

Agenda Item 1D



EXPOSURE DRAFT

PROPOSED STATEMENT ON AUDITING STANDARDS

AU-C SECTION 570, THE AUDITOR'S CONSIDERATION OF AN ENTITY'S ABILITY TO CONTINUE AS A GOING CONCERN (REVISED)

(To supersede Statement on Auditing Standards No. 126, The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern, as amended [AICPA, Professional Standards, vol. 1, AU-C sec. 570]); Amends

- **SAS No. 122, Statements on Auditing Standards: Clarification and Recodification,**
 - ***section 580, Written Representations [AICPA, Professional Standards, AU-C sec. 580]***
 - ***section 800, Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks [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]**

June __, 2016

Comments are requested by September __, 2016

Prepared by the AICPA Auditing Standards Board for comment from persons interested in auditing and reporting issues.

Comments should be addressed to Sherry Hazel at shazel@aicpa.org.

Copyright © 2016 by

American Institute of Certified Public Accountants, Inc.

New York, NY 10036-8775

Permission is granted to make copies of this work provided that such copies are for personal, intraorganizational, or educational use only and are not sold or disseminated and provided further that each copy bears the following credit line: "Copyright © 2009 by American Institute of Certified Public Accountants, Inc. Used with permission."

CONTENTS

	Page
Explanatory Memorandum	
Introduction	
Background	
Effective Date	
Changes From Existing Standards	
Issue(s) for Consideration	
Guide for Respondents	
Supplements to the Exposure Draft	
Comment Period	
Auditing Standards Board Members	
 Exposure Draft	
Proposed AU-C section 570, <i>The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern (Revised)</i>	
Proposed Amendments to AU-C section 580, <i>Written Representations</i>	
Proposed Amendments to AU-C section 800, <i>Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks</i>	
Proposed Amendments to AU-C 805, <i>Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement</i>	
Proposed Amendments to AU-C 930, <i>Interim Financial Information</i>	

Explanatory Memorandum

Introduction

This memorandum provides background to the proposed Statement on Auditing Standards (SAS) *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* (Revised). This proposed SAS would supersede SAS No. 126, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* (Redrafted), (AICPA, *Professional Standards*, vol. 1, AU-C sec. 570).

Background

SAS No.126 was issued by the Auditing Standards Board's (ASB) in June 2012 to apply the clarity drafting conventions. The project to redraft the going concern standard was undertaken in connection with the ASB's clarity project to revise all of its SASs.

At the time SAS No. 126 was issued, the Financial Accounting Standards Board (FASB) standards did not address management's evaluation related to substantial doubt about an entity's ability to continue as a going concern. The development of a standard was being contemplated by the FASB. As a result, SAS No. 126 clarified AU-C Section 570 but did not converge with International Standard on Auditing (ISA) 570, *Going Concern* (ISA 570). In August 2014, the FASB issued 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*. FASB Accounting Standards Codification (ASC) 205-40 provides guidance in the FASB standards about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related note disclosures. FASB ASC 205-40 applies to all entities required to comply with the FASB standards and becomes effective for annual periods ending after December 15, 2016, and for interim periods thereafter. Early application is permitted.

Additionally, GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards* (GASB 56), establishes guidance related to going concern for governmental entities.

In January 2015, the International Auditing and Assurance Standards Board (IAASB) issued its revised auditing reporting standards which among other things, included revisions to ISA 570. The IAASB's auditor reporting standards are effective for audits of financial statements for periods ending on or after December 15, 2016.

In January 2015, the ASB issued four new auditing interpretations to SAS No. 126. The issuance of these interpretations represented a short-term initiative by the ASB to provide interpretative guidance about some of the consequential effects of the accounting standards as follows:

- a. Definition of Substantial Doubt About an Entity's Ability to Continue as a Going Concern

- b. Definition of Reasonable Period of Time
- c. Interim Financial Information, and
- d. Consideration of Financial Statements Effects

The accompanying proposed SAS was written accounting framework neutral but includes revisions to AU-C 570 to consider the provisions of the FASB ASC 205-40, GASB 56, and the ISA 570, except for the auditor reporting guidance.

Convergence

It is the ASB's strategy to converge its standards with those of the IAASB. In doing that, the ASB uses the corresponding ISA as the base in developing its standards. In making the proposed revisions to the accompanying proposed SAS, the ASB used ISA 570 as the base, in part. The proposed SAS do not reflect any revisions related to the convergence with the IAASB's auditing reporting standards. Those revisions will be contemplated as part of the ASB's overall auditor's report project. Also, the proposed SAS is intended to be applicable in audits of financial statements prepared under different financial accounting frameworks, that is was written accounting framework neutral. In discussing certain concepts, reference to certain accounting terms was necessary. To better explain and illustrate those concepts, terminology that is more commonly used in the U.S. such as terminology from the FASB standards or GASB statements was used.

Effective Date

The proposed SAS would be effective for audits of financial statements for periods ending on or after December 15, 201_

Changes From Existing Standards

The following changes to existing standards summarize what the ASB believes would be the most significant changes to existing standards if the proposed standard was issued.

Interim Financial Information

The Exposure Draft includes proposed amendments to AU-C Section 930, *Interim Financial Information* (AU-C 930). Under the existing AU-C 930, the auditor is required to perform inquiries and consider the adequacy of disclosures to address the issue of substantial doubt about the entity's ability to continue as a going concern if a) conditions or events that may indicate substantial doubt about an entity's ability to continue as a going concern existed at the date of the prior period financial statements, regardless of whether the substantial doubt was alleviated by the auditor's consideration of management's plans, or (b) in the course of performing review procedures on the current period interim financial information, the auditor becomes aware of conditions or events that might be indicative of the entity's inability to continue as a going concern. From the auditor's review report perspective, AU-C 930 provides the auditor an option to include an emphasis-of-matter paragraph when management's disclosures are adequate.

The ASB decided to require performing review procedures to address the situations when the applicable financial reporting framework includes requirements for management to assess the entity's ability to continue as a going concern for a reasonable period of time in preparing interim financial information. The proposed amendments to AU-C 930 also proposes a new requirement for the auditor to include an emphasis-of matter paragraph in the auditor's report when certain conditions related to substantial doubt about an entity's ability to continue as a going concern exists. This decision was based on the ASB's desire to achieve consistency in auditor reporting in both the annual audit and interim financial information.

Audits of Special Purpose Frameworks and Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement

The Exposure Draft also includes proposed amendments to 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*. The ASB debated options to address the uncertainty with respect to the work effort that would be required to apply AU-C section 570 when the going concern basis of accounting is not applied or when it may not be inherently relevant with regards to special purpose frameworks or audits of single financial statements and specific elements, accounts, or items of a financial statement, respectively.

The ASB decided that in audits special purpose frameworks and audits of single financial statements and specific elements, accounts, or items of a financial statement, the auditor's responsibilities should include an evaluation whether disclosures are needed related to risk and uncertainties in achieving fair presentation. This evaluation should be performed without connecting 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.

The ASB also acknowledged 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. If the going concern basis of accounting is relevant in the preparation of financial statements prepared in accordance with a special purposed framework, The ASB proposes that AU-C Section 570 applies.

Finally, the ASB believes that for single financial statements and specific elements, accounts, or items of a financial statement, the going concern basis of accounting is not relevant. This is based on the premise that the evaluation and disclosure of whether the use of the going concern basis of accounting is appropriate or whether there is substantial doubt about an entity's ability to continue as a going concern are matters to be considered at an entity level and not at the level of a single financial statement and specific elements, accounts, or items of a financial statement. This is consistent with extant AU-C Section 570, which was silent in regards to single financial statements and specific elements, accounts, or items of a financial statement. In addition, the ASB believes the issue of whether the going concern basis of accounting is relevant to single financial statements and specific elements, accounts, or items of a financial statement is more of an accounting issue.

Written Representations

The Exposure Draft includes a proposed amendment to AU-C Section 580, *Written Representations*. The proposed amendment would require an additional general written representation that would explicitly address management's completion of its evaluation to whether there is substantial doubt about the entity's ability to continue as a going concern, when applicable.

Issue(s) for Consideration

TO BE DETERMINED BY ASB

Guide for Respondents

Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, where appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in the exposure draft, it will be helpful for the ASB to be made aware of this view, as well.

Written comments on the exposure draft will become part of the public record of the AICPA and will be available for public inspection at the offices of the AICPA after September __, 2016, for one year. Responses should be sent to Sherry Hazel at shazel@aicpa.org and received September __, 2016.

Supplement to the Exposure Draft

To assist respondents in identifying changes and in responding to this request to comment on the proposed SAS, the Audit and Attest Standards staff has prepared the following supplementary material:

1. A matrix document, which compares the proposed SAS to ISA 570 and AU-C 570. The schedule has four columns containing the following:
 - a. ISA 570 (Revised), *Going Concern*
 - b. The requirements and application material of the proposed SAS, marked to show differences in language between ISA 570 and the proposed SAS (new material is shown in boldface italics and deleted material is shown in strikethrough)
 - c. AU-C section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*
 - d. Comments

This staff-prepared supplementary material is available on the AICPA Web site at www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Audit+and+Attest+Standards/Improving+the+Clarity+of+ASB+Standards/default.htm. It is for informational purposes only and does not form part of the exposure draft; however, it may be useful for respondents in formulating comments.

Comment Period

The comment period for this exposure draft ends on September __, 2016.

Auditing Standards Board

(2015–2016)

Michael J. Santay, Chair

Richard M. Miller

Gerry Boaz

Daniel Montgomery

Dora A. Burzenski

Steven Morrison

Elizabeth S. Gantnier

Marc A. Panucci

Steven M. Glover

Joshua W. Partlow

Daniel J. Hevia

Richard N. Reisig

Sandra K. Johnnigan

Catherine A. Schweigel

Ilene Kassman

Jere G. Shawver

Ryan Kaye

M. Chad Singletary

Marcia Marren

Going Concern Task Force

Marc A. Panucci, *Chair*

Steven Morrison

Aaron Dunn

Christopher A. Smith

Jennifer Haskell

Michael Westervelt

Ryan Kaye

AICPA Staff

Charles E. Landes

Hiram Hasty

Vice President

Senior Technical Manager

Professional Standards and Services