

AN OFFERING FROM THE BDO'S CENTER FOR CORPORATE GOVERNANCE AND FINANCIAL REPORTING



BDO USA CORPORATE GOVERNANCE PRACTICE

BDO USA's Corporate Governance Practice was developed to provide guidance to corporate boards. The firm works with a wide variety of clients, ranging from entrepreneurial businesses to multinational Fortune 500 corporations, on a myriad of accounting, tax, risk management and forensic investigation issues.

CONTACT

JAN HERRINGER
National Assurance Partner
(732) 734-3010
jherringer@bdo.com

AICPA ASB ISSUES SAS 132, THE AUDITOR'S CONSIDERATION OF AN ENTITY'S ABILITY TO CONTINUE AS A GOING CONCERN

The Auditing Standards Board (ASB) of the AICPA recently issued Statement on Auditing Standards (SAS) No. 132, The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern (SAS 132). SAS 132 supersedes SAS No. 126, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* (SAS 126), and will be **effective for audits of financial statements of nonissuers for periods ending on or after December 15, 2017, and reviews of interim financial information for interim periods beginning after fiscal years ending on or after December 15, 2017.**

SAS 132 was issued to address the provisions of FASB Accounting Standards Update (ASU) No. 2014-15, Presentation of Financial Statements – Going Concern (Subtopic 205-40): *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* and GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. SAS 132 retains several concepts of SAS 126, including a requirement for the auditor to make a separate conclusion regarding the existence of substantial doubt about an entity's ability to continue as a going concern, among other matters.

The most significant changes to the existing auditing standards as a result of the issuance of SAS 132 include the following:

Auditor's Objectives and Related Conclusions

SAS 132 clarifies that the auditor's objectives include separate determinations and conclusions regarding (1) the appropriateness of management's use of the going concern basis of accounting, when relevant, in the preparation of the financial statements, and (2) whether substantial doubt about an entity's ability to continue as a going concern exists, based on the evidence obtained, for a reasonable period of time (as defined in the applicable financial reporting framework).

Financial Support by Third Parties or the Entity's Owner-Manager

When management's plans include financial support by third parties or the entity's owner-manager and such evidence is necessary to support management's assertions about the entity's ability to continue as a going concern for a reasonable period of time, SAS 132 requires the auditor to obtain sufficient appropriate audit evidence about the intent of such supporting parties to provide the necessary financial support, including written evidence of such intent, and the ability of such supporting parties to provide the necessary financial support. The application guidance in SAS 132 explains that evidence regarding such intent may be either in the form of written evidence from management about the third party commitment (sometimes referred to as a "support letter"), or direct confirmation with the supporting party. The application guidance also explains that 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. An illustration of a third party support letter is included in the application guidance.

Period Beyond Management's Assessment

SAS 132 requires the auditor to inquire of management regarding its knowledge of conditions or events beyond the period of management's evaluation that may affect the entity's ability to continue as a going concern. The inquiries are not intended to require management to extend its evaluation period, but may affect other disclosure requirements or the consideration of whether the financial statements are fairly presented.

Use of Emphasis Paragraphs When Substantial Doubt is Alleviated

The application material in SAS 132 provides guidance regarding when an auditor decides to include an emphasis paragraph in the auditor's report to highlight the liquidity issues related to management disclosures when the auditor concludes that substantial doubt has been alleviated by management's plans. The application guidance also provides an example of the emphasis paragraph in these circumstances.

Interim Financial Information

SAS 132 also amends AU-C section 930, *Interim Financial Information*, to require auditors to perform interim review procedures to address the situations when 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 amendments to AU-C sec. 930 also require the auditor to include an emphasis-of-matter paragraph in the review report when certain conditions or events exist related to substantial doubt about an entity's ability to continue as a going concern 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.

Financial Statements Prepared in Accordance With a Special Purpose Framework

SAS 132 clarifies that the issues of the going concern basis of accounting and whether substantial doubt exists are separate issues. When the going concern basis of accounting is not relevant in the preparation of special purpose financial statements, the requirement of SAS 132 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, regardless of whether the going concern basis of accounting is relevant, the auditor is required under SAS 132 to conclude, based on the audit evidence obtained, whether substantial doubt exists and to evaluate the possible effects on the financial statements.

BDO encourages both management and audit committees to review SAS 132, which can be accessed [here](#). For additional information and learning events relevant to boards, audit committees, and financial reporting executives, please refer to: www.bdo.com/resource-centers/governance.

BDO is the brand name for BDO USA, LLP, a U.S. professional services firm providing assurance, tax, advisory and consulting services to a wide range of publicly traded and privately held companies. For more than 100 years, BDO has provided quality service through the active involvement of experienced and committed professionals. The firm serves clients through more than 60 offices and over 500 independent alliance firm locations nationwide. As an independent Member Firm of BDO International Limited, BDO serves multi-national clients through a global network of 67,700 people working out of 1,400 offices across 158 countries.

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms. For more information please visit: www.bdo.com.

Material discussed is meant to provide general information and should not be acted on without professional advice tailored to your firm's individual needs.

© 2017 BDO USA, LLP. All rights reserved.