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Dear Ms Dalby

Proposed International Standard on Auditing (UK) 570 (Revised)

EY welcomes the Financial Reporting Council's (FRC) Exposure Draft (ED), Proposed International Standard on Auditing (UK) 570 (Revised) Going Concern ("ISA (UK) 570"). We outline in this letter our overall views on the ED. Our responses to the ED's questions are included in the appendix.

The reasons given by the FRC for issuing this ED (e.g., recognition of the public interest in going concern) are clearly articulated and apposite. It is important that the FRC addresses this issue, which is why EY welcomes and supports this initiative. At the same time we note that the ED reflects revisions to an existing standard that addresses going concern in the context of prevailing company law and accounting standards. We appreciate that it is not an attempt to re-define the concept of going concern, or replace the existing ISA with a new one, and our response reflects that context.

The Independent Review into the Quality and Effectiveness of Audit, led by Sir Donald Brydon, also addresses the subject of going concern, with a Call for Views issued on the 10th April 2019 that includes questions on going concern. It is therefore vital that any actions the FRC proposes to take are coordinated with the Brydon review, and the FRC withholds any revisions to ISA (UK) 570 until the review is completed.

Basis of the standard - input versus output

The ED is seeking to place new emphasis on the auditor considering the possibility that there might be a material uncertainty in relation to the going concern status of a company. Whilst EY believes that most auditors are already considering the matters set out in the ED, we support their codification to ensure that current "good practice" becomes standard. Consequently, we see this proposed revision as an exercise in changing what is largely an output standard to an input standard. Whilst we generally favour output-based standards, we understand that in the current environment of public interest concern it is necessary for the FRC to be more prescriptive about the inputs that are required to ensure the high quality and sceptical audit of the going concern assertion.

Key areas for further consideration

EY identifies four areas of the ED that the FRC should reconsider:

- Paragraph 10.4 (Risk assessment procedures and related activities): We are concerned that this section is inconsistent with the current application of going concern and the clear distinction developed from the Sharman review between going concern and longer-term viability. This requirement creates a tension between the obligation of directors and auditors in considering going concern, and leaves unanswered the question what the auditors should do if the directors continue to conclude it is appropriate to prepare the accounts on a going concern basis. Accordingly, we believe the FRC should either delete this paragraph or provide more guidance on the expectations on the auditor.

- Paragraph 17.2 (The auditor shall attempt to obtain further audit evidence): To help clarify this matter we encourage the FRC to include additional wording in this paragraph, with the effect that if directors do not prepare an assessment of the going concern status of their company, it is unlikely that an auditor will be able to conclude that it has obtained sufficient evidence.

- Paragraph 21.1 (Implications for the auditor's report): Although we understand why the FRC is proposing this change, we are concerned that over time the inclusion of these new disclosures will lead to the development of boilerplate reporting, detracting from the intended value of including this additional information in the audit report. Accordingly, we believe the FRC should consider further what additional guidance it should issue to ensure the continued effectiveness of this requirement. This may also extend to a broader need to enhance stakeholders' understanding of going concern and how it is assessed by directors and auditors. We also believe that, in relation to this point, consideration should be given to whether the requirements should be "scaled". For entities where ISA701 applies, auditors already have an obligation to consider whether going concern is a key audit matter and report accordingly when it is. At the other end of the spectrum, we suspect that the requirements of this paragraph will be disproportionate for many smaller entities.

- Paragraph 25.1 (Communication with regulatory and enforcement authorities): We are concerned that it is unclear how this requirement interrelates with the pre-existing requirement in ISA250. Although we recognise that there are enhanced stakeholder expectations that auditors should "do something" when there are concerns over going concern at present, we do not believe the expectations of the specific actions that auditors should take are sufficiently clear.

If you would like to discuss any of the points raised in this letter, or in our responses to the ED's questions, please contact me.

Yours sincerely

Christabel Cowling

Partner, UK Head of Regulatory & Public Policy
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Appendix

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?

Yes, subject to our comments in the cover letter, including the need to align ISA 570 with ISA 701 and ISA 250.

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

This revised ISA is clearly part of a broader response to stakeholder concerns on corporate failures and we believe that the public's expectation is to have a degree of certainty that a company with a clean audit opinion is not about to fail: and if for example jobs, supply contracts and pension funds are in jeopardy, stakeholders find out sooner rather than later.

We also believe that it is important for all stakeholders and users of the report and accounts to understand exactly what is meant by "going concern", so they are clear which "test" is being applied by the directors and auditors. We mentioned this in our response to the FRC's post-implementation review of its 2016 ethical and auditing standards. We also said that directors should explain in detail how they applied their test, which should help to promote more consistency across the market and provide greater value to users.

Therefore, changes to an auditing standard on going concern will not, by itself, allay public interest concerns. The governance and stewardship of companies, by both their directors and institutional investors, and the quality and veracity of companies' reports and financial statements matter just as much, if not more than, the opinions of auditors.

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?

Yes, the revisions should help to improve the robustness of the processes used by auditors to understand the companies they audit, and gather sufficient evidence to gauge the directors' assessments. However, what matters is the output from this process and the ability of the auditor to identify any concerns which will require continued effective application of professional scepticism.

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?

As referenced in our covering letter in regard to paragraph 10.4 of the ED, we believe that this proposed requirement should be considered further by the FRC.

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, it is sufficiently clear to us, although the FRC should consider allowing a period to review how auditors generally respond to the revised ISA, to see whether further guidance may be required in the future.

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?

Yes, the proposals are supportive, not least because they will require auditors to consider the risks around going concern.

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?

As set out in our covering letter we would like the FRC to issue further guidance to ensure the continued effectiveness of the requirement and whether the requirement should be “scaled”.

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?

Yes, subject to our comments in the covering letter on paragraph 21-1, we believe the requirements are scalable. Not everything outlined in the revised ISA 570 will be applicable to every type and size of entity, so auditors will need to apply professional judgement and common sense when it comes to working with the standard.

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

Yes, we agree.

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?

Yes, we agree.

Q11. 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 publicise the fact (e.g., via the media, FRC website and guidance) that the primary responsibility for the going concern assertion falls on the board of directors, not the auditors, and that going concern is an important aspect of the board’s corporate governance responsibilities.