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Financial Reporting Council
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For the attention of Kate Dalby
AAT@frc.org.uk.

14 June 2019

Dear Sirs,

Proposed International Standard on Auditing (UK) 570 – Going Concern

We welcome the invitation to comment on the Financial Reporting Council's proposed amendments to ISA (UK) 570 'Going Concern'.

Overall, Chartered Accountants Ireland ('the Institute') supports steps to clarify and strengthen the process whereby auditors assess and report on the appropriateness of the use of the going concern basis of accounting. We also consider that reassessment of the auditing standards in this area is in the public interest.
With this aim in mind, we consider it important that the final form and content of the revised ISA (UK) on going concern takes full account of the conclusions reached in Sir Donal Brydon's review of the quality and effectiveness of audit, as well as other factors identified to date. Given the timing proposed for completion of the Brydon review, this may require reconsideration of the proposed implementation date for the revised ISA (UK).

We also have a number of areas of concern relating to the proposed new requirements to be placed on auditors, in particular their proportionality vis-à-vis the obligations placed on directors in relation to assessing going concern, as set out below.

> ***Observation 1***
> The clarification of auditor's responsibilities set out in the revised ISA is not matched by reconsideration of, and if necessary amendment to, the requirements of the UK financial reporting framework and the responsibilities of directors for preparation and presentation of financial statements that properly respond to requirements concerning the use of the going concern basis of accounting. In a number of instances, steps required of auditors extend beyond matter required by the current accounting framework.
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> Elements of the new requirements in the proposed ISA (in particular, paragraphs 9(a)(1) and 10-1) place an obligation on the auditor to undertake an assessment of going concern and related risks that is separate from, and performed prior to, evaluation of management's assessment of the point. This is a significant extension of the auditor's role and work effort and warrants careful consideration. Overall, the benefits to users of financial statements may warrant such additional audit effort: but the implications for audit time and cost need to be appreciated.

Additionally, we are of the opinion that in order to perform the requirements in paragraphs of 12-2 and 12-3, a detailed analysis would need to have been prepared by the client. However, in many cases where the risk is considered low, under existing accounting frameworks no detailed analysis is required to be prepared by management and a conclusion regarding going concern may be reached without such analysis.

For example, IAS 1 '*Presentation of Financial Statements'* notes that when an entity has a history of profitable operations and ready access to financial resources, the entity may reach a conclusion that the going concern basis of accounting is appropriate without detailed analysis (IAS 1 paragraph 26). Whilst this is acknowledged in the proposed ISA's application material (A9 and A11-4), the requirements set out in the proposed ISA do not recognise the point - inconsistent interpretation by auditors may result. We believe that the revised ISA should clarify the interaction of the requirements in paragraph 12 and the application guidance in A9 and A11-4.

Observation 2
We consider that the requirement to obtain "audit evidence" (as set out in paragraph 10-1) and "sufficient appropriate audit evidence" as to whether a material uncertainty exists (paragraph 12-1) are confusing: currently ISA (UK) 500 "Audit Evidence" is written in the context of obtaining sufficient appropriate evidence to be able to draw conclusions on which to base the auditor's overall opinion and not in the context of obtaining audit evidence, in a discrete area, relating to the risks identified and the absence of other risks.

We also note that use of the term "sufficient and appropriate audit evidence" is used in the context of risk assessment in the IAASB Exposure draft of ISA 315 and following responses to the current consultation on this standard is under consideration by the IAASB. In our opinion, the outcome of the IAASB deliberations on this matter should be considered by the FRC prior to the finalisation of this consultation.

Observation 3
On balance, and subject to comments above regarding 'low risk' scenarios, the proposed updated requirement should prove scalable for audits of smaller entities. However, the related additional time and cost should also be considered in order to assess the public interest need for enhanced, and more expensive, audit procedures for smaller businesses with few external stakeholders, for example owner-managed entities. However, we believe that incremental costs will be considerably greater that those currently estimated by the FRC.

Consideration could be given to applying the revised ISA to audits of entities of a particular size and type in order to balance enhanced audit effort with the degree of public interest involved in such entities. Alternatively, steps to align the obligations placed on auditors more closely with the degree of risk – as is currently achieved by the accounting frameworks in relation to preparers' obligations – may achieve a better balance.

Observation 4
The revised ISA's additional requirements regarding the auditor's evaluation of management's assessment of going concern issues include an obligation for the auditor to determine that the method selected is appropriate in the context of the applicable financial framework, with the application material referencing, for example, accounting estimates. The general accounting frameworks do not

contain requirements on the method to be used by management for this purpose. Hence we believe that the reference to evaluating management's assessment needs further consideration.

Observation 5

The proposed revisions include requirements for enhanced, and more detailed, reporting by auditors in relation to factors taken into account in reaching their conclusions on going concern. Whilst enhanced and more informative reporting is, in general terms, welcome and of value, it brings with it a related risk that auditors, rather than management, are put in the position of being seen as the primary providers of particular elements of information relating to entity and its financial position. We believe this is inappropriate.

In addition, unless changes are made to the disclosure requirements in the accounting frameworks, there is a risk that provision by the auditor of information not currently required by those frameworks may be made in a manner that is generic and 'boilerplate', and hence uninformative. Provision of further information may raise issues concerning the auditor's duty of confidentiality owed to the entity concerned.

We also have concerns that the proposed requirements for reporting by auditors, particularly those in paragraph 21-1, are not fully consistent with ISA (UK) 701 '*Communicating key audit matters in the independent auditor's report',* which indicates that the auditor should not provide discrete opinions on separate elements of the financial statements.

Observation 6

We note that significant additional application material has been added in paragraphs A16-1 and A16-2 in relation to the auditor identifying whether there is a material inconsistency between the disclosures included in the Directors' Assessment of the Ongoing Viability of the Entity and the auditor's knowledge obtained during the audit. This application material includes examples of procedures which are similar to assurance procedures and in our opinion are not consistent with the nature of the procedures on other information as required by ISA (UK) 720. We are therefore unclear as to the purpose or the context of the performance of the procedures suggested in paragraphs A16-1 and A16-2.

We hope that these observations, and the attached responses to specific questions raised in the Consultation Paper, are of use to you in determining the final form and content of revised requirements relating to the auditor's consideration of going concern. We would be happy to discuss any aspects of our views in more detail if that would be helpful and we look forward to the next stage in the development of improvements in this important area.

Yours faithfully,

Anne Sykes

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Anne Sykes
Secretary
Audit & Assurance Committee
Chartered Accountants Ireland

Going concern - FRC consultation regarding revisions to ISA 570 (UK)

Specific questions raised in the consultation paper

Question	***Comments for consideration***
1. 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 going concern? If you do not consider this to be the case, please set out why?	We consider that the proposed revisions to ISA (UK) 570 make significant changes to the extent of work to be undertaken by the auditor in relation to going concern. Whilst we are supportive of making changes in this important area, we have number of observations, as set out in our cover letter, relating to factors that may impact on the consistency and robustness of the application of the proposed new standard. We also consider it important that the findings and conclusions of the review by Sir Donald Brydon into the quality and effectiveness of audit are taken into account in determining final changes to the responsibilities and work of auditors.
2. Do you believe that the revisions appropriately address the public interest?	We are concerned that revisions to auditing requirements alone, without reconsideration of the accounting framework or the UK Corporate Governance Code Reporting, do not appropriately address the public interest. We also consider that they are likely to add to public

	expectations of auditors that may be unrealistic and unachievable in the absence of clarification of directors' obligations.
3. 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?	Whilst recognising that the proposed revisions set out more demanding requirements for work by the auditor, we believe that there is a need to clarify financial reporting obligations of directors in a similar manner in order to ensure that those responsible for preparation of the financial statements undertake a similarly robust assessment and that sufficient appropriate evidence is available to the auditor.
4. 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?	The auditor should not be required to make a formal evaluation of a longer period as to do so fundamentally changes the nature of an audit. Any changes needs to be considered in conjunction with changes to the accounting frameworks and directors' responsibilities
5. 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?	The proposed revisions make this clear: however, as above, we believe this change should be matched by an equivalent assessment of directors' obligations.
6. 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?	Yes

7. 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 support the use of 'extended' reporting in this area, subject to concerns that the proposals may result in disclosures being made in a manner that is generic and 'boilerplate', and hence uninformative unless changes are made to the disclosure requirements in the accounting frameworks. Provision of information beyond what is required by the accounting frameworks may raise issues concerning the auditor's duty of confidentiality owed to the entity concerned.
8. 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?	Whilst we would consider the revised requirements to be scalable to both larger and smaller entities, we have reservations as to whether the revised requirements are necessary to achieve an appropriate level of assurance in the context of smaller, and primarily owner-managed, businesses.
9. Do you agree with the proposed effective date (aligned to the effective date of ISA (UK) 540 (Revised December 2018)?	Subject to consideration and resolution of other issues noted, we consider the date appropriate.
10. 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?	Yes No
11. What mechanisms should the FRC employ to ensure there is widespread awareness of the Director's responsibilities in respect of going concern?	As indicated above, we consider there should be formal review and reassessment of current obligations of directors, leading to the issue of clarified requirements and guidance.