# Risk Assessment Reminders

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*Risk assessment is a mindset, not a checklist*


- AICPA Peer Review Findings
- Planning and Risk Assessment Refresh
- Evaluating Internal Control Deficiencies
- SAS 143 and 145
- IT General Controls
- Going Concern
- Resources

# AICPA – Top Peer Review Findings 2024

## Overall

Failure to:

- Document linkage between risk assessment and substantive procedures performed
- Document understanding IT environment
- Document Internal control testing
- Document consideration of going concern
- Setting control risk less than high without testing effectiveness of controls
- Properly identify and/or document relevant risks and controls with the role of IT
- Document fraud risks, conduct fraud inquiries with those charged with governance
- Document response to management override of controls

## Overall

Failure to:

- Document sources of information from which conclusions were drawn about design and implementation of controls
- Properly document understanding of key internal controls and related walkthroughs
- Appropriately identify or address management override and improper revenue recognition as significant risks due to fraud
- Properly document consideration of all non-attest services performed
- Identify significant threats to independence and apply adequate safeguards to eliminate threat or reduce it to an acceptable level

## Overall

Failure to:

- Document testing of subsequent events through the date of the auditor's report
- Communicate and/or document required communications with those charged with governance
- Document required communication with the predecessor auditor
- Adopt new standards regarding revenue recognition
- Obtain appropriate management representation letters
    - Incorrect dates, financial statement periods, appropriate wording on consultation with an attorney
- Adhere to established QC policies and procedures (CPE, outdated QC materials)

# AICPA – Top Peer Review Findings 2024

## Not-For-Profit
## Planning & Risk Assessment

Failure to:

- Obtain necessary knowledge of current standards and obtain proper training for NFP engagements
- Appropriately document assessment of SKE of staff designated to oversee non-attest services
- Document threats to independence
- Document application of safeguards to eliminate threats or reduce them to an acceptable level
- Document walk through procedures performed
- Test operating effectiveness of controls when setting control risk at less than high/max

## Not-For-Profit
## Disclosures

Failure to:

- Include all disclosures regarding:
  - Risks and uncertainties
  - Leases
  - Liquidity (including qualitative information)
- Properly present net assets, functional expense and/or liquidity in financial statements
- Include appropriate documentation and/or disclosures related to the implementation of ASC 606 including:
  - Revenue recognition
  - Opening balance of contract assets and liabilities

## Not-For-Profit
## Management Rep Letter/Report

Failure to:

- Include all representations in management representation letter including:
  - The required elements regarding oversight and responsibility for multiple non-attest services performed
  - Modifications to indicate the client had not utilized legal counsel regarding litigation, claims or assessments
  - Periods covered
- Include all required elements in the auditor's report as it relates to supplementary information

# AICPA – Top Peer Review Findings 2024

## Governmental, Single Audit, HUD - Reporting

Failure to:

- Include all of the required elements of professional standards in the report including the following omissions:
  - Reference to engagement letter performed in accordance with GAS
  - Addressing supplemental information and required supplemental information
  - Reference to prior year financial statements when comparative
- Omitted or incorrect reference to material weaknesses or significant deficiencies included in the Schedule of Findings and Questioned Costs
- Report finding sin the appropriate form in the Schedule of Findings and Questioned Costs

## Governmental, Single Audit, HUD – Documentation

Failure to:

- Properly document independence considerations by Yellow Book, including the evaluation of management's SKEs or experience to effectively oversee non attest services
- Properly document evaluation of self-review threat, and safeguards applied to address a significant threat to independence
- Properly document evaluation of actuary qualifications
- Comply with procedures outlined in the HUD audit guide including:
  - Failure to identify testing of direct and material compliance requirements
  - Failure to select a sample size that was equal or greater to the minimum suggested in the HUD audit guide

## Governmental, Single Audit, HUD – Single Audit

Failure to:

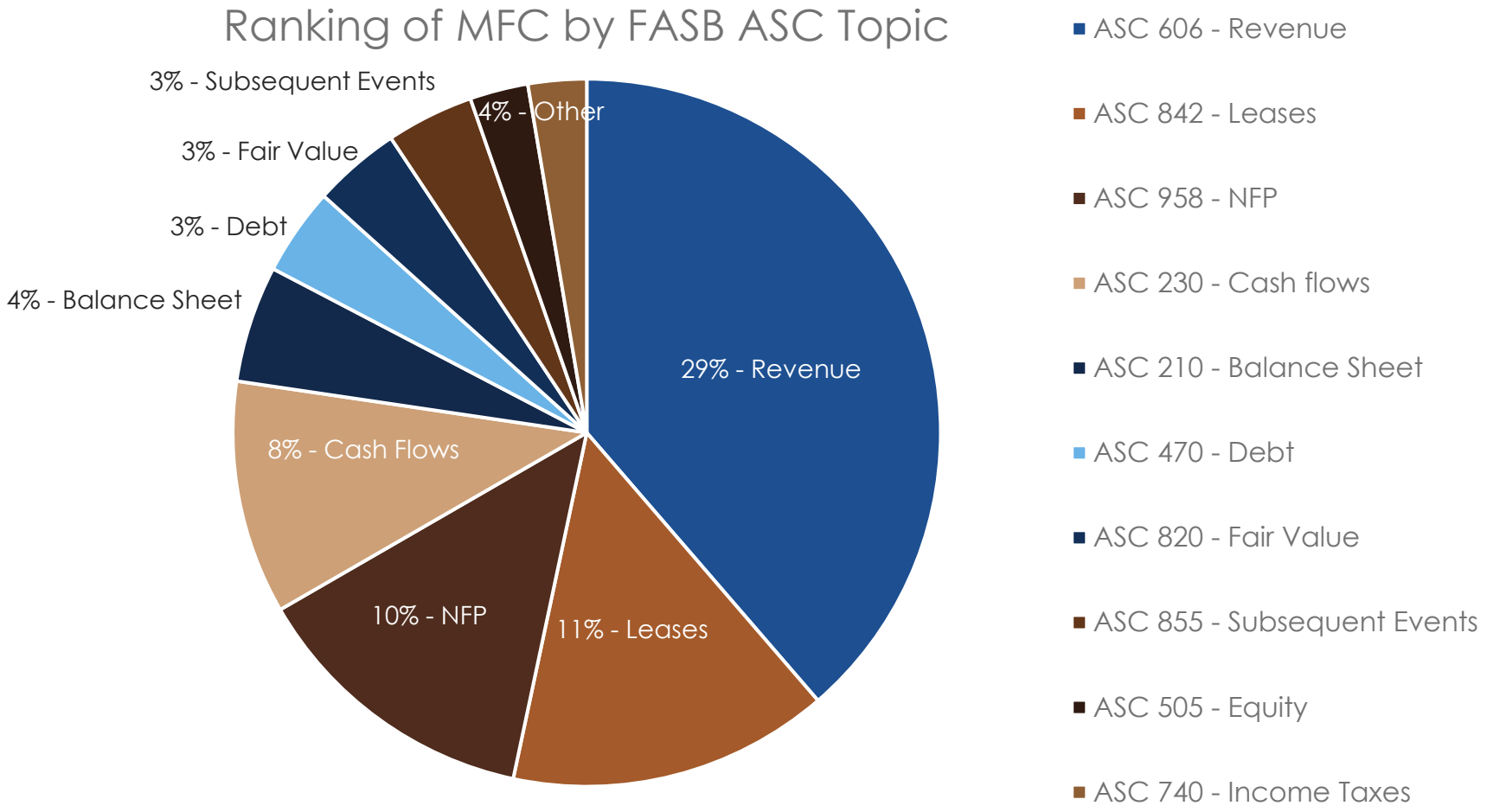
- Identify and test sufficient and appropriate major programs
- Appropriately cluster
- Properly perform Type A and Type B program risk assessments
- Properly group programs with the same ALNs
- Incorrect determination of the auditee as low-risk resulting in insufficient coverage
- Properly conclude and document why an applicable compliance supplement is not direct and material
- Lack of documentation related to SEFA:
  - Internal controls over preparation of SEFA
  - Reconciliation of SEFA to the financial statements

# 2024 Peer Review Matters for Further Consideration (MFC)

Source: Center for Plain English Accounting, AICPA's National A&A Resource Center

"2024 FASB ASC MFCs" published April 23, 2025

ASC 842 – leases saw an uptick in MFCs by 6% compared to the prior year

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# Planning And Risk Assessment Refresh

# Planning – See The Big Picture First

## Understanding the Client and Industry

### Understanding of the Entity and Industry

- Board minutes and committee minutes
- Request the client's most recent strategic plan
- Understand their industry:
  - Ask the client what industry subscriptions they follow
  - Consider leveraging ChatGPT to summarize industry trends

### Probing Questions to client

- Checklists are great starting point tools – but prioritize face to face discussions with management
- Example questions you can ask the client:
  - What your strategic priorities for the next 1-3 years?
  - Are there any planned expansions, capital projects, or new program/revenue streams?
  - What assumptions underpin your forecasts and budgets?
  - Where do you see the biggest financial risks and opportunities?
  - What do you consider to be the major risks facing your industry, and how are you managing them?

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# Understanding The Control Environment

## Understand Entity Level Controls

- Understand entity wide internal controls at a high level
- This should also include consideration of the IT environment and related controls
  - Make sure to identify all software applications that feed into the financial statements and if there are any unique risks to any of them

## Identify key controls for significant risks

- Keep in mind that a process should not be mistaken for an internal control
- An internal control should have more than one person involved in the process (a preparer and a reviewer)
- Consider combining multiple controls to address a significant risk

## Perform walk-throughs of key controls

- Key control needs to be specific
  - For example – if your risk of material misstatement is related to an AR allowance, revenue cutoff or valuation of a pension liability – documenting that the CFO or board reviews the financial statements at a high level is not sufficient enough to address the details of that risk.
- Critical to document as much detail as possible for the walkthrough (sources of reports, dates, dollar amounts, evidence of review details, etc.)
- Consider documenting an index system to clearly tag and identify each key control with each walkthrough
- Inquiry alone is not sufficient

# Risk Assessment Reminders and Tips

Challenge your risks of material misstatements (ROMM)

- Was this risk unique to the prior year audit?

Ensure strong linkage between ROMM, key control, walkthrough of key control and substantive tests to address ROMM

Planning and risk assessment is an iterative process – always go back and revisit your risk assessment at the end of the audit (AJES, adding/removing ROMMs)

Clearly document non-attest services (tax return preparation, assistance with financial statement preparation, maintenance of fixed asset schedules)

Ensure clear documentation as to why management has the skills, knowledge and experience to supervise our services. How do they stay current on accounting changes?

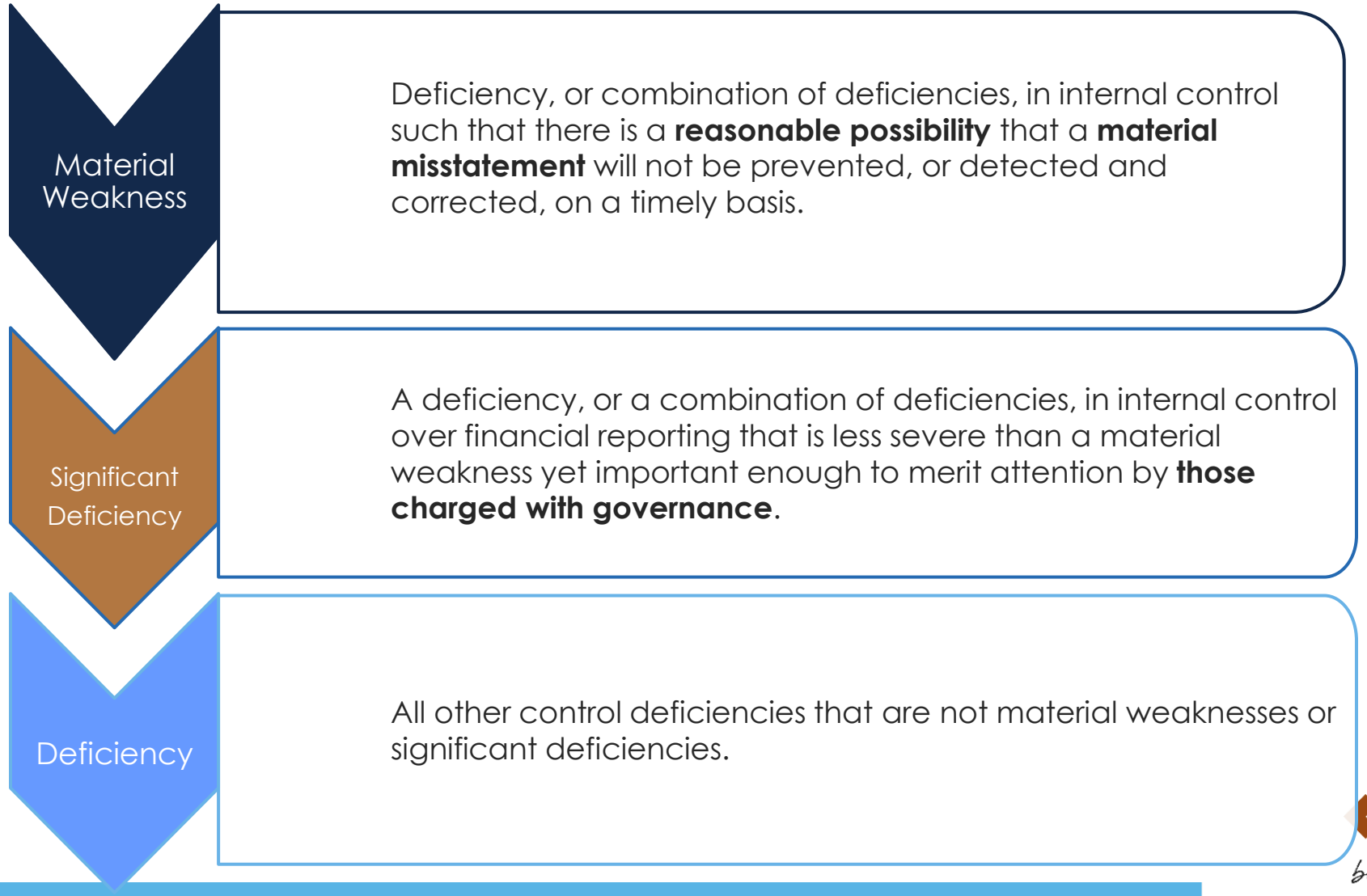
Document dates and details of fraud inquiries. Consider a memo in the binder that rolls forward each year with unpredictability procedures.

# Analyzing Control Deficiencies

# The Severity of a Deficiency

*What is an internal control deficiency?*

When the design or operation of an internal control does not allow management or employees to prevent, detect and correct misstatements on a timely basis.

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# Compensating Controls and Combination of Deficiencies

## May need to consider deficiencies in combination

- Several individual deficiencies may need to be evaluated in combination to determine if they rise to a material weakness or significant deficiency

## What are compensating controls?

- When considering the severity of an identified control deficiency, the auditor should evaluate the effect of compensating controls to determine the severity of the control deficiency
- Compensating control should be detailed enough to detect material misstatements (overall financial statements review may not be adequate)

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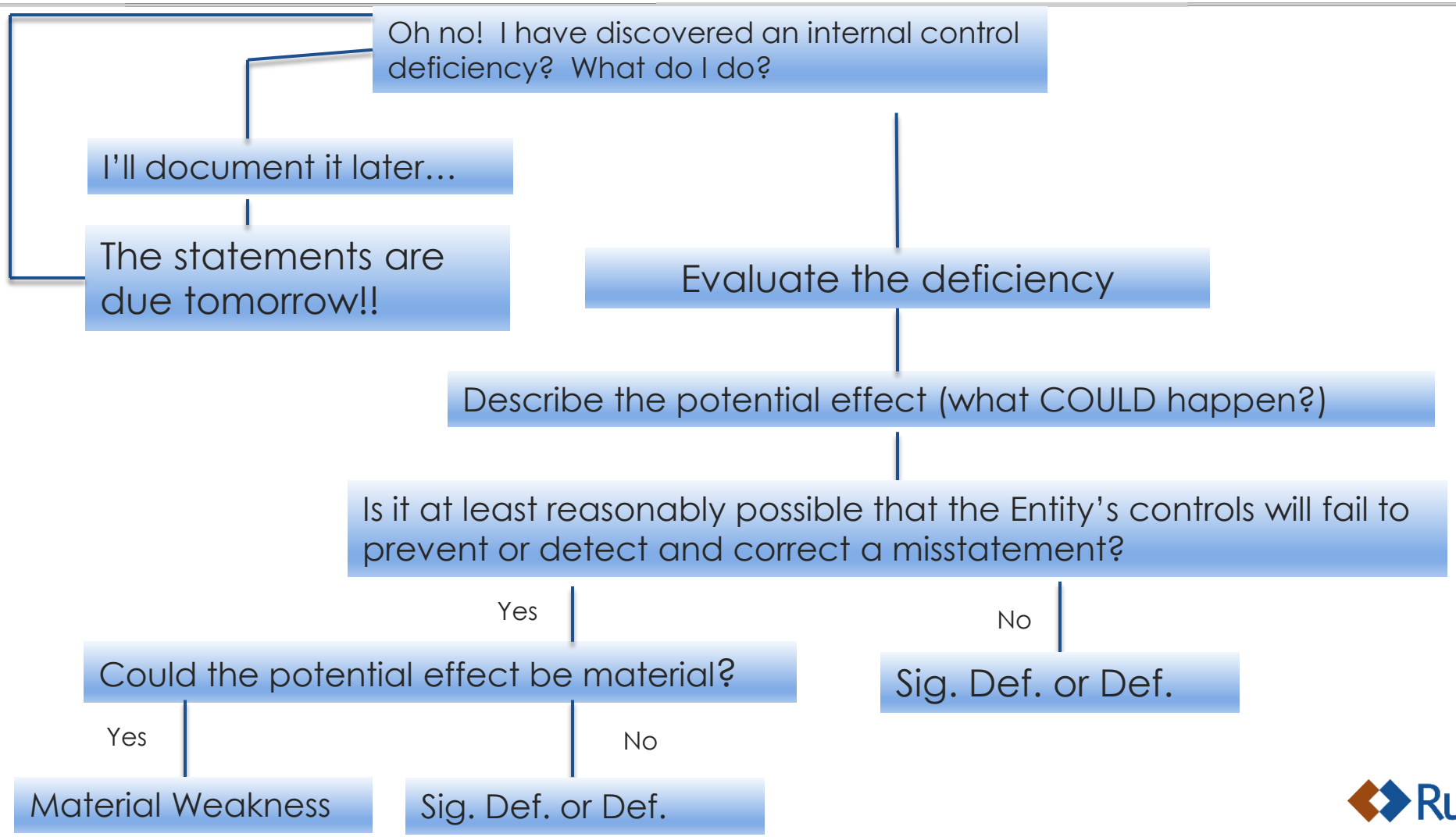
# Evaluating control deficiencies

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# SAS 143 (Auditing Accounting Estimates)

# Revisiting Risk Assessment for Significant Risks that Include Accounting Estimates

When identifying and assessing risk of material misstatement relating to accounting estimates, the auditor should separately assess inherent and control risks. When evaluating inherent risk the auditor should consider:

- The degree to which the accounting estimate is subject to estimation uncertainty
- The degree to which management's estimate includes complexity or subjectivity

The risk of material misstatement can vary by accounting estimate

- Bonus accrual paid 2 ½ months after year-end
- Multi-year warranty liability

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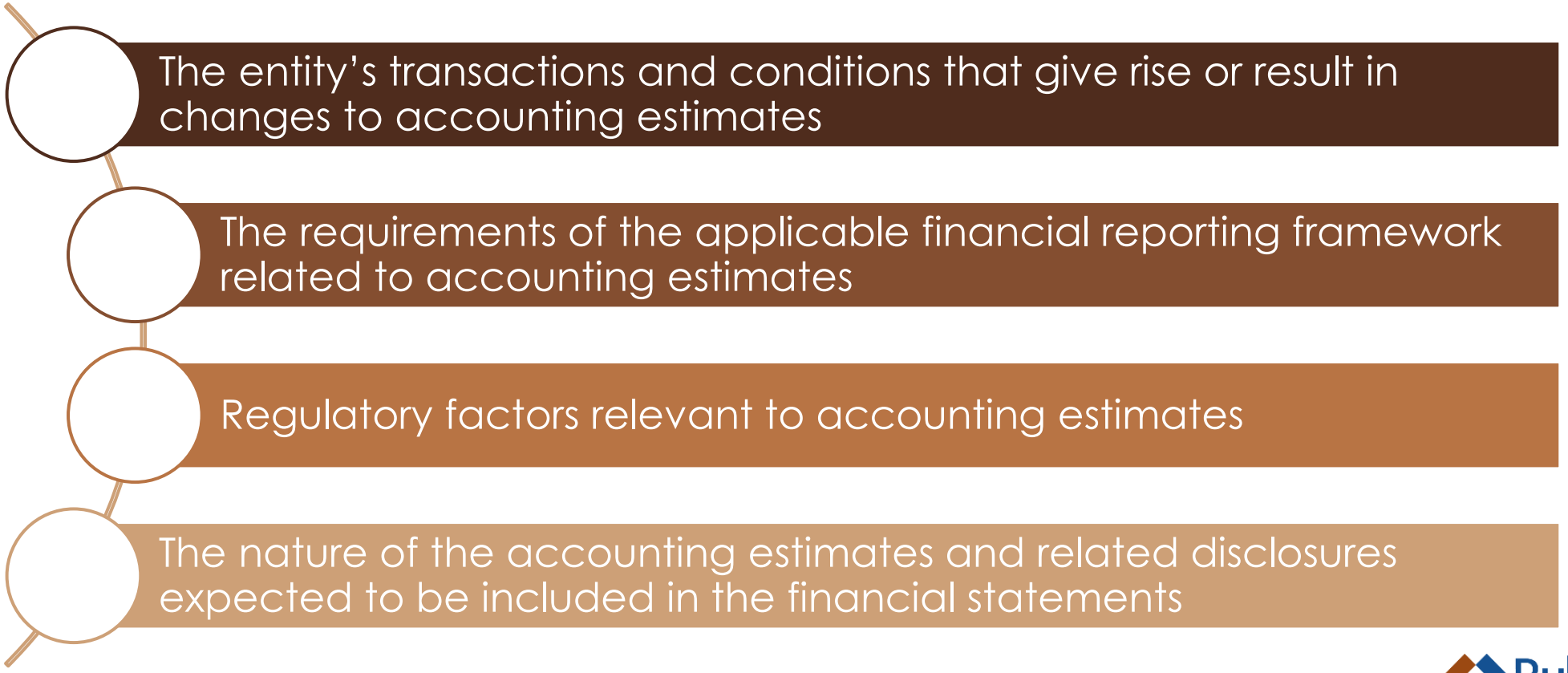
# Revisiting Risk Assessment for Significant Risks that Include Accounting Estimates

Obtain an Understanding of the Entity and Its Environment as it relates to accounting estimates. The auditor should obtain an understanding of the following:

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# Accounting Estimates Deemed Significant Risks of Material Misstatement

- Based on the engagement team's assessment of inherent and control risk, the team should determine if the accounting estimate is a significant risk of material misstatement
  - If the team concludes the accounting estimate includes a **significant** risk of material misstatement:
    - The audit team should test the design and implementation of controls regarding the accounting estimate (walkthrough)
    - The engagement team should develop audit procedures to address the significant risk which may include obtaining audit evidence occurring up to the date of the auditor's report, testing how management made the accounting estimate, or developing an auditor's point estimate or range
    - Review the outcome of the accounting estimate from prior periods based on actual results

# SAS 145

# SAS 145 Updates

## Clarified definition of a relevant assertion:

"An assertion about a class of transactions, account balance, or disclosure is relevant when it has an **identified risk of material misstatement**. A risk of material misstatement exists when (*a*) there is a **reasonable possibility** of a misstatement occurring (that is, its likelihood), and (*b*) if it were to occur, there is a reasonable possibility of the misstatement being **material** (that is, its magnitude). The determination of whether an assertion is a relevant assertion is made before consideration of any related controls (that is, the determination is based on inherent risk)."

# SAS 145 Updates

Clarified definition of a risk of material misstatement:

"The risk that the financial statements are materially misstated prior to the audit.

For the purposes of GAAS, a risk of material misstatement exists when

- There is a reasonable possibility of misstatement occurring (that is the likelihood) and
- If it were to occur, there is a reasonable possibility of the misstatement being material (that is, its magnitude)"

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# SAS 145 Updates

## Clarified definition of significant risk:

"An identified risk of material misstatement:

i. for which the assessment of inherent risk is **close to the upper end of the spectrum of inherent risk** due to the degree to which inherent risk factors affect the combination of the likelihood of a misstatement occurring and the magnitude of the potential misstatement should that misstatement occur, or

ii. that is to be treated as a significant risk in accordance with the requirements of other AU-C sections."

# SAS 145 Updates

## What does this mean?

### Significant Risks

A significant risk is a type of risk of material misstatement for which the likelihood and magnitude of misstatement are high.

### ROMM

A significant risk is always a ROMM. However, a ROMM is not always a significant risk.

### Updated Terminology

These words are not interchangeable so we should avoid using the term risk of material misstatement when what we intend is to be evaluating our significant risks.

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# SAS 145 Updates

1

**Assess risks of material misstatement at financial statement and assertion level.**

2

**Perform the "stand back" requirement**

3

**Assess significant risks.**

4

**Document considerations for inherent risk consideration.**

5

**Perform appropriate walkthroughs.**

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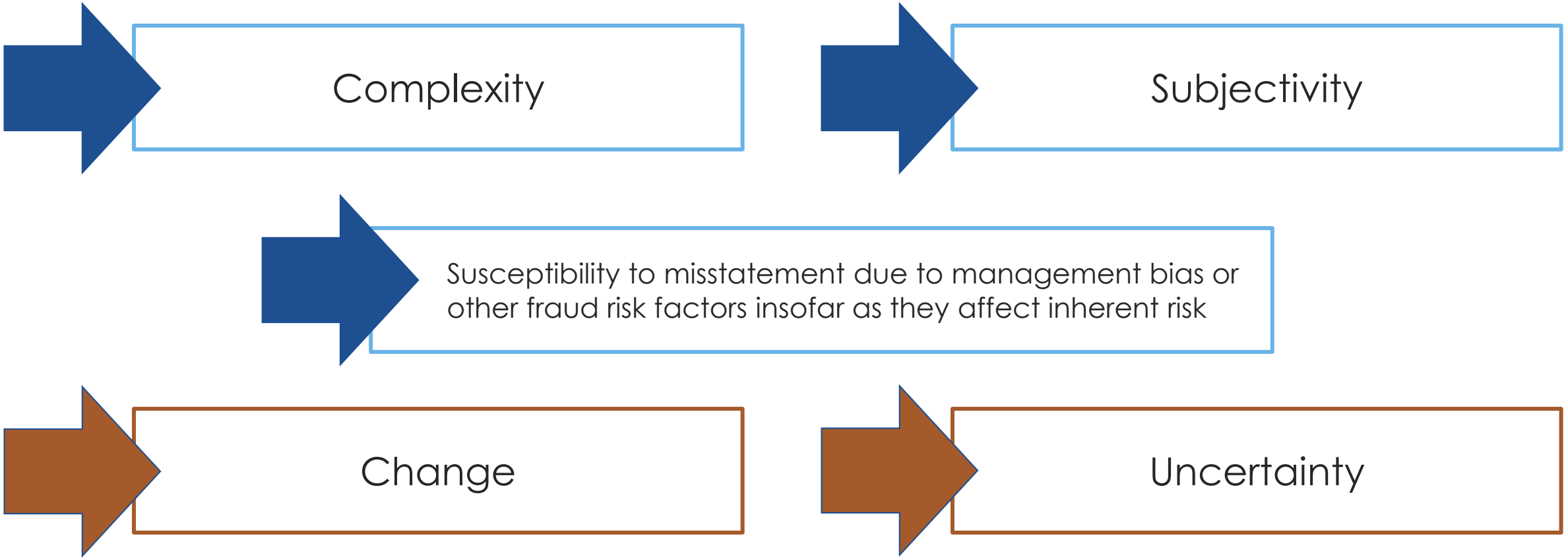
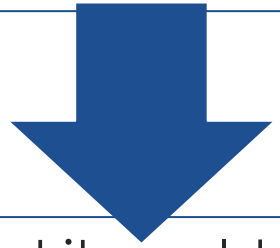
# Step 1 - Assess risks of material misstatement at the financial statement and assertion level.



# Step 2 – Perform the "stand back" requirement.

For significant classes of transactions, account balances or disclosures that did not have any relevant assertions identified, the auditor should evaluate whether the determination remains appropriate.

Considerations include: 1) Materiality and 2) Audit risk



Considered material if it is likely that it would influence judgement of a reasonable user  if that balance would be omitted, misstated or it would obscure information for the user.

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# Step 3 – Assess significant risks.

Transactions for which there are multiple acceptable accounting treatments such that subjectivity is involved

Accounting estimates that have high estimation uncertainty or complex models

Accounting for unusual or complex transactions (e.g., accounting for revenue with multiple performance obligations that are difficult to value)

Emerging areas (e.g., accounting for digital assets)

Complexity in data collection and processing to support account balances

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# Step 3 – Assess significant risks (cont.)

Account balances or quantitative disclosures that involve complex calculations

Accounting principles that may be subject to differing interpretation

Changes in the entity's business that involve changes in accounting (e.g., mergers and acquisitions)

Transactions with higher inherent risk of fraud (e.g., revenue recognition)

Significant or complex related party relationships or transactions

Complex equity transactions (e.g., corporate restructurings or acquisitions)

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# Step 3 – Assess significant risks (cont.)

Transactions with offshore entities in jurisdictions with less rigorous corporate governance structures, laws, or regulations

The leasing of premises or the rendering of management services by the entity to another party if no consideration is exchanged

Sales transactions with unusually large discounts or returns

Transactions with circular arrangements (e.g., sales with a commitment to repurchase)

Transactions under contracts whose terms are changed before expiration

# General Example Related To Inventory:

**What did engagement team identify as a significant risk related to inventory?**

- For some clients, inventory has a risk related to the valuation of excess and obsolete inventory and we perform detail testing. This is often a significant risk evaluated to be maximum from the engagement team and detail testing is selected with AID-801 for sampling.

**What other assertions did the engagement team identify as a risk of material misstatement?**

- The engagement team should consider any other relevant assertions.
- For instance, the engagement team may identify that existence is a relevant assertion and an inventory observation is to be performed to address this assertion.

**How does the engagement team document their conclusions:**

- The assertion for existence should be evaluated on the spectrum of risk assessment as low, mod, or slightly below max.
- Documentation of this assessment as marked at AID-502 is to be documented as the inherent risk assessment at AID-503.

AU-C 315.27- This section identifies areas in which controls and the design and implementation should be performed, which is typically performed through walkthroughs:

- Controls Related To A Significant Risk
- Information Technology General Controls
- **Controls Over Journal Entries And Other Adjustments**
- Controls Over Which Operating Effectiveness Is Relied Upon
- Other Controls Based On Professional Judgment

# Controls over journal entries and other adjustments to be walked through!

Should be an understanding of standard and non-standard entries as well as automated and manual entries

Process narratives need to include an understanding of the entity's financial reporting process and related controls over journal entries in the general ledger and other adjustments during preparation of financial statements

Consider the approval process of journal entries from clients

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# IT General Controls

# IT General Controls

- For each of the items identified below, the auditor should identify IT applications that are subject to risks arising from the use of IT and evaluate the design and implementation of general IT controls that address such risks
  - Significant risks
  - Controls over journal entries and other adjustments
  - Controls for which there is a plan to test operating effectiveness
  - Other controls, based on the auditor's professional judgment

# Examples of IT Risks

- Example risks results from the use of IT
  - Inaccurate information exists within the software application due to unauthorized access
    - Log-in controls
    - Controls around granting access, removing access, and monitoring access
  - Errors are introduced to the software application when software changes are made
    - Controls over process to design, program, test and migrate changes within the software
  - The software application contains inaccurate information due to lost data
    - Backup and recovery

# Access Management Walkthrough Example #1

**Logical Access – Key Control:** When a new employee is hired, the HR department contacts IT to set up user rights access to Sage Intacct. The manager of the newly hired employee determines which modules in Sage Intacct the employee should be assigned. The employee's manager signs, and the CFO approves, the new hire access form which is then provided to IT who set up the new employee's access rights. Any changes to access rights must be approved by the CFO and Director of IT. Access rights to Sage Intacct are reviewed annually by the CFO. When an employee is terminated, HR copies the IT Director who removes the access rights of the employee within 24 hours.

**Logical Access – Walkthrough:** RubinBrown reviewed the new hire paperwork for Danny Staff, a new AR accountant that was hired on October 25, 2023. The personnel file included the Sage Intacct Access Form, which indicated that Danny should have access to the Accounts Receivable Module, but should not have access to the General Ledger, Accounts Payable, or Payroll modules. The form was signed by both the AR Manager and CFO. RubinBrown confirmed through observation of the Logical Access report that Danny Staff only has user access rights to the Accounts Receivable Module. In addition, RubinBrown discussed the CFO's review of access rights with the CFO who demonstrated the report he requests from IT at the end of every year and explained his review (only the Controller and the CFO should have access to the General Ledger, only HR personnel have access to the payroll module, etc.). RubinBrown viewed the Logical Access report requested from IT which contained the access right settings for all employees with access to Sage Intacct. This report was signed electronically on December 29, 2023, by the CFO and returned to the Director of IT. Finally, RubinBrown reviewed the termination paperwork for John Merrit, Accounts Receivable Accountant, who was terminated on July 31, 2023. RubinBrown reviewed the correspondence between the Director of IT and the Director of HR and noted that John Merrit's access was terminated on August 1, 2023, and he no longer has access rights to Sage Intacct after this date. Logical Access control appears to be properly designed and implemented.

# Access Management Walkthrough Example #2

**Logical Access:** XZY Accounting System – In discussions with John Smith, Manager of Information Systems, access within XYZ Accounting system is determined based on an employee's title within the company. Only John Smith and his assistant manager have the ability to assign or remove roles. RubinBrown obtained a screenshot of the access log as of year end and noted that access appears reasonable. Logical access controls appear appropriate.

In this above example, no clear control and walkthrough have been documented. See below for improved documentation that clearly identifies these two key aspects

**Logical Access Key Control:** XZY Accounting System – In discussions with John Smith, Manager of Information Systems, on November 1, 2024, access within XYZ Accounting system is determined based on an employee's title within the company. Only John Smith and his assistant manager have the ability to assign or remove roles. When a new employee is hired, a new user creation email is sent via an internal form that triggers a ticket in our ticketing system. This is assigned to one of the IS team members, who utilizes the forms direction to assign the appropriate permissions based on the new hire's role. For a terminated employee, again the form is used to trigger a ticket. Once assigned to an IS team member, the users account is disabled in the system and at that moment all access is removed.

**Walkthrough:** RubinBrown obtained an Employee Termination log, noting that John Doe, Senior Manager of Finance and Accounting, was terminated effective September 1, 2024. RubinBrown obtained from John Smith the termination form and associated ticket which was closed on September 3, 2024 indicating access was removed on this day. In additional RubinBrown obtained a screenshot of the access log as of year end and noted John Doe's access had been removed. Further, RubinBrown notes that access to the financial modules appears reasonable and is limited to only members of the accounting team. Logical access controls appear appropriate.

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# Lost Data Walkthrough Example

**Lost Data- Key Control:** The IT department of the Company is responsible for implementing and managing data backup procedures. Full backups of all ERP data related to Sage Intacct are backed up at the end of each weekday at 1:00 AM and stored electronically on the Cloud as maintained by BackItUp, LLC. An e-mail is sent to the Director of IT if each backup was successful. If the backup is not successful, a diagnostics report is sent to the Director of IT, who investigates and resolves any issues arising from the diagnostic. After the diagnostics are resolved, the backup for the previous day will be initiated the next day at 1:00 AM. Backups are retained for a period of 10 years at which point the data is purged from the Cloud. Annually, the Director of IT performs a test on a parallel version of Sage Intacct and conducts a periodic test to restore previously stored data to ensure that the backups are maintained correctly.

**Lost Data – Walkthrough:** RubinBrown reviewed the diagnostics report for the data backup that occurred on December 7, 2023, that was e-mailed to the Director of IT. The diagnostic report indicated that the backup was successful and that no further action was considered necessary. In addition, RubinBrown discussed the testing of the backup system, and the Director of IT indicated that the last test was performed on November 30, 2023. RubinBrown reviewed communication between BackItUp, LLC and the Director of IT indicating that the restoration of the data backup was successful and included reconciliations from the original source data to the restored version of Sage Intacct. Lost Data Control appears to be properly designed and implemented.

# IT Controls Over Journal Entries

- In all audits there is a requirement to document understanding of the IT general controls over journal entries and the related design and implementation (walkthrough)
  - If we do not note an effective controls over the journal entry process, there should be an associated management letter comment
  - For very small entities, a review of a monthly financial packet could be a control over the journal entry process if the monthly financial packet contains the general ledger detail.
    - For all but the smallest of entities, it is unlikely this will be an effective control on a stand-alone basis

# Walkthrough Controls Over Journal Entries Example

| | JE Number | Entry Date | Total Score | Attribute A | B | C | D | E |
|---|---|---|---|---|---|---|---|---|
| 1 | 22001634 | 11/30/2024 | 85.38 | X | X | X | X | X |
| 2 | 22000949 | 5/16/2024 | 50.00 | X | X | X | X | X |
| 3 | 22000296 | 1/1/2024 | 30.00 | X | X | X | X | X |
| 4 | 22000850 | 2/29/2024 | 25.00 | X | X | X | X | X |
| 5 | 22001662 | 12/31/2024 | 24.44 | X | X | X | X | X |

**Note:** For sampling selection methodology and minimum sample selection guidance, see "Procedures" tab.
**Procedures:** For each entry, RubinBrown obtained the underlying support for the entry. From this support, RubinBrown tested the following attributes:
**Attributes:**
A- Entry is in compliance with GAAP
B- Entry has an appropriate business purpose considering the nature/operations of the business
C- Entry is properly authorized and approved
D- Entry was recorded to the appropriate account and period.
E- For entries outside the normal course of the Company's business, see individual tickmark documenting the business rationale for entry.
**Tickmarks:**
X- Tested without exception

Putting an "X" within JE testing on the attribute that "Entry was properly authorized and approved" does not alone meet the requirement to walkthrough controls over journal entries without additional context.

**JE Process:** Per discussion with Controller on 1/31/2025, the review of individual account journal entries are performed by either the Controller or the assistant controller, depending on who the preparer of the journal entry reports to. In addition, the entire monthly financial reporting package including the general ledger is reviewed on a monthly basis by the CFO.

**Walkthrough:** RubinBrown selected the December month-end Journal Entry #123124-014. Based on a screenshot of the audit trail report, as accessed by Controller on 1/31/25, this entry was prepared by the Accountant #2 on 1/10/2025 and approved by the Assistant Controller on 1/11/2025. In addition, RubinBrown obtained an email from the CFO to the Controller indicating her review on 1/12/2025 and approval of the December financial packet which includes the general ledger. RubinBrown notes that these approvals show evidence of the review process in place, and therefore the control procedures over journal entries appear to be appropriately implemented.

# Going Concern

# Going Concern Definitions

- ASC 250-40 defines management's responsibility to:
  - Evaluate whether there are conditions and events, considered in the aggregate, that raises **substantial doubt** about an entity's ability to continue as a going concern
  - Provide related disclosures
- Evaluation is one year after the date that the financial statements are **issued or available to be issued**
- Remember that it is management's responsibility to assess whether they will continue as a going concern
  - Highly encourage teams to provide management the going concern questionnaire and have them sign the form so that it is clear management is taking responsibility for the analysis

# Definition of "Substantial Doubt.."

- **Substantial doubt** exists when conditions and events, considered in the aggregate, indicate that 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 or available to be issued

- **Probable** – The future events are likely to occur

- Management's evaluation should not take into consideration the potential mitigating effect of management's plans that have not been fully implemented as of the date the financial statements are issued or available to be issued

# Examples of Factors to Consider in the Analysis

- Entity's current financial condition, including its liquidity sources such as available access to credit
- Conditional and unconditional obligations due or anticipated within one year
- The funds necessary to maintain the entity's operations, considering its current financial condition, obligations and other expected cash flows within one year
- Any other conditions or events that may adversely affect the entity. Examples include defaults on loans, a need to restructure debt to avoid default, noncompliance with regulations, and internal matters such as work stoppages

# Consideration of Management's Plans

- If management identifies conditions or events that raise substantial doubt about the reporting entity's ability to continue as a going concern, they will need to consider whether their plans will alleviate the substantial doubt

- The following are examples of plans that management may implement to mitigate conditions or events that raise substantial doubt about an entity's ability to continue as a going concern:
  - Plans to dispose of an asset or business
  - Plans to borrow money or restructure debt
  - Plans to reduce or delay expenditures
  - Plans to increase ownership equity

# Consideration of Management's Plans

- Is it probable that management's plans will be effectively implemented?
  - Generally, to be considered probable of being effectively implemented, management must have approved the plan before the date that the financial statements are issued
- Is it probable that management's plans will mitigate the relevant conditions or events that caused the substantial doubt?
  - Management must consider the expected magnitude and timing of the mitigating effect of its plans in relation to the magnitude and timing of the relevant conditions or events that those plans intend to mitigate
- If "Yes" to **both** of the above questions, then management can conclude that the substantial doubt has been alleviated

# The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern

- Auditor's responsibility / objectives:
  - To obtain sufficient appropriate audit evidence regarding the appropriateness of management's use of the going concern basis of accounting
  - Conclude, based on the audit evidence obtained, whether substantial doubt exists about an entity's ability to continue as a going concern for a reasonable period of time (one year from the audit report date)
  - Evaluate the possible financial statement effects, including the adequacy of disclosure regarding the entity's ability to continue as a going concern for a reasonable period of time (one year from the audit report date)

# Additional Audit Procedures When Events or Conditions Have Been Identified

- When the entity has prepared a cash flow forecast, and analysis of the forecast is a significant factor in evaluating management's plans, the auditor should:
  - Evaluate the reliability of the underlying data generated to prepare the forecast
  - Determining whether there is adequate support for the assumptions underlying the forecast
- In addition, the auditor may perform the following procedures:
  - Compare the prospective financial information used in recent prior periods with historical results
  - Compare the prospective financial information used in the current period with results achieved to date
  - Reviewing the latest available interim financial statements
  - Confirming the existence, terms, and adequacy of borrowing facilities
  - Determining the adequacy of support for any planned disposal of assets

# Additional Audit Procedures When Events or Conditions Have Been Identified

- When management's plans include financial support from third parties or the entity's owner, the auditor should obtain sufficient appropriate audit evidence regarding:
  - Intent of such supporting parties (must be written)
  - Ability of such supporting parties to provide the necessary support
- If the intent of supporting parties is not written, then the auditor should conclude that management's plans are insufficient to alleviate the determination that substantial doubt exists about the entity's ability to continue as a going concern
  - When the financial support is provided by an owner-manager, the evidence regarding intent may be either in the form of a support letter or a written representation

# Disclosure Requirements – Substantial Doubt Alleviated

- If conditions or events raise substantial doubt about an entity's ability to continue as a going concern, but the substantial doubt is alleviated as a result of consideration of management's plan, the entity should disclose information that enables users of the financial statements to understand all of the following:
  - Principal conditions or events that raises substantial doubt about the entity's ability to continue as a going concern (before consideration of management's plans)
  - Management's evaluation of the significance of those conditions or events in relation to the entity's ability to meet its obligations
  - Management's plans that alleviated substantial doubt about the entity's ability to continue as a going concern
  - Consultation is required!

# Disclosure Requirements – Substantial Doubt Not Alleviated

- If conditions or events raise substantial doubt about an entity's ability to continue as a going concern, but the substantial doubt is **not** alleviated, an entity should include a statement in the footnotes that there is substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued. Additionally, the entity should disclose the following information:
  - Principal conditions or events that raises substantial doubt about the entity's ability to continue as a going concern
  - Management's evaluation of the significance of those conditions or events in relation to the entity's ability to meet its obligations
  - Management's plans that are intended to mitigate the conditions or events that raise substantial doubt about the entity's ability to continue as a going concern
  - Include an emphasis-of-matter paragraph in the auditor's report that references the footnote disclosing the above

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# Written Representations and Communications

- If the auditor believes, before consideration of management's plans that substantial doubt exists about the entity's ability to continue as a going concern, the auditor should request written representation from management regarding:
  - A description of management's plans that are intended to mitigate the adverse effects of the conditions or events that raise substantial doubt
  - That the financial statements disclose all the matters of which management is aware that are relevant to the entity's ability to continue as a going concern
  - Ability of such supporting parties to provide the necessary support
- Remember to also include in the auditor communications a reference to management's analysis regarding the entity's ability to continue as a going concern and a reference to the emphasis-of-matter paragraph in the auditor's report

# Resources

# Resources

- AICPA Audit Quality Center (AQC)
  - Publish free quality control practice aids, webinars and checklists
- Center for Plain English Accounting (CPEA)
  - Free examples and summaries on emerging audit and accounting issues
- Kansas Society of CPAs
  - Single audit resources: https://www.kscpa.org/single-audit-resources

***Risk Assessment is a mindset, not a checklist***

# Questions