PRAG
PENSIONS RESEARCH ACCOUNTANTS GROUP

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

14 June 2019

Dear Kate

Proposed International Standard on Auditing (UK) 570 (Revised) Going Concern Exposure Draft - Response to questions

Attached to this letter is the Pensions Research Accountants Group's ("PRAG") response to the questions in the proposed International Standard on Auditing (UK) 570 (Revised) Going Concern Exposure Draft.

Whilst we agree with many of the proposed changes, we have particular concerns in relation to questions 4 and 7. We do not believe that auditors should consider time horizons beyond the current requirements when considering the going concern assessment, given the significant difficulties and uncertainties associated with longer timescales. We also do not believe that it is appropriate for auditors to explain how they have evaluated management's assessment of going concern, this is a matter of professional judgement and would inconsistent with any other aspect of the financial statements. Further comments are made in the attachment.

The Pensions Research Accountants Group ("PRAG") is a leading independent industry body working for the development of occupational pensions schemes, with focus on financial reporting and internal control. PRAG's members include accountants and pension professionals working in the pensions industry. We are the body recognised by the Financial Reporting Council for the publication of the accounting guidance through the Pensions Statement of Recommended Practice ("SORP") which is a significant focus of our activities. We also issue guidance on other topical areas and respond to consultations on areas affecting occupational pension schemes.

If you would like to discuss any of these matters further, please let me know.

Kind regards

Shona Harvie
PRAG Chair

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Responses to consultation questions

Consultation question	Response
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?	Yes.
2. Do you believe that the revisions appropriately address the public interest?	Yes. It should be noted that pension scheme accounts are stewardship accounts, containing details of scheme assets, but not actuarial liabilities (other than disclosed in the Trustee Report). As noted in Practice Note 15 "The audit of occupational pension schemes in the United Kingdom" the going concern basis is assumed in the preparation of the financial statements of pension schemes unless a decision has been made to wind up the scheme, an event triggering wind up has occurred, e.g. insolvency of the employer, or the scheme has entered the PPF assessment period and there is no realistic alternative to the eventual admission of the scheme and the transfer of its assets and liabilities to the PPF.

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Consultation question	Response
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?	Yes. PRAG issued guidance ("Pension scheme financial statements and going concern" in April 2018) to the pensions industry covering specific considerations for the pensions industry including reference to FRS 102 and the pension scheme SORP, the types of pension schemes, the regulatory environment and key risk management and governance considerations for pension schemes.
b) Obtaining sufficient appropriate audit evidence in relation to the adequacy of management's assessment	Yes. In PRAG's guidance the suggestion is that trustees formally document their assessment. This can then be linked into evidence already obtained as part of the audit such as the actuarial valuation, recovery plan, employer covenant reviews etc., all of which trustees are required to have in place under UK regulations. This guidance states that "Best practice would suggest that the trustee assessment is formally documented (whilst recognising that there could be different ways of formally capturing and providing this) to act as a record of how the trustees have reached their decision and to provide evidence to the scheme auditor of the going concern assessment. For example the assessment could be set out in a paper and/or formally minuted by the trustees at a trustee meeting."

Consultation question	Response
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 auditors' period of assessment could not be increased without the trustees/trustee director timescales increasing too. Whilst in principle these may appear to be good objective there are clear practical difficulties in achieving such an aim. Firstly auditors are unlikely to have the requisite skills to consider the directors/trustees assessment far into the future, particularly where it comes to considering the impact of the employer covenant assessment. In addition as the exposure draft says, the information will be more uncertain and therefore it is difficult to place any reliance on answers to any inquiries. On this basis therefore the period should not be extended. The report and accounts however should state the period covered by the going concern assessment to provide clarity.
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?	Yes.
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	No. It is not consistent with other aspects of the financial statements. This is a matter of professional judgement and would be a difficult area to articulate.

Consultation question	Response
auditor's report?	

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Consultation question	Response
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?	Yes. As noted above PRAG has already issued guidance to the pensions industry in this area and will ensure that it is updated for any changes to ISA (UK) 570. It would be helpful for any example audit reports to be updated for pension schemes including these considerations. Consideration will need to be given to updating Practice Note 15 “The audit of occupational pension schemes in the United Kingdom”. Also potentially ISA (UK) 580 on Written Representations in his area.
9. Do you agree with the proposed effective date (aligned to the effective date of ISA (UK) 540 (Revised December 2018)?	Yes.
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.
11. What mechanisms should the FRC employ to ensure there is widespread awareness of the Director’s responsibilities in respect of going concern?	We agree that there should clarity that the responsibility for the going concern assessment lies ultimately with the trustee directors or trustees of pension schemes and how this should be reported in the report and accounts. Their responsibilities for preparing financial statements and for making such an assessment should be covered in accounting guidance or potentially regulation.