

January 31, 2012

Ms. Sherry Hazel
Audit and Attest Standards Team
AICPA
1211 Avenue of the Americas, 19th Floor
New York, NY 10036-8775

Re: November 11, 2011 ASB Exposure Draft of a Proposed Statement on Auditing Standards, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern (Redrafted)*

Dear Ms. Hazel:

One of the objectives that the Council of the American Institute of Certified Public Accountants (AICPA) established for the PCPS Executive Committee is to represent the views of local and regional firms on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective.

TIC has reviewed the ED and is providing the following comments for your consideration.

GENERAL COMMENTS

TIC supports the redrafted going concern SAS but asks the Board to re-examine the stated time horizon for the auditor's evaluation of going concern regarding audits of state and local governments. The time horizon specified in paragraph 3 may not be consistent with the financial reporting framework established by GASB and should be addressed, either now or when the Board converges the redrafted SAS with the expected new FASB standard and the International Standard on Auditing 570, *Going Concern*.

SPECIFIC COMMENTS

Considerations for the Audits of Governmental Entities

In March 2009, the GASB issued GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, which includes accounting and financial reporting standards for going concern considerations for state and local governments. Paragraph 16 of the standard not only requires financial statement preparers "to evaluate whether there is substantial doubt about a government's ability to continue as a going concern for 12 months beyond the financial statement date," but also says:

Moreover, if there is information that is currently known to the government that may raise substantial doubt shortly thereafter (for example, within an additional three months), it also should be considered.

The GASB decided to go beyond the guidance in AU Section 341 and adopt a variation of the new time horizon proposed in the FASB's going concern exposure draft (published in October 2008) and in ISA 570. The FASB proposal departed from the extant 12-month bright line and required management to consider the reasonableness of the going concern assumption for a period of time which was "at least, but not limited to, twelve months from the end of the reporting period."

TIC believes that, as a result of the GASB's actions, the proposed ASB requirement stated in the first sentence of paragraph 3 may not always be consistent with the auditor's responsibilities to evaluate the entity's ability to continue as a going concern in audits of financial statements prepared in accordance with GASB standards. Specifically, the definition of "reasonable period of time" (a period of time not to exceed one year beyond the date of the financial statements being audited) in paragraph 3 would not be technically correct for audits of state and local governmental units in those cases where information that is currently known to the government would raise substantial doubt shortly after the 12-month time period. Such information would have to be evaluated by management and the auditor even though the 12-month period after the balance sheet date had expired.

TIC requests that the Board reassess the language used in paragraph 3 and decide whether the auditor's requirement should be modified at this time to fit all financial reporting frameworks or whether all modifications should be deferred until the Board converges the redrafted auditing standard with the expected new FASB standard and ISA 570.

If the Board decides to modify paragraph 3 at this time, TIC suggests the following:

*The auditor's responsibility is to evaluate whether there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time beyond the date of the financial statements being audited. **The definition of a "reasonable period of time" should be based on the requirements of the applicable financial reporting framework. However, in the absence of specific requirements in the applicable financial reporting framework, "reasonable period of time" would be defined as a period not to exceed one year beyond the date of the financial statements being audited (hereinafter referred to as a reasonable period of time).***

[Proposed additions shown in boldface type]

TIC also noted that additional application paragraphs would be useful to address other unique going concern considerations for audits of governmental entities but believes that additional application guidance could be deferred until the ASB reconsiders the going concern SAS for convergence with ISA 570 and the FASB's final accounting standard.

Editorial Comments

The first sentence of paragraph A5 seems to be incomplete, since it does not indicate the nature of the matter about which financial statement users will be informed after reading the emphasis-of-a-matter paragraph. TIC suggests the following revisions:

*The inclusion of an emphasis-of-matter paragraph in the auditor's report is sufficient to inform the users of the financial statements **that substantial doubt exists about the entity's ability to continue as a going concern.***

[Proposed additions shown in boldface type]

Application paragraphs A5 and A6 refer to a company having “suffered” recurring losses from operations. Although this verb is used in SAS No. 59, TIC believes a standard should avoid words that ascribe strong human emotions to corporations. TIC therefore recommends that another word, such as “experienced,” “incurred” or “sustained,” be used instead of “suffered.”

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,



Karen Kerber, Chair
PCPS Technical Issues Committee

cc: PCPS Executive and Technical Issues Committees