

September 7, 2016

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

Re: July 5, 2016 ASB Exposure Draft (ED) of a Proposed Statement on Auditing Standards, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*

(Supersedes Statement of Auditing Standards (SAS) No. 126, The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern [AICPA, Professional Standards, AU-C sec. 570]; Amends

SAS No. 122, Statements on Auditing Standards: Clarification and Recodification,

- ***section 800, Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks, as amended [AICPA, Professional Standards, AU-C sec. 800]***
- ***section 805, Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement [AICPA, Professional Standards, AU-C sec. 805]***
- ***section 930, Interim Financial Information (AICPA, Professional Standards, AU-C sec. 930)***

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 speak on behalf of local and regional firms and represent those firms' interests 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 generally supports the ED which includes proposed amendments necessitated by the issuance of FASB Accounting Standards Update (ASU) No. 2014-15, *Presentation of Financial Statements— Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*, and the International Auditing and Assurance Standards Board's revised auditor reporting standards (which included revisions to International Standard on Auditing [ISA] 570 [Revised], *Going Concern*). TIC agrees with using ISA 570 as a base for the ED, to the extent applicable, and the accounting framework-neutral approach that would allow the standard to be applicable regardless of the financial accounting framework used in preparing the financial statements.

TIC also agrees that the most significant changes in this ED relate to the proposed amendments affecting the standards applicable to the audits of special purpose frameworks, single financial statements, specific elements, accounts or items of a financial statement and interim financial information. TIC generally supports the proposed amendments to AU-C section 800 for special purpose frameworks, AU-C section 805 for specified elements, accounts or items of a financial statement, and to AU-C section 930 for interim financial information.

In particular, TIC appreciated the example in the application guidance in AU-C sections 800 and 805 which reminds the auditor that the requirement to consider fair presentation includes an evaluation of whether the financial statements properly disclose the entity's risks and uncertainties. TIC acknowledges the evaluation should be performed without connecting to the conclusion of whether there is substantial doubt about the entity's ability to continue as a going concern as set out in AU-C section 570.

However, TIC has recommended certain revisions to some of the proposed paragraphs to improve the clarity and consistency of the final standards for audits of single financial statements and specific elements, accounts, or items of a financial statement, as well as audits of special purpose frameworks, as discussed below.

SPECIFIC COMMENTS

Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement

Question 1: *Should the standards be amended to indicate that AU-C section 570 is applicable to all audits of single financial statements and specific elements, accounts, or items of a financial statement? If so, how would the auditor apply the requirements of AU-C section 570 (that is, would specific procedures need to be performed), including concluding whether substantial doubt exists about an entity's ability to continue as a going concern?*

No. TIC does not believe that the standards should be amended to indicate that AU-C section 570 is applicable to all audits of single financial statements and specific elements, accounts, or items of a financial statement. TIC believes that the ED, as written, allows the practitioner to apply judgment in the circumstances, which is more appropriate.

Accounting frameworks typically require an evaluation of the going concern assumption at the entity level. In certain cases, the practitioner may not obtain enough information when performing an audit of a single statement or specified elements, accounts, or items of a financial statement to be able to make that determination about the entity as whole. The practitioner needs to apply professional judgment when performing these engagements to determine whether the presentation is suitable for the purpose and for the intended users and to consider the adequacy of the disclosures. TIC believes it is not possible to write prescriptive guidance that would address every possible circumstance that the auditor could encounter.

It should be noted that the TIC member firms perform more engagements involving single financial statements than specified elements, items, or accounts. When performing engagements involving single financial statements, the auditor is likely to obtain more information about the entity as a whole, including its ability to continue as a going concern. It is unlikely, however, that any of the TIC members would perform an audit of a specified element without also having performed the audit or review of the complete financial statements. TIC members generally would not accept such engagements for risk management reasons due to the fact that they may not have enough information about the entity as a whole to perform standalone audits of specific elements of a financial statement. If TIC's experience is representative, then audits of specific elements as a standalone engagement (i.e., without the practitioner also having audited the complete set of financial statements) may be uncommon.

Question 2: *If commenters believe that AU-C section 570 is not applicable to audits of single financial statements and specific elements, accounts, or items of a financial statement, is the application guidance related to risks and uncertainties sufficient in considering whether appropriate disclosures have been made?*

Yes. TIC believes the application guidance related to risks and uncertainties is sufficient in considering whether appropriate disclosures have been made.

However, TIC disagrees that AU-C section 570 should continue to remain silent with respect to the relevance of the standard to audits of single financial statements and specific elements. TIC recommends the following revised wording to paragraph .A2 of AU-C section 570 in order to better tie in the relationship between the going concern assumption and AU-C section 800 and AU-C section 805:

AU-C section 800, Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks, and AU-C section 805, Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement, address the applicability of

this SAS as well as the auditor’s consideration of disclosures related to risks and uncertainties.

TIC noted that AU-C section 805 already includes specific guidance regarding AU-C section 570 whereas AU-C section 800 infers the applicability of AU-C section 570 without referencing going concern or AU-C section 570 explicitly. Therefore, if the Board decides to mention that AU-C section 800 addresses the applicability of AU-C section 570, then it is equally appropriate to state that AU-C section 805 addresses the applicability of AU-C section 570.

Special Purpose Frameworks

TIC supports the proposed amendments in paragraphs .A21-.A23 of AU-C section 800 (pages 34-35 of the ED). (However, see the suggested editorial corrections in the following section relating to the renumbering of these paragraphs.) Proposed paragraphs .A21-.A22 state that AU-C section 570 applies when the going concern basis of accounting is applicable. In particular, TIC agrees that the provisions of AU-C section 570 would apply to financial statements prepared under special purpose frameworks used in the United States.

However, TIC noted that proposed paragraph 3 of AU-C section 570, reproduced below, is inconsistent with current guidelines in the United States for the preparation of cash- and tax-basis financial statements:

A complete set of general purpose financial statements is prepared using the going concern basis of accounting, unless the liquidation basis of accounting is appropriate. Special purpose financial statements may or may not be prepared in accordance with a financial reporting framework for which the going concern basis of accounting is applicable **(for example, the going concern basis of accounting is not applicable for financial statements prepared on the cash basis of accounting, but is applicable to financial statements prepared in accordance with the AICPA’s Financial Reporting Framework for Small- and Medium-Sized Entities).** [Emphasis added]

Although TIC recognizes that the “Accounting and Financial Reporting Guidelines for Cash- and Tax-Basis Financial Statements” practice aid (the practice aid) is non-authoritative, TIC believes the bolded text above contradicts what is written in the practice aid related to going concern considerations and disclosures for cash- and tax-basis financial statements. Therefore, TIC recommends removing the text in the parenthetical example above to eliminate confusion, which could result from inconsistencies in language between the practice aid and the standard.

Furthermore, TIC recommends that the guidance in the practice aid be updated to state that the reasonable period of time is generally one year from the date the financial statements are issued or available to be issued, to be consistent with other guidance issued through the AICPA and the FASB. The practice aid currently states that, “If the preparer

concludes that there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time (generally one year from the date of the balance sheet equivalent), the preparer should disclose the going concern considerations in a note to the financial statements."

TIC recommends a similar reexamination of the "Financial Reporting Framework for Small- and Medium-Sized Entities" (FRF for SMEs) to consider whether the framework should be amended to conform to the requirements of ASU 2014-15. For example, the ASU uses "one year from the date the financial statements are issued or available to be issued" as a reasonable period of time for purposes of the going concern assessment. As noted in the two paragraphs below, the FRF for SMEs makes clear that the going concern basis of accounting applies as long as the entity expects to continue in operation but specifies a different time period for the going concern assessment. Paragraph 1.46 states

Financial statements are prepared on the assumption that the entity is a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the normal course of operations. Different bases of measurement may be appropriate when the entity is not expected to continue in operation for the foreseeable future. The FRF for SMEs accounting framework should be used only by an entity that is a going concern (see chapter 2, "General Principles of Financial Statement Presentation and Accounting Policies").

In addition, paragraph 2.08 of the FRF for SMEs currently states:

When making its assessment about whether the going concern basis is appropriate, management should take into account all known and available information about the future, which is limited to 12 months from the statement of financial position date. When management becomes aware of material uncertainties relating to events or conditions and concludes that a known event or condition is probable of having a severe impact on the entity's ability to realize its assets and discharge its liabilities in the ordinary course of business, the entity should disclose those uncertainties along with its plans for dealing with the adverse effects of the conditions and events.

Interim Financial Information

TIC believes the proposed amendments to AU-C section 930 are logical and necessary. The transition guidance in ASU 2014-15 states that the standard is applicable to interim reporting periods. Therefore, TIC believes a review of interim financial information should include requirements for the auditor to perform review procedures on management's evaluation of going concern and to include an emphasis-of-matter paragraph in the auditor's report when substantial doubt exists about an entity's ability to continue as a going concern. The new requirements will bring AU-C section 570 into alignment with the ASU.

EDITORIAL COMMENT

Page 34 of the ED includes three new paragraphs numbered .A21 through .A23, respectively, for AU-C section 800. The ED indicates that existing paragraphs .A21-.A35 will be renumbered in the final standard. However, TIC suggests that the Board renumber the proposed and extant paragraphs as follows:

- Proposed paragraph .A21 should follow extant paragraph .A21
- Proposed paragraph .A22 should follow proposed paragraph .A21
- Extant paragraph .A22—This application paragraph already includes the notion of fair presentation and the auditor’s consideration of the disclosure of significant uncertainties.
- Proposed paragraph .A23 already includes some of the same guidance as extant paragraph .A22 and should follow, or perhaps be edited and merged with, extant paragraph .A22
- Extant .A23

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,



Michael A. Westervelt, Chair
PCPS Technical Issues Committee
cc: PCPS Executive and Technical Issues Committees