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Dear Ms Dalby

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

Grant Thornton UK LLP (Grant Thornton) welcomes the opportunity to comment on the Proposed International Standard on Auditing (UK) 570 (Revised) Going Concern Exposure Draft (Exposure Draft).

The going concern basis of accounting is the fundamental concept on which the financial statements are prepared and as such, its importance cannot be underestimated. However, we do find that it is one of the more misunderstood concepts. We are therefore fully supportive of efforts to improve reporting on going concern that will decrease both the delivery gap[1] and also the expectations gap. However, before either the deliver or expectations gaps can be addressed, the underlying root cause of the issues needs to be identified.

Limited outreach to users of the financial statements has suggested that the revisions to the ISAs in 2016, specifically the requirement to include a ‘Conclusion relating to Going Concern’ section in all auditors reports, except for when a ‘Material Uncertainty Related to Going Concern’ section is appropriate has not been effective and has not reduced the expectations gap.

We note that a number of consultations and reviews[2] concerning the future of audit are currently in process or have been recently completed. These reviews are recognising the broader responsibilities and accountability of boards of directors, audit committees, management and shareholders/owners, as well as those of the auditor. The current debate around going concern is a perfect exemplar of the importance of the recognition of the collective responsibilities in this area. It is therefore important that amendments proposed in ISA (UK) 570 (Revised) are not pre-emptive of the outcome of these reviews or are not open to misinterpretation by users of the financial statements as being more far reaching than intended. We are further of the view that the resolution of the expectations gap is dependent on the outcome of these reviews, including the determination of the role of the auditor in audit of going concern in a financial statement audit. Therefore, amendments to ISA (UK) 570 (Revised) in this respect should not be made in the interim period.

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1 The Business, Energy and Industrial Strategy Committee in its report on the Future of Audit, included the following as part of the delivering gap’ making a forward looking assessment of the company’s prospect (via the going concern assumption and the viability statement); and achieving a certain level of quality (via quality set by the regulator), which are relevant to going concern.

2 For example, the Competition and Markets Authority market study into the Statutory Audit Market and Sir Donald Brydon’s Review of the Quality and Effectiveness of Audit

However, we are of the view that measures can be taken to address the delivery gap in relation to going concern in the interim period, especially in light of the potential time frame for such reviews to be completed and the necessary legislation to become effective. For example, interpretations of the requirements of ISA 570 (Revised) (or similar publications), focusing on the issues that have caused the delivery gap, would serve to improve the quality of the auditor's considerations in relation to going concern in the interim period. Further, guidance on best practices in auditing forward looking information, in general, would also help to raise audit quality in the interim period. This would allow for one fulsome update of ISA 570 (Revised) that would address both the delivery and the expectations gap when all reviews are finalised.

Further, we are of the view that the nature of these proposed amendments are focused towards audits of listed entities and may therefore not be easily adapted in practice for other types of entities. We understand that the Brydon Review will also focus mainly on the requirements of large listed companies. As such it is important that any reforms through this or other process are properly tailored to the needs of a range of entities. We also question whether the limited changes proposed to ISA (UK) 570 (Revised) will have the desired effect of reducing the expectations gap or the delivery gap. A number of the proposed changes are merely the transfer of requirements from other ISAs, in particular ISA (UK) 315 (Revised June 2016)[3] and ISA (UK) 540 (Revised December 2018).[4] Whilst we don't disagree that these requirements are relevant to going concern, their incorporation into ISA (UK) 570 (Revised) has provided a level of prescription into the standard that reduces its scalability and, in particular, its ability to be applied in public sector engagements or audits of smaller entities. We are fully supportive of strengthening the links in ISA (UK) 570 (Revised) to other relevant ISAs, however, we believe that this can be done without repeating requirements at the expense of the scalability of the standard.

We set out in the appendix to this letter our responses to the FRC's questions in the Exposure Draft. We would be pleased to discuss those responses with you. If you have any questions, please contact me or Sara Ashton at sara.hm.ashton@uk.gt.com or at +44 207 728 2236.

Yours sincerely

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[3] ISA (UK) 315 (Revised June 2016) Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and its Environment

[4] ISA (UK) 540 (Revised December 2018) Auditing Accounting Estimates and Related Disclosures

Responses to the Proposed International Standard on Auditing (UK) 570 (Revised) Going Concern Exposure Draft

The following provides our responses to the FRC's request for comments on the Proposed International Standard on Auditing (UK) 570 (Revised) Going Concern Exposure Draft.

QUESTIONS

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?**

   We have concerns over a number of the proposed revisions to ISA (UK) 570 (Revised), which appear to be largely a repetition of requirements or guidance contained in other ISAs, in particular in ISA (UK) 315 (Revised June 2016)[5] (ISA (UK) 315) and ISA (UK) 540 (Revised December 2018)[6] (ISA (UK) 540). We are of the view that this repetition does not, in and of itself, promote a more consistent and robust audit process, that it is contrary to the objective of a principles-based standard, and in some instances may impair the scalability of the standard. Auditors are already required to comply with the requirements in ISA (UK) 315 (Revised) and ISA (UK) 540 (Revised) but currently have the ability to exercise professional judgement in determining how to apply these requirements in relation to going concern. The list of procedures that have been incorporated into paragraphs 10 and 12 of the proposed standard will serve merely to create a checklist approach to the audit of going concern and in some cases result in a documentation exercise of why a specific procedure is not required in the circumstances. Whilst the creation of generic audit procedures may improve consistency from a process perspective, the loss of the ability to tailor the audit of going concern to the procedures that are required in the circumstances of the entity being audited, will result in a tick-box mentality that discourages the application of professional judgment and professional scepticism and will ultimately reduce effectiveness of the audit. This is of particular relevance when performing audits of local government and NHS bodies, where auditors are also required to provide a separate conclusion on whether the body has made proper arrangements for securing economy, efficiency and effectiveness in the use of resources. Further, it is common for activities, services, assets and liabilities to be transferred from one body to another in the public and not-for-profit sectors due to legal, regulatory or public interest purposes, without it being considered to negate the presumption of going concern.[7] In both examples, procedures performed around going concern for the purposes of the financial statement audit opinion is of less importance in highlighting weaknesses than in a commercial entity.

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

   We note that the Explanatory Memorandum states that it is in the public interest to enhance the auditor's work effort in relation to the evaluation of management's assessment. We agree with this statement; however, we question whether the proposed revisions to proposed ISA (UK) 570 (Revised) will fully achieve this.

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5 ISA (UK) 315 (Revised June 2016) Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and its Environment

6 ISA (UK) 540 (Revised December 2018) Auditing Accounting Estimates and Related Disclosures

7 CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2018.19 section 2.1.2.6 and 3.4.2.23

We are of the view that the following amendments address the public interest as described in the Explanatory Memorandum:

- Fostering an appropriately independent and challenging mindset of the auditor – specifically the inclusion of a requirement for the auditor to consider indicators of possible management bias when making its going concern assessment and to consider contradictory audit evidence;
- Transparency – the proposed changes to the Conclusion relating to Going Concern in the auditor's report, specifically the requirement in paragraph 21-1(a) to include an explanation of the auditor's evaluation of management's assessment of the entity's ability to continue as a going concern and key observations with respect to that evaluation;
- Enhancing the documentation of auditor judgements – specifically the inclusion of requirements to document the auditor's consideration of possible management bias and significant judgements made by the auditor; and
- Reinforcing the need for robust communication and interactions during the audit – specifically the requirement to communicate with regulatory and enforcement authorities in paragraph 25-1.

We are of the view that the following amendments do not fully address the public interest as described in the Explanatory Memorandum:

- Fostering an appropriately independent and challenging mindset of the auditor – as further elaborated in our response to question 6, additional references to professional scepticism will not necessarily result in improvement of its application.
- Transparency – as noted in our response to question 7, better transparency will be achieved if the auditor's responsibilities in relation to going concern are always included in the going concern section of the auditor's report along with the other disclosures relating to going concern to provide the user of the auditor's report with a comprehensive representation of going concern matters.
- Keeping ISAs (UK) fit for purpose – to be fit for purpose the ISAs should be capable of being applied to all entities. Some of the level of prescription introduced in the proposed amendments may not be applicable to all types and sizes of entities, thus introducing scalability issues; and
- Reinforcing the need for robust communication and interactions during the audit – the Explanatory Memorandum indicates in this context that interactions between engagement partners and their teams should be strengthened in the public interest, we do not see how this is addressed in the proposed amendments to ISA (UK) 570 (Revised).

We are also of the view that the following amendments should be considered in the public interest:

- Transparency – the Business, Energy and Industrial Strategy Committee's report on the Future of Audit, recommended, amongst other measures, 'the use of graduated findings' in the auditor's report. We are of the view that amendments in this respect would be in the public interest.
- Understandability – if the conduct of an audit is to be for the benefit of a broader range of stakeholders, the audit, and consequently the auditor's report, will need to be understood by a wider range of individuals. Attaining the appropriate balance between retaining the technical rigour of the audit and communication of the results and findings in a manner that can be understood and interpreted by all users, will become increasingly important, to prevent further widening the expectations gap.

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?**

We note that the requirements in relation to the understanding of the entity and its environment are merely a reiteration of the current requirements in ISA (UK) 315, tailored in some instances to be an understanding needed that is specific to going concern. These are therefore requirements with which auditors were already required to comply. As such, we do not believe this will promote a more robust process for understanding the entity and its environment in relation to going concern. Also, as detailed in our response to question 8 below, we are of the view that this will have an adverse impact on the scalability of the standard. To provide better linkage, we would recommend that a requirement, separate to determining whether management has performed a preliminary assessment of the entity's ability to continue as a going concern be created. This requirement could simply require the auditor to obtain an understanding of the entity and its environment as required by ISA (UK) 315. The related application material could then provide guidance on how this can be achieved specifically in relation to going concern. This would maintain the principle-based nature of the standard and retain its scalability whilst providing guidance on how to apply the requirements of ISA (UK) 315.

In addition, we note that paragraph A3-3 states that some business risks may be so significant that they highlight uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. Examples of such business risks would be helpful.

b) Obtaining sufficient appropriate audit evidence in relation to the adequacy of management's assessment

Similar to our response to part (a) above, we do not believe that including a list of requirements from ISA (UK) 540 in paragraph 12-2 tailored to reflect the audit work required in respect of going concern will help improve audit quality. As also noted in our response to question 8 below, we are of the view that these amended requirements may have an adverse impact on the audits of certain types of entities. In particular, we note that the changes proposed may be difficult or onerous to apply to public sector or not-for-profit entities, or for smaller entities where such a formalised review of going concern is not needed. For example, the auditor of a smaller privately owned entity that has a significant positive cash balance, consistently positive cash flows and a stable customer base (and as such a low assessed risk in relation to going concern) will be required to perform all the procedures in proposed ISA (UK) 570 (Revised) in completing the going concern assessment irrespective of an assessed low going concern risk.

As mentioned in part (a), consideration could be given to including a requirement for the auditor to comply with the requirements of ISA (UK) 540 as they relate to going concern, rather than extracting and incorporating the requirements themselves. Application material could then provide guidance on how this can be achieved specifically in relation to going concern.

We would also highlight that paragraph 11-1(c) requires auditors to perform additional audit procedures relating to newly identified events or conditions in accordance with paragraphs 12-1 and 12-2, if the auditor identifies events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, that management has not previously identified or disclosed. At this point the auditor will only have performed risk assessment procedures, so requiring 'additional' audit procedures to be performed is confusing. We would recommend that either the word ‘additional’ be removed or that the proposed amendment to paragraph 11-1 be located after paragraph 12-1 and 12-2.

We are also of the view that paragraph 12-2(d) needs further clarification or redrafting. It requires the auditor to evaluate management’s plans for future actions in relation to its going concern assessment, including determining whether ‘the outcome of these plans is likely to improve the situation and whether management’s plans are feasible in the circumstances.’ Firstly, it is not clear what “improve the situation” is in reference to and what would constitute sufficient improvement. Secondly, through consideration of the related application material, it would seem that this requirement would only be applicable in situations where a material uncertainty in relation to going concern has been identified and management has plans in place to mitigate this uncertainty. As such, the appropriate qualifier should be incorporated into the requirement.

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 period over which directors’ are required to assess an entity’s ability to continue as a going concern is governed by the financial reporting framework being applied in the preparation of the financial statements and / or law and regulation, for example, International Account Standard (IAS) 1 ‘Presentation of Financial Statements’ and Financial Reporting Standards (FRS) 102, require management, in assessing whether the going concern assumption is appropriate, to take into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period and twelve months from the date when the financial statements are authorised for issue, respectively.

Whilst we are not opposed to an assessment of a period in excess of twelve months, we are of the view that the period that auditors are required to consider should be the same as the period over which the directors’ have prepared their assessment of going concern. The auditor cannot perform an evaluation of an assessment for a longer period than for which that assessment is performed. Auditing standards should not be used as a means to force change in the underlying financial reporting framework. We are therefore of the view that the extant requirement that ‘in evaluating management’s assessment the same period used by management in making the assessment is used’, should be retained. If it is deemed appropriate for going concern to be assessed over a longer period of time, efforts should be focused on changing the financial reporting framework or laws and regulation that drive the period of the assessment performed by the entity.

We note that paragraph 13-1(b) includes a requirement for the auditor to consider whether management’s assessment of going concern includes all available information about the future. We are of the view that this requirement should be further expanded or clarified such that information relevant to the assessment of going concern of which management is aware, but which occurs outside the formal assessment period, is specifically captured. Alternatively, we would recommend a specific requirement be included for the auditor to assess the appropriateness of the period over which management’s assessment of going concern is performed.

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 standard could be clarified further in respect of the requirement for auditors 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. We note that paragraph A3-1 explains that the auditor's identification of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern is before consideration of related mitigating factors. We are of the view that it would be clearer to include the consideration of mitigating factors in a specific requirement, in addition to the guidance provided in the application material. This would provide a framework for the auditor in performing procedures over the evaluation of potential material uncertainties.

Paragraph 12-1 requires auditors "to obtain sufficient appropriate audit evidence about:

(a) Whether events or conditions exist that may cast significant doubt on the entity's ability to continue as a going concern;
(b) Whether or not a material uncertainty related to going concern exists; and
(c) The appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements"

We would recommend that this requirement be amended to include a requirement to obtain sufficient appropriate audit evidence over whether management's plans for future actions effectively mitigate the events or conditions that may cast significant doubt on an entity's ability to continue as a going concern. This may also provide better linkage to proposed requirement 12-2(d), which as per our comment above, needs to be a conditional requirement.

Also, we note that examples of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern are currently incorporated into paragraphs A3 and A3-2. We are of the view that these examples are helpful but could be combined into a single application material paragraph. In practice, we note that auditors sometimes experience difficulty in determining when events or conditions that might give rise to a material uncertainty about the entity's ability to continue as a going concern are of sufficient severity such that these events or conditions rise to the level of a material uncertainty as defined in paragraph 9-1(b). Further application guidance in the form of a Staff publication could provide guidance and examples for auditors to assist in making an assessment of the severity of the identified events or conditions as currently described in paragraphs A3 and A3-2. Such application guidance could also incorporate a flowchart that depicts the auditor's decision process in relation to the identification of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and the appropriateness of the going concern basis of accounting in the preparation of the financial statements.

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?

We are of the view that the new requirement in relation to evaluating whether judgements made by management in making its assessment are indicators of possible management bias, along with the requirement to take into account contradictory evidence, is helpful in supporting the appropriate exercise of professional scepticism. Further, providing a definition of management bias within the proposed standard provides clarity to the application of this requirement. We note that the related application material includes actions that the auditor may need to take when indicators of management bias are identified. In particular, paragraph A19-1 states that the auditor "may need to reconsider whether sufficient appropriate audit evidence has been obtained." We are of the view that this should be elevated to a requirement. We do not envisage a circumstance where an auditor would not consider it appropriate to reconsider whether further audit evidence is needed when indicators of management bias have been identified.

We do note, however, that the appropriate exercise of professional scepticism requires more in practice than a requirement for it to be exercised. We appreciate that referring to the requirement ISA (UK) 200 (Revised June 2016) for the auditor to maintain professional scepticism throughout the audit and, in particular, when reviewing future cash flows relevant to the entity’s ability to continue as a going concern serves as a reminder to auditors. However, we are of the view that the supporting application material does not provide sufficient guidance to help auditors with how to exercise professional scepticism and to demonstrate such application in the audit of going concern.

Further, we would recommend that guidance is developed that includes examples of how auditors may exercise professional scepticism when reviewing management’s assessment of going concern including future cash flow forecasts relevant to the entity’s ability to continue as a going concern. This could be in the form of a Staff Guidance Note that accompanies the revised standard.

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?**

Similar to the comment made in our response to the Post Implementation Review 2016 Ethical and Auditing Standards Changes to Implement the Audit Regulation and Directive – Call for Feedback (the Post Implementation Review), we agree with the proposals for auditors of all entities to provide an explanation of how the auditor evaluated management’s assessment of the entity’s ability to continue as a going concern and, where relevant, key observations arising with respect to that evaluation. We are of the view that this will provide useful information to the users of the financial statements to help them understand the work performed by the auditors.

Further, we would recommend that application guidance or Staff guidance include examples of the disclosures that would be expected when discussing how the auditor evaluated management’s assessment. Such examples should include, the extent of auditor’s challenge of management’s assumptions, whether any of these challenges resulted in changes to management’s assessment and how the auditor exercised professional scepticism. In respect of the key observations, we understand, from our limited outreach with investors, that users of the financial statements would welcome disclosures such as the sensitivity of assumptions used in the assessment of going concern and whether the assumptions used by management were conservative, aggressive or similar to previous years.

However, we are of the view that a requirement to include a statement that the auditor has not identified a material uncertainty related to events or conditions that may cast doubt on the entity’s ability to continue as a going concern may be misinterpreted as the auditor providing a guarantee that the entity will continue as a going concern in the foreseeable future. If this requirement is retained in a revised standard, we would recommend that an additional statement be required to state that the auditor is not providing a guarantee that the entity will continue as a going concern. We would also recommend that consideration be given to implementing appropriate safe harbour provisions if this requirement is retained.

Further, as recommended in our response to the Post Implementation Review, we recommend that a statement of the auditor’s responsibilities in relation to going concern be required to be included in the body of the auditor’s report. If this is also included in a going concern section, this will provide the user of the auditor’s report with full information to understand the extent of the auditor’s responsibilities, the procedures performed to address these responsibilities and the key observations reached. This would also provide a balance to the required disclosures in the auditor’s report of management’s responsibilities in relation to going concern.

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 are of the view that the proposed requirements to ISA (UK) 570 (Revised) will render the standard less scalable and are contrary to the development of principles-based standards. We are of the view that the proposals are focused at listed entities or at larger private entities and that this will add to the difficulties currently experienced in applying the ISAs in audits of smaller entities.

For example, we note that the proposed requirement regarding the risk assessment procedures in relation to going concern in proposed ISA (UK) 570, repeats the risk assessment procedures as listed in ISA (UK) 315 (Revised), either as stated in that standard or tailored to be specific to going concern. This is in comparison to extant ISA (UK) 570 (Revised), which refers the auditor to ISA (UK) 315 (Revised) in the performance of risk assessment procedures in relation to going concern. In both extant and the new proposed standard, the auditor is required to perform risk assessment procedures in relation to the going concern assessment, however, in the proposed standard, the flexibility to perform procedures appropriate to the entity's specific circumstances is lost. To illustrate this point, paragraph 10-1(e) requires the auditor to obtain an understanding of "the nature and extent of oversight and governance that the entity has in place over management's assessment of the entity's ability to continue as a going concern." This requirement is not operable for an owner managed business where there is no separation between management and oversight and governance of the entity.

Furthermore, the proposed requirements in relation to the auditors work effort in paragraph 12-2 continue in a vein that is contrary to a principles-based standard. We note that, similar to the proposed risk assessment requirements, these proposed requirements are adapted from ISA (UK) 540 (Revised), which becomes effective for periods beginning on or after 15th December 2019, and that they continue the trend of moving towards a level of prescription that does not lend itself to application to smaller entities.

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

The effective date of the standard should allow sufficient time for firms to implement the changes, including the update of audit methodology and the delivery of training to their personnel. For an effective date that is aligned with ISA (UK) 540 (Revised December 2018), a final revised standard will need to be issued by the FRC imminently.

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?

We agree with the withdrawal of the Bulletins 2008/1 and 2008/10. We do not believe there is any guidance in these bulletins that has not been appropriately transferred into the proposed standard.

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

The FRC has previously published 'Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009', and this provided directors with guidance on what is required in preparing their assessment of going concern. Consideration should be given to updating and reissuing this guide to directors to facilitate a better understanding of their responsibilities in respect of going concern including preparing their assessment of going concern and identifying where a material uncertainty related to going concern exists.

Considerations should also be given to writing to all directors of companies registered with Companies House explaining their responsibilities as stewards which would also include their responsibilities in respect of going concern. In addition, news bulletins could also be issued have training sessions provided for directors to help them understand their responsibilities in respect to preparing financial statements. This would also cover their responsibilities in respect of going concern.

Further, targeted outreach to the wider stakeholder community, for example, through means such as round tables, press packs, panel discussions and parliamentary receptions may be beneficial.

For communications outside of the director community, the FRC could also consider 'plain English' means of communication. As noted in our response to question 2, if audits are to be performed for the benefit of a wider range of stakeholders, the language used in communications should be understandable to all such stakeholders.

Other comments in respect of the Exposure Draft of ISA (UK) 570 (Revised)

Viability statement

We note that paragraph 16-1 had been amended to incorporate procedures required by ISA (UK) 720[8] (Revised) in respect of other information presented in the annual report. We note that auditors have experienced difficulties in applying the requirements of ISA (UK) 720 (Revised) to other information and as such believe that the related application material that provides examples of the procedures the auditor should perform is a welcome addition. However, in conjunction with current reviews on the future of audit, we are of the view that consideration should be given as to whether additional procedures, such as audit procedures, should be performed on the viability statement and how technological advancement and the application of wider skills than audit could be developed in this area. Addressing auditor liability would also be important if duties relating to the viability of companies were to be extended.

Application material

Public sector considerations – We would recommend that consideration is given to expanding the guidance in paragraph A2. The transfer of activities, services, assets and liabilities from one entity to another is common in the public sector and in not-for-profit entities. Guidance on how this should be addressed and reported by auditors would be helpful. In addition, we would recommend including a paragraph with specific examples of material uncertainties related to going concern for public sector and not-for-profit entities.

Paragraph A2-2 repeats part of the definition of material uncertainty included in paragraph 9-1(b) of the ISA and could be condensed to only provide additional guidance.

We would suggest providing a flowchart to guide auditors through the proposed requirements in the standard and the resulting implications for the auditor's report. This could include the following scenarios:

i) Going concern basis of accounting is appropriate;

ii) Going concern basis of accounting is appropriate, a material uncertainty has been identified but is mitigated by management's proposed future actions;

iii) Going concern basis of accounting is appropriate but material uncertainty has identified that is not mitigated by management's proposed future actions; and

iv) Going concern basis of accounting is not appropriate.

8 ISA (UK) 720 (Revised June 2016) The Auditor's Responsibilities Relating to Other Information