



Agenda Item 4

Consideration of Going Concern in a Review Engagement

Objective of Agenda Item

To consider the accountant's requirements with respect to consideration of going concern in a review performed in accordance with SSARs in light of the issuance of Statement on Auditing Standards No. 132, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* in February 2017 (which amends the auditor's requirements with respect to reviews of interim financial information).

The full text of SAS 132 can be accessed at http://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/SAS_132.pdf.

Former ARSC member Aron Dunn was a member of the task force that developed SAS 132.

The Accountant's Consideration of Going Concern in a Review

In a review performed in accordance with SSARs, with respect to going concern, the accountant is required to:

- Consider whether, during the performance of review procedures, evidence or information came to the accountant's attention indicating that there could be an uncertainty about the entity's ability to continue as a going concern for a reasonable period of time.
- If, after considering the evidence or information from the performance of review procedures, the accountant believes that there is uncertainty about the entity's ability to continue as a going concern for a reasonable period of time, request that management consider the possible effects of the going concern uncertainty on the financial statements, including the need for related disclosure
- Consider the reasonableness of management's conclusions, including related disclosure.

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- If the accountant determines that the entity's disclosures are inadequate, follow the requirements for disclosing a known departure from the applicable financial reporting framework in the accountant's review report. There is never a requirement to include an emphasis-of-matter paragraph.

SAS 132 extended the auditor's requirements with respect to consideration of going concern in a review of interim financial information. Those requirements are as follows:

- 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 (for example, U.S. GAAP or IFRS), 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.
- 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 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 to continue as a going concern,
 - inquire of management whether the going concern basis of accounting is appropriate,
 - inquire of management about its plans for dealing with the adverse effects of the conditions and events, and
 - consider the adequacy of the disclosure about such matters in the interim financial information.
- Include an emphasis-of-matter paragraph in the auditor's review report on the interim financial information 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:

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- A going concern emphasis-of-matter paragraph was included in the prior year's auditor's report and
 - the conditions or events giving rise to the emphasis-of-matter paragraph continue to exist and
 - 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.
- A going concern emphasis-of-matter paragraph was not included in the prior year's auditor's report and
 - 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
 - management has included such statement in the notes to the interim financial information.

In summary, in an interim review performed in accordance with AU-C section 930, when the financial statements are prepared in accordance with GAAP, the auditor is required to specifically perform procedures related to management's going concern assessment (primarily inquiry). In a SSARSs review, the accountant would be required to perform procedures only if, as a result of the performance of review procedures, evidence or information came to the accountant's attention indicating that there may be a going concern issue. If the financial statements are prepared in accordance with a special purpose framework such as the cash- or tax basis of accounting, the review procedures performed in accordance with SSARSs and AU-C section 930 are substantially the same.

AU-C section 930 also requires an emphasis-of-matter paragraph in the auditor's interim review report in certain circumstances. The accountant is not required to include an emphasis-of-matter paragraph with respect to a going concern uncertainty in a SSARSs review report.

Issues for Discussion with ARSC

The exhibit to this discussion memorandum includes the revisions that would be made to AR-C section 90 if the ARSC determines that the requirements with respect to the accountant's consideration of an entity's ability to continue as a going concern should be substantially consistent with the requirements in AU-C section 930.

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Issue #1 – Enhanced performance requirements

Action Requested of ARSC

The ARSC is asked to consider whether it is appropriate to revise SSARSs to include a requirement for the accountant to specifically perform procedures (primarily inquiry) related to management's going concern assessment when the financial statements are prepared in accordance with an applicable financial reporting framework that includes requirements for management to evaluate the entity's ability to continue as a going concern for a reasonable period of time.

Issue #2 – Requirement to include an emphasis-of-matter paragraph in the accountant's review report in certain circumstances

Action Requested of ARSC

The ARSC is asked to consider whether it is appropriate to revise SSARSs to include a requirement for the accountant to include an emphasis-of-matter paragraph in the accountant's review report in certain circumstances.

Agenda Items Presented:

None

Exhibit

Proposed revisions to AR-C section 90 to harmonize with the going concern considerations in a review of interim financial information performed in accordance with AU-C section 930

Requirements	Application Guidance
<p>The Accountant's Consideration of <i>Inquiry Concerning</i> an Entity's Ability to Continue as a Going Concern</p>	<p>The Accountant's Consideration of <i>Inquiry Concerning</i> an Entity's Ability to Continue as a Going Concern</p>
<p><i>Consideration of Conditions or Events That Indicate That There Could Be an Uncertainty About the Entity's Ability to Continue as a Going Concern</i></p>	<p><i>Consideration of Conditions or Events That Indicate That There Could Be an Uncertainty About the Entity's Ability to Continue as a Going Concern</i></p>
<p><i>.65 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 financial statements, the accountant should perform 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 financial statements. (Ref: par. A112-.A114)</i></p>	<p><i>.A112 The nature and extent of the accountant's review procedures are matters of the accountant'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.</i></p> <p><i>.A113 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 financial statements. 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. 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).</i></p> <p><i>.A114 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</i></p>

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	<p><i>evaluated. For example, the financial reporting frameworks of the following standard-setting bodies specify such period of time as follows:</i></p> <ul style="list-style-type: none"> <i>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).</i> <i>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.</i> <i>c. International Accounting Standards Board. At least, but not limited to, one year from the end of the reporting period.</i>
<p><i>.6566 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 financial statements and (a) conditions or events that 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 the prior period financial statements, regardless of whether the substantial doubt was alleviated by the accountant's consideration of management's plans, or (b) in the course of performing The accountant should consider whether, during the performance of review procedures on the current period financial statements, the accountant becomes aware of conditions or events that raise substantial doubt , evidence or</i></p>	<p><i>.A112.A115 A review of financial statements is not designed to identify conditions or events that raise substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time. However, conditions or events that raise substantial doubt about an 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 inquires of management or in the course of performing other review procedures. In performing review procedures, the accountant may identify information about certain conditions or events that, when considered in the aggregate, indicate there could be an uncertainty about the entity's ability to continue as a going concern for a reasonable period of time. The</i></p>

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~~information came to the accountant's attention indicating that there could be an uncertainty about the entity's ability to continue as a going concern, **the accountant should** for a reasonable period of time. A reasonable period of time is the same period of time required of management to assess going concern when specified by the applicable financial reporting framework.~~

- a. *Inquire of management whether the going concern basis of accounting is appropriate*
- b. *Inquire of management about its plans for dealing with the adverse effects of the conditions and events, and (Ref: par. A115)*
- c. *Consider the adequacy of the disclosure about such matters in the financial statements. (Ref: par. A116-.A117)*

If the applicable financial reporting framework does not specify a period of time for management, a reasonable period is **within** one year ~~from~~ **after** the date of the financial statements **are issued (or within one year after the date that the financial statements are available to be issued)** being reviewed (hereinafter referred to as a *reasonable period of time*). (Ref: par. .A112)

Consideration of Financial Statement Effects

significance of such conditions and events will depend on the circumstances, and some may have significance only when viewed in conjunction with others. The following are examples of such conditions and events:

- *Negative trends.* For example, recurring operating losses, working capital deficiencies, negative cash flows from operating activities, adverse key financial ratios
- *Other indications of possible financial difficulties.* For example, default on loan or similar agreements, arrearages in dividends, denial of usual trade credit from suppliers, restructuring of debt, noncompliance with statutory capital requirements, need to seek new sources or methods of financing or to dispose of substantial assets
- *Internal matters.* For example, work stoppages or other labor difficulties, substantial dependence on the success of a particular project, uneconomic long-term commitments, need to significantly revise operations
- *External matters that have occurred.* For example, legal proceedings, legislation, or similar matters that might jeopardize an entity's ability to operate; loss of a key franchise, license, or patent; loss of a principal customer or supplier; uninsured or underinsured catastrophe, such as a drought, earthquake, or flood

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~~.66~~ — If, after considering the evidence or information from paragraph .65, the accountant believes that there is an uncertainty about the entity's ability to continue as a going concern for a reasonable period of time, the accountant should request that management consider the possible effects of the going concern uncertainty on the financial statements, including the need for related disclosure. (Ref: par. .A113)

~~.A113~~ *A116* In considering the adequacy of disclosure, some of the information that might be disclosed includes the following:

- Principal conditions and events giving rise to the assessment of an uncertainty about the entity's ability to continue as a going concern for a reasonable period of time
- The possible effects of such conditions and events
- Management's evaluation of the significance of those conditions and events and any mitigating factors
- Possible discontinuance of operations
- Management's plans (including relevant prospective financial information)
- Information about the recoverability or classification of recorded asset amounts or the amounts or classification of liabilities

A117 If the accountant determines that disclosure related to substantial doubt about the entity's ability to continue as a going concern is inadequate, resulting in a departure from the applicable financial reporting framework, the accountant is required to apply paragraphs .56-.60 regarding known departures from the applicable financial reporting framework.

~~.67~~ — After management communicates to the accountant the results of its consideration of the possible effects on the financial statements, the accountant should consider the reasonableness of management's conclusions, including the adequacy of the related disclosure.

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<p><i>Consideration of the Effects on the Accountant's Review Report</i></p>	<p><i>Consideration of the Effects on the Accountant's Review Report</i> (Ref: par. .6867)</p>
<p>.68 — If the accountant determines that the entity's disclosures with respect to the entity's ability to continue as a going concern for a reasonable period of time are inadequate, a departure from the applicable financial reporting framework exists, and the accountant should follow the guidance in paragraphs .56-.60. (Ref: par. .A114-.A116)</p>	<p>.A114 If, after considering the evidence or information from paragraph .65 and management's consideration of the possible effects of the going concern uncertainty on the financial statements from paragraph .66, the accountant concludes that management has adequately disclosed the issue, the accountant may include an emphasis-of-matter paragraph in the accountant's review report pursuant to paragraphs .52-.53 and .54. The accountant is not required to include an emphasis-of-matter paragraph with respect to a going concern uncertainty.</p>
<p><i>.67 The accountant should include an emphasis-of-matter paragraph in the accountant'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 financial statements that substantial doubt exists: (Ref: par. A117-.A119)</i></p> <p><i>a. A going concern emphasis-of-matter paragraph was included in the prior period's report and</i></p> <ul style="list-style-type: none"> <i>i. the conditions or events giving rise to the emphasis-of-matter paragraph continue to exist and</i> <i>ii. those conditions or events raise substantial doubt about the entities ability to continue as a going concern for a reasonable period of time and management's plans do not alleviate them</i> 	<p>.A115<i>A117</i> The following is an illustration of an emphasis-of-matter paragraph the accountant may include in the accountant's review report when the accountant concludes that management has adequately disclosed <i>that substantial doubt exists</i> an uncertainty about the entity's ability to continue as a going concern for a reasonable period of time and determines to include an emphasis-of-matter paragraph with respect to the going concern uncertainty:</p> <p style="text-align: center;"><i>Emphasis of Matter</i></p> <p>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 raises an uncertainty about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note X. The financial statements</p>

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b. A going concern emphasis-of-matter paragraph was not included in the prior period's report and

i. Management is required under the applicable financial reporting framework to include a statement in the notes to the financial statements that substantial doubt exists and

ii. Management has included such statement in the notes to the financial statements

do not include any adjustments that might result from the outcome of this uncertainty. Our conclusion is not modified with respect to this matter.

.A116A118 If conditions or events have been identified during the 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 financial statements 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 financial statements, the accountant 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.

.A116A119 Examples of inappropriate wording in an emphasis-of-matter paragraph when the accountant concludes that management has adequately disclosed ***that substantial***

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~~*doubt exists* an uncertainty about the entity's ability to continue as a going concern for a reasonable period of time and determines to include an emphasis of matter paragraph with respect to the going concern uncertainty~~ include the following:

- If the company continues to suffer recurring losses from operations and continues to have a net capital deficiency, there may be an uncertainty about its ability to continue as a going concern.
- The company has been unable to renegotiate its expiring credit agreements. Unless the company is able to obtain financial support, there is an uncertainty about its ability to continue as a going concern.