
PCAOB Addresses Effect of New Going-Concern Accounting Standard on Current Auditing Standard

OCTOBER 22, 2014

On September 22, 2014, the Public Company Accounting Oversight Board issued a [staff audit practice alert](#), which discusses an auditor's duty to evaluate a company's ability to continue as a going concern in light of the Financial Accounting Standards Board's new going concern standard, ASC 205-40. FASB's new standard will require management to evaluate a company's ability to continue as a going concern and to make disclosures where there is substantial doubt about the company's ability to continue as a going concern. (See [this previous post](#) about the new FASB standard.)

For over two decades, AU Section 341 has required auditors to evaluate relevant conditions in the aggregate to assess "whether there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time...", generally not to exceed one year from the date of the financial statements. When an auditor concludes that substantial doubt exists about a company's ability to continue as a going concern, the auditor's report must include an explanatory paragraph that explains the auditor's conclusion. The PCAOB practice alert emphasizes that "[t]he AU sec. 341 requirements for the auditor's evaluation, and the auditor's reporting when substantial doubt exists, have not changed and continue to be in effect." According to the PCAOB, to properly evaluate whether the financial statements are presented fairly in all material respects, including whether they contain required disclosures, auditors now must assess management's going concern evaluation according to management's governing financial reporting standards, such as FASB's new going concern standard. In addition, auditors should continue to look to "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..." In the PCAOB's view, "a determination that no disclosure is required under the ASC amendments...is not conclusive as to whether an explanatory paragraph is required under AU sec. 341." The PCAOB indicated that its staff is currently reviewing AU sec. 341 and evaluating potential revisions to that auditing standard.

The PCAOB practice alert poses at least a theoretical possibility that management and a company's auditors could reach different conclusions on going concern. Whether this will come to pass in practice remains to be seen. But in any event, it should be noted that, unlike AU sec. 341, FASB ASC

205-40 will require a going concern assessment by management every quarter, not just annually as currently required by the auditing standard.

Authors



Alan J. Wilson

PARTNER

✉ alan.wilson@wilmerhale.com

☎ +1 202 663 6474