

Tom Seidenstein
Chair
IAASB
529 Fifth Avenue
New York
10017 USA

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Dear Tom,

Comments on the IAASB's Exposure Draft on ISA 570 Going Concern

The Financial Reporting Council (FRC) welcomes the opportunity to respond to this Request for Comments. As the UK's Competent Authority for Audit, our mandate includes: the setting of auditing, assurance and ethical standards; inspection of public interest entity audits and enforcement action against auditors. We also oversee the accountancy profession in regulation of its members and take public interest misconduct cases where conduct falls below expected standards (e.g., where practitioners fail to comply with the fundamental principles and requirements set out in the Code of Ethics). The FRC also is responsible for setting the UK Corporate Governance Code and its associated guidance.

In September 2019, we issued a revision of ISA (UK) 570.¹ This revised UK standard increased the work auditors are required to undertake in respect of going concern, including enhanced risk assessment procedures, drawing on a wider range of available information to obtain sufficient appropriate audit evidence, enhancing professional scepticism, and more transparency in communications and reporting. The revisions were made in response to stakeholder concerns and issues identified in our audit inspections, and a number of significant enforcement cases.

We therefore strongly support the IAASB's proposed revision of ISA 570 to deliver a more robust process for auditing going concern matters that will help address performance gaps and support the public interest. Our responses to each of the IAASB's consultation questions, including any further enhancements we propose, are set out in Appendix 1.

If you have any questions about our response, please feel free to contact me directly.

Yours sincerely
Mark

Mark Babington
Executive Director, Regulatory Standards
DDI: 020 7492 2323
Email: m.babington@frc.org.uk

¹ [https://www.frc.org.uk/getattachment/13b19e6c-4d2c-425e-84f9-da8b6c1a19c9/ISA-\(UK\)-570_Revised-September-2019_Updated-May-2022.pdf](https://www.frc.org.uk/getattachment/13b19e6c-4d2c-425e-84f9-da8b6c1a19c9/ISA-(UK)-570_Revised-September-2019_Updated-May-2022.pdf)

Appendix 1: Responses to specific questions of ED-ISA 570

Overall Questions

- 1. Do you agree that the proposals in ED-570 are responsive to the public interest, considering the qualitative standard-setting characteristics and project objectives that support the public interest as set out in Appendix 1?**

YES, we agree that the proposals in ED-ISA 570 are responsive to the public interest. The FRC updated ISA (UK) 570 in September 2019 to address similar public interest concerns about the quality and rigour of the audit of going concern given well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after, as well as findings from FRC Enforcement cases.

- 2. Do you believe that the proposals in ED-570, considered collectively, will enhance and strengthen the auditor's judgments and work relating to going concern in an audit of financial statements, including enhancing transparency through communicating and reporting about the auditor's responsibilities and work?**

YES, we believe that the proposals in ED-ISA 570 will enhance and strengthen the auditor's judgments and work relating to going concern in an audit of financial statements.

- 3. Do you believe the proposed standard is scalable to entities of different sizes and complexities, recognizing that general purpose financial statements are prepared using the going concern basis of accounting and that going concern matters are relevant to all entities?**

YES, we believe that ED-ISA 570 is scalable to entities of different sizes and complexities. Whilst the proposed standard recognises through the application material that smaller entities may not have extensive formal processes in place, ultimately the going concern basis of accounting is a fundamental principle in the preparation of financial statements and therefore going concern matters should be addressed in all audits.

- 4. Do the requirements and application material of ED-570 appropriately reinforce the auditor's application of professional skepticism in relation to going concern?**

YES. We agree that ED-ISA 570 appropriately reinforces the importance of the auditor's application of professional scepticism into the requirements in that the auditor is explicitly required to consider management bias as part of their going concern work and designs and performs audit procedures in a manner that is not biased towards either including corroboratory or excluding contradictory audit evidence.

However, in the UK, the auditor is specifically required to evaluate whether events or conditions that may cast significant doubt on the entity's ability to continue as a going concern give rise to a risk of management bias in the preparation of the financial statements.² This requirement recognises that there is heightened risk of management bias when considering going concern in an audit of financial statements, as disclosures about going concern are often seen as being highly sensitive and management may be reluctant to make such disclosures. Paragraph A10 touches on this concept, but the IAASB may wish to consider including an

² Paragraph 10-5 of ISA (UK) 570 (Revised September 2019)

extension to paragraph 29 of ED-ISA 570 or additional application material to highlight this specific risk.

In addition, the IAASB may wish to consider:

- In paragraph A32, including an example in relation to information from external sources also in the contradictory information section to highlight that information from external sources can also be contradictory to management's assertions.
- The second bullet point in paragraph A58 may usefully be expanded to include the converse i.e. when there are no changes in methods or assumptions from period to period, but where significant changes in circumstances would indicate that a change should be necessary.

Specific Questions

5. Do you support the definition of Material Uncertainty (Related to Going Concern)? In particular, do you support the application material to the definition clarifying the phrase "may cast significant doubt"?

YES, the FRC supports the clarification of the phrase "may cast significant doubt" and the introduction of a definition of "Material Uncertainty (Related to Going Concern)". The FRC introduced a similar definition for material uncertainty when we revised ISA (UK) 570 in 2019 to promote greater understanding and consistency across audits.

However, we encourage the IAASB to remove the phrase "in the auditor's professional judgement" from the definition in order to recognise that management may identify a material uncertainty in making its assessment of going concern. This would not affect the auditor's responsibilities to "conclude whether, in the auditor's professional judgment, a material uncertainty exists..." as this is clearly set out in paragraph 30.

6. Does ED-570 appropriately build on the foundational requirements in ISA 315 (Revised 2019) in addressing risk assessment procedures and related activities, to support a more robust identification by the auditor of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern?

YES, the FRC strongly supports the introduction of enhanced risk assessment requirements which require auditors to consider aspects of the entity and the environment more comprehensively as a basis for identifying those events and conditions which may cast significant doubt on an entity's ability to continue as a going concern.

7. Do you support the change in the commencement date of the twelve-month period of management's assessment of going concern, from the date of the financial statements (in extant ISA 570 (Revised)) to the date of approval of the financial statements (as proposed in paragraph 21 of ED-570)? When responding consider the flexibility provided in paragraphs 22 and A43–A44 of ED-570 in circumstances where management is unwilling to make or extend its assessment. If you are not supportive of the proposal(s), what alternative(s) would you suggest (please describe why you believe such alternative(s) would be more appropriate and practicable)?

YES, we strongly support the change to twelve months from the date of approval of the financial statements for the period of management's assessment of going concern. As part of the 2019 revision of ISA (UK) 570, we amended the requirement for the auditor to request

management to extend its assessment period to at least twelve months from the date of approval of the financial statements, as we believe there is considerable public interest benefit from auditors being required to request management to extend their assessment of going concern so that it includes more current information. As part of our recent outreach in relation to auditor reporting in the UK, the extension of the period of assessment by management and auditors was not raised by our stakeholders as causing any concern in practice.

We would also encourage the IAASB to explore whether more could be included in ED-ISA 570 to encourage auditors to challenge management where they have limited the period considered to the minimum period required by ED-ISA 570 but where there are circumstances that indicate that a longer period would be more appropriate. In many cases, management continues to focus on a going concern assessment period that meets the minimum requirements rather than looking at the foreseeable future,³ without considering how appropriate the period is. It is our belief that the auditor should also be looking at this period and—irrespective of the minimum period required—assessing whether it is appropriate given the individual facts and circumstances of the entity. In the UK, we added additional application material⁴ to support a similar requirement to that included in paragraph 24 in ED-ISA 570 and we would urge the IAASB to include similar application material in the final standard.

We encourage the IAASB to continue liaising with the IASB with the aim to achieve consistency in the international auditing and accounting standards.

We would also encourage the IAASB to include further application material to the requirement in paragraph 16 to make it clear that where the auditor has requested management to perform an assessment of the entity's ability to continue as a going concern, in the circumstances where management refuses to do so, the auditor modifies the audit opinion. This could draw on language used in paragraph 4 that even where there is no explicit requirement for management to make a specific assessment, the preparation of the financial statements requires management to assess the entity's ability to continue as a going concern.

8. Do you support the enhanced approach in ED-570 that requires the auditor to design and perform audit procedures to evaluate management's assessment of going concern in all circumstances and irrespective of whether events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern?

YES, we strongly support this approach. The FRC introduced similar requirements in our revision of ISA (UK) 570 for the auditor to ensure that they have obtained a more robust understanding of the process management applies when assessing going concern, ensuring that the auditor is considering all aspects of the entity and its environment, the applicable financial reporting framework and the system of internal control in order to identify events and conditions. A threat to the ability to continue as a going concern should not be assessed as

³ Paragraph 3.9 of the IFRS Conceptual Framework for Financial Reporting states "Financial statements are normally prepared on the assumption that the reporting entity is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the entity has neither the intention nor the need to enter liquidation or to cease trading."

⁴ Paragraphs A11-1 – A11-3 of ISA (UK) 570 (Revised September 2019)

low based only on clearly visible factors as there may be events and conditions that are only identified through the auditor's risk assessment process.

9. Does ED-570 appropriately incorporate the concepts introduced from ISA 540 (Revised) for the auditor's evaluation of the method, assumptions, and data used in management's assessment of going concern?

YES. The FRC introduced similar concepts into ISA (UK) 570 in September 2019 to evaluate the method, assumptions and data.

However, we would urge the IAASB to consider whether additional application material could be incorporated to explain what "method" might be appropriate in a range of different entities and circumstances.

We would also encourage the IAASB to consider whether there is a risk that the terminology of "Method, Assumptions and Data Used in Management's Assessment", alongside the supporting application material, might lead the auditor to overly focus on forecasts, sensitivity analyses or models, and overlook a critical event or condition (e.g., breaches of key conditions in an operator's licence).

It may also be helpful to expand the requirement in paragraph 19(b) to include management's judgments as well as management's assumptions.

In addition, paragraph 19(c) requires the auditor to evaluate whether the data is appropriate in the context of the applicable financial reporting framework, and, if applicable, changes from prior periods are appropriate. We urge the IAASB to include additional application material that:

- Gives examples of factors to consider when considering whether changes in data from prior periods are appropriate.
- Reminds the auditor that the data is also subject to the requirements in ISA 500 paragraph 9 to evaluate whether the information is sufficiently reliable for the auditor's purposes.

We also urge the IAASB to reconsider the wording in paragraph 25 to make the work effort more robust where the auditor identifies events or conditions that may cast significant doubt on the entity's ability to continue as a going concern that management has not previously identified or disclosed. Currently, it would appear that the auditor could be in a position having completed the requirements in (a)-(c), where they are not required to undertake any further audit procedures apart from discussions with management. In ISA (UK) 570, the auditor is required to "perform additional audit procedures relating to the newly identified events or conditions".⁵

10. Do you support the enhanced requirements and application material, as part of evaluating management's plans for future actions, for the auditor to evaluate whether management has the intent and ability to carry out specific courses of action, as well as to evaluate the intent and ability of third parties or related parties, including the entity's owner-manager, to maintain or provide the necessary financial support?

⁵ Paragraph 11-1(c) of ISA (UK) 570 (Revised September 2019)

YES. We strongly support the elevation of the application material in extant ISA 570 to the requirement in paragraph 27 as it should lead to a more robust assessment of going concern.

11. Will the enhanced requirements and application material to communicate with TCWG encourage early transparent dialogue among the auditor, management and TCWG, and result in enhanced two-way communication with TCWG about matters related to going concern?

YES, we welcome the enhanced requirements and application material to communicate with TCWG.

However, we would urge the IAASB to reconsider the wording in paragraph 39(c) in ED-ISA 570 as it is unclear why the “auditor’s evaluation of management’s plans for future actions” should be specifically highlighted when there is no reference to “evaluating management’s assessment of going concern”.

12. Do you support the new requirement and application material for the auditor to report to an appropriate authority outside of the entity where law, regulation or relevant ethical requirements require or establish responsibilities for such reporting?

YES, we strongly support the introduction of a new requirement and application material for the auditor to report to an appropriate authority outside of the entity when appropriate. The FRC introduces a similar requirement into ISA (UK) 570.

We would also encourage the IAASB to explore whether the auditor can be further encouraged to consider the public interest value of reporting significant going concern matters to an appropriate authority, even where the auditor has no such responsibilities under law, regulation or relevant ethical requirements to make such a report.

We would also encourage the IAASB to consider including additional application material for the auditor to consider the timing of any such report, so as to encourage early reporting of relevant matters at the point where they are identified and not at the point when the auditor’s report is issued. For example, paragraph A90 states that “in some jurisdictions, statutory requirements exist that provide early warning procedures for the auditor of a public interest entity to report to a supervisory authority when a material uncertainty exists”. However, the requirement in paragraph 40 requires the auditor to consider such reporting at the point that the auditor “considers it necessary to include a separate section under the heading “Material Uncertainty Related to Going Concern” in the auditor’s report or issue a modified opinion in respect of matters related to going concern.

13. This question relates to the implications for the auditor’s report for audits of financial statements of all entities, i.e., to communicate in a separate section in the auditor’s report, under the heading “Going Concern” or “Material Uncertainty Related to Going Concern”, explicit statements about the auditor’s conclusions on the appropriateness of management’s use of the going concern basis of accounting and on whether a material uncertainty has been identified.

Do you support the requirements and application material that facilitate enhanced transparency about the auditor’s responsibilities and work relating to going

concern, and do they provide useful information for intended users of the audited financial statements? Do the proposals enable greater consistency and comparability across auditor's reports globally?

YES, we strongly support the auditor's explicit statements about the auditor's responsibilities and work related to going concern in the auditor's report, including whether the auditor concluded that management's use of the going concern basis of accounting is appropriate and, where appropriate, that the auditor did not identify a material uncertainty. The FRC introduced similar positive statements by the auditor on going concern into ISA (UK) 570 in 2019.

We also support that the auditor's conclusions about, and work related to, going concern should be addressed in a separate section in the auditor's report. Going concern is a fundamental principle in the preparation of the financial statements and therefore it is not in the public interest for users to have to navigate through the various sections of the auditor's report in order to access relevant commentary about going concern matters. One of the findings from research commissioned by the FRC into the current state of auditor reporting within the UK⁶ was that the detailed reporting on going concern was often fragmented between different sections of the auditor's report. We are therefore of the belief that the proposals in ED-ISA 570 will enable greater consistency and comparability across auditor's reports both within a jurisdiction and globally.

14. This question relates to the additional implications for the auditor's report for audits of financial statements of listed entities, i.e., to also describe how the auditor evaluated management's assessment of going concern when events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern (both when no material uncertainty exists or when a material uncertainty exists).

Do you support the requirements and application material that facilitate further enhanced transparency about the auditor's responsibilities and work relating to going concern? Should this be extended to also apply to audits of financial statements of entities other than listed entities?

YES, we support the requirement for the auditor to include a description of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern in the auditor's reports for listed entities.

However, as a result of our outreach on ED-ISA 570, we have some concerns that because of the way paragraph 33(b) is constructed it is mistakenly being associated with the evaluation required by paragraph 31 of ED-ISA 570 and the potential provision of original information by the auditor in the auditor's report. Whilst we recognise that paragraph 33(b) has moved on significantly from earlier drafts, we are of the view that simplifying this requirement further so that it applies to all listed entities would bring greater clarity and transparency.

⁶ https://www.frc.org.uk/getattachment/296e54f7-672c-4cd8-9ce0-ca9e0c5e37a7/FRC-Snapshot-Introduction_August-2022.pdf and <https://www.frc.org.uk/getattachment/e8112946-2f60-4a30-8744-92bd9f171a1f/Snapshot-5-Going-concern.pdf>

For example, in the UK, we require all listed entities, public interest entities, other entities that report on how they have applied the UK Corporate Governance Code and certain other large private and quoted companies to include an explanation of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern. We also require such explanation to include, where relevant, key observations arising with respect to that evaluation.

In respect of paragraph 33(b), we would therefore encourage the IAASB to:

- Extend the requirement to additional entities such as public interest entities to provide increased transparency in the public interest.
- Remove the conditional aspect of the requirement which requires the explanation only in instances where “events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, but based on the audit evidence obtained, the auditor concludes that no material uncertainty exists”, so that for all listed entities the auditor is required to include an explanation.

15. Is it clear that ED-570 addresses all implications for the auditor's report relating to the auditor's required conclusions and related communications about going concern (i.e., auditor reporting is in accordance with ED-570 and not in accordance with ISA 701 or any other ISA)? This includes when a material uncertainty related to going concern exists or when, for audits of financial statements of listed entities, events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained, the auditor concludes that no material uncertainty exists.

YES, in most instances we agree that ED-ISA 570 addresses all implications for the auditor's report relating to the auditor's required conclusions and related communications about going concern. However, the application material in paragraph A82 may be read to imply that the requirement in paragraph 36 only applies in situations where the auditor disclaims an opinion on the financial statements due to multiple material uncertainties. We suggest a simple solution to strike the words “in accordance with paragraph 36” from the end of the first sentence of paragraph A82, as the cross reference to the ISA 705 paragraph is sufficient.

16. Are there any other matters you would like to raise in relation to ED-570? If so, please clearly indicate the requirement(s) or application material, or the theme or topic, to which your comment(s) relate.

We would encourage the IAASB to consider the following:

Written representations—Given the fundamental importance of going concern in the preparation of the financial statements, we urge the IAASB to strengthen the written representations provided by management by including an additional requirement (alongside paragraph 38) for the auditor to request management, and, where appropriate, those charged with governance to provide written representations that all identified events or conditions that may cast significant doubt on the entity's ability to continue as a going concern have been disclosed to the auditor and included as part of management's assessment of going concern.

Documentation—We encourage the IAASB to incorporate specific documentation requirements into ED-ISA 570 which clarify the application of ISA 230 to the auditor's work on going concern.

Request for General Comments

17. The IAASB is also seeking comments on the matters set out below:

- (a) **Translations**—Recognizing that many respondents may intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED-570.
- (b) **Effective Date**—Given the need for national due process and translation, as applicable, and the need to coordinate effective dates with the fraud project, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods beginning approximately 18 months after approval of the final standard. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISA.

We strongly support an effective date for financial reporting periods beginning approximately 18 months after approval of the final standard, with earlier application permitted and encouraged.