The concept of a going concern is the underlying assumption used by Management when preparing financial statements. Going concern means that the entity has the ability to sustain operations for a period of time in the future, usually 12 months. Thus, Management has no intention to and/or need to liquidate or materially reduce its operations.

**MANAGEMENT CONSIDERATIONS**

When Management is assessing the entity’s ability to continue as a going concern, Management should consider the following:

- The size and complexity of the entity, the nature and condition of operations, how the entity is affected by external factors
- Degree of uncertainty associated with the outcome of events
- Judgment about future events based on best information available at the time
- Successful implementation of Management plans over the next 12 months
- If continuing as a going concern is in doubt, how does Management plan to address (i.e., disposal of assets and/or lines of business, restructure debt, reduce and/or delay expenditures)

**MANAGEMENT RESPONSIBILITY**

Management should evaluate the entity’s ability to meet its obligations using qualitative and quantitative information that is known or should be reasonably known* at the time of assessment, to include the following:

- The entity’s current financial condition, including liquidity and access to additional funding
- The entity’s conditional and unconditional obligations due or due within next 12 months
- The funding necessary to sustain operations considering the entity’s current financial condition, obligations, and cash flow
- Other conditions and events when considered in conjunction with the three items above that may materially affect the entity’s ability to sustain operations over the next 12 months.

**GOING-CONCERN RED FLAGS***

- Materially significant decline in product demand and/or market share
- Difficulty in recruiting and retaining experienced employees
- Internal matters, such as work stoppages and project delays
- External matters, such as patent loss and loss of key suppliers
- Inability to generate financing
- Significant pending litigation
- Plans to dispose of profitable assets prior to end of useful life
- Delayed and/or inability to pay obligations timely
- Significant decline in cash flow estimates and/or negative cash flows
- Failure to pay dividends (if dividends are a consistent payment)
- Adverse financial ratios
- Restructure of debt

* FASB defines reasonably known as an entity should make a reasonable effect to identify conditions and events that it may not readily know but would be able to identify without undue cost and effort.

* This is not an exhaustive list; there may be many other factors that can affect an entity’s ability to continue as a going concern.
FINANCIAL STATEMENT DISCLOSURES

When the entity’s ability to continue as a going concern is in doubt, a disclosure is required in the financial statements. Disclosures should include the following:

**Disclosure when doubt is raised and will be mitigated by Management plan (205-40-50-12):**
- Conditions and/or events that raised doubt about the ability to continue (prior to Management’s plan)
- Management’s assessment of the above conditions and/or events related to the entity’s ability to meet obligations
- Management’s plan that relieved the doubt about the entity’s ability to continue as a going concern

**Disclosure when doubt is raised and will not be mitigated by Management plan (205-40-50-13):**
- Conditions and/or events that raised doubt about the ability to continue
- Management’s assessment of the above conditions and/or events related to the entity’s ability to meet obligations
- Management’s plan that is intended to mitigate the conditions and/or events that have raised doubt about the entity’s ability to continue as a going concern

POTENTIAL CONTROL WORDING

Quarterly, Management evaluates the entity’s ability to meet its obligations and continue as a going concern for a period of 12 months into the future. Management assesses the entity’s current financial condition, conditional and unconditional obligations, funds necessary to maintain operations and any other conditions and/or events when considered with the items above may adversely affect the entity’s ability to continue operations. If any additional disclosures in the financial statements are necessary based on the conclusions of the analysis, Management incorporates them into the financial statements. Documentation will be reviewed and signed off on by the appropriate level of Management.

INTERNAL AUDITOR CONSIDERATIONS:

- There is an appropriate level of Management review.
- Review is conducted timely (prior to filing).
- Assessment conducted meets the guidelines established in the *Presentation of Financial Statement – Going Concern (Subtopic 205-40)* – specifically 205-40-50-5.
- Is there sufficient documentation to support the assessment completed by Management?
- Review entity meeting minutes to identify any current or potential issues (see listing above).
- Review compliance with all debt and loan agreements.
- Review analytics (if available), such as negative trends, financial ratios, cash flows, timeliness of payments.
- Discuss with Legal about ongoing or future litigation.
- Review any internal/external audit reports and/or regulatory reporting.
- If the entity cannot continue as a going concern, is the conclusion appropriate, has the appropriate disclosure been drafted and are the adverse conditions clearly identified?
- Consider Management’s plan to address doubts about the entity’s ability to continue. Are they appropriate? Would plan mitigate the condition or events raising doubt within the next 12 months?
- Auditors should stay alert to any condition and/or event that may cause doubt in the ability to remain a going concern throughout the auditing process.