

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

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

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.¹

.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 statements² 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

¹ *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.

² 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*® (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).³ 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.⁴ 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 statements are available to be issued, when applicable). Subsequent events may result in outcomes that are inconsistent with

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

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

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 will be 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*,⁵ 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)
 - b. cover the same period as that used by management in its evaluation as required by the applicable financial reporting framework. (Ref: par. .A19)

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

- 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 an emphasis-of-matter paragraph in the auditor's report.⁶ (Ref: par. .A51–.A57)

.25 The emphasis-of-matter paragraph about the entity's ability to continue as a going concern for a reasonable period of time should be expressed through the use of terms consistent with those included in the applicable financial reporting framework. In a going concern emphasis-of-matter paragraph, 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.

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 express a qualified opinion or adverse opinion, as appropriate, in accordance with section 705, *Modifications to the Opinion in the Independent Auditor's Report*.

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. .A58)

Communication With Those Charged With Governance

.28 Unless all those charged with governance are involved in managing the entity,⁷ the auditor should communicate with those charged with

⁶ Paragraphs .06–.07 of section 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report*, address requirements concerning emphasis-of-matter paragraphs.

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

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 has been removed in the current period, the going concern emphasis-of-matter paragraph included in the auditor's report on the financial statements of the prior period should not be repeated. (Ref: par. .A59–.A60)

Eliminating a Going Concern Emphasis-of-Matter Paragraph From a Reissued Report

.30 Management may request that the auditor reissue an auditor's report and eliminate a going concern emphasis-of-matter paragraph 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 emphasis-of-matter paragraph
- 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 time⁸
- 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 560⁹ (Ref: par. .A61–.A62)

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

⁹ Paragraph .13 of section 560.

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.
- 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 *Accounting Standards Codification*® (ASC) requires that if and when an entity's liquidation becomes imminent financial statements should be prepared under the liquidation basis of accounting.¹⁰ Accordingly, this

¹⁰ FASB ASC 205-30.

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).¹¹ 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.

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.¹²

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."¹³ 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.

¹¹ Paragraphs 16–19 of GASB Statement No. 56.

¹² "Pending Content" in FASB ASC 205-40-20.

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

.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:¹⁴

- 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.¹⁵

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).¹⁶
- 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.¹⁷
- c. *International Accounting Standards Board*. At least, but not limited to, one year from the end of the reporting period.¹⁸

¹⁴ "Pending Content" in FASB ASC 205-40-50-5.

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

¹⁶ "Pending Content" in FASB ASC 205-40-50-1.

¹⁷ Paragraph 16 of GASB Statement No. 56.

¹⁸ Paragraph 26 of IAS 1.

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.¹⁹

- 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 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 probable²⁰ that the plan will be effectively implemented within one year after the date that the financial statements are issued.²¹

¹⁹ "Pending Content" in FASB ASC 205-40-55-2.

²⁰ The FASB ASC master glossary defines *probable* as "the future event or events are likely to occur."

²¹ "Pending Content" in FASB ASC 205-40-55-3.

- 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
 - 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:²²

- 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

²² Paragraph 17 of GASB Statement No. 56.

- 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.²³

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 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.²⁴ 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

²³ Paragraph 18 of GASB Statement No. 56.

²⁴ "Pending Content" in FASB ASC 205-40-50-1.

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.²⁵ 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, 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

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

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,²⁶ 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 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.²⁷

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

²⁷ Paragraph 16 of GASB Statement No. 56.

.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).²⁸ 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
- 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

²⁸ "Pending Content" in FASB ASC 205-40-50-1.

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.²⁹

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

²⁹ See section 580, *Written Representations*.

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]³⁰ *(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*, 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.³¹ 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 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.

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

³⁰ See paragraph .A37.

³¹ Paragraph .41 of section 700, *Forming an Opinion and Reporting on Financial Statements*.

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 understand³²

- 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.

³² "Pending Content" in FASB ASC 205-40-50-13.

- 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:³³

- 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 going concern, it may be necessary to include a discussion of going concern issues in the MD&A, depending on the facts and circumstances.³⁴ 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.³⁵

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):³⁶

³³ Paragraph 19 of GASB Statement No. 56.

³⁴ 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.

³⁵ Paragraph 129 of GASB Statement No. 34.

³⁶ "Pending Content" in FASB ASC 205-40-50-12.

- 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.³⁷ 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 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 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

³⁷ Paragraph .17 of section 700.

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.

.A52 The following is an illustration of a going concern emphasis-of-matter paragraph when (a) the auditor concludes substantial doubt exists about the entity's ability to continue as a going concern for a reasonable period of time, (b) management's plans do not alleviate the substantial doubt, and (c) the entity is required under the applicable financial reporting framework to include a statement in the notes to the financial statements that substantial doubt exists.

Emphasis of Matter Regarding 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.

.A53 The following is an illustration of a going concern emphasis-of-matter paragraph when (a) the auditor concludes that substantial doubt exists about the entity's ability to continue as a going concern for a reasonable period of time, (b) management's plans do not alleviate the substantial doubt, and (c) the entity is not required under the applicable financial reporting framework to include a statement in the notes to the financial statements that substantial doubt exists.

Emphasis of Matter Regarding 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 and has a net capital deficiency that raise substantial doubt about its 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.

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, 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.³⁸

.A55 The following is an illustration of an emphasis-of-matter paragraph when management has disclosed (a) 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; (b) 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; and (c) 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.

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.

Inappropriate Use of Conditional Language

.A56 Examples of conditional language that are inappropriate to use in the emphasis-of-matter paragraph 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.

Communication With Regulators

.A57 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, the auditor may have a duty to communicate with the applicable regulatory, enforcement, or supervisory authorities. (Ref: par. .24)

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

.A58 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

³⁸ Paragraphs .06–.07 of section 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report*.

to be evaluated to determine whether it constitutes a significant deficiency or material weakness in accordance with section 265.

Comparative Presentations (Ref: par. .29)

.A59 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 provides 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.

.A60 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.³⁹

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

.A61 After the auditor has issued the auditor's report containing a going concern emphasis-of-matter paragraph, the auditor may be asked to reissue the auditor's report on the financial statements and eliminate the going concern emphasis-of-matter paragraph that appeared in the original report. Such requests may occur after the conditions or events 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.

.A62 The auditor may perform procedures in addition to those required by paragraph .30 that the auditor deems necessary in the circumstances.

Documentation (Ref: par. .32)

.A63 Section 230, *Audit Documentation*, addresses the auditor's responsibility to prepare audit documentation for an audit of financial statements.⁴⁰ 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.

³⁹ "Pending Content" in FASB ASC 205-40-50-14.

⁴⁰ Paragraph .01 of section 230, *Audit Documentation*.

.A64

Appendix—Amendments to Sections in Statement on Auditing Standards No. 122, *Statements on Auditing Standards: Clarification and Recodification, as Amended*

(*Boldface italics* denotes new language. Deleted text is shown in ~~strikethrough~~.)

Section 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*

[No amendment to paragraphs .01–.A13. Paragraph .12 included for contextual information only.]

Considerations When Planning and Performing the Audit (Ref: par. .A12–.A16~~5~~)

.12 Section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*, requires the auditor to comply with all AU-C sections relevant to the audit. In planning and performing an audit of special purpose financial statements, the auditor should adapt and apply all AU-C sections relevant to the audit as necessary in the circumstances of the engagement.

.A14 *Special purpose financial statements 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 to obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting¹⁸ does not apply. However, irrespective of whether the going concern basis of accounting is relevant in the preparation of the special purpose financial statements, the requirements in section 570, The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern, 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***

¹⁸ ***Paragraph .19 of section 570, The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern.***

[Paragraphs .A14–.A35 renumbered as paragraphs .A15–.A36 and footnote 18 renumbered. No further amendment to section 800.]

1. This amendment is effective for audits of financial statements for periods ending on or after December 15, 2017.

Section 930, *Interim Financial Information*

[No amendment to paragraphs .01–.15.]

Inquiry Concerning an Entity's Ability to Continue as a Going Concern

.16 *If the applicable financial reporting framework includes requirements for management to evaluate the entity's ability to continue as a going concern for a reasonable period of time in preparing interim financial information, the auditor should perform interim review procedures related to (a) whether the going concern basis of accounting is appropriate; (b) management's evaluation of whether there are conditions or events that raised substantial doubt about the entity's ability to continue as a going concern; (c) if there are conditions or events that raised substantial doubt about the entity's ability to continue as a going concern, management's plans to mitigate those matters; and (d) the adequacy of the related disclosures in the interim financial information. (Ref: par. .A23–.A24)*

.16.17 *If the applicable financial reporting framework does not include a requirement for management to evaluate the entity's ability to continue as a going concern for a reasonable period of time in preparing interim financial information and (a) conditions or events that may indicate **raise** substantial doubt about an entity's ability to continue as a going concern **for a reasonable period of time** existed at the date of 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 raise substantial doubt about the entity's ability** that might be indicative of the entity's possible inability to continue as a going concern, the auditor should*

- a. *inquire of management whether the going concern basis of accounting is appropriate,*
- a-b. *inquire of management about its plans for dealing with the adverse effects of the conditions and events, and (Ref: par. .A23.A25)*
- b.c. *consider the adequacy of the disclosure about such matters in the interim financial information. (Ref: par. .A24 .A26)*

[Paragraphs .17–.37 renumbered as paragraphs .18–.38.]

Other Considerations

.39 *The auditor should include an emphasis-of-matter paragraph in the auditor's review report in any of the following circumstances, regardless of whether the entity is required under the applicable financial reporting framework to include a statement in the notes to the interim financial information that substantial doubt exists: (Ref: par. .A53–.A54):*

- a. *A going concern emphasis-of-matter paragraph was included in the prior year's auditor's report and*
 - i. *the conditions or events giving rise to the emphasis-of-matter paragraph continue to exist and*
 - ii. *those conditions or events raise substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time and management's plans do not alleviate them.*
- b. *A going concern emphasis-of-matter paragraph was not included in the prior year's auditor's report and*
 - i. *management is required under the applicable financial reporting framework to include a statement in the notes to the interim financial information that substantial doubt exists and*

ii. management has included such statement in the notes to the interim financial information.

[Paragraphs .38–.43 renumbered as paragraphs .40–.45. No amendment to paragraphs .A1–.A22.]

Inquiry Concerning an Entity's Ability to Continue as a Going Concern (Ref: par. .16–.17)

.A23 The nature and extent of the auditor's interim review procedures are matters of the auditor's professional judgment. For example, when a history of profitable operations and ready access to financing exists, inquiry alone might be sufficient to review the entity's ability to continue as a going concern for a reasonable period of time.

.A24 Certain financial reporting frameworks require management to evaluate the entity's ability to continue as a going concern for a reasonable period of time in preparing interim financial information.⁴ For example, FASB 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.⁵ Under FASB ASC, the evaluation period 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).⁶

⁴ See paragraph .11 of section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern, for the definition of reasonable period of time.*

⁵ "Pending Content" in FASB Accounting Standards Codification (ASC) 205-40-50-1.

⁶ See footnote 5.

~~.A23.~~***.A25*** A review of interim financial information is not designed to identify conditions or events that raise substantial doubt about ~~an~~ ***the*** entity's ability to continue as a going concern ***for a reasonable period of time***. However, conditions or events that ~~may exist~~ ***raise*** substantial doubt ~~on~~ ***about*** the entity's ability to continue as a going concern ***for a reasonable period of time*** may have existed at the date of the prior period financial statements or may be identified as a result of inquiries of management or in the course of performing other review procedures.

~~.A24 .A26~~ Section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*, may provide useful guidance to the auditor when considering whether there is adequate and appropriate disclosure in the interim financial information about the entity's ~~inability~~ ***ability*** to continue as a going concern ***for a reasonable period of time***^{4,7} when

- a. conditions or events ~~exist~~ ***have been identified*** as of the interim reporting date covered by the review ~~that might be indicative of~~ ***and substantial doubt*** about the entity's ~~inability~~ ***ability*** to continue as a going concern ***for a reasonable period of time exists*** or
- b. the auditor's report for the prior year end contained an emphasis-of-matter paragraph indicating the existence of substantial doubt about the entity's ability to continue as a going concern ***for a reasonable period of time***, and the conditions that raised such doubt continued to exist as of the interim reporting date covered by the review.

If the auditor determines that the disclosure *related to substantial doubt* about the entity's *inability ability* to continue as a going concern is inadequate, resulting in a departure from the applicable financial reporting framework, the auditor is required by paragraph .34 .35 to modify the report.

⁴⁷ **Paragraphs 12 22–23 of section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern.***

[Paragraphs .A25–.A45 renumbered as paragraphs .A27–.A47. Footnote 5 renumbered.]

~~.A46.A48~~ If the interim financial information adequately discloses the existence of substantial doubt about the entity's ability to continue as a going concern (see paragraph .16) or a lack of consistency in the application of accounting principles affecting the interim financial information, the auditor may, but is not required to, include an emphasis-of-matter paragraph in the auditor's review report.

[Paragraphs .A47–.A50 renumbered as paragraphs .A49–.A52.]

Emphasis-of-Matter in the Auditor's Review Report (Ref: par. .39)

.A53 See exhibit D, "Illustrations of Emphasis-of-Matter Paragraphs in the Auditor's Review Report," for illustrative examples of emphasis-of-matter paragraphs.

.A54 If conditions or events have been identified during the interim review that raise substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time, but (a) no statement relating to substantial doubt is included in the notes to the interim financial information because management's plans have alleviated the substantial doubt or (b) the applicable financial reporting framework does not require inclusion of such statement in the notes to the interim financial information, the auditor may include an emphasis-of-matter paragraph when management has disclosed the conditions or events in the notes to the financial statements but a statement related to substantial doubt is not required to be included by the applicable financial reporting framework. The following is an illustration of an emphasis-of-matter paragraph when no statement relating to substantial doubt is included in the notes to the interim financial information but conditions or events are disclosed.

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 plans in regards to these matters are also described in Note X.

[Paragraphs .A53–.A57 renumbered as paragraphs .A57–.A61.]

Exhibit C—Illustrations of Example Modifications to the Auditor's Review Report Due to Departures From the Applicable Financial Reporting Framework (Ref: par. .A47.A49)

.A58.A62

Illustration 1—Modification Due to a Departure From the Applicable Financial Reporting Framework

Illustration 2—Modification Due to Inadequate Disclosure

~~Illustration 3 — Emphasis-of-Matter Paragraph When a Going Concern Emphasis-of-Matter Paragraph Was Included in the Prior Year's Audit Report, and Conditions Giving Rise to the Emphasis-of-Matter Paragraph Continue to Exist~~

~~Illustration 4 — Emphasis-of-Matter Paragraph When a Going Concern Emphasis-of-Matter Paragraph Was Not Included in the Prior Year's Audit Report, and Conditions or Events Exist as of the Interim Reporting Date Covered by the Review That Might Be Indicative of the Entity's Possible Inability to Continue as a Going Concern~~

[No amendment to illustrations 1 or 2.]

~~Illustration 3 — Emphasis-of-Matter Paragraph When a Going Concern Emphasis-of-Matter Paragraph Was Included in the Prior Year's Audit Report, and Conditions Giving Rise to the Emphasis-of-Matter Paragraph Continue to Exist~~

~~The following is an example of an emphasis-of-matter paragraph when a going concern emphasis-of-matter paragraph was included in the prior year's audit report, and conditions giving rise to the emphasis-of-matter paragraph continue to exist:~~

~~*[Emphasis-of-Matter Paragraph]*~~

~~Note 4 of the Company's audited financial statements as of December 31, 20X1, and for the year then ended, discloses that the Company was unable to renew its line of credit or obtain alternative financing at December 31, 20X1. Our auditor's report on those financial statements includes an emphasis-of-matter paragraph referring to the matters in note 4 of those financial statements and indicating that these matters raised substantial doubt about the Company's ability to continue as a going concern. As indicated in note 3 of the Company's unaudited interim financial information as of March 31, 20X2, and for the three months then ended, the Company was still unable to renew its line of credit or obtain alternative financing as of March 31, 20X2. The accompanying interim financial information does not include any adjustments that might result from the outcome of this uncertainty.~~

~~Illustration 4 — Emphasis-of-Matter Paragraph When a Going Concern Emphasis-of-Matter Paragraph Was Not Included in the Prior Year's Audit Report, and Conditions or Events Exist as of the Interim Reporting Date Covered by the Review That Might Be Indicative of the Entity's Possible Inability to Continue as a Going Concern~~

~~The following is an example of an emphasis-of-matter paragraph when a going concern emphasis-of-matter paragraph was not included in the prior year's audit report, and conditions or events exist as of the interim reporting date covered by the review that might be indicative of the entity's possible inability to continue as a going concern:~~

~~*[Emphasis-of-Matter Paragraph]*~~

~~As indicated in note 3, certain conditions indicate that the Company may be unable to continue as a going concern. The accompanying interim financial information does not include any adjustments that might result from the outcome of this uncertainty.~~

Exhibit D—Illustrations of Emphasis-of-Matter Paragraphs in the Auditor's Review Report (Ref: par. .A53)

.A63

Illustration 1—Emphasis-of-Matter Paragraph When Substantial Doubt is Disclosed in the Notes to the Financial Statements, a Going Concern Emphasis-of-Matter Paragraph Was Included in the Prior Year's Audit Report, and Conditions or Events Giving Rise to the Emphasis-of-Matter Paragraph Have Been Identified and Substantial Doubt Exists

Illustration 2—Emphasis-of-Matter Paragraph When Substantial Doubt is Not Disclosed in the Notes to the Financial Statements, a Going Concern Emphasis-of-Matter Paragraph Was Included in the Prior Year's Audit Report, and Conditions or Events Giving Rise to the Emphasis-of-Matter Paragraph Have Been Identified and Substantial Doubt Exists

Illustration 3—Emphasis-of-Matter Paragraph When Management is Required Under the Applicable Financial Reporting Framework to Include a Statement in the Notes to the Interim Financial Information that Conditions or Events Have Been Identified and Substantial Doubt Exists, Such Statement Is Included in the Notes to the Interim Financial Information; and a Going Concern Emphasis-of-Matter Paragraph Was Not Included in the Prior Year's Audit Report

Illustration 1—Emphasis-of-Matter Paragraph When Substantial Doubt is Disclosed in the Notes to the Financial Statements, a Going Concern Emphasis-of-Matter Paragraph Was Included in the Prior Year's Audit Report, and Conditions or Events Giving Rise to the Emphasis-of-Matter Paragraph Have Been Identified and Substantial Doubt Exists

The following is an example of situations in which (a) a going concern emphasis-of-matter paragraph was included in the prior year's auditor's report, (b) conditions or events have been identified and substantial doubt continues to exist, and (c) the entity is required under the applicable financial reporting framework to include a statement in the notes to the interim financial information that substantial doubt exists.

[Emphasis-of-Matter Paragraph]

The accompanying interim financial information has been prepared assuming that the Company will continue as a going concern. Note 4 of the Company's audited financial statements as of December 31, 20X1, and for the year then ended, includes a statement that substantial doubt exists about the Company's ability to continue as a going concern. Note 4 of the Company's audited financial statements also discloses the events and conditions, management's evaluation of the events and conditions, and management's plans regarding these matters, including the fact that the Company was unable to renew its line of credit or obtain alternative financing as of December 31, 20X1. Our auditor's report on those financial statements includes an emphasis-of-matter paragraph referring to the matters in Note 4 of those financial statements. As indicated in Note 3 of the accompanying interim financial information as of March 31, 20X2, and for the three months then ended, the Company was still unable to renew its line of credit or obtain alternative financing as of March 31, 20X2, and has stated that substantial doubt

exists about the Company's ability to continue as a going concern. The accompanying interim financial information does not include any adjustments that might result from the outcome of this uncertainty.

Illustration 2—Emphasis-of-Matter Paragraph When Substantial Doubt is Not Disclosed in the Notes to the Financial Statements, a Going Concern Emphasis-of-Matter Paragraph Was Included in the Prior Year's Audit Report, and Conditions or Events Giving Rise to the Emphasis-of-Matter Paragraph Have Been Identified and Substantial Doubt Exists

The following is an example of a situation in which (a) a going concern emphasis-of-matter paragraph was included in the prior year's auditor's report, (b) conditions or events have been identified and substantial doubt continues to exist, and (c) the entity is not required under the applicable financial reporting framework to include a statement in the notes to the interim financial information that substantial doubt exists.

[Emphasis-of-Matter Paragraph]

The accompanying interim financial information has been prepared assuming that the Company will continue as a going concern. Note 4 of the Company's audited financial statements as of December 31, 20X1, and for the year then ended, discloses that the Company was unable to renew its line of credit or obtain alternative financing as of December 31, 20X1. Our auditor's report on those financial statements includes an emphasis-of-matter paragraph referring to the matters in Note 4 of those financial statements, indicating that these matters raised substantial doubt about the Company's ability to continue as a going concern. As indicated in Note 3 of the accompanying interim financial information as of March 31, 20X2, and for the three months then ended, the Company was still unable to renew its line of credit or obtain alternative financing as of March 31, 20X2. Management's evaluation of the conditions and events and management's plans regarding these matters are also disclosed in Note 3. The accompanying interim financial information does not include any adjustments that might result from the outcome of this uncertainty.

Illustration 3—Emphasis-of-Matter Paragraph When Management is Required Under the Applicable Financial Reporting Framework to Include a Statement in the Notes to the Interim Financial Information that Conditions or Events Have Been Identified and Substantial Doubt Exists; Such Statement is Included in the Notes to the Interim Financial Information; and a Going Concern Emphasis-of-Matter Paragraph Was Not Included in the Prior Year's Audit Report.

The following is an example of an emphasis-of-matter paragraph when (a) a going concern emphasis-of-matter paragraph was not included in the prior year's auditor's report, (b) the entity is required under the applicable financial reporting framework to include a statement in the notes to the interim financial information that conditions or events have been identified and substantial doubt exists, and (c) such statement is included in the notes to the interim financial information.

[Emphasis-of-Matter Paragraph]

The accompanying interim financial information has been prepared assuming that the Company will continue as a going concern. As discussed in Note 3 to the interim financial information, 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 conditions and events and management's plans regarding these matters are also described in Note 3. The accompanying interim financial information does not include any adjustments that might result from the outcome of this uncertainty.

[No further amendment to section 930.]

2. This amendment is effective for reviews of interim financial information for interim periods beginning after fiscal years ending on or after December 15, 2017.
