



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

A public consultation issued by FRC

Comments from ACCA to FRC

14 June 2019

Ref: TECH-CDR-1811

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ACCA supports its 219,000 members and 527,000 students (including affiliates) in 179 countries, helping them to develop successful careers in accounting and business, with the skills required by employers. ACCA works through a network of 110 offices and centres and 7,571 Approved Employers worldwide and 328 approved learning providers, who provide high standards of employee learning and development. Through its public interest remit, ACCA promotes appropriate regulation of accounting and conducts relevant research to ensure accountancy continues to grow in reputation and influence.

The expertise of our senior members and in-house technical experts allows ACCA to provide informed opinion on a range of financial, regulatory, public sector and business areas, including: taxation (business and personal); small business; audit; pensions; education; and corporate governance and corporate social responsibility. www.accaglobal.com

Further information about ACCA's comments on the matters discussed here can be requested from:

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ACCA welcomes the opportunity to comment on the proposals issued by FRC. The ACCA Global Forum for Audit and Assurance has considered the matters raised and their views are represented in the following.

GENERAL COMMENTS:

ACCA welcomes the Proposed International Standard on Auditing (UK) 570 Revised Going Concern Exposure Draft (ED) as part of the FRC's overall initiative of improving audit quality.

ACCA conducted a global research study published on 9 May 2019 entitled '*Closing the expectation gap in audit*'¹. The findings of our research show that the public sees audit as part of the solution for preventing corporate failure. Furthermore, our research found that there's a demand for a wider audit scope including assigning more responsibilities to the auditor for identifying and reporting fraud and a demand for auditors to do more in respect of liquidity, solvency and viability. ACCA therefore believes that strengthening the auditor's work in regards to going concern as proposed in ED (UK) 570 addresses the public interest and is a step forward towards satisfying the public's demand.

Our research on the expectation gap surveyed 11,000 people across 11 countries (including 1,000 in the UK) weighted evenly by sample size, gender and spread across age, education level and household income. The countries in scope of our research are; Greece, Czech Republic, New Zealand, South Africa, Australia, the Netherlands, Singapore, Canada, the UAE, Malaysia and the UK.

However, ACCA has concerns regarding the inconsistency between the ED (UK) 570 and the IAASB's ISA 570 (Revised), Going Concern. This inconsistency is likely to be in existence for a long period of time as the revision of ISA 570 (Revised) is not included within the future plans of IAASB. Such inconsistency is likely to have significant implications in the case of Group audits.

The proposals of ED (UK) 570 significantly change the responsibilities of the auditor regarding going concern and require significant investment from firms to enable them to implement them. The enhancement of responsibilities such as the requirements of para 21-1 when the auditor concludes that the going concern basis of accounting is appropriate, create risks for auditors and raise questions regarding the auditor's liability. This is particularly important for mid-tier firms and smaller firms particularly in times where competition in the audit profession is in question.

SPECIFIC COMMENTS:

- 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?**

¹ https://www.accaglobal.com/content/dam/ACCA_Global/professional-insights/Expectation-gap/pi-closing-expectation-gap-audit.pdf

As noted in our general comments, ACCA has concerns regarding the inconsistency between the ED (UK) 570 and the IAASB's ISA 570 (Revised), Going Concern. This inconsistency is likely to be in existence for a long period of time as the revision of ISA 570 (Revised) is not included within the future plans of IAASB.

Furthermore, the approach taken by the FRC in the drafting of ED (UK) 570 appears to be a re-write of the standard rather than introducing its revision proposals through supplementary guidance. The issue with such an approach is that the inconsistency with the IAASB standards will be much harder to be resolved.

Consistent global standards support high quality audit and therefore such inconsistencies should be taken very seriously as they could not only prove challenging in practice, but they could also negatively impact the UK audit profession in the audit of global businesses.

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

Yes, ACCA believes that the revisions do appropriately address the public interest. As noted in the general comments of our response, ACCA published global research on 9 May 2019 entitled '*Closing the expectation gap in audit*'. The findings of our research show that the public sees audit as part of the solution for preventing corporate failure. Furthermore, our research found that there's a demand for a wider audit scope. Such scope includes assigning more responsibilities to the auditor for identifying and reporting fraud and seeking auditors to do more work in respect of the solvency, liquidity and viability of the entity.

ACCA therefore believes that strengthening the auditor's work in regards to going concern revisions proposed in ED (UK) 570 address the public interest and is a step forward towards satisfying the public's demand.

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**

Yes, we broadly support that the revisions promote more robust process for both point a) and b).

ACCA also emphasises that directors should be required to make a more explicit statement in respect of risk management and internal controls. This is of critical value to users. The importance of risk management in an organisation is critical to the sustainability of an entity - it is an essential element in the success or failure of an organisation.

The nature of this proposed statement should be fact based and therefore remove elements of subjectivity. For example, it would be beneficial to the user of the accounts to understand how board-level risk taking and control objectives translate into the risk management activities. That could include recognising how these activities are performed within organisations.

- 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?**

Part of the proposals of paragraph 10-1 of ED (UK) 570 is that auditors will now need to design and perform risk assessment procedures that provide an appropriate basis for the identification of events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern before consideration of any mitigating factors such as management's future plans etc.

Therefore, if such events or conditions are identified during the risk assessment by the auditor and relate to a period of longer than 12 months, then a longer period might well be a more appropriate consideration in such situations when evaluating the directors' assessment. ACCA suggests that a longer period shouldn't be specified as it would vary depending on the circumstances of each individual audit.

Furthermore, ACCA notes that since the responsibility for assessing the going concern assumption lies with the directors, if the directors consider a longer period than 12 months in their assessment then the auditor should consider the longer period. For example, if a business plan is provided to support the directors' assessment of going concern that considers a period of three years, then the auditor should be required to consider the longer period in his or her evaluation.

- 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, this is 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?**

We support the recognition of the central role that professional scepticism plays in delivering a high quality audit and broadly support the additional requirements to enhance the application of professional scepticism and particularly the consideration for management bias. As per our research *Banishing Bias: Audit, objectivity and the value of professional scepticism*² 'other stakeholders in the financial reporting supply chain also need to be aware of their own cognitive biases. While the recommendations for auditors and standard setters are important, the actions of others, including preparers, audit regulators, audit committee members, investors and the general public are just as important.' It is therefore very positive to see that the ED (UK) 570 takes into consideration that such bias exists.

Paragraph 10-5 of ED (UK) 570 requires the auditor to evaluate whether events or conditions that may cast significant doubt on the entity's ability to continue as a going concern gives rise to a risk of management bias in the preparation of the financial statements. However, there is no further guidance in the application material on how the auditor is expected to evaluate this. Although we understand that each individual audit is different as this is an area where subjectivity is involved, it is likely to be challenged by reviewers and lead to inconsistent application if clear guidance is not provided.

² https://www.accaglobal.com/content/dam/ACCA_Global/Technical/audit/pi-banishing-bias-prof-scepticism.pdf

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?

The ED (UK) 570 proposals for auditors of all entities to provide an explanation of how they evaluated management's assessment of going concern and to conclude on going concern in the auditor's report builds on the requirements of ISA (UK) 701, Communicating Key Audit Matters in the Auditors report. This standard (as per para. 5 of ISA (UK) 701) only applies to listed entities and circumstances where the auditor otherwise decides to communicate key audit matters in the auditor's report.

According to the findings of ACCA's research '*Key audit matters: unlocking the secrets of an audit*³ in addition to KAMs being useful for investors, the following three additional benefits of KAM were identified:

- Disclosure of KAM stipulates better governance
- Disclosure of KAM supports better audit quality
- Disclosure of KAM encourages better corporate reporting

We therefore agree with the proposals as these can bring additional benefits, however, we believe that it should only be applicable for audits of listed entities. We base our suggestion on the fact that such audits have the largest economic impact and are of public interest. This will provide greater alignment between ED ISA (UK) 570 and ISA (UK) 701.

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?

As noted in our response to question 7 we don't support that the proposals for auditors 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 should be applicable for all entities. The reasons are noted in our response to question 7.

Furthermore, para. A4-11 of the application material mentions that alternative sources of evidence may be acceptable for the determination of the sufficiency and appropriateness of evidence supplied to the auditor by those charged with governance in the case of smaller entities. However, there are no examples of what such alternative sources of evidence may be. We therefore suggest including some examples.

Other than the points noted above, we broadly believe that the requirements and application material are sufficiently scalable.

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

ACCA believes that the revisions proposed in this ED will significantly change the responsibilities of auditors in regards to going concern and require significant investment from firms to enable them to be in a position to satisfy the proposals. The effective date should therefore be reconsidered allowing firms enough time to ensure they are ready to adopt these changes. In addition, Sir Donald Brydon's independent review, which is considering the scope and purpose of audit in the UK is still on going, and is likely to propose further changes for the audit profession in this area.

³ https://www.accaglobal.com/content/dam/ACCA_Global/professional-insights/Key-audit-matters/pi-key-audit-matters.pdf

- 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?**
- 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 should consider the wider reaching platforms such as social media to share guidance regarding the Director's responsibilities in respect of going concern. Additionally, collaboration with firms and professional accountancy bodies can help produce guidance to raise awareness.