



September 2, 2016

Ms. Sherry Hazel
Audit and Attest Standards
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Hazel:

On behalf of the National State Auditors Association, we appreciate the opportunity to respond to the AICPA Auditing Standards Board's proposed Statement on Auditing Standards (SAS) entitled, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*.

We have reviewed the proposed SAS and generally agree with the provisions contained therein. Below is our response to the Issue for Consideration. We have also provided some additional suggestions that we believe the Board should consider as it finalizes this document.

Issue for Consideration – Applicability of AU-C section 570 to Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement

1. *Should the standards be amended to indicate that AU-C section 570 is applicable to all audits of single financial statements and specific elements, accounts, or items of a financial statement? If so, how would the auditor apply the requirements of AU-C section 570 (that is, would specific procedures need to be performed), including concluding whether substantial doubt exists about an entity's ability to continue as a going concern?*

We do not believe the standard should be amended to indicate that AU-C section 570 is applicable to all audits of single financial statements and specific elements, accounts, or items of a financial statement. If AU-C 570 were to be applicable, the additional work to assess the entity's liquidity may have no relevance to the element being presented and would add unnecessary procedures and cost to the engagement.

To ensure there is no confusion regarding the applicability of AU-C section 570 to audits of single financial statements and specific elements, accounts, or items of a financial statement, we recommend the Board also revise AU-C section 805 paragraph A7 by removing its second sentence to make it consistent with the proposed content in the exposure draft.

2. *If commenters believe that AU-C section 570 is not applicable to audits of single financial statements and specific elements, accounts, or items of a financial statement, is the application guidance related to risks and uncertainties sufficient in considering whether appropriate disclosures have been made?*

We believe the application guidance related to risks and uncertainties is sufficient in considering whether appropriate disclosures have been made.

Additional Comments

Definitions

- We suggest the addition of a definition of *reasonably knowable* referred to in paragraphs 5, A7 and A10. In addition, to be consistent with the suggested language, we recommend paragraph 19.b be modified to refer to matters known or reasonably knowable by management, rather than matters of which management is aware.
- We suggest additional description and context be provided for a definition of the *going concern basis of accounting*, referenced throughout the proposed statement and briefly mentioned in paragraphs 2 and 3. The Board has not clearly defined or explained this phrase within the statement in a manner that would create a universal understanding across all reporting frameworks. For example, we believe there is confusion because this term might be construed as an alternative to accrual, cash, or other bases of accounting established in existing reporting frameworks.
- Paragraph 11 – The definition of reasonable period of time includes language that prescribes a *reasonable period of time* for financial reporting frameworks without existing going concern time requirements, stipulating that time requirement to be one year from the date financial statements are essentially issued. We disagree with extending a reasonable period of time to when the financial statements are issued or available to be issued because it could put an extra burden on the auditor performing audits of any framework that does not prescribe a going concern time requirement, such as in some governmental special purpose framework financial statements. Further, it does not appear that ISA addresses this circumstance, and SAS 126 provided for a timeframe of one year from the date of the financial statements rather than this additional burden of one year from the date of issuance. We recommend that the Board revise the definition to limit the period of time to the date of the financial statements.

Requirements

- Paragraphs 27 and A43 – Paragraph 27 addresses an auditor's actions when adequate disclosure of an entity's ability to continue as a going concern is not made in the financial statements, and further refers to paragraph A43. Paragraph A43 does not expand on paragraph 27, rather it adds an entirely new element. We recognize that paragraph A43 comes from the ISA standard; however, based on the current text of proposed paragraph 27, this new element in paragraph A43 does not appear to be relevant to paragraph 27. Therefore, we suggest the Board make the paragraphs relatable, or remove the reference to A43 from paragraph 27 and determine a more appropriate requirement paragraph to make such a reference.
- Paragraph 32 – This paragraph provides that if there is significant delay in the issuance of the financial statements by management or those charged with governance after the date of the financial statements (or the availability to be issued), the auditor should inquire as to the reasons for the delay. However, the proposed ED does not provide assistance in evaluating what constitutes a "significant delay." Please clarify.

Application and Other Explanatory Material

Overall, we believe that the standard should better address the impact on government entities. While this standard has many implications for business-oriented entities, going concern issues will often not be applicable to primary governments. As is noted in GASB Statement 56, paragraph 18, with regards to evaluating an entity as a going concern, "some conditions or situations... should be assessed differently for governments." We suggest adding the following governmental examples to existing paragraphs or adding an additional explanatory paragraph(s) to address considerations specific to governments.

- Paragraph A4 – We suggest adding clarification on whether a situation where an entity is unable to meet its obligations as they become due on its own but is able to trigger a guarantee made by a third party located outside of the reporting entity (such as situations addressed by GASB 70) would be considered a condition or event giving rise to substantial doubt about an entity's ability to continue as a going concern and whether the existence of repayment requirements to the guarantor would change this determination. We believe that such situations give rise to substantial doubt. Such guidance is especially important for governmental entities, since such guarantees are often in place and there is a much stronger presumption that a governmental entity will continue to exist, which may obscure the going concern evaluation.
- Paragraph A7 – We suggest including in the list of examples for governmental entities the loss of key grant funding, and using debt for operating expenses on a recurring basis.
- Paragraph A8 – We suggest this paragraph specifically note that pursuing legal action, entering into bankruptcy or similar procedures, entering into negotiated settlements, pursuing government assistance, or other gain contingencies would not be considered mitigating factors. Such guidance is especially important for governmental entities, since there are often strong public policy expectations for bailouts and a much stronger presumption that a governmental entity will continue to exist, which may obscure the going concern evaluation.
- Paragraph A24 – We recommend adding as an audit procedure “Analyzing the ability to maintain the level of service provided in prior periods.”

In addition, we note that the section heading and text of paragraph A3 use the term, **public sector entities**, which has not been used in the clarified standards. For consistency, we recommend that the Board revise the term to **governmental entities**.

Additional comments relating to Application and Other Explanatory Material

Paragraph A20 – This discussion appears to incorrectly imply that paragraph 17 requires auditors to request that management extend its evaluation. However, paragraph 17 appears to only require auditor inquiry regarding conditions management knows about but is outside their period of evaluation. We believe that paragraph 17 requirements are appropriately stated and that it is neither necessary nor advisable for auditors to request that management extend their period of evaluation.

Paragraph A22 – In the last sentence, we suggest making the following addition: “In these **significant** circumstances, the procedures in paragraph 18 apply.”

We appreciate the opportunity to respond to such an important document. Should you have any questions or need additional information regarding our response, please contact Sherri Rowland of NSAA at (859) 276-1147 or me at (609) 847-3470.

Sincerely,



Stephen M. Eells
President, NSAA