
STAFF AUDIT PRACTICE ALERT NO. 13

**MATTERS RELATED TO THE AUDITOR'S CONSIDERATION OF
A COMPANY'S ABILITY TO CONTINUE AS A GOING CONCERN
September 22, 2014**

Staff Audit Practice Alerts highlight new, emerging, or otherwise noteworthy circumstances that may affect how auditors conduct audits under the existing requirements of the standards and rules of the PCAOB and relevant laws. Auditors should determine whether and how to respond to these circumstances based on the specific facts presented. The statements contained in Staff Audit Practice Alerts do not establish rules of the Board and do not reflect any Board determination or judgment about the conduct of any particular firm, auditor, or any other person.

This practice alert discusses the professional standards applicable to the auditor's evaluation of a company's ability to continue as a going concern in light of recent changes to US generally accepted accounting principles ("GAAP").

AU sec. 341, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*, establishes requirements for the auditor's evaluation of a company's ability to continue as a going concern.¹ Among other things, AU sec. 341 requires the auditor to modify the auditor's report by including an explanatory paragraph when substantial doubt exists about the company's ability to continue as a going concern.²

On August 27, 2014, the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-15 to communicate amendments to FASB Accounting Standards Codification Subtopic 205-40, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* ("ASC amendments"). The ASC amendments establish new requirements for management to evaluate a company's ability to continue as a going concern and to provide certain related disclosures for

¹ AU sec. 341 is an interim auditing standard of the PCAOB.

² See AU secs. 341.12-.13. *See also*, Section 10A(a)(3) of the Securities Exchange Act of 1934, which requires that audits of issuers include "an evaluation of whether there is substantial doubt about the ability of the issuer to continue as a going concern during the ensuing fiscal year."

financial statements prepared under GAAP.³ The ASC amendments are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted.

International Financial Reporting Standards also have requirements for management to evaluate a company's ability to continue as a going concern and provide certain related disclosures for financial statements pursuant to International Accounting Standards No. 1, *Presentation of Financial Statements* ("IAS 1"). These requirements differ from the requirements in the ASC amendments.⁴

In evaluating whether the financial statements are presented fairly, in all material respects, in conformity with the applicable financial reporting framework, including whether they contain the required disclosures, auditors should assess management's going concern evaluation.⁵ In making this assessment, the auditor should look to the requirements of the applicable financial reporting framework.⁶

In addition, auditors should continue to look to the existing requirements in AU sec. 341 when evaluating whether substantial doubt regarding the company's ability to continue as a going concern exists for purposes of determining whether the auditor's report should be modified to include an explanatory paragraph regarding going concern. The AU sec. 341 requirements for the auditor's evaluation, and the auditor's reporting

³ The ASC amendments require, among other things, disclosure in the financial statements when "substantial doubt about an entity's ability to continue as a going concern" exists. Under the ASC amendments as they apply to issuers, such substantial doubt 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."

⁴ For example, among other things, IAS 1 requires disclosure of "material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern," but does not define "material uncertainties" or "significant doubt." Also, IAS 1 states that management, in its going concern evaluation, "takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period." See paragraphs 25 and 26 of IAS 1.

⁵ See paragraphs 30-31 of Auditing Standard No. 14, *Evaluating Audit Results*.

⁶ See paragraph .01 of AU sec. 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*.

when substantial doubt exists, have not changed and continue to be in effect. Under AU sec. 341, the auditor's evaluation of whether substantial doubt exists is qualitative based on the relevant events and conditions and other considerations set forth in AU sec. 341.⁷ Accordingly, a determination that no disclosure is required under the ASC amendments or IAS 1, as applicable, is not conclusive as to whether an explanatory paragraph is required under AU sec. 341. Auditors should make a separate evaluation of the need for disclosure in the auditor's report in accordance with the requirements of AU sec. 341.

The PCAOB staff is currently reviewing AU sec. 341 and evaluating potential revisions to that auditing standard, including consideration of accounting standards and input from the Board's advisory groups. Any proposed revisions to AU sec. 341 would be made through the PCAOB's standard-setting process, including the opportunity for public comment.

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See AU secs 341.02-.03 and AU secs. 341.05-.09.