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

Exposure Draft

Request for Comments

Duncan and Toplis Limited Response

Respond by 14 June 2019

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Request for Comments

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 going concern? If you do not consider this to be the case, please set out why?

R1: Overall, yes, we believe so. The revisions now clearly spell out in greater detail what is required of the auditor in relation to going concern. The objective of the revised ISA is more consistent with other ISAs and different eventualities are clearly dealt with.

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

R2: Yes, specifically for larger higher risk entities. Take one of the recent, high-profile collapses as an example – the auditor would have had to clearly demonstrate, in the auditor's report, the work that they had performed in relation to going concern. There will be greater transparency and hopefully a reduction in the 'expectations gap' as a result of implementation.

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.

R3: a) Yes, the revisions clearly promote a stronger link between ISA 570 and ISA 315. The revisions make clear the requirements in this area.

b) Again, yes, the revisions are clear in this respect.

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?

R4: No, not in terms of statutory reporting. Especially for SMEs, with a less robust process of internally assessing going concern (for example having no formal budgets / cash-flows forecasts, as noted in the revised ISA's application notes linked to scalability) it would be increasingly difficult for the auditor to extend this period of review. There may be scope for a limited extension for larger, more complex entities (PIEs for example).

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?

R5: Yes. The potential risks should clearly be identified gross of any potential mitigating controls.

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?

R6: Yes, as is the theme (rightly so) throughout numerous ISA revisions, the requirement for professional scepticism to be at the heart of the requirements is clear. Professional scepticism, although important throughout the audit process, is particularly key when assessing 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?

R7: Not completely. While we fully understand why this has been suggested, this would pose an additional reporting burden on the SME market, that we feel is disproportionate to the risks posed. We feel that the additional reporting requirements (especially for providing the explanation) should be limited to larger, more risky entities.

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?

R8: Overall, yes. The ability to scale the requirements, per the text of the revised ISA is clear, although not explicit i.e. there are clearly descriptions of the different approaches to take when assessing going concern of smaller entities, but there are no prescriptive differences in the requirements for smaller entities. Scalability will require significant professional judgement of the auditor, hopefully something that will be understood by external reviewers of audit files.

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

R9: Yes, 15 December 2019 is reasonable.

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?

R10: Yes, removing the Bulletins and having one point of reference is preferable. No additional guidance noted from the Bulletins to be included in the revised ISA.

Q11: What mechanisms should the FRC employ to ensure there is widespread awareness of the Director's responsibilities in respect of going concern?

R11: Clear communication of the requirements and having the ability to issue serious punishments to ALL directors (not just accountants) that flagrantly disregard the requirements.