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Dear Sirs/Madams

Proposed International Standard on Auditing (UK) 570 (Revised) - Comments on Exposure Draft

We welcome the opportunity to comment on the FRC's Exposure Draft of ISA (UK) 570 Revised (ED-ISA (UK) 570). Before responding to the specific questions asked in ED-ISA (UK) 570 we wish to raise the following overall comments:

- We note that going concern was a key area of focus of the Brydon's initial call for views for the Future of Auditing project ('Brydon review'). Our responses therefore reflect our views submitted to the Brydon secretariat. Given this overlap we would urge the FRC to reconsider the timing of the proposed revision of ISA 570 and whether it should wait until after the Brydon review has concluded.
- A number of the proposed changes are to the body of the ISA rather than as UK add-ons. In an international group, where substantial parts of an entity's operations are overseas, the group's going concern may be threatened where significant issues emerge in an overseas subsidiary. We are concerned that where changes are being proposed to the substance of the standard rather than through a UK plus it will make it far harder to establish what additional procedures component auditors will be required to carry out and report to the UK group auditor. It would be preferable for these changes to be made at an international level to achieve consistency in promoting a more robust process. We note that the IAASB's proposed strategy for 2020-2023 has identified going concern as a possible topic on their radar. We would urge the FRC to press the IAASB to elevate this to a project and for the proposed changes to be discussed and made at the international level.
- ED-ISA (UK) 570 replicates sections of ISA 315. ISA 315 is currently in the process of being revised by the IAASB (due to be finalised in June 2019). The revised ISA (UK) 570 should reflect the revisions being made to ISA 315. We note one of the key changes is the spectrum of inherent risk which is really important in assessing going concern risk and the extent of disclosures that the auditor might expect the directors to be making. ISA 315 (revised) is proposed to be applicable for periods commencing on or after 15 December 2020. The effective date for any UK revisions to ISA 570 should be aligned with ISA 315.

Further we would encourage the FRC to press the International Accounting Standards Board to strengthen and improve the international accounting standards in respect of going concern.

Our responses to the specific questions asked are as follows:

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

Overall, ED-ISA (UK) 570 would help to promote a more consistent and robust process in respect of going concern. However, the first responsibility for assessing an entity's ability to continue as a going concern rests with the directors. The directors must first carry out their assessment and consider the disclosures they need to make in the financial statements before the auditor can perform their work to assess whether this is sufficient and supported by audit evidence.

Revising ISA (UK) 570 will not prevent corporate failure but strengthening the responsibilities and accountability of directors could improve their understanding of the risks to going concern and improve their response to these risks. We therefore believe that there should be greater focus on reinforcing the director's responsibilities before the auditor's process are made more robust. Without corresponding changes in accounting standards, to promote more consistent and robust going concern processes and disclosures by directors, significant improvements in the audit of going concern, through revising the UK auditing standard will be difficult to achieve.

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

Recent corporate failures have highlighted the expectation gap that exists, particularly in relation to going concern. The finger seems to be pointed at the auditor as much, if not more so, than the directors and senior executives who surely must be ultimately responsible for the failure. It is not the auditors who brought about the failure although they may have failed to highlight the possibility that it could occur. This is where the public interest lies.

Investigations into the audit of BHS highlighted a number of auditor delivery gaps including failing to request management to prepare a going concern assessment, not robustly assessing and evaluating the parent's ability to give ongoing financial support and not challenging management's disclosures regarding the ongoing financial support. The revisions to ISA (UK) 570 do not reduce the risk of an auditor failing to deliver a quality audit that meets the requirements of auditing standards.

The investigations into other recent high profile corporate collapses (Carillion, Interserve, Conviviality) have not yet concluded. Therefore it is difficult to assess whether the failure to highlight going concern issues at an early enough stage were due to flaws in the auditing standards, accounting standards or in auditors not delivering. It is therefore not clear that these proposed revisions to ISA (UK) 570 will be effective in closing either the expectation or delivery gap. The investigations into these corporate collapses should be completed before determining whether the proposed changes, or further changes, to ISA (UK) 570 are needed.

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?*

The proposed revisions do provide more guidance as to how the requirements of ISA 315 in respect of a) should be applied to going concern.

In terms of b) the proposed revisions to the requirements of ED-ISA (UK) 570 are more prescriptive and should drive a more robust audit process for going concern.

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?

As noted in our response to the Brydon review, assurance over a longer period is preferable but this should only be required where the corporate reporting and accounting framework requires directors to first make these longer term statements and, most importantly, for them to be held accountable for them.

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?

This is sufficiently clear.

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?

Professional scepticism is already required to be exercised throughout the audit. Failure to do this is a delivery gap issue. Re-emphasising this in the going concern standard will not necessarily lead to a change in auditor behaviour and therefore may not achieve the desired reduction in the delivery gap.

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?

As noted in our Brydon response we support a move to graduated audit findings. We therefore accept and welcome the changes required by para 21-1 but we reiterate our concerns that lengthy disclosure by auditors is inappropriate where there is no specific requirement on directors to make similar disclosures.

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?

We think there is a risk that for smaller entities that the revised ISA570 will require auditors to carry out more work than previously, particularly in cases where the going concern risk is low. This will result in increased costs without a corresponding increase in the value to users of the financial statements of these smaller entities.

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

The proposed effective date will allow proper time for firms to update guidance and deliver training.

However, we note that ISA 315 (revised) is proposed to be applicable for periods commencing on or after 15 December 2020. As the going concern risk assessment is closely linked to the requirements of ISA 315, alignment should be with this rather than ISA (UK) 540 (Revised December 2018). This additional implementation time could also allow time for further consideration of any other proposed changes arising from the outcome of the Future of Corporate Reporting and Brydon reviews.

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 do not support the imposition of additional disclosure requirements for going concern on directors through auditing standards. This makes it very difficult for auditors to require directors to make the appropriate disclosures when the accounting framework does not specifically require it.

We believe that it is vitally important that the director's responsibilities to assess going concern and make useful disclosures to users are made clear. Further, it is also important that these directors can be held to account where they have not met their responsibilities. We note that the Kingman review recommended the extension of the new regulator's responsibilities to all directors (not just those that are accountants or actuaries) and this will need to be established to ensure that directors acknowledge and are aware of their responsibilities in respect of going concern.

Yours sincerely

BDO LLP.

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