



Agenda Item 1

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

Objective of Agenda Item

To approve the proposed AU-C section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* ("AU-C section 570" or the "proposed SAS"), and amendments to other standards as final.

Task Force members are:

- Steven Morrison—MBAF (Chair)
- Aron Dunn—Allen, Gibbs & Houlik (ARSC)
- Jennifer Haskell—D&T
- Kathy Healy—PwC
- Ryan Kaye—E&Y
- Chris Smith—BDO
- Michael Westervelt—CliftonLarson (TIC)

Mike Santay has served as an observer since October 2016.

Issues for Discussion

I. Applicability of AU-C section 570 to Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement

At its October 2016 meeting, the ASB discussed the issue whether AU-C section 570 should apply to audits of single financial statements and specific elements, accounts, or items of a financial statement (AU-C section 805). At that meeting, the ASB decided that:

- 1) AU-C section 570 does not apply to audits of single financial statements and specific elements, accounts, or items of a financial statement,
- 2) the auditor's report in such audits should explicitly state that AU-C section 570 was not considered, and

- 3) the application material which highlights consideration of risk and uncertainties should be kept and the task force should add to the application material if risks and uncertainties exists an auditor's report may include an emphasis-of-matter paragraph.

The Task Force accepted the ASB comments, and as a result, recommends the following edits to AU-C section 570 and the amendments to AU-C section 805:

- AU-C section 570 – in the scope section of the proposed SAS (paragraph 5) included the explicit statement that auditor's responsibilities relating to the evaluation of the entity's ability to continue as a going concern do not apply to audits of single financial statements and specific elements, accounts, or items of a financial statement,
- AU-C section 805:
 - Included a new requirement (new paragraph 16) that the auditor is required to disclose in an Other Matter paragraph of the auditor's report that the evaluation of the entity's ability to continue as a going concern was not considered during the audit,
 - Included application material (paragraph A20) that such disclosure in the auditor's report may be made in the form of an additional responsibility in the auditor's responsibility section or as an Other Matter paragraph and included illustrative wording to be included in the auditor's reports,
 - Included a new requirement (new paragraph 24) that if the auditor's report on the entity's complete set of financial statements includes an emphasis-of-matter paragraph indicating a going concern uncertainty, the auditor should include an Other Matter paragraph in the auditor's report on the single financial statement or the specific element indicating a reference to the going concern uncertainty in the auditor's report of the entity's complete set of financial statements,
 - Amended the Exhibit which shows the illustrations of the auditor's reports on a single financial statement and a specific element of a financial statement to include illustrative wording in the auditor responsibility section and an Other Matter paragraph.

Expected ASB Action

Does the ASB agree with the modifications suggested by the Task Force to reflect that AU-C section 570 does not apply to audits of single financial statements and specific elements, accounts, or items of a financial statement?

II. Special Purpose Frameworks

With respect to audits of financial statements preparing using a special purpose framework, the ASB decided at its October 2016 meeting that:

- 1) AU-C section 570 is applicable in audits of financial statements prepared in accordance with special purpose frameworks related to the substantial doubt conclusion but not for the basis of accounting conclusion since the financial statements are prepared in accordance with a special purpose framework,

- 2) to include application material to explain that basis of accounting and substantial doubt are separate concepts, and
- 3) for less than a complete set of financial statements prepared using a special purpose framework, AU-C section 805 would apply.

The Task Force accepted these comments, and as a result, proposes the following revisions to AU-C section 570 and AU-C 800:

- AU-C section 570:
 - revised paragraph 1 (scope paragraph) of the proposed SAS to make it explicit that AU-C section 570 applies to all audits regardless of whether the financial statements are prepared in accordance with a general purpose or a special purpose framework; in effect, reverting to extant wording,
 - Included an explicit statement in the scope section of the standard (paragraph 3) that special purpose financial statements may or may not be prepared in accordance with a financial reporting framework for which the going concern basis of accounting is relevant. However, irrespective whether going concern the basis of accounting is relevant, the auditor's responsibilities relating to the evaluation of entity's ability to continue as a going concern and the related disclosures requirement in AU-C section 570 nevertheless apply
- AU-C section 800 – included application material similar to the proposed statement in paragraph 3 of AU-C section 570 to make it clear that irrespective whether going concern the basis of accounting is relevant, the auditor's responsibilities relating to the evaluation of entity's ability to continue as a going concern and the related disclosures requirement in AU-C section 570 nevertheless apply.

Expected ASB Action

Does the ASB agree with the modifications suggested by the Task Force to make it clear that AU-C section 570 applies to audits of financial statements prepared in accordance with a special purpose framework and to explain that the basis of accounting and the evaluation of entity's ability to continue as a going concern are separate concepts?

III. Third-Party Support Letters

The ASB agreed with the Task Force's recommendations to elevate the content dealing with third-party support letters previously contained in application material to a requirement. However, the ASB suggested drafting the requirement in a more principles-based manner and the requirement should be for the auditor to ask management to obtain the support letter and include application material the auditor may confirm directly as well.

Paragraph 18 of the proposed SAS would require the auditor obtain sufficient appropriate audit evidence about the supporting parties' intent and ability to provide financial support when the auditor deems such support essential in evaluating the Company's ability to continue as a going concern.

In many cases financial support letters may be necessary to the auditor's evaluation if it represents the primary audit evidence of management's plans to mitigate substantial doubt about the entity's ability to continue as a going concern.

The Task Force contemplated including application material that addresses when a support letter is not deemed necessary as audit evidence, but the auditor chooses to request written confirmation as support. This paragraph would explain that if the support letter is not obtained and the support letter is not considered necessary to support management's plans to mitigate substantial doubt about the entity's ability to continue as a going concern that the failure of the auditor to receive a support letter or a written confirmation about the financial support would not necessarily cause the auditor to conclude that substantial doubt exists about the entity's ability to continue as a going concern assuming they were able to obtain alternative sufficient appropriate audit evidence.

A member expressed the view that such application guidance is not necessary because the requirement in paragraph 18 is based on the premise that the auditor has concluded that the financial support is essential; therefore if the auditor concludes that the financial support is not essential, the application material as contemplated above would not be needed. However, another member expressed the view that such application material would be helpful to send the signal that the evaluation of substantial doubt by the auditor does not necessarily have to be done by obtaining a support letter; it can be done by performing alternative procedures.

Expected ASB Action

Does the ASB agree with the edits made to the requirement in order to make it more principles based and changes to the related application material?

Given the divergent views about the proposed new application material, the Task Force seeks the ASB's views on the issue.

Items Presented

Agenda Item 1 – Issues Paper

Agenda Item 1A – Proposed SAS (marked from ASB meeting)

Agenda Item 1B – Proposed SAS (marked from Exposure Draft) for reference purpose only

Mr. Morrison will refer to the proposed SAS (Item 1A) in leading the discussion.