Financial Reporting Council

September 2019

FEEDBACK STATEMENT

ISA (UK) 570 (REVISED SEPTEMBER 2019)

GOING CONCERN

The Financial Reporting Council (FRC) is the UK's independent regulator responsible for promoting high quality corporate governance and reporting to foster investment. The FRC sets the UK Corporate Governance and Stewardship Codes and UK standards for accounting and actuarial work; monitors and takes action to promote the quality of corporate reporting; and operates independent enforcement arrangements for accountants and actuaries. As the Competent Authority for audit in the UK the FRC sets auditing and ethical standards and monitors and enforces audit quality.

Contents

Introduction

1. In March 2019 the Financial Reporting Council (FRC) published a consultation on International Standard on Auditing (UK) 570 (Revised) *Going Concern* (ISA (UK) 570).

2. ISA (UK) 570 sets out the audit requirements in respect of going concern for an audit of financial statements. The proposed exposure draft sought to increase the work required of auditors when assessing whether an entity is a going concern to ensure the quality and rigour of audits.

3. In developing the proposals which were informed by a working group, extensive stakeholder engagement, and findings from our enforcement and audit inspection work, we sought to:

   - Develop a clear and sustainable framework and clear lines of accountability (so that companies and audit firms know the exact role of all UK regulatory bodies);
   - Maintain market confidence in the independence of regulation (so that investors and potential investors remain confident in the quality of financial statements);
   - Apply the rule of proportionality, and deliver implementation that can be justified and defended; and
   - Serve the public interest.

4. The consultation closed on 14 June 2019. We received 29 responses in total, but not all respondents answered all 11 questions posed in the consultation document. A list of respondents is included in Appendix 2, and the public responses themselves can be read on our website at https://www.frc.org.uk/consultation-list/2019/exposure-draft-proposed-isa-(uk)-570-(revised).

5. The distribution of responses is as follows:

Type of respondent	Number
Audit Firm (AF)	13
Industry Group (IG)	2
Individual (IND)	5
Investor (INV)	3
Professional Body (PB)	5
Regulator (R)	1
Total	**29**

6. Overall, 17 (AF 7; IG 1; IND 2; INV 3; PB 3; R1) respondents were generally supportive that the proposed revisions promoted a more consistent and robust process in respect of the auditor's responsibilities in the audit of financial statements relating to going concern and 12 (AF 6; IG 1; IND 3; PB 2) respondents were not supportive. In terms of stakeholder groups, of those who responded, all investors and regulators were supportive, with audit firms, professional bodies, industry groups and individuals being fairly evenly split in terms of support. Where respondents disagreed with our proposals

in some cases it was because they wanted us to go further and develop even more stringent requirements to drive higher quality work. However, this would, in some cases have meant that the directors of a company were subject to less stringent requirements than their auditor.

7. The consultation document asked a number of specific questions about ISA (UK) 570 (Revised). The feedback to each of these is set out in the following section.

Responses to specific questions

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?

8. 13 (AF 7; IG 1; IND 2; INV 1; PB 2) of the respondents supported the revisions to ISA (UK) 570 as promoting a more consistent and robust process in respect of the auditor's responsibilities in the audit of financial statements relating to going concern, and ten (AF 6; IG 1; IND 1; PB 2) respondents did not support this stance.

9. However, some of the respondents expressed similar concerns with the revisions. These are set out below, along with our response to those concerns.

Interaction with other reviews and the transition to ARGA

10. In our consultation document, we noted the independent review on the quality and effectiveness of audit being undertaken by Sir Donald Brydon. Sir Donald is expected to report to the Secretary of State by the end of 2019, and his recommendations will then be considered by Ministers.

11. When we issued our consultation, we stated that revising the requirements in respect of going concern was an important project. We have seen several examples of audit failure and audit weakness through our inspection and enforcement work, and to delay action to address that by making revisions to the standard would be an unacceptable risk. We were, therefore, disappointed by the number of respondents from the firms and professional bodies who expressed the opinion that we should wait until the outcome of Sir Donald's review, and in a few instances, the establishment of the Audit, Reporting and Governance Authority (ARGA). Were there to be a further audit failure in the area of going concern, before the establishment of ARGA as a statutory body, public stakeholders would rightly demand to know why the FRC had failed to address weaknesses it had already identified.

12. Accordingly, we believe that the revisions are necessary now and with an implementation date for audits of financial statements of periods commencing on or after 15 December 2019.

Directors' vs auditors' responsibilities

13. The responsibility for the going concern assessment of a company rests with those charged with governance. The financial reporting frameworks applicable in the UK all require the directors (or equivalent) to make an assessment of the entity's ability to continue as a going concern. However, these frameworks provide little guidance to those charged with governance on how this assessment should be made or the level of detailed analysis that may be required to make this assessment. The FRC has provided

guidance on going concern to directors of companies that apply the UK Corporate Governance Code[1] and those entities that do not.[2]

14. Some respondents expressed concern that they thought the proposals meant that auditors would be required to go further than management are required to do so in making their assessment. However, this has always been the case: Paragraph 6 of ISA (UK) 570 (Revised June 2016) states: "The auditor's responsibilities are to obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, and to conclude, based on the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern. These responsibilities exist even if the financial reporting framework used in the preparation of the financial statements does not include an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern."

15. Irrespective of whether management have made an assessment – detailed or otherwise – the auditor is required to undertake work on the going concern basis of accounting and determine whether a material uncertainty related to going concern exists. The revisions made to ISA (UK) 570 help to ensure that this process will be done more consistently and robustly.

16. However, in the UK under the applicable accounting frameworks the directors are required to make an assessment of going concern. As set out in more detail in Q4, we have not amended the requirement for the auditor to look at a longer period as that considered by the directors, as it would be using auditing standards to indirectly change legal or current financial reporting framework requirements. However, entities that apply the UK Corporate Governance Code are required to also include, in the annual report, a statement by the directors on the entity's long-term viability.

Expectation gap and delivery gap

17. Some respondents suggested that it was not a failure in the current standard, but instead a failure caused by a delivery gap in the application of that standard – in other words an audit engagement team failed to implement the existing requirements appropriately.

18. This is certainly the case in certain circumstances, as demonstrated by some of the Enforcement cases where there have been adverse findings in respect of going concern. However, we hope that setting out a more robust process in the revised standard such delivery gaps will not arise as it is clear what the auditing standards require from an auditor when considering going concern.

IAASB standards

19. Some of the respondents expressed a concern that there would be inconsistency between the UK standards and those issued by the IAASB. We appreciate that there are arguments in favour of promulgating standards that are consistent on a global scale as it facilitates the use of international audit methodologies, multi-jurisdictional group

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[1] Guidance on Risk Management, Internal Control and Related Financial and Business Reporting (September 2014) and Guidance for Directors of Banks on Solvency and Liquidity Risk Management and the Going Concern Basis of Accounting (September 2014).

[2] Guidance on the Going Concern Basis of Accounting and Reporting on Solvency and Liquidity Risks: *Guidance for directors of companies that do not apply The UK Corporate Governance Code* (April 2016).

audits and the ability of UK auditors to assert compliance with both UK and IAASB ISAs. However, we feel that it is in the public interest to revise ISA (UK) 570 to create a more robust process for the audit of going concern.

20. Since the IAASB started the auditor reporting project back in 2014, the FRC has strongly encouraged the IAASB to make significant revisions to ISA 570. We supported the proposals that the IAASB proposed for the auditor to make positive statements on going concern and were disappointed when the IAASB did not pursue these proposals on the back of feedback received. In more recent years, we have requested that the IAASB seek to revise ISA 570 further when responding to the IAASB's Proposed Strategy and Work Plan. However, the Board are only just starting to consider a Going Concern project and it will be some years before a new standard is issued. Given this position, we still believe that it is in the public interest to revise the UK standard now.

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

21. 11 (AF 2; IG 1; IND 2; INV 2; PB 3, R 1) of the responses were supportive that the revisions appropriately addressed the public interest, with a further four audit firms partially supportive. Two of these audit firms were supportive of amendments to ISA (UK) 570 but only for public interest entities and not all entities. Nine (AF 6; IG 1; IND 1; PB 1) respondents did not believe that the proposed amendments would address the public interest. Reasons cited for the revisions not being in the public interest were that: it is, first and foremost, the directors' responsibility for going concern and any changes that are made to the auditors' responsibilities without accompanying changes to those of the directors' may widen the expectation gap;[3] more information on going concern in the financial statements might stifle lenders' willingness to lend money to entities; multiple changes to the ISAs (UK) in rapid succession (the proposed changes followed by any changes made following the Brydon review) place too great a burden on audit firms;[3] and the issues experienced in respect of going concern are due to a delivery gap rather than problems with the current standard.[3]

22. We have designed the risk assessment procedures (paragraphs 10-1–11-1), the procedures related to evaluating management's assessment (paragraphs 12-1–15-1) and the procedures related to evaluating audit evidence (paragraphs 17-1–18-1) to be scalable. As such these procedures are applicable to all entities, irrespective of size. As set out in more detail in Q7, we have responded to feedback and amended our proposals so that the requirement to provide an explanation in the auditor's report of how the auditor evaluated management's assessment of going concern applies only to PIEs, listed entities and large companies.

23. We do not support the idea that more information on going concern in the financial statements might stifle lenders' willingness to extend credit to entities. Our work supports the FRC's objective of "promoting transparency and integrity in business" and this includes ensuring that the financial statements include the disclosures necessary for a user of the financial statements and auditor's report to understand the going concern issues as they relate to that entity.

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3 See our response to this point in Q1.

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

24. Most respondents answered these two questions together, with 15 (AF 8; IG 1; IND 2; INV 2; PB 2) being supportive that the revisions promote more robust processes and nine (AF 5; IG 1; IND 1; PB 2) not supporting.

25. Many of the responses that did not support the revisions cited the difficulty in applying the requirements to smaller entities as the processes in place were less formal than in larger entities and the creation of checklists in order to meet the requirements.

26. Clearly, the intention of the revisions is not to create a checklist mentality but to provide a framework for the auditor to work through to ensure that they have obtained an understanding of the process management go through in assessing going concern. We are of the view that these steps are necessary to ensure that the auditor is considering all aspects of the entity and environment, the applicable financial reporting framework and the system of internal control in order to identify events and conditions. It is not appropriate for an auditor to assess the going concern risk as low based only on clearly visible factors—such as positive cash flows and/or balances—as there may be events and conditions that are only identified through the auditor's risk assessment process as it relates to going concern that would negate the impact of those positive cash flows/balances.

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?

27. Most respondents (20: AF 11; IG 2; IND 3; PB 4) were not supportive of the auditor being required to consider a longer period when assessing going concern. Many of these cited that it would be inappropriate for the auditor to consider a longer period where the directors were only required to consider a minimum period of 12 months. However, many of these respondents stated that they would be supportive of a longer period, should the financial reporting framework be amended to also require the directors to look at a longer period. One investor was supportive of encouraging the auditor to look at a period longer than the minimum required of 12 months.

28. Currently, we have not amended the requirement in paragraph 13-1 and as such the auditor is required only to consider the same period as that used by management to make its assessment of going concern. In the UK, the period usually used by directors is at least one year from the date of approval of the financial statements. Whilst this is the minimum period that the directors are required to consider, this is also often the default position.

29. Clearly where the directors have looked at a period of more than one year from the date of approval of the financial statements, the auditor is required to consider the same period. Similarly, if management has provided analysis for the viability statement that covers a longer period to that considered by management for going concern purposes,

the auditor is still required to take that analysis into account in making its own assessment of going concern as such analysis would be “relevant information, including all available information about the future” as set out in paragraph 13-1(b).

30. The FRC strongly encourages auditors to challenge management where they have limited the period to the minimum requirement of one year where there are circumstances that indicate that a longer period would be more appropriate.

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?

31. 18 (AF 9; IG 1; IND 3; INV 1; PB 4) respondents supported that it was sufficiently clear from the proposed revisions that the auditor is first required to identify whether there are events or conditions that may cast significant doubt on an entity’s ability to continue as a going concern. Four audit firms believed that the standard could be clarified further to clarify when in the auditor’s process mitigating factors should be considered i.e. when considering whether there is an event or condition or when considering whether there is a material uncertainty relating to an event or condition, and one industry group did not think this was clear from the requirement alone.

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?

32. 16 (AF 8; IG 2; IND 2; INV 1; PB 3) respondents felt that the proposals sufficiently supported the appropriate exercise of professional scepticism, with a further one individual responding that whilst it did support professional scepticism, more could be required of auditors in the standard. Six (AF 5; PB 1) respondents did not believe that the proposals would have a discernible difference on the exercise of professional scepticism and therefore did not support the proposed revisions.

33. Whilst ISA (UK) 200 (Revised June 2016)[4] sets out the overarching requirement for the auditor to plan and perform an audit with professional scepticism, we know from AQR and Enforcement feedback that there continues to be a lack of challenge of management in key areas of the audit. We therefore believe that it is important for ISA (UK) 570 to reinforce the application of professional scepticism when auditing going concern through requirements such as the consideration of management bias (paragraphs 10-5 and 18-1(a)) and the “stand back” requirement to consider both contradictory and corroborative audit evidence (paragraph 18-1(b)).

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4 ISA (UK) 200 (Revised June 2016), *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph 15.

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?

Explanation of how the auditor evaluated management’s assessment of going concern

34. Eight (3 AF; 2 IND; 2 INV; 1 PB) respondents were supportive of all entities including an explanation of how the auditor evaluated management’s assessment of going concern. Five (3 AF; 1 IG; 1 PB) further responses indicated support for the proposals but only where they applied to non-SMEs – in other words, PIEs, listed entities and large private companies. 11 (7 AF; 1 IG; 1 IND; 2 PB) respondents were not supportive of the proposals, with justification for this response including risk of boilerplating, obfuscation of genuine going concern issues and seeing little value in reporting to owner-managers.

35. As a consequence of this feedback, we have taken the decision to amend the requirement in paragraph 21-1 so that it applies to those audited entities which are of greatest public interest, either to investors as the primary users of audited financial information, or to other public interest stakeholders including employees, pensioners and suppliers. As a result, we are proposing a narrower reporting requirement which addresses the issue in a more proportionate way and will therefore apply to:

- Public interest entities;
- Other listed entities;
- Entities that are required, and those that choose voluntarily, to report on how they have applied the UK Corporate Governance Code; and
- Entities subject to governance requirements of The Companies (Miscellaneous Reporting) Regulations 2018.

Conclusion on going concern

36. Most respondents did not specifically refer to the requirements in paragraph 21-1(c) for the auditor to provide a positive conclusion on whether management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Those respondents (5 AF, 1 IG) who did comment on it were not supportive of the auditor being required to include a positive conclusion on going concern, with four of these believing this was the case for all entities, and three commenting that such a conclusion should be restricted to PIEs and listed entities, as it was not proportionate for those entities who were not PIEs as it would involve more work effort and higher cost.

37. We do not agree that providing a positive conclusion on going concern should involve more work effort and cost. An audit is a reasonable assurance engagement and therefore the auditor is required as part of the audit to obtain sufficient appropriate audit evidence to support management’s assertions over the going concern basis of accounting and the existence of any material uncertainties. Being required to provide a positive conclusion on going concern does not change these underlying responsibilities or the work effort involved.

38. Further one audit firm was not supportive of the requirement to provide a statement about whether the auditor had identified a material uncertainty on the grounds that it may be misinterpreted as the auditor providing a guarantee that the entity will continue

as a going concern for the foreseeable future. Again, however, we do not agree with this statement as the auditor sets out both the directors' and the auditors' responsibilities in respect of going concern in accordance with ISA (UK) 700 (revised June 2016).[5] Further, the auditors' responsibilities section is required to specifically state that "the auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause an entity to cease to continue as a going concern."

39. If auditors are particularly concerned that this needs to be made clear in the auditor's report, then the auditor should include the description of the auditor's responsibilities for the audit of the financial statements in the body of the auditor's report, rather than including it either as an appendix to the auditor's report or by cross-reference to the FRC's website.[6]

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?

40. 12 (AF 5; IG 1; IND 3; INV 1; PB 2) respondents believed that the requirements and application material are sufficiently scalable to a wide range of sizes, complexities and circumstances. Ten (AF 8; IG 1; PB 1) respondents did not think that the revisions were scalable; however, the focus of these responses was on the concern that the revised requirements would disproportionately impact small and medium entities, with particular concern reiterated over the reporting proposals. As noted, in Q7, we have subsequently limited the requirement to include an explanation of how the auditor evaluated management's assessment of going concern to PIEs, listed entities and large entities.

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

41. 14 (AF 7; IG 2; IND 2; INV 1; PB 2) respondents supported the proposed effective date for audits of financial statements commencing on or after 15 December 2019. Nine (AF 6 IND 1; PB 2) respondents did not support the proposed effective date, with five of those specifying that it would be better to wait until the Brydon review was completed, and one believing that aligning the effective date with the IAASB's ISA 315 standard would be more appropriate.

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5 ISA (UK) 700 (Revised June 2016), *Forming an Opinion and Reporting on Financial Statements*, paragraphs 34(b) and 39(b)(iv) respectively.

6 ISA (UK) 700 (Revised June 2016), paragraph 41 permits the description of the auditor's responsibilities to be included:

(a) Within the body of the auditor's report; or

(b) Within an appendix to the auditor's report, in which case the auditor's report shall include a reference to the location of the appendix; or

(c) By a specific reference within the auditor's report to the location of such a description on a website of an appropriate authority, where law, regulation or national auditing standards expressly permit the auditor to do so.

42. As we have already commented in the response to Q1, we do not think it is in the public interest to wait before addressing weaknesses in audit work that can be addressed by revisions to the standard. Similarly, aligning the effective date to the IAASB's ISA 315 would also delay the implementation of the revisions as ISA 315 is still in exposure with a proposed effective date for audits of financial statements commencing on or after 15 December 2020.

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?

43. 18 (AF 10; IG 2; IND 3; PB 3) respondents supported the withdrawal of Bulletins 2008/1 and 2008/10. Some respondents commented that not all guidance had been transferred but did not specify which of this guidance remained useful to them. One audit firm was not supportive of the withdrawal of these Bulletins until further detailed guidance was issued by the FRC.

44. Given that the majority of respondents supported the withdrawal of the Bulletins, the FRC will withdraw the Bulletins on issue of the revised standard.

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

45. Many of the responses stressed the importance of the directors of an entity being ultimately responsible for the financial statements and therefore the going concern assumptions made in respect of those financial statements. Four responses commented that the directors' responsibilities should be strengthened through changes to the law or the accounting framework and four further responses expressed concerns that changes to directors' responsibilities should not be made through the back door of an auditing standard.

46. Finally, many of the responses suggested collaboration with firms and professional bodies and other stakeholders to raise awareness of the directors' responsibilities, with the promotion of existing guidance or the issuing of new guidance. Three respondents thought that the FRC should communicate directly with directors and boards. Four responses stressed how important it was for the FRC (or superseding authority) to be able to hold to account all directors not just those that are accountants. We will feed these comments into the appropriate channels.

Appendix 1—Comparison of ISA 570 (Revised) requirement paragraphs as issued by the IAASB to ISA (UK) 570 (Revised September 2019)

IAASB Paragraph	ISA (UK) Paragraph
1	1
2	2
3	3
4	4
5	5
6	6-1
7	7
8	8
9	9-1
10	10-1(a),
10(a)	10-2(f), 10-2(h), 10-2(g)
10(b)	10-2(f), 10-2(h)
11	11
12	12-1
13	13-1(a), 14-1
14	13-1(b)
15	10-4
16	12-1
16(a)	10-3
16(b)	12-2(d)
16(c)	12-2(a)
16(c)(i)	12-2(b)
16(c)(ii)	12-2(c)
16(d)	12-2(e)
16(e)	12-2(f)
17	17-1(b)
18	17-1(a), 9-2(b)
18(a)	9-2(b)(i)
18(b)	9-2(b)(ii)
19	19
19(a)	19(a)
19(b)	19(b)
20	20
21	21
22	22
22(a)	22(a)
22(b)	22(b)
23	23
23(a)	23(a)
23(b)	23(b)
24	15-1
25	25

25(a)	25(a)
25(b)	25(b)
25(c)	25(c)
25(d)	25(d)
26	26

Appendix 2—List of respondents

Association of Chartered Certified Accountants (ACCA)
BDO LLP
Buzzacott LLP
Charity Commission for England & Wales
Chartered Accountants Ireland (CAI)
Chartered Institute of Public Finance & Accountancy (CIPFA)
Corporate Reporting Users' Forum (CRUF)
Crowe UK LLP
Deloitte LLP
Duncan & Toplis Ltd
Ernst & Young LLP
Grant Thornton UK LLP
Hermes Investment Management Ltd
HW Fisher & Company
Institute of Chartered Accountants in England and Wales (ICAEW)
Institute of Chartered Accountants of Scotland (ICAS)
Kingston Smith LLP
KPMG LLP
Kreston Reeves LLP
Mr D W Taylor
Mr M E Jones
Ms M Makar
Ms V Mithani
Pensions Research Accountants Group (PRAG)
Perendie Ltd
Pricewaterhouse Coopers LLP
Quoted Companies Alliance
RSM UK LLP
Wellcome Trust

Appendix 3—Impact Assessment

The FRC is a principles-based regulator and is committed to issuing proportionate Standards and Guidance that support the provision of high-quality, independent audit. The requirements proposed in this Exposure Draft have been developed in response to particular issues and concerns in respect of going concern in an audit of financial statements.

In making these revisions we have had regard to the FRC's 'Principles for the development of Codes, Standards and Guidance which include:

- there is a clearly defined issue relevant to the FRC's mission and responsibilities;
- the change is the most appropriate way to address the issue;
- one or more of the following conditions is met:
    - a change is necessary to comply or align with a legal requirement; or
    - a change is required in the light of developments in international standards or in UK or European regulation; or
    - the risks to the public interest of not acting are significant, for example, a risk of systemic and/or market failure; or
    - it is possible to eliminate or significantly simplify a current requirement; or
    - it is necessary to clarify a current requirement; or
    - it is possible to create significant additional benefits in the public interest; or
    - a change is necessary to underpin the effectiveness of the FRC's enforcement and disciplinary activities;
- the anticipated benefits of the change outweigh the costs.

With reference to these Principles, the FRC concluded that these revisions are necessary as the risks to the public interest of not acting are significant. In these circumstances, and given the risk posed to investors and other stakeholders by audit failure in this area, the FRC has concluded that it is appropriate to require additional work effort to be applied.

The revised standard has been designed to be scalable, with costs falling mainly on the public interest entities (PIE) audit sector. We believe that benefits in the public interest of enhancements to the quality of audit of going concern, although not quantifiable, will outweigh the costs of changes that may be necessary to audit firms' methodologies, however, it is not possible to quantify a monetary value for those benefits arising.

The cost as a result of these proposals is estimated to be as set out in the following table. However, the FRC welcomes views from stakeholders if they believe that we should consider other factors.

Revised requirement	Assumptions	Net cost (£m)
Familiarisation and Training (part of firm annual update process so impact is mitigated as they would have done it in any case); ***<u>These costs are one-off, non-recurring costs.</u>***	• Updating guidance by technical managers/partners (90%/10%) 300 hours for large firms (6), 25 hours in medium firms (30) and 5 hours in small firms (64), using BIS assumptions for PIEs familiarisation discounted by 50% as these are revisions to existing requirements. • Familiarisation of changes – 0.5 hour per practitioner. Numbers of practitioners drawn from FRC's Key Facts and Trends 2018, assumption that 75% of the holders of the AQ are actively in practice.	0.505 2.016
Increased work effort in the following areas: • Risk assessment procedures and related activities • Evaluation of management's assessment • Enhanced professional skepticism requirements • Work on Viability Statements • Evaluation of sufficiency and appropriateness of audit evidence • Considering the appropriateness of disclosures ***<u>These are recurring costs.</u>***	• Using 97,000 statutory engagements as baseline with aggregate uplift for hours of 0.4% for PIEs/ Other listed and 0.25% for other statutory per ARD allocation.	10.400 3.675
Increased reporting, communication and transparency in the following areas: • Enhanced reporting for PIEs, listed entities and other entities that apply the UK Corporate Governance Code • Communications with regulators ***<u>These are recurring costs.</u>***	• Based on 2,000 PIEs and 800 other listed entities additional requirement 1.5 hours of effort at manager rate average of £400. • For other statutory audit, based on a nominal increase at principal rates. • Reporting to regulators based on 5.0% requirement at 2 hours per report.	1.313 1.090 0.100
Total estimated costs: Of which one-off: Of which recurring:		**19.099** 2.521 16.578

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