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# Practitioner's Guide to **GAAS** **2008**

Covering all SASs,  
SSAEs, SSARs,  
and Interpretations

**Michael J. Ramos**



United States Nuclear Regulatory Commission Official Hearing Exhibit	
In the Matter of: NUCLEAR INNOVATION NORTH AMERICA LLC (South Texas Project Units 3 and 4)	
	ASLBP #: 09-885-08-COL-BD01
	Docket #: 05200012   05200013
	Exhibit #: NRC000134-00-BD01
	Admitted: 1/6/2014
	Rejected: Other:
Identified: 1/6/2014 Withdrawn: Stricken:	

# 341 THE AUDITOR'S CONSIDERATION OF AN ENTITY'S ABILITY TO CONTINUE AS A GOING CONCERN

## EFFECTIVE DATE AND APPLICABILITY

**Original Pronouncements** SAS 59, April 1988; SAS 64, December 1990; SAS 77, November 1995; and SAS 96, January 2002.

**Effective Date** These statements are now effective.

**Applicability** Audits of financial statements in accordance with generally accepted auditing standards.

*NOTE: The Statement applies in the audit of any type of entity. It is applicable to both profit-making and not-for-profit organizations. Thus, it would apply, for example, in the audit of a municipality. Also, the Statement applies to both GAAP basis financial statements and OCBOA (Other Comprehensive Bases of Accounting) basis financial statements, (e.g., cash or modified cash basis, tax basis, or regulatory basis). However, it does not apply to liquidation basis financial statements.*

## DEFINITIONS OF TERMS

The section itself has no general definitions. The section is based on the "going concern" concept (see below, *Objectives of Section*).

## OBJECTIVES OF SECTION

The "going concern" concept has long been a tenet of financial accounting. It has been called an assumption, a concept, a basic fixture, and a postulate and has usually been stated somewhat as follows:

*Continuation of entity operations is usually assumed in financial accounting in the absence of evidence to the contrary.*

SAS 59, codified in this section imposes an affirmative obligation on the auditor, to make an assessment of ability to continue as a going concern.

Note that the section does not mandate any procedures especially and solely directed to searching for conditions or events that would indicate a going concern problem. The obligation is to assess the information obtained from procedures used for other purposes.

Report modification may result solely from substantial doubt about continued existence regardless of whether there is any uncertainty associated with the recoverability and classification of recorded amounts. SAS 34 made the decision to modify the audit report hinge on uncertainty about recoverability and classification. Under this section, continued existence



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has a separate status. There could be substantial doubt about continued existence even when there is no question about recoverability and classification.

When the audit report is modified for a material uncertainty the opinion is unqualified, but disclosure of the going concern uncertainty is made in an explanatory paragraph that follows the opinion paragraph. This type of uncertainty is the only one that requires a report modification.

The section states that "a reasonable period of time" is a period not to exceed one year beyond the balance sheet date.

In January 2002, SAS 96, *Audit Documentation*, amended SAS 59 to add a requirement to document certain specific aspects of the work performed and conclusions reached about the auditor's going concern considerations. (See *Fundamental Requirements* for the specific documentation requirements.)

## FUNDAMENTAL REQUIREMENTS

### AUDITOR'S RESPONSIBILITY

The auditor should evaluate whether there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time, not to exceed one year beyond the date of the financial statements being audited (i.e., the balance sheet date). However, the auditor is **not** required to design audit procedures specifically to identify conditions and events that indicate a "going concern" problem.

### PROCEDURES REQUIRED

The auditor should consider whether the results of his or her usual audit procedures indicate that there could be substantial doubt.

### ADDITIONAL PROCEDURES

If the auditor has substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time, he or she should

1. Obtain information about management's plans to mitigate the problem.
2. Assess the likelihood of effective implementation of the plans.
3. Identify those elements that are especially significant to mitigating the going concern problem and should plan and perform auditing procedures to obtain evidential matter about those elements.

### PROSPECTIVE FINANCIAL INFORMATION

If prospective financial information is significant to management's plans, the auditor should obtain that information and should consider the adequacy of support for the significant assumptions. The auditor should pay special attention to those assumptions that are

1. Material to the prospective financial information.
2. Particularly sensitive or susceptible to change.
3. Not consistent with historical trends.

### AUDITOR CONCLUSIONS—SUBSTANTIAL DOUBT EXISTS

If the auditor concludes that there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time, he or she should (1) consider whether the condition is adequately disclosed and (2) modify the auditor's standard report by including an explanatory paragraph (following the opinion paragraph) or disclaim an opin-

ion. The auditor should state "substantial doubt" and

### AUDITOR

If the auditor concludes that there is substantial doubt about the entity's ability to continue as a going concern, the auditor should state "substantial doubt" and

*NOTE: The auditor is prohibited from using the term "substantial doubt" in the audit report.*

### INADEQUATE

If the auditor concludes that there is substantial doubt about the entity's ability to continue as a going concern, the auditor should state "substantial doubt" and

*NOTE: The auditor is prohibited from using the term "substantial doubt" in the audit report.*

### DOCUMENT

If, after the audit, the auditor concludes that there is substantial doubt about the entity's ability to continue as a going concern, the auditor should state "substantial doubt" and

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5. The auditor should state "substantial doubt" and

### ELIMINATE REISSUE

An auditor should not reissue an audit report that contains a "substantial doubt" opinion.



ion. The auditor's conclusion should be expressed in the report using the terms "substantial doubt" and "going concern."

#### **AUDITOR CONCLUSIONS—SUBSTANTIAL DOUBT DOES NOT EXIST**

If the auditor concludes that substantial doubt does not exist about the entity's ability to continue as a going concern for a reasonable period of time, he or she should consider whether the matter needs to be disclosed.

*NOTE: The absence of reference to substantial doubt in the auditor's report does not mean that the auditor is providing assurance about an entity's ability to continue as a going concern.*

#### **INADEQUATE DISCLOSURE**

If the auditor concludes that the entity's disclosures about its ability to continue as a going concern for a reasonable period of time are inadequate, the auditor's report should be qualified or adverse because of a departure from generally accepted accounting principles.

*NOTE: The need to consider the adequacy of disclosure of going concern problems is independent of the auditor's decision to modify the audit report, that is, disclosure may be necessary even when the report is not modified.*

#### **DOCUMENTATION REQUIREMENTS**

If, after considering the aggregate of events and conditions identified during the audit, the auditor believes that there is substantial doubt about the ability of the entity to continue as a going concern for a reasonable period of time, the auditor should document all of the following:

1. The conditions or events that led to the auditor's belief that there is substantial doubt about the entity's ability to continue as a going concern.
2. Those parts of management's plans that are particularly significant to overcoming the adverse effects of conditions or events.
3. The auditing procedures performed and evidence obtained to evaluate management's plans.
4. The auditor's conclusions about whether substantial doubt about the going concern issue remains.
  - If substantial doubt exists, 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, document the conclusion about whether disclosure of the principal conditions and events that led the auditor to believe there was substantial doubt is needed.
5. The auditor's conclusion about whether to include an explanatory paragraph in the audit report to reflect the conclusion that substantial doubt remains. If going concern disclosures are inadequate, the auditor should document the conclusion about whether to express a qualified or adverse opinion to reflect the GAAP departure.

#### **INTERPRETATIONS**

##### **ELIMINATING A GOING CONCERN EXPLANATORY PARAGRAPH FROM A REISSUED REPORT (AUGUST 1995)**

An auditor may be asked by the client to reissue the audit report and eliminate the going concern paragraph. Such requests usually occur after the going concern matter has been re-