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**Our ref KW/MCW**

Dear Sirs & Mesdames

**Proposed International Standard on Auditing (UK) 570 (Revised) Going Concern**
**Response to consultation**

Please find attached the views of Buzzacott LLP on the Proposed International Standard on Auditing (UK) 570 (Revised) Going Concern, for your consideration.

Yours faithfully

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Buzzacott

# Response to consultation

**Introduction:**

Buzzacott LLP is a firm of Chartered Accountants based in London. Our specialisms include audit of private limited companies, LLPs and not-for-profit organisations. We welcome the opportunity to provide our views to the FRC on behalf of our clients as well as our firm.

**General comments:**

Markets today are global and not UK-centric. We have concerns about these proposed changes being made for the UK only. Efforts should be made both at accounting standard and auditing standard levels to convince 'the rest of the world' that change is needed and not to unilaterally take a UK-centric stance.

We would support an additional financial reporting requirement for the financial statements of non-small entities, to include narrative describing the directors' opinion that the entity is a going concern, and why.

**Q1. Has ISA (UK) 570 been appropriately revised to promote a more consistent and robust process in respect of the auditor's responsibilities in the audit of financial statements relating to going concern? If you do not consider this to be the case, please set out why?**

We do not believe that the ISA has been appropriately revised to promote a more consistent and robust process. Although the thinking behind the changes is sound, we believe that the application of the standard will not produce the desired results.

We understand that the FRC has designed the revised ISA in response to failings seen in enforcement cases and through AQR reviews, and therefore may not have the insight into how the revised ISA would apply to smaller entities that are not in the cope of AQR reviews.

Although the application material in the proposed ISA acknowledges that the auditor's risk assessment procedures are likely to be less extensive for smaller entities, it is up to the auditor to judge the extent of such processes, and therefore there may not be a consistent application of the standard.

If properly applied, we believe that the current standard is sufficient to address the auditor's responsibilities in relation to going concern. If the FRC does not believe this is the case, we request that the FRC provides analysis of corporate failures to show how the current ISA (UK) 570 is deficient.

**Q2. Do you believe that the revisions appropriately address the public interest?**

We do not believe that the revisions will appropriately address the public interest.

We believe that the enhanced requirements will create more 'paperwork', but have no discernible benefit for smaller entities, where we believe the ISAs already require the auditor to perform and document an adequate level of work.

Also, by including more information on going concern in the financial statements of smaller entities, there is a risk that financiers such as banks will be less willing to support entrepreneurial operations which have a risk of failure. We do not believe it is in the public interest to discourage entrepreneurial behaviour and innovation, which we believe is of benefit to the economy and the nation as a whole.

**Q3. Will the revisions promote a more robust process for:**

- **a) Obtaining an understanding of the entity and its environment, the applicable financial reporting framework and internal control relevant to going concern?**
- **b) Obtaining sufficient appropriate audit evidence in relation to the adequacy of management's assessment**

For many auditors, the audit process is standardised into an audit methodology written by technical experts either in-house or from commercial providers. A robust audit, performed in accordance with these methodologies, will already have considered and recorded many of the matters included revised ISA. In order to ensure that every new requirement has been considered, and the response documented on an audit file, the additional requirements are likely to be incorporated into standard audit methodologies in the form of a lengthy checklist. Because there are so many requirements, our view is that this will actually distract auditors (particularly auditors of smaller entities, where many requirements may not be applicable or require detailed documentation) from the informed considerations that the revised standard is designed to encourage.

**Q4. In making an assessment of going concern, the directors are required to consider a period of at least 12 months. In evaluating the directors' assessment should the auditor be required to consider a longer period, and if so what should it be?**

We do not believe that the auditors should consider a longer period than the directors are required to consider.

The directors are best placed to make an assessment of going concern. We would disagree with the FRC making changes to directors' responsibilities (which are a matter of law) by the "back door" through changes in auditing standards.

We are further concerned that there is a misconception that auditors are responsible for the going concern status of the audited entity, and such a move would deepen this misunderstanding.

**Q5. Is it sufficiently clear from the revisions to the standard that the auditor is required to first identify whether there are events or conditions that may cast significant doubt on the entity's ability to continue as a going concern before considering whether there are factors which may mitigate those events or conditions?**

Yes.

**Q6. Do the proposals sufficiently support the appropriate exercise of professional scepticism throughout the risk assessment procedures, evaluation of management's assessment and evaluation of audit evidence obtained?**

Professional scepticism is an essential component of the auditor's evaluation of any estimates or judgements made by management. The issue is that it is always difficult to document the scepticism being applied, and the outcome of these enhanced requirements may not be discernibly different from the documentation prepared under the existing requirements.

**Q7. Do you agree with the proposals for auditors of all entities to provide an explanation of how the auditor evaluated management's assessment of going concern (including key observations) and to conclude on going concern in the auditor's report?**

We have concerns about how this requirement will be applied to smaller audits, particularly for small subsidiaries of groups. If there were enhanced requirements, we believe that this should only apply to the parent companies of Public Interest Entities.

For smaller and less complex entities, the process for evaluating management's assessment of going concern will not be complex, and this requirement is likely to lead to additional reporting that does not add value.

**Q8. Are the requirements and application material sufficiently scalable, including the ability to apply ISA (UK) 570 (Revised) to the audits of entities with a wide range of sizes, complexities and circumstances?**

Although consideration is given to smaller entities in the application guidance for the revised ISA, we do not believe that this is sufficiently scalable. The application material does (sensibly) call for the auditor to exercise judgement in how the ISA is applied to smaller entities, but an auditor of a smaller entity may need to document how each requirement has been applied (or adapted) to an entity. Although there may be less audit work to do, the amount of documentation required to properly demonstrate compliance with the revised ISA would be disproportionate to size, complexity and risk level of the business.

**Q9. Do you agree with the proposed effective date (aligned to the effective date of ISA (UK) 540 (Revised December 2018)?**

No. We believe that the proposal should be withdrawn. If it is not withdrawn, we believe that the revised ISA should be delayed to better coordinate with the ongoing major audit inquiries in the UK (Kingman, Brydon etc).

**Q10. Do you agree with the withdrawal of Bulletins 2008/1 and 2008/10 as set out in paragraph 1.20? Is there guidance in these Bulletins which has not been included in the revised standard which remains useful and should be included?**

Bulletins 2008/1 and 2008/10 were created due to the financial crisis at that time. It is not surprising that the latest corporate failures and the focus that these have brought on to auditors have catalysed the writing of the revised standard on going concern, but it is worth noting that Bulletins 2008/1 and 2008/10 did not prevent the latest issues.

We believe that the corporate failures that have influenced this revised ISA were not caused by a lack of rigour or focus in the existing auditing standards, but, more likely, by poor application of the existing standard and by economic circumstances.

**Q 11. What mechanisms should the FRC employ to ensure there is widespread awareness of the Director's responsibilities in respect of going concern?**

The FRC should ensure that the communication reaches all company directors, not just those of public interest entities.

**Other comments:**

The Impact Assessment, particularly with regard to medium and small (not defined) firms appears to reflect a belief that those firms in the non-large end of the market would not spend as much time and effort to understand the new requirements, train the practitioners and implement the changes.