12</sup> "Pending Content" in FASB ASC 205-40-20.

<sup>13</sup> See paragraph 25 of International Accounting Standard (IAS) 1, *Presentation of Financial Statements*.

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

<sup>15</sup> See paragraph BC26 of the "Background Information and Basis for Conclusions" section of "Pending Content" in FASB ASC 205-40.

### 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 to be evaluated. For example, the financial reporting frameworks of the following standard-setting bodies specify such period of time as follows:

- a. *FASB*. 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).<sup>16</sup>
- b. *GASB*. 12 months beyond the date of the financial statements. 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 should also be considered.<sup>17</sup>
- c. *International Accounting Standards Board*. At least, but not limited to, one year from the end of the reporting period.<sup>18</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 list includes 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 list is not all-inclusive. The existence of one or more of these conditions or events does not establish 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 establish 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>19</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
- 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

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<sup>16</sup> "Pending Content" in FASB ASC 205-40-50-1.

<sup>17</sup> Paragraph 16 of GASB Statement No. 56.

<sup>18</sup> Paragraph 26 of IAS 1.

<sup>19</sup> "Pending Content" in FASB ASC 205-40-55-2.

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

**.A8** The significance of such events or conditions can often be mitigated by other factors. The following list includes examples 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. Following 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 probable<sup>20</sup> that 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

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<sup>20</sup> The FASB ASC master 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.

- ii. Existing or committed arrangements to reduce current dividend requirements or to accelerate cash infusions from affiliates or other investors

### **Considerations Specific to Governmental Entities**

**.A9** The GASB statements also include the following examples of indicators that there may be substantial doubt about a governmental entity's ability to continue as a going concern:<sup>22</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

**.A10** The indicators listed in paragraph .A9 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 governmental entity would be unable to continue as a going concern.<sup>23</sup>

### **Other Considerations**

**.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 for addressing any potential going concern matters identified.

**.A12** 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 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

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<sup>22</sup> Paragraph 17 of GASB Statement No. 56.

<sup>23</sup> Paragraph 18 of GASB Statement No. 56.

to continue as a going concern for a reasonable period of time, the auditor may consider the guidance in paragraphs .A7–.A10.

**.A13** As discussed in paragraph .A7, FASB ASC contains guidance for determining whether substantial doubt exists about an entity's ability to continue as a going concern for a reasonable period of time. Other financial reporting frameworks may contain other relevant guidance.

**.A14** If management is preparing interim financial statements, FASB ASC requires 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**

**.A15** The size of an entity may affect its ability to withstand adverse conditions. Smaller, less complex entities may be able to respond quickly to exploit opportunities but may lack reserves to sustain operations.

**.A16** Conditions of particular relevance to smaller 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)**

**.A17** Section 315 requires the auditor to revise the auditor's risk assessment and modify the further planned audit procedures accordingly when additional audit evidence that affects the auditor's assessment of risk is obtained during the course of the audit.<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 .16 of this section, the auditor's assessment of the risks of material misstatement may need to be revised. The existence of such conditions or events may also affect the nature, timing, and extent of the auditor's further procedures in response to the assessed risks. Section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*, establishes requirements and provides guidance on this issue.

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

**.A18** 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 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.

**.A19** If management is not required by the applicable financial reporting framework to make an evaluation about whether there are conditions or events,

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

<sup>25</sup> Paragraph .32 of section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*.

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 that the auditor's evaluation covers is 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), as discussed in paragraph .11.

**.A20** It is not the auditor's responsibility to rectify the lack of analysis by management to support its evaluation. In some circumstances, however, the auditor may be able to conclude whether substantial doubt exists in the circumstances despite the lack of detailed analysis by management. For example, when a history of profitable operations and a ready access to financial resources exists, management may make its evaluation without a 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. However, in situations in which management is required by the applicable financial reporting framework to make an evaluation about the entity's ability to continue as a going concern for a reasonable period of time, a lack of a detailed analysis when needed may be an indicator of a deficiency in internal control. An auditor's evaluation is required to determine whether this constitutes a significant deficiency or material weakness, in accordance with section 265, *Communicating Internal Control Related Matters Identified in an Audit*.

**.A21** 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.

**.A22** 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, FASB ASC and the GASB statements,<sup>26</sup> the auditor's conclusions might be primarily based on the auditor's procedures performed to evaluate management's compliance with the applicable financial reporting framework.

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

**.A23** 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 section, 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.

**.A24** Financial support by owner-managers is often important to smaller entities' ability to continue as a going concern. When a smaller 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 smaller 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 the owner-manager's

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<sup>26</sup> "Pending Content" in FASB ASC 205-40 and paragraphs 16–19 of GASB Statement No. 56.

personal assets as collateral. See paragraphs .A32–.A38 for further guidance about financial support from the owner-manager.

## Period Beyond Management's Evaluation (Ref: par. .15)

**.A25** The inquiry required by paragraph .15 is not intended to require management to extend its evaluation beyond the requirements of 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 may 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.

**.A26** The applicable financial reporting framework may provide guidance about whether or how conditions or events that occur after the period required by the applicable financial reporting framework may affect the evaluation of whether substantial doubt about an entity's ability to continue as a going concern exists. For example, the GASB statements require that, 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>27</sup>

**.A27** FASB ASC requires the evaluation to include events and conditions that may raise 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 (or within one year after the date that the financial statements are available to be issued, when applicable).<sup>28</sup> Therefore, the conditions or events known after this time period will not affect the evaluation of whether substantial doubt exists but may affect other disclosure requirements or consideration of whether the financial statements are fairly presented.

## Additional Audit Procedures When Events or Conditions Are Identified (Ref: par. .16)

**.A28** Audit procedures that may be relevant to performing the requirements in paragraph .16 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. Evaluating the entity's plans to deal with unfilled customer orders

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<sup>27</sup> Paragraph 16 of GASB Statement No. 56.

<sup>28</sup> "Pending Content" in FASB ASC 205-40-50-1.

- g. Performing audit procedures regarding subsequent events to identify those that either mitigate or 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 (Ref: par. .16b–c)**

**.A29** 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 to issue additional debt up to the legal debt limit. See paragraphs .A8–.A10 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.

**.A30** In addition to the procedures required in paragraph .16c, 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.

**.A31** When evaluating a cash flow forecast, an example of contradictory evidence may include assumptions in the cash flow forecasts that are inconsistent with assumptions used for other purposes, such as forecasts used to evaluate the recoverability of deferred tax assets or potential impairment of goodwill or long-lived assets.

### **Financial Support by Third Parties or the Entity's Owner-Manager**

#### *Intent*

#### Support Letters or Written Confirmations

**.A32** The auditor's evaluation of the support letter (as further described in paragraph .A33) or written confirmation includes consideration of the terms and conditions of the commitment and may include, as applicable, considerations of the legality and enforceability of the commitments.

**.A33** The intent of supporting parties to provide the necessary financial support may be evidenced by either of the following:

- a. Obtaining from management written evidence of a commitment from the supporting party to provide or maintain the necessary financial support (sometimes referred to as a "support letter").
- b. Confirming directly with the supporting parties (as described in paragraph .A35) the existence of commitments to provide or maintain the necessary financial support. Confirmation may be

necessary if management only has oral evidence of such financial support.

**.A34** When the financial support is provided by an owner-manager, the evidence regarding intent may be in the form of a support letter or a written representation.<sup>29</sup>

#### Obtaining Written Confirmations

**.A35** If the auditor obtains a support letter as described in paragraph .A33a, the auditor may still request a written confirmation in accordance with section 505, *External Confirmations*, from the supporting parties regarding the contents of the support letter. For example, such written confirmation may be requested when, in the auditor's professional judgment, a written confirmation is necessary to determine the validity of the support letter as well as the accuracy and completeness of the related terms and conditions.

#### Illustration of the Third-Party Support Letter

**.A36** The purpose of the support letter from supporting parties is to provide sufficient appropriate audit evidence about the supporting parties' intent to provide financial support to the entity. The support letter may also include 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 for a reasonable period of time. The following is an illustration of a support letter that may be requested from the supporting parties when the applicable financial reporting framework is FASB ASC. The illustrative wording also includes an assertion about the supporting party's ability to provide financial support, but such wording does not, by itself, provide sufficient appropriate audit evidence regarding ability.

*(Supporting party name)* will, and has the ability to, fully support the operating, investing, and financing activities of *(entity name)* through at least one year and a day beyond [insert date]<sup>30</sup> *(the date the financial statements are issued or available for issuance, when applicable)*.

Depending on the facts and circumstances, this written support letter may be adapted, for example, by adding the following wording:

This also applies to any amounts that may ultimately be due to the Internal Revenue Service as a result of the recent judgment against *(entity name)* and also applies should *(entity name's)* debt not be refinanced when the debt becomes due in the next year.

**.A37** In accordance with section 700, *Forming an Opinion and Reporting on Financial Statements*, or section 703, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*, the auditor is required to date the auditor's report no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements.<sup>31</sup> Accordingly, in order to cover the assessment period required by the applicable financial reporting framework, the support letter or the written confirmation defines a specific date through which the supporting party intends to provide support. For

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<sup>29</sup> See section 580, *Written Representations*.

<sup>30</sup> See paragraph .A37.

<sup>31</sup> Paragraph .43 of section 700, *Forming an Opinion and Reporting on Financial Statements*, or paragraphs .82 and .126 of section 703, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*. [As amended, effective for audits of financial statements for periods ending on or after December 15, 2021, by SAS No. 136.]

example, for financial statements prepared in accordance with FASB ASC, the date would be a year and a day beyond the date that the financial statements are issued (or available to be issued, when applicable). Specifying a date in the support letter or written confirmation that is later than the expected date that the financial statements will be issued (or will be available to be issued, when applicable) may obviate the need to obtain updated information from the supporting parties. The period covered by the support letter or written confirmation may be shorter if there is another source of support that management intends to utilize in order to continue as a going concern through the assessment period. Such other support would be subjected to the same auditing procedures discussed in this section. [As amended, effective for audits of financial statements for periods ending on or after December 15, 2021, by SAS No. 136.]

### *Ability*

**.A38** With respect to the supporting party's ability to provide support, matters to which the auditor may give consideration include the following:

- a. Audit evidence of past support obtained from the supporting party when such support was needed.
- b. The solvency of the supporting party and the sufficiency of the evidence supporting the solvency assertion. The auditor may obtain financial statements of the supporting party audited by a reputable auditor as evidence of the ability of the supporting party to provide the needed support. If the financial statements have not been audited, the auditor may perform other procedures, such as obtaining bank statements and evidence regarding the valuation of assets held by the supporting party that may be used to provide the needed support. However, these procedures might not provide evidence regarding other claims on the pledged assets that would limit the ability of the supporting party to use the assets to provide the support to the reporting entity.
- c. The ability to provide the needed support in a timely manner for the reporting entity to meet its obligations.
- d. When the entity and supporting party are in different countries, the ability of the supporting party to transfer the necessary funds (or other financial support) to the entity. Factors such as trade embargos, financial transfer restrictions, and war may limit the ability to transfer the necessary financial support.

Given the nature of these matters, the auditor may consult with legal counsel, as appropriate.

### **Written Representations (Ref: par. .18)**

**.A39** The auditor may consider it appropriate to request specific written representations beyond those required in paragraph .18 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.

**.A40** Paragraph .26 of section 580, *Written Representations*, addresses situations in which 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. .20-.21)**

#### *Adequacy of Disclosure When Conditions or Events Have Been Identified and Substantial Doubt Has Not Been Alleviated*

**.A41** 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.

**.A42** For example, under FASB ASC, 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 (or within one year after the date the financial statements are available to be issued, when applicable). Additionally, the entity is required to disclose information that enables users of the financial statements to understand<sup>32</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.
- 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.

**.A43** 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>33</sup>

- a. Pertinent conditions and events giving rise to the assessment of substantial doubt about the governmental entity'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

**.A44** Under the GASB statements, management's discussion and analysis (MD&A) is required to include a description of currently known facts, decisions, or conditions that are expected to have a significant effect on the governmental entity'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

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<sup>32</sup> "Pending Content" in FASB ASC 205-40-50-13.

<sup>33</sup> Paragraph 19 of GASB Statement No. 56.

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>34</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 section 730, *Required Supplementary Information*, as applicable.<sup>35</sup>

*Adequacy of Disclosures When Conditions or Events Have Been Identified But Substantial Doubt Has Been Alleviated by Management's Plans (Ref: par. .22)*

**.A45** 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 .22 to evaluate the adequacy of the financial statement disclosures required by the applicable financial reporting framework. For example, FASB ASC states that, if 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 statements information that enables users of the financial statements to understand all of the following (or shall refer to similar information disclosed elsewhere in the footnotes):<sup>36</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

**.A46** 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>37</sup> Depending on the facts and circumstances, the auditor may determine that additional disclosures are necessary to achieve fair presentation.

**.A47** 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 .A42–.A46 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. .23)*

**.A48** The requirement in paragraph .23 for the auditor to express an adverse opinion applies regardless of whether the financial statements include

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<sup>34</sup> Paragraph 11h of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and paragraph 19 of GASB Statement No. 56.

<sup>35</sup> Paragraph 129 of GASB Statement No. 34.

<sup>36</sup> "Pending Content" in FASB ASC 205-40-50-12.

<sup>37</sup> Paragraph .17 of section 700.

disclosure of the inappropriateness of management's use of the going concern basis of accounting.

**.A49** 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 FASB ASC, 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).

**.A50** Interpretation No. 1, "Reporting on Financial Statements Prepared on a Liquidation Basis of Accounting", of section 700, *Forming an Opinion and Reporting on Financial Statements* (sec. 9700 par. .01–.05), 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.

***Use of the Going Concern Basis of Accounting Is Appropriate But Conditions and Events Have Been Identified (Ref: par. .24–.25)***

*Conditions and Events Have Been Identified and Substantial Doubt Has Not Been Alleviated*

**.A51** The identification of substantial doubt is a matter that is important to users' understanding of the financial statements. The use of a separate section with a heading that includes reference to the fact that substantial doubt exists about the entity's ability to continue as going concern alerts users to this circumstance. [Paragraph added, effective for audits of financial statements for periods ending on or after December 15, 2021, by SAS No. 134.]

**.A52** The exhibit to this section provides an illustration of the statements that are required to be included in the auditor's report on the financial statements (illustration 1) and an illustration of the circumstances described in paragraph .A54 (illustration 2). Illustration 1 and illustration 2 provide examples in which FASB ASC is the applicable financial reporting framework. If an applicable financial reporting framework other than FASB ASC is used, the wording in the illustrative reports in the exhibit to this section may need to be adapted to reflect the application of the other financial reporting framework in the circumstances. [Paragraph added, effective for audits of financial statements for periods ending on or after December 15, 2021, by SAS No. 134.]

**.A53** When FASB ASC 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. [Paragraph renumbered by the issuance of SAS No. 134, May 2019.]

*Conditions and Events Have Been Identified and Substantial Doubt Has Been Alleviated*

**.A54** 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 and adequate disclosure has been made in the financial

statements, the auditor may include an emphasis-of-matter paragraph in accordance with 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>38</sup> In this circumstance, the use of an emphasis-of-matter paragraph is to draw users' attention to the disclosures of the conditions and events and management's plans. It is distinguished from the situation in which the auditor concludes, after considering identified conditions or events and management's plans, that substantial doubt about the entity's ability to continue as a going concern remains, in which case the auditor is required by paragraph .24 of this section to include a separate "Going Concern" section in the auditor's report. [As amended, effective for audits of financial statements for periods ending on or after December 15, 2021, by SAS No. 134.]

**.A55** As indicated in section 706, the use of an emphasis-of-matter paragraph is not appropriate if either of the following applies:

- a. The matter has been determined to be a key audit matter when section 701, *Communicating Key Audit Matters in the Independent Auditor's Report*, applies.
- b. The auditor would be required to modify the opinion in accordance with section 705<sup>39</sup> as a result of the matter.

[As amended, effective for audits of financial statements for periods ending on or after December 15, 2021, by SAS No. 134.]

**.A56** As indicated in section 705, in circumstances in which conditions and events have been identified and the auditor concludes that, based on the audit evidence obtained, the disclosures are materially misstated, the auditor is required to modify the auditor's report.<sup>40</sup> [Paragraph added, effective for audits of financial statements for periods ending on or after December 15, 2021, by SAS No. 134.]

#### *Inappropriate Use of Conditional Language*

**.A57** Examples of conditional language that are inappropriate to use in the "Going Concern" section 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.

[Paragraph renumbered and amended, effective for audits of financial statements for periods ending on or after December 15, 2021, by SAS No. 134.]

#### *Communication With Regulators*

**.A58** 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,

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<sup>38</sup> Paragraphs .08–.09 of section 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report*.

<sup>39</sup> Paragraph .08 of section 706. [Footnote added, effective for audits of financial statements for periods ending on or after December 15, 2021, by SAS No. 134.]

<sup>40</sup> Paragraph .07 of section 705, *Modifications to the Opinion in the Independent Auditor's Report*. [Footnote added, effective for audits of financial statements for periods ending on or after December 15, 2021, by SAS No. 134.]

the auditor may have a duty to communicate with the applicable regulatory, enforcement, or supervisory authorities. (Ref: par. .24) [Paragraph renumbered by the issuance of SAS No. 134, May 2019.]

*Management Unwilling to Perform or Extend Its Evaluation (Ref: par. .27)*

**.A59** In certain circumstances, the auditor may believe it necessary to request that management perform or extend its evaluation to meet the period of time required by the applicable financial reporting framework. If management is unwilling to do so, a qualified or adverse opinion in the auditor's report may be appropriate. For example, management may be unwilling to extend its evaluation because it believes it has satisfied the requirements to conclude whether substantial doubt exists about the entity's ability to continue as a going concern for a reasonable period of time when the applicable financial reporting framework requires management to make this evaluation. If, in the auditor's judgment, management's conclusion is not adequately supported, the auditor may conclude that a qualified or adverse opinion for a departure from the applicable financial reporting framework is appropriate in these circumstances. Section 705 provides guidance related to the modification of the auditor's opinion. 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 to determine whether it constitutes a significant deficiency or material weakness in accordance with section 265. [Paragraph renumbered by the issuance of SAS No. 134, May 2019.]

### **Comparative Presentations (Ref: par. .29)**

**.A60** 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. Section 700 and section 703 provide 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. [Paragraph renumbered by the issuance of SAS No. 134, May 2019. As amended, effective for audits of financial statements for periods ending on or after December 15, 2021, by SAS No. 136.]

**.A61** A financial reporting framework may contain disclosure requirements in a subsequent period in which substantial doubt no longer exists. For example, FASB ASC states 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>41</sup> [Paragraph renumbered by the issuance of SAS No. 134, May 2019.]

### **Eliminating a Going Concern Emphasis-of-Matter Paragraph From a Reissued Report (Ref: par. .30)**

**.A62** After the auditor has issued the auditor's report containing a "Going Concern" section, the auditor may be asked to reissue the auditor's report on the financial statements and eliminate the "Going Concern" section that appeared in the original report. Such requests may occur after the conditions or events

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<sup>41</sup> "Pending Content" in FASB ASC 205-40-50-14. [Footnote renumbered by the issuance of SAS No. 134, May 2019.]

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. [Paragraph renumbered and amended, effective for audits of financial statements for periods ending on or after December 15, 2021, by SAS No. 134.]

**.A63** The auditor may perform procedures in addition to those required by paragraph .30 that the auditor deems necessary in the circumstances. [Paragraph renumbered by the issuance of SAS No. 134, May 2019.]

### **Documentation (Ref: par. .32)**

**.A64** Section 230, *Audit Documentation*, addresses the auditor's responsibility to prepare audit documentation for an audit of financial statements.<sup>42</sup> The documentation requirements of paragraph .32 of this section are incremental to 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. [Paragraph renumbered by the issuance of SAS No. 134, May 2019.]

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<sup>42</sup> Paragraph .01 of section 230, *Audit Documentation*. [Footnote renumbered by the issuance of SAS No. 134, May 2019.]

.A65

## Exhibit — Illustrations of Auditor's Reports Relating to Going Concern (Ref: par. .A52–.A56)

Illustration 1 — An Auditor's Report Containing an Unmodified Opinion and Includes a Going Concern Section When Management Is Required Under the Applicable Financial Reporting Framework to Include a Statement In the Notes to the Financial Statements That Conditions or Events Have Been Identified and Substantial Doubt Exists and Disclosure In The Financial Statements Is Adequate

Illustration 2 — An Auditor's Report Containing an Unmodified Opinion and Includes an Emphasis-of-Matter Paragraph Because Substantial Doubt Has Been Alleviated

### **Illustration 1 — An Auditor's Report Containing an Unmodified Opinion and Includes a Going Concern Section When Management Is Required Under the Applicable Financial Reporting Framework to Include a Statement In the Notes to the Financial Statements That Conditions or Events Have Been Identified and Substantial Doubt Exists and Disclosure In The Financial Statements Is Adequate**

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements prepared in accordance with FASB ASC. The audit is not a group audit.
- The auditor has concluded that an unmodified opinion is appropriate based on the audit evidence obtained.
- The auditor has concluded, after considering identified conditions or events and management's plans, that substantial doubt remains and the disclosures of the conditions or events and management's plans are adequate.
- Management is required under FASB ASC to include an explicit statement in the notes to the financial statements that conditions or events have been identified and substantial doubt exists.

#### **Independent Auditor's Report**

To the Shareholders of ABC Company [*or Other Appropriate Addressee*]

The auditor's report is presented in accordance with paragraphs .21–.42 of section 700, *Forming an Opinion and Reporting on Financial Statements*. For illustrative purposes, the Going Concern section is presented immediately after the "Basis for Opinion of the Auditor's Report" section.

### **Substantial Doubt About the Company's Ability to Continue as a 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, has a net capital deficiency, and has stated that substantial doubt exists about

the Company's ability to continue as a going concern. 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.

**Illustration 2 — An Auditor's Report Containing an Unmodified Opinion and Includes an Emphasis-of-Matter Paragraph Because Substantial Doubt Has Been Alleviated (Ref: par. .A52)**

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements prepared in accordance with FASB ASC. The audit is not a group audit.
- Management has disclosed 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.
- Management has disclosed 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.
- Management has disclosed that 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.
- The auditor has concluded that management's disclosures are adequate.

**Independent Auditor's Report**

To the Shareholders of ABC Company [*or Other Appropriate Addressee*]

**Report on the Audit of the Financial Statements**

The auditor's report is presented in accordance with paragraph .09 of section 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report*.

***Emphasis-of-Matter***

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 management's plans to mitigate these matters are also described in Note X. Our opinion is not modified with respect to this matter.

[Paragraph added, effective for audits of financial statements for periods ending on or after December 15, 2021, by SAS No. 134.]

## AU-C Section 580

### *Written Representations*

Source: SAS No. 122; SAS No. 135; SAS No. 136.

Effective for audits of financial statements for periods ending on or after December 15, 2012, unless otherwise indicated.

#### NOTE

In July 2020, the Auditing Standards Board issued Statement on Auditing Standards No. 143, *Auditing Accounting Estimates and Related Disclosures*, which contains amendments to this section.

The amendments are effective for audits of financial statements for periods ending on or after December 15, 2023, and can be viewed in appendix C of section 540 until the effective date, when they will be applied to this section.

## Introduction

### Scope of This Section

**.01** This section addresses the auditor's responsibility to obtain written representations from management and, when appropriate, those charged with governance in an audit of financial statements.

**.02** Exhibit D, "List of AU-C Sections Containing Requirements for Written Representations," lists other AU-C sections containing subject matter-specific requirements for written representations. The specific requirements for written representations of other AU-C sections do not limit the application of this section.

### Written Representations as Audit Evidence

**.03** *Audit evidence* is the information used by the auditor in arriving at the conclusions on which the auditor's opinion is based.<sup>1</sup> Written representations are necessary information that the auditor requires in connection with the audit of the entity's financial statements. Accordingly, similar to responses to inquiries, written representations are audit evidence. (Ref: par. .A1)

**.04** Although written representations provide necessary audit evidence, they complement other auditing procedures and do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal. Furthermore, obtaining reliable written representations does not affect the nature or extent of other audit procedures that the auditor applies to obtain audit evidence about the fulfillment of management's responsibilities or about specific assertions.

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<sup>1</sup> Paragraph .05 of section 500A, *Audit Evidence*.

## Effective Date

.05 This section is effective for audits of financial statements for periods ending on or after December 15, 2012.

## Objectives

.06 The objectives of the auditor are to

- a. obtain written representations from management and, when appropriate, those charged with governance that they believe that they have fulfilled their responsibility for the preparation and fair presentation of the financial statements and for the completeness of the information provided to the auditor;
- b. support other audit evidence relevant to the financial statements or specific assertions in the financial statements by means of written representations if determined necessary by the auditor or required by other AU-C sections; and
- c. respond appropriately to written representations provided by management and, when appropriate, those charged with governance or if management or, when appropriate, those charged with governance do not provide the written representations requested by the auditor.

## Definition

.07 For purposes of generally accepted auditing standards, the following term has the meaning attributed as follows:

**Written representation.** A written statement by management provided to the auditor to confirm certain matters or to support other audit evidence. Written representations in this context do not include financial statements, the assertions therein, or supporting books and records.

.08 For purposes of this section, references to *management* are to be read as "management and, when appropriate, those charged with governance" unless the context suggests otherwise.

## Requirements

### Management From Whom Written Representations Are Requested

.09 The auditor should request written representations from management with appropriate responsibilities for the financial statements and knowledge of the matters concerned. (Ref: par. .A2–.A6)

### Written Representations About Management's Responsibilities

#### *Preparation and Fair Presentation of the Financial Statements*

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

- a. for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework; and
- b. for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error;<sup>2</sup> (Ref: par. .A7–.A10, .A22, and .A29)

### **Information Provided and Completeness of Transactions**

**.11** The auditor should request management to provide written representations that

- a. it has provided the auditor with all relevant information and access, as agreed upon in the terms of the audit engagement, and
- b. all transactions have been recorded and are reflected in the financial statements. (Ref: par. .A7–.A10, .A22, and .A29)

## **Other Written Representations**

### **Fraud**

**.12** The auditor should request management to provide written representations that it

- a. acknowledges its responsibility for the design, implementation, and maintenance of internal controls to prevent and detect fraud;
- b. has disclosed to the auditor the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- c. has disclosed to the auditor its knowledge of fraud or suspected fraud affecting the entity involving
  - i. management,
  - ii. employees who have significant roles in internal control, or
  - iii. others when the fraud could have a material effect on the financial statements; and
- d. has disclosed to the auditor its knowledge of any allegations of fraud or suspected fraud affecting the entity's financial statements communicated by employees, former employees, regulators, or others. (Ref: par. .A11)

### **Laws and Regulations**

**.13** The auditor should request management to provide written representations that all instances of identified or suspected noncompliance with laws and regulations whose effects should be considered by management when preparing financial statements have been disclosed to the auditor.<sup>3</sup>

### **Uncorrected Misstatements**

**.14** The auditor should request management to provide written representations about whether it believes the effects of uncorrected misstatements are

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<sup>2</sup> Paragraph .06b(i–ii) of section 210, *Terms of Engagement*.

<sup>3</sup> Paragraph .A18 of section 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*.

immaterial, individually and in the aggregate, to the financial statements as a whole. A summary of such items should be included in, or attached to, the written representation. (Ref: par. .A12)

### ***Litigation and Claims***

.15 The auditor should request management to provide written representations that all known actual or possible litigation and claims whose effects should be considered by management when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

### ***Estimates***

.16 The auditor should request management to provide written representations about whether it believes significant assumptions used by it in making accounting estimates are reasonable. (Ref: par. .A13–.A14)

### ***Related Party Transactions***

.17 The auditor should request management to provide written representations that (Ref: par. .A15–.A16)

- a. it has disclosed to the auditor the identity of all the entity's related parties and all the related party relationships and transactions of which it is aware and
- b. it has appropriately accounted for and disclosed such relationships and transactions.

[As amended, effective for audits of financial statements for periods ending on or after December 15, 2021, by SAS No. 135.]

### ***Subsequent Events***

.18 The auditor should request management to provide written representations that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed. (Ref: par. .A17)

### ***Additional Written Representations About the Financial Statements***

.19 Other AU-C sections require the auditor to request written representations. If, in addition to such required representations, the auditor determines that it is necessary to obtain one or more written representations to support other audit evidence relevant to the financial statements or one or more specific assertions in the financial statements, the auditor should request such other written representations. (Ref: par. .A18–.A22 and .A29)

### ***Date of, and Period(s) Covered by, Written Representations***

.20 The date of the written representations should be as of the date of the auditor's report on the financial statements. The written representations should be for all financial statements and period(s) referred to in the auditor's report. (Ref: par. .A23–.A26)

## Form of Written Representations

.21 The written representations should be in the form of a representation letter addressed to the auditor. (Ref: par. .A27–.A28)

## Doubt About the Reliability of Written Representations and Requested Written Representations Not Provided

### *Doubt About the Reliability of Written Representations*

.22 If the auditor has concerns about the competence, integrity, ethical values, or diligence of management or about management's commitment to, or enforcement of, these, the auditor should determine the effect that such concerns may have on the reliability of representations (oral or written) and audit evidence in general. (Ref: par. .A30)

.23 In particular, if written representations are inconsistent with other audit evidence, the auditor should perform audit procedures to attempt to resolve the matter. If the matter remains unresolved, the auditor should reconsider the assessment of the competence, integrity, ethical values, or diligence of management or of management's commitment to, or enforcement of, these and should determine the effect that this may have on the reliability of representations (oral or written) and audit evidence in general. (Ref: par. .A31)

.24 If the auditor concludes that the written representations are not reliable, the auditor should take appropriate action, including determining the possible effect on the opinion in the auditor's report in accordance with section 705, *Modifications to the Opinion in the Independent Auditor's Report*, considering the requirement in paragraph .25 of this section.

### *Written Representations About Management's Responsibilities*

.25 The auditor should disclaim an opinion on the financial statements in accordance with section 705 or withdraw from the engagement if (Ref: par. .A32–.A33)

- a. the auditor concludes that sufficient doubt exists about the integrity of management such that the written representations required by paragraphs .10–.11 are not reliable or
- b. management does not provide the written representations required by paragraphs .10–.11.

### *Requested Written Representations Not Provided*

.26 If management does not provide one or more of the requested written representations, the auditor should

- a. discuss the matter with management;
- b. reevaluate the integrity of management and evaluate the effect that this may have on the reliability of representations (oral or written) and audit evidence in general; and
- c. take appropriate actions, including determining the possible effect on the opinion in the auditor's report in accordance with section 705, considering the requirement in paragraph .25 of this section. (Ref: par. .A34)

## Application and Other Explanatory Material

### Written Representations as Audit Evidence (Ref: par. .03)

**.A1** Written representations are an important source of audit evidence. If management modifies or does not provide the requested written representations, it may alert the auditor to the possibility that one or more significant issues may exist. Further, a request for written rather than oral representations, in many cases, may prompt management to consider such matters more rigorously, thereby enhancing the quality of the representations.

### Management From Whom Written Representations Are Requested (Ref: par. .09)

**.A2** Written representations are requested from those with overall responsibility for financial and operating matters whom the auditor believes are responsible for, and knowledgeable about, directly or through others in the organization, the matters covered by the representations, including the preparation and fair presentation of the financial statements. Those individuals may vary depending on the governance structure of the entity; however, management (rather than those charged with governance) is often the responsible party. Written representations may therefore be requested from the entity's chief executive officer and chief financial officer or other equivalent persons in entities that do not use such titles. In some circumstances, however, other parties, such as those charged with governance, also are responsible for the preparation and fair presentation of the financial statements.

**.A3** Due to its responsibility for the preparation and fair presentation of the financial statements and its responsibility for the conduct of the entity's business, management would be expected to have sufficient knowledge of the process followed by the entity in preparing the financial statements and the assertions therein on which to base the written representations.

**.A4** In some cases, however, management may decide to make inquiries of others who participate in preparing the financial statements and assertions therein, including individuals who have specialized knowledge relating to the matters about which written representations are requested. Such individuals may include the following:

- An actuary responsible for actuarially determined accounting measurements
- Staff engineers who may have responsibility for environmental liability measurements
- Internal counsel who may provide information essential to provisions for legal claims

**.A5** To reinforce the need for management to make informed representations, the auditor may request that management include in the written representations confirmation that it has made such inquiries as it considered appropriate to place it in the position to be able to make the requested written representations. It is not expected that such inquiries would usually require a formal internal process beyond those already established by the entity.

**.A6** In some cases, management may include in the written representations qualifying language to the effect that representations are made to the best of its knowledge and belief. It is reasonable for the auditor to accept such wording if, in the auditor's professional judgment, the representations are being

made by those with appropriate responsibilities and knowledge of the matters included in the representations.

### **Written Representations About Management's Responsibilities (Ref: par. .10–.11)**

**.A7** Audit evidence obtained during the audit that management has fulfilled the responsibilities referred to in paragraphs .10–.11 is not sufficient without obtaining confirmation from management that it believes that it has fulfilled those responsibilities. This is because the auditor is not able to judge solely on other audit evidence whether management has prepared and fairly presented the financial statements and provided information to the auditor on the basis of the agreed acknowledgment and understanding of its responsibilities. For example, the auditor could not conclude that management has provided the auditor with all relevant information agreed upon in the terms of the audit engagement without asking management whether, and receiving confirmation that, such information has been provided.

**.A8** The written representations required by paragraphs .10–.11 draw on the agreed acknowledgment and understanding of management of its responsibilities in the terms of the audit engagement by requesting confirmation that it has fulfilled them. In addition to requesting management to confirm that it has fulfilled its responsibilities, the auditor also may ask management to reconfirm its acknowledgment and understanding of those responsibilities in written representations. This is common but, in any event, may be particularly appropriate when

- those who signed the terms of the audit engagement on behalf of the entity no longer have the relevant responsibilities,
- the terms of the audit engagement were prepared in a previous year,
- any indication exists that management misunderstands those responsibilities, or
- changes in circumstances make it appropriate to do so.

Consistent with the requirement of section 210, *Terms of Engagement*, such reconfirmation of management's acknowledgment and understanding of its responsibilities is unconditional and is not made subject to the best of management's knowledge and belief (as discussed in paragraph .A6 of this section).

**.A9** Relevant information may include such matters as the following:

- Completeness and availability of all minutes of meetings of stockholders, directors, and committees of directors or summaries of actions of recent meetings for which minutes have not yet been prepared
- Communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices

### **Considerations Specific to Governmental Entities**

**.A10** The legal or regulatory requirements for audits of the financial statements of governmental entities may be broader than those of other entities. As a result, the premise, relating to management's responsibilities, on which an audit of the financial statements of a governmental entity is conducted may give rise to additional written representations. These may include written

representations confirming that transactions and events have been carried out in accordance with applicable law or regulation.

## Other Written Representations

### ***Fraud (Ref: par. .12)***

.A11 The written representations relating to fraud required by paragraph .12 are important for the auditor to obtain, regardless of the size of the entity, because of the nature of fraud and the difficulties encountered by auditors in detecting material misstatements in the financial statements resulting from fraud.

### ***Uncorrected Misstatements (Ref: par. .14)***

.A12 Because the preparation of the financial statements requires management to adjust the financial statements to correct material misstatements, the auditor is required to request management to provide a written representation about uncorrected misstatements. In some circumstances, management may not believe that certain uncorrected misstatements are misstatements. For that reason, management may want to add to their written representation words such as "We do not agree that items . . . and . . . constitute misstatements because [*description of reasons*]." Obtaining this representation does not, however, relieve the auditor of the need to form a conclusion on the effect of uncorrected misstatements in accordance with section 450, *Evaluation of Misstatements Identified During the Audit*.

### ***Estimates (Ref: par. .16)***

.A13 Depending on the nature, materiality, and extent of estimation uncertainty, written representations about accounting estimates recognized or disclosed in the financial statements may include representations

- about the appropriateness of the measurement processes, including related assumptions and models, used by management in determining accounting estimates in the context of the applicable financial reporting framework and the consistency in the application of the processes.
- that the assumptions appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the entity when relevant to the accounting estimates and disclosures.
- that disclosures related to accounting estimates are complete and appropriate under the applicable financial reporting framework.
- that no subsequent event has occurred that would require adjustment to the accounting estimates and disclosures included in the financial statements.

.A14 For those accounting estimates not recognized or disclosed in the financial statements, written representations also may include representations about the following:

- The appropriateness of the basis used by management for determining that the criteria of the applicable financial reporting framework for recognition or disclosure have not been met<sup>4</sup>

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<sup>4</sup> Paragraph .A121 of section 540A, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*.

- The appropriateness of the basis used by management to overcome a presumption relating to the use of fair value set forth under the entity's applicable financial reporting framework for those accounting estimates not measured or disclosed at fair value

**Related Parties (Ref: par. .17)**

.A15 Circumstances in which it may be appropriate to obtain written representations about related parties from those charged with governance in addition to management include the following:

- When they have approved specific related party transactions that (a) materially affect the financial statements or (b) involve management
- When they have made specific oral representations to the auditor on details of certain related party transactions
- When they have financial or other interests in the related parties or the related party transactions

.A16 The auditor also may decide to obtain written representations regarding specific assertions that management may have made, such as a representation that specific related party transactions do not involve undisclosed side agreements, or that a transaction with a related party was conducted on terms equivalent to those prevailing in an arm's-length transaction. [As amended, effective for audits of financial statements for periods ending on or after December 15, 2021, by SAS No. 135.]

**Subsequent Events (Ref: par. .18)**

.A17 Section 560, *Subsequent Events and Subsequently Discovered Facts*, addresses circumstances when the auditor includes an additional date on the auditor's report (that is, dual-dates the auditor's report for a revision relating to a subsequent event).<sup>5</sup> In such circumstances, the auditor may determine that obtaining additional representations relating to the subsequent event is appropriate.

**Additional Written Representations About the Financial Statements (Ref: par. .19)**

.A18 In addition to the written representations required by paragraphs .10–.18, the auditor may consider it necessary to request other written representations about the financial statements. Such written representations may supplement, but do not form part of, the written representations required by paragraphs .10–.18. They may include representations about the following:

- Whether the selection and application of accounting policies are appropriate
- Whether matters such as the following, when relevant under the applicable financial reporting framework, have been recognized, measured, presented, or disclosed in accordance with that framework:
  - Plans or intentions that may affect the carrying value or classification of assets and liabilities
  - Liabilities, both actual and contingent

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<sup>5</sup> Paragraph .13 of section 560, *Subsequent Events and Subsequently Discovered Facts*.

— Title to, or control over, assets and the liens or encumbrances on assets and assets pledged as collateral

- Aspects of laws, regulations, and contractual agreements that may affect the financial statements, including noncompliance
- Whether any side agreements or other arrangements (either written or oral) exist that have not been disclosed to the auditor

Exhibit B, "Illustrative Specific Written Representations," contains illustrations of additional representations that may be appropriate in certain situations. [As amended, effective for audits of financial statements for periods ending on or after December 15, 2021, by SAS No. 135.]

### ***Additional Written Representations About Information Provided to the Auditor***

**.A19** In addition to the written representation required by paragraph .11, the auditor may consider it necessary to request management to provide a written representation that it has communicated to the auditor all deficiencies in internal control of which management is aware.

### ***Written Representations About Specific Assertions***

**.A20** When obtaining evidence about or evaluating judgments and intentions, the auditor may consider one or more of the following:

- The entity's past history in carrying out its stated intentions
- The entity's reasons for choosing a particular course of action
- The entity's ability to pursue a specific course of action
- The existence, or lack thereof, of any other information obtained during the course of the audit that may be inconsistent with management's judgment or intent

**.A21** In addition, the auditor may consider it necessary to request management to provide written representations about specific assertions in the financial statements; in particular, to support an understanding that the auditor has obtained from other audit evidence of management's judgment or intent regarding, or the completeness of, a specific assertion. For example, if the intent of management is important to the valuation basis for investments, it may not be possible to obtain sufficient appropriate audit evidence without a written representation from management about its intentions. Although such written representations provide necessary audit evidence, they do not provide sufficient appropriate audit evidence on their own for that assertion.

### ***Communicating a Threshold Amount (Ref: par. .10-.11 and .19)***

**.A22** Management's representations may be limited to matters that are considered either individually or collectively material to the financial statements, provided management and the auditor have reached an understanding on materiality for this purpose. Materiality may be different for different representations. A discussion of materiality may be included explicitly in the representation letter in either qualitative or quantitative terms. Materiality considerations do not apply to those representations that are not directly related to amounts included in the financial statements (for example, management's representations about the premise underlying the audit). In addition, because of the possible effects of fraud on other aspects of the audit, materiality would not apply to management's acknowledgment regarding its responsibility for the

design, implementation, and maintenance of internal control to prevent and detect fraud.

### **Date of, and Period(s) Covered by, Written Representations (Ref: par. .20)**

**.A23** Because written representations are necessary audit evidence, the auditor's opinion cannot be expressed, and the auditor's report cannot be dated, before the date of the written representations. Furthermore, because the auditor is concerned with events occurring up to the date of the auditor's report that may require adjustment to, or disclosure in, the financial statements, the written representations are dated as of the date of the auditor's report on the financial statements.

**.A24** In some circumstances, it may be appropriate for the auditor to obtain a written representation about a specific assertion in the financial statements during the course of the audit. When this is the case, it may be necessary to request an updated written representation.

**.A25** The written representations cover all periods referred to in the auditor's report because management needs to reaffirm that the written representations it previously made with respect to the prior periods remain appropriate. The auditor and management may agree to a form of written representation that updates written representations relating to the prior periods by addressing whether there are any changes to such written representations and, if so, what they are.

**.A26** Situations may arise in which current management was not present during all periods referred to in the auditor's report. Such persons may assert that they are not in a position to provide some or all of the written representations because they were not in place during the period. This fact, however, does not diminish such persons' responsibilities for the financial statements as a whole. Accordingly, the requirement for the auditor to request from them written representations that cover the whole of the relevant period(s) still applies.

### **Form of Written Representations (Ref: par. .21)**

**.A27** Occasionally, circumstances may prevent management from signing the representation letter and returning it to the auditor on the date of the auditor's report. In those circumstances, the auditor may accept management's oral confirmation, on or before the date of the auditor's report, that management has reviewed the final representation letter and will sign the representation letter without exception as of the date of the auditor's report thereby providing sufficient appropriate audit evidence for the auditor to date the report. However, possession of the signed management representation letter prior to releasing the auditor's report is necessary because paragraph .21 requires that the representations be in the form of a written letter from management. Furthermore, when there are delays in releasing the report, a fact may become known to the auditor that, had it been known to the auditor at the date of the auditor's report, might affect the auditor's report and result in the need for updated representations. Section 560 addresses the auditor's responsibilities in such circumstances.

**.A28** Exhibit A, "Illustrative Representation Letter," provides an illustrative example of a representation letter.

### **Communication With Those Charged With Governance (Ref: par. .10–.11 and .19)**

**.A29** Section 260, *The Auditor's Communication With Those Charged With Governance*, requires the auditor to communicate with those charged with governance the written representations that the auditor has requested from management.<sup>6</sup>

### **Doubt About the Reliability of Written Representations and Requested Written Representations Not Provided**

#### ***Doubt About the Reliability of Written Representations (Ref: par. .22–.23)***

**.A30** Concerns about the competence, integrity, ethical values, or diligence of management or about its commitment to, or enforcement of, these may cause the auditor to conclude that the risk of management misrepresentation in the financial statements is such that an audit cannot be conducted. In such a case, the auditor may consider withdrawing from the engagement, when withdrawal is possible under applicable law or regulation, unless those charged with governance put in place appropriate corrective measures. Such measures, however, may not be sufficient to enable the auditor to issue an unmodified audit opinion.

**.A31** In the case of identified inconsistencies between one or more written representations and audit evidence obtained from another source, the auditor may consider whether the risk assessment remains appropriate and, if not, may revise the risk assessment and determine the nature, timing, and extent of further audit procedures to respond to the assessed risks.

#### ***Written Representations About Management's Responsibilities (Ref: par. .25)***

**.A32** As explained in paragraph .A7, the auditor is not able to judge solely on other audit evidence whether management has fulfilled the responsibilities referred to in paragraphs .10–.11. Therefore, if, as described in paragraph .25a, the auditor concludes that the written representations about these matters are unreliable or if management does not provide those written representations, the auditor is unable to obtain sufficient appropriate audit evidence. The possible effects on the financial statements of such inability are not confined to specific elements, accounts, or items of the financial statements and are hence pervasive. Section 705 requires the auditor to disclaim an opinion on the financial statements in such circumstances.<sup>7</sup>

**.A33** A written representation that has been modified from that requested by the auditor does not necessarily mean that management did not provide the written representation. However, the underlying reason for such modification may affect the opinion in the auditor's report. For example

- the written representation about management's fulfillment of its responsibility for the preparation and fair presentation of the financial statements may state that management believes that, except for material noncompliance with a particular requirement of the applicable financial reporting framework, the financial statements are prepared and fairly presented in accordance with that

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<sup>6</sup> Paragraph .14d of section 260, *The Auditor's Communication With Those Charged With Governance*.

<sup>7</sup> Paragraph .10 of section 705, *Modifications to the Opinion in the Independent Auditor's Report*.

framework. The requirement in paragraph .25 does not apply because the auditor concluded that management has provided reliable written representations. However, the auditor is required to consider the effect of the noncompliance on the opinion in the auditor's report in accordance with section 705.

- the written representation about the responsibility of management to provide the auditor with all relevant information agreed upon in the terms of the audit engagement may state that management believes that, except for information destroyed in a fire, it has provided the auditor with such information. The requirement in paragraph .25 does not apply because the auditor concluded that management has provided reliable written representations. However, the auditor is required to consider the effects of the pervasiveness of the information destroyed in the fire on the financial statements and the effect thereof on the opinion in the auditor's report in accordance with section 705.

***Requested Written Representations Not Provided (Ref: par. .26)***

**.A34** Management's refusal to furnish written representations constitutes a limitation on the scope of the audit. Such refusal is often sufficient to preclude an unmodified opinion and, in particular with respect to the representations in paragraphs .12–.18, may cause an auditor to disclaim an opinion or withdraw from the engagement when withdrawal is possible under applicable law or regulation. However, based on the nature of the representations not obtained or the circumstances of the refusal, the auditor may conclude that a qualified opinion is appropriate.

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## Exhibit A—Illustrative Representation Letter

The following illustrative letter includes written representations that are required by this and other AU-C sections in effect for audits of financial statements for periods ending on or after December 15, 2012. It is assumed in this illustration that the applicable financial reporting framework is accounting principles generally accepted in the United States, that the requirement in section 570A, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*, to obtain a written representation is not relevant, and that no exceptions exist to the requested written representations. If there were exceptions, the representations would need to be modified to reflect the exceptions.

(Entity Letterhead)

(To Auditor)

(Date)

This representation letter is provided in connection with your audit of the financial statements of ABC Company, which comprise the balance sheet as of December 31, 20XX, and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements, for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

Certain representations in this letter are described as being limited to misstatements that are material. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Except where otherwise stated below, immaterial matters less than \$*[insert amount]* collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

We confirm that *[, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves] [as of (date of auditor's report),]:*

### *Financial Statements*

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated *[insert date]*, for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP. (par. .10a)
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. (par. .10b)
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud. (par. .12a)

- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. (par. .16)
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP. (par. .17b)
- All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed. (par. .18)
- The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to the representation letter. (par. .14)
- The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP. (par. .15)

*[Any other matters that the auditor may consider appropriate (see paragraph .A21).]*

#### *Information Provided*

- We have provided you with:
  - Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters; (par. .11a)
  - Additional information that you have requested from us for the purpose of the audit; (par. .11a) and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. (par. .11a)
- All transactions have been recorded in the accounting records and are reflected in the financial statements. (par. .11b)
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud. (par. .12b)
- We have *[no knowledge of any]* *[disclosed to you all information that we are aware of regarding]* fraud or suspected fraud that affects the entity and involves:
  - Management;
  - Employees who have significant roles in internal control; or
  - Others when the fraud could have a material effect on the financial statements (par. .12c)
- We have *[no knowledge of any]* *[disclosed to you all information that we are aware of regarding]* allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others. (par. .12d)

- We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements. (par. .13)
- We [*have disclosed to you all known actual or possible*] [*are not aware of any pending or threatened*] litigation, claims, and assessments whose effects should be considered when preparing the financial statements [and we have not consulted legal counsel concerning litigation, claims, or assessments] (par. .15)
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware. (par. .17a)

[*Any other matters that the auditor may consider necessary (see paragraph A21).*]

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[*Name of Chief Executive Officer and Title*]

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[*Name of Chief Financial Officer and Title*]

[Revised, March 2012, to reflect conforming changes necessary due to the issuance of SAS No. 122. Revised, August 2012, to reflect conforming changes necessary due to the issuance of SAS No. 126.]

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## Exhibit B—Illustrative Specific Written Representations

As discussed in paragraph .19, the auditor may determine that a specific written representation is necessary to corroborate other audit evidence. Certain AICPA Audit and Accounting Guides recommend that the auditor obtain written representations concerning matters that are unique to a particular industry. The following is a list of additional representations that may be appropriate in certain situations. This list is not intended to be all-inclusive. The existence of a condition listed subsequently does not mean that the representation is required; professional judgment is necessary to determine whether corroborative audit evidence in the form of a specific written representation is necessary.

<b><i>Condition</i></b>	<b><i>Illustrative Specific Written Representation</i></b>
<b><i>General</i></b>	
Unaudited interim information accompanies the financial statements.	The unaudited interim financial information accompanying [ <i>presented in Note X to</i> ] the financial statements for the [ <i>identify all related periods</i> ] has been prepared and fairly presented in conformity with generally accepted accounting principles applicable to interim financial information. The accounting principles used to prepare the unaudited interim financial information are consistent with those used to prepare the audited financial statements.
The effect of a new accounting principle is not known.	We have not completed the process of evaluating the effect that will result from adopting the guidance in Financial Accounting Standards Board (FASB) Accounting Standards Update 20YY-XX, as discussed in Note [X]. The company is therefore unable to disclose the effect that adopting the guidance in FASB Accounting Standards Update 20YY-XX will have on its financial position and the results of operations when such guidance is adopted.
Financial circumstances are strained, with disclosure of management's intentions and the entity's ability to continue as a going concern.	Note [X] to the financial statements discloses all of the matters of which we are aware that are relevant to the company's ability to continue as a going concern, including significant conditions and events, and management's plans.
The possibility exists that the value of specific significant long-lived assets or certain identifiable intangibles may be impaired.	We have reviewed long-lived assets and certain identifiable intangibles to be held and used for impairment whenever events or changes in circumstances have indicated that the carrying amount of the assets might not be recoverable and have appropriately recorded the adjustment.

*(continued)*

<b><i>Condition</i></b>	<b><i>Illustrative Specific Written Representation</i></b>
<b><i>General</i></b>	
<p>The entity has a variable interest in another entity.</p>	<p>Variable interest entities (VIEs) and potential VIEs and transactions with VIEs and potential VIEs have been properly recorded and disclosed in the financial statements in accordance with generally accepted accounting principles.</p> <p>We have considered both implicit and explicit variable interests in (a) determining whether potential VIEs should be considered VIEs, (b) calculating expected losses and residual returns, and (c) determining which party, if any, is the primary beneficiary.</p> <p>We have provided you with lists of all identified variable interests in (i) VIEs, (ii) potential VIEs that we considered but judged not to be VIEs, and (iii) entities that were afforded the scope exceptions of Financial Accounting Standards Board (FASB) <i>Accounting Standards Codification</i> (ASC) 810, <i>Consolidation</i>.</p> <p>We have advised you of all transactions with identified VIEs, potential VIEs, or entities afforded the scope exceptions of FASB ASC 810.</p> <p>We have made available all relevant information about financial interests and contractual arrangements with related parties, de facto agents and other entities, including but not limited to, their governing documents, equity and debt instruments, contracts, leases, guarantee arrangements, and other financial contracts and arrangements.</p> <p>The information we provided about financial interests and contractual arrangements with related parties, de facto agents and other entities includes information about all transactions, unwritten understandings, agreement modifications, and written and oral side agreements.</p> <p>Our computations of expected losses and expected residual returns of entities that are VIEs and potential VIEs are based on the best information available and include all reasonably possible outcomes.</p> <p>Regarding entities in which the company has variable interests (implicit and explicit), we have provided all information</p>

<b>Condition</b>	<b><i>Illustrative Specific Written Representation</i></b>
<b><i>General</i></b>	
	<p>about events and changes in circumstances that could potentially cause reconsideration about whether the entities are VIEs or whether the company is the primary beneficiary or has a significant variable interest in the entity.</p> <p>We have made and continue to make exhaustive efforts to obtain information about entities in which the company has an implicit or explicit interest but that were excluded from complete analysis under FASB ASC 810 due to lack of essential information to determine one or more of the following: whether the entity is a VIE, whether the company is the primary beneficiary, or the accounting required to consolidate the entity.</p>
<p>The work of a specialist has been used by the entity.</p>	<p>We agree with the findings of specialists in evaluating the [<i>describe assertion</i>] and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.</p>
<b><i>Assets</i></b>	
<p><b><i>Cash</i></b> Disclosure is required of compensating balances or other arrangements involving restrictions on cash balances, lines of credit, or similar arrangements.</p>	<p>Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements have been properly disclosed.</p>
<p><b><i>Financial Instruments</i></b> Management intends to and has the ability to hold to maturity debt securities classified as held-to-maturity.</p>	<p>Debt securities that have been classified as held-to-maturity have been so classified due to the company's intent to hold such securities, to maturity and the company's ability to do so. All other debt securities have been classified as available-for-sale or trading.</p>
<p>Management considers the decline in value of debt or equity securities to be temporary.</p>	<p>We consider the decline in value of debt or equity securities classified as either available-for-sale or held-to-maturity to be temporary.</p>

(continued)

<b>Condition</b>	<b>Illustrative Specific Written Representation</b>
<b>Assets</b>	
Management has determined the fair value of significant financial instruments that do not have readily determinable market values.	The methods and significant assumptions used to determine fair values of financial instruments are as follows: <i>[describe methods and significant assumptions used to determine fair values of financial instruments]</i> . The methods and significant assumptions used result in a measure of fair value appropriate for financial statement measurement and disclosure purposes.
Financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk exist.	The following information about financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk has been properly disclosed in the financial statements: <ol style="list-style-type: none"> <li>1. The extent, nature, and terms of financial instruments with off-balance-sheet risk</li> <li>2. The amount of credit risk of financial instruments with off-balance-sheet risk and information about the collateral supporting such financial instruments</li> <li>3. Significant concentrations of credit risk arising from all financial instruments and information about the collateral supporting such financial instruments</li> </ol>
<b>Investments</b> Unusual considerations are involved in determining the application of equity accounting.	<i>[For investments in common stock that are either nonmarketable or of which the entity has a 20 percent or greater ownership interest, select the appropriate representation from the following:]</i> <ul style="list-style-type: none"> <li>• The equity method is used to account for the company's investment in the common stock of <i>[investee]</i> because the company has the ability to exercise significant influence over the investee's operating and financial policies.</li> <li>• The cost method is used to account for the company's investment in the common stock of <i>[investee]</i> because the company does not have the ability to exercise significant influence over the investee's operating and financial policies.</li> </ul>

<b>Condition</b>	<b>Illustrative Specific Written Representation</b>
<b>Assets</b>	
The entity had loans to executive officers, nonaccrued loans or zero interest rate loans.	Loans to executive officers have been properly accounted for and disclosed.
<b>Liabilities</b>	
<p data-bbox="189 376 244 401"><i>Debt</i></p> <p data-bbox="189 409 477 517">Short-term debt could be refinanced on a long-term basis and management intends to do so.</p>	<p data-bbox="545 376 1013 562">The company has excluded short-term obligations totaling \$[amount] from current liabilities because it intends to refinance the obligations on a long-term basis. [Complete with appropriate wording detailing how amounts will be refinanced as follows:]</p> <ul data-bbox="552 574 1013 878" style="list-style-type: none"> <li data-bbox="552 574 1013 760">• The company has issued a long-term obligation [debt security] after the date of the balance sheet but prior to the issuance of the financial statements for the purpose of refinancing the short-term obligations on a long-term basis.</li> <li data-bbox="552 772 1013 878">• The company has the ability to consummate the refinancing, by using the financing agreement referred to in Note [X] to the financial statements.</li> </ul>
Tax-exempt bonds have been issued.	Tax-exempt bonds issued have retained their tax-exempt status.
<p data-bbox="189 972 253 996"><i>Taxes</i></p> <p data-bbox="189 1005 456 1112">Management intends to reinvest undistributed earnings of a foreign subsidiary.</p>	We intend to reinvest the undistributed earnings of [name of foreign subsidiary].
<p data-bbox="189 1117 494 1170"><i>Pension and Postretirement Benefits</i></p> <p data-bbox="189 1178 506 1258">An actuary has been used to measure pension liabilities and costs.</p>	We believe that the actuarial assumptions and methods used to measure pension liabilities and costs for financial accounting purposes are appropriate in the circumstances.
Involvement with a multiemployer plan exists.	<p data-bbox="545 1263 1013 1343">We are unable to determine the possibility of a withdrawal liability in a multiemployer benefit plan.</p> <p data-bbox="766 1352 789 1376" style="text-align: center;">or</p> <p data-bbox="545 1385 982 1489">We have determined that there is the possibility of a withdrawal liability in a multiemployer plan in the amount of \$[XX].</p>

(continued)

<b><i>Condition</i></b>	<b><i>Illustrative Specific Written Representation</i></b>
<b><i>Liabilities</i></b>	
Postretirement benefits have been eliminated.	We do not intend to compensate for the elimination of postretirement benefits by granting an increase in pension benefits. or We plan to compensate for the elimination of postretirement benefits by granting an increase in pension benefits in the amount of \$[XX].
Employee layoffs that would otherwise lead to a curtailment of a benefit plan are intended to be temporary.	Current employee layoffs are intended to be temporary.
Management intends to either continue to make or not make frequent amendments to its pension or other postretirement benefit plans, which may affect the amortization period of prior service cost, or has expressed a substantive commitment to increase benefit obligations.	We plan to continue to make frequent amendments to the pension or other postretirement benefit plans, which may affect the amortization period of prior service cost. or We do not plan to make frequent amendments to the pension or other postretirement benefit plans.
<b><i>Equity</i></b>	
Capital stock repurchase options or agreements or capital stock reserved for options, warrants, conversions, or other requirements exist.	Capital stock repurchase options or agreements or capital stock reserved for options, warrants, conversions, or other requirements have been properly disclosed.

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## Exhibit C—Illustrative Updating Management Representation Letter

The following letter is presented for illustrative purposes only. It may be used in the circumstances described in paragraph .A17 of this section. Management need not repeat all of the representations made in the previous representation letter.

If matters to be disclosed to the auditor exist, they may be listed following the representation. For example, if an event subsequent to the date of the balance sheet has been disclosed in the financial statements, the final paragraph could be modified as follows: "To the best of our knowledge and belief, except as discussed in Note X to the financial statements, no events have occurred. . . ."

[Date]

To [Auditor]

In connection with your audit(s) of the [identification of financial statements] of [name of entity] as of [dates] and for the [periods] for the purpose of expressing an opinion as to whether the [consolidated] financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of [name of entity] in accordance with accounting principles generally accepted in the United States of America, you were previously provided with a representation letter under date of [date of previous representation letter]. No information has come to our attention that would cause us to believe that any of those previous representations should be modified.

To the best of our knowledge and belief, no events have occurred subsequent to [date of latest balance sheet reported on by the auditor] and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.

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[Name of Chief Executive Officer and Title]

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[Name of Chief Financial Officer and Title]

[Paragraph added, March 2012, to reflect conforming changes necessary due to the issuance of SAS No. 122.]

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## Exhibit D—List of AU-C Sections Containing Requirements for Written Representations

This exhibit identifies paragraphs in other AU-C sections that require specific written representations that may not be required for every audit. The list is not a substitute for considering the requirements and related application and other explanatory material in AU-C sections:

- Paragraph .19 of section 560, *Subsequent Events and Subsequently Discovered Facts*
- Paragraph .55 of section 700, *Forming an Opinion and Reporting on Financial Statements*, or paragraphs .36, .91, and .131 of section 703, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*, as applicable
- Paragraph .07g of section 725, *Supplementary Information in Relation to the Financial Statements as a Whole*
- Paragraph .23 of section 935, *Compliance Audits*

In addition, certain AICPA Audit and Accounting Guides suggest written representations concerning matters that are unique to a particular industry.

[Paragraph renumbered, March 2012, to reflect conforming changes necessary due to the issuance of SAS No. 122. Revised, July 2017, to reflect conforming changes necessary due to the issuance of SAS No. 131. As amended, effective for audits of financial statements for periods ending on or after December 15, 2021, by SAS No. 136.]

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