

## Chartered Accountants Ireland or CCAB-I material

---

### Technical Alerts

#### TA 03/2020 - Revised ISA 570 Going Concern

#### Information and support in implementing the revised ISA 570

November 2020

#### Disclaimer

The content of this publication is provided as a guide only and does not purport to give professional advice. It should, accordingly, not be relied upon as such. No party should act or refrain from acting on the basis of any material contained in this publication without seeking appropriate professional advice. While every reasonable care has been taken by The Institute of Chartered Accountants in Ireland in the preparation of this publication we do not guarantee the accuracy or veracity of any information or opinion, or the appropriateness, suitability or applicability of any practice or procedure contained therein. The Institute of Chartered Accountants in Ireland is not responsible for any errors or omissions or for the results obtained from the use of the information contained in this publication. To the fullest extent permitted by applicable law, The Institute of Chartered Accountants in Ireland excludes all liability for any damage, costs, claims or loss of any nature, including but not limited to indirect or consequential loss or damage, loss of business profits or contracts, business interruption, loss of revenue or income, loss of business opportunity, goodwill or reputation, or loss of use of money or anticipated saving, loss of information or loss, damage to or corruption of data, whether arising from the negligence, breach of contract or otherwise of The Institute of Chartered Accountants in Ireland, its employees, servants or agents, or of the authors who contributed to the text, even if advised of the possibility of such damages. Similarly, to the fullest extent permitted by applicable law, The Institute of Chartered Accountants in Ireland shall not be liable for any indirect or consequential losses including but not limited to, loss of business profits or contracts, business interruption, loss of revenue, loss of business opportunity, goodwill or reputation, or loss of use of money or anticipated saving, loss of information or damage to or corruption of data, nor shall it be liable for any damage, costs or losses of any nature (whether direct or indirect) occasioned by actions, or failure to act, by users of this publication or by any third party, in reliance upon the contents of this publication, which result in damages or losses incurred either by users of this publication, for whom they act as agents, those who rely upon them for advice, or any third party, or for any breach of contract by The Institute of Chartered Accountants in Ireland in respect of any inaccurate, mistaken or negligent misstatement or omission contained in this publication. All rights reserved. No part of this publication is permitted to be reproduced for resale, stored in a retrieval system for resale, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise for resale, or for any other purpose, without the prior and express written permission of the copyright holder. Nor is any right granted for any part of this publication to be copied or otherwise used in any presentation or training course without the prior and express written permission of the copyright holder. For professional advice on any of the matters referred to above, please contact the Institute of Chartered Accountants in Ireland. Any issues arising out of the above will be governed by and construed in accordance with the laws of Ireland and the courts of Ireland shall have exclusive jurisdiction to deal with all such issues. © The Institute of Chartered Accountants in Ireland, 2020

<b>Contents</b>	<b>Page</b>
<a href="#">1.</a> Key Points	2
<a href="#">2.</a> Effective Date	2
<a href="#">3.</a> Scope	2
<a href="#">4.</a> Significant changes:	2
<a href="#">5.</a> Background to the changes	5
<a href="#">6.</a> Audit reports:	6
<a href="#">7.</a> Further information	6

## 1.Key Points

- A revised auditing standard on Going Concern, ISA 570, has been issued by both IAASA and the FRC.
- The revised standards are effective for accounting periods commencing on or after 15 December 2019.
- The revised standards strengthen the work effort required by auditors in their evaluation of management's going concern assessment.
- There are enhanced reporting requirements for the audit report.
- The Technical Alert aims to highlight the key changes in the standards and is not a substitute for reading the revised standards.

## 2.Effective Date

These revised standards are effective for audits of financial statements of entities, for periods commencing on or after 15 December 2019 and will have widespread impact on our members. For many audits that makes December 2020 year ends the first application.

## 3.Scope

This standard applies to all financial statement audits undertaken in accordance with ISA standards.

## 4.Significant changes:

The significant changes to the standard are listed below.

### •Increase in audit work and timing of audit work

The auditor objectives in respect to going concern have been strengthened in the revised standard. As the going concern assumption is a fundamental principle in the preparation of financial statements, the auditor must obtain sufficient appropriate audit evidence about whether a material uncertainty related to going concern exists; and whether management's use of the going concern assumption is appropriate.

To support the revised objectives, there are more robust requirements regarding the nature and extent of procedures that the auditor should perform to obtain sufficient appropriate audit evidence.

The revised requirements include the following:

#### 1.*Enhanced risk assessment procedures*

More prescriptive risk assessment procedures (paragraph 10) including the link between ISA 315 and ISA 570 (paragraph 10-1 and 10-2). These risk assessment procedures required by paragraph 10-1–10-2 drive the auditor to obtain information that is relevant to the identification of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and whether a material uncertainty related to going concern exists. These procedures also allow for more timely discussions with management, including a discussion of management's plans and resolution of any identified going concern issues.

#### 2.*More prescriptive procedures for evaluating management's assessment* (paragraph 12-1, 12-2)

The auditor's work effort in relation to the evaluation of management's assessment has been enhanced. The auditor's evaluation of management's assessment should draw on a wider range of available information to support their work (through enhanced risk assessment procedures referred to above), with a more robust evaluation of management's assessment, including a more rigorous challenge of the method, information and assumptions used by management in making their going concern assessment.

- Paragraph 12-2(a) requires the auditor to evaluate management's method to assess the entity's ability to continue as a going concern, including determining if the method selected is appropriate in the context of the applicable financial reporting framework and the auditor's understanding of the entity. The auditor is also required to evaluate

whether changes from the method used in prior periods are appropriate;

- Paragraph 12-2(b) requires the auditor to evaluate the relevance and reliability of the underlying data used by management to make the going concern assessment;

- Paragraph 12-2(c) requires the auditor to evaluate the assumptions on which management's assessment is based by determining whether there is adequate support for those assumptions, and whether they are appropriate in the circumstances;

- Paragraph 12-2(d) 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;

- Paragraph 12-2 (e) requires the auditor to consider whether any additional facts or information have become available since the date on which management made its assessment; and

- Paragraph 12-2(f) requires the auditor to request written representations from management and, where appropriate, those charged with governance, regarding their plans for future actions and the feasibility of these plans.

#### **•Professional Scepticism and Management Bias**

The revised standard includes additional requirements and application material designed to enhance the auditor's application of professional scepticism and consideration of the potential for management bias. These include:

- A definition of "management bias" has been included in the revised standard in paragraph 9-2(a);

- A requirement to evaluate whether the existence of events or conditions may give rise to risk of management bias in the preparation of the financial statements (*paragraph 10-5*);

- A requirement to evaluate whether judgments and decisions made by management in making its assessment, even if they are individually reasonable, are indicators of possible management bias (*paragraph 18-1(a)*); and

- A requirement to "stand back" and consider all audit evidence obtained, whether corroborative or contradictory, when evaluating going concern (*paragraph 18-1(b)*).

#### **•Documentation requirements**

The increased work will inevitably mean more documentation detailing the enquiries made of management, the auditor's evaluation of management's assessment, as well as details of any tests that were performed and the auditor's conclusions thereon. Paragraph 26-1 in the revised standard includes specific matters that must be included in the audit documentation to demonstrate the auditor's decision-making process.

#### **•Revised auditor reporting**

##### ***All entities:***

Historically, the auditor has reported by exception on whether the director's use of the going concern basis of accounting was appropriate. Under the revised standard, if the auditor concludes that the going concern basis of accounting is appropriate, the auditor shall include a

section in the auditor's report with the heading "Conclusions relating to Going Concern", or other appropriate heading, and include:

- Where the auditor concludes that no material uncertainty relating to going concern has been identified, a statement that the auditor has not identified a material uncertainty that may cast doubt on the entity's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue; and
- a conclusion that management's use of the going concern basis of accounting in the preparation of the entity's financial statements is appropriate.

***PIEs, listed entities and those entities applying the UK Corporate Governance Code and the Irish Corporate Governance Annex:***

ISA (Ireland) 570 21-1

If the auditor concludes that the going concern basis of accounting is appropriate, the auditor shall include a section in the auditor's report with the heading "Conclusions relating to Going Concern", or other appropriate heading, and include:

- (a)Where the auditor concludes that no material uncertainty related to going concern has been identified, a statement that the auditor has not identified a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorized for issue;
- (b)A conclusion that management's use of the going concern basis of accounting in the preparation of the entity's financial statements is appropriate;
- (c)For entities that are required, and those that choose voluntarily, to report on how they have applied the UK Corporate Governance Code and the Irish Corporate Governance Annex, or to explain why they have not, the auditor has nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements; and
- (d)For public interest entities, other listed entities and entities that are required, and those that choose voluntarily, to report on how they have applied the UK Corporate Governance Code and the Irish Corporate Governance Annex, 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".

**5. Background to the changes**

Going concern is one of the fundamental principles in the preparation of financial statements. In essence, a company that is a going concern is one which has the resources needed to continue operating for the foreseeable future.

Given the fundamental importance of going concern in a set of financial statements and the findings arising from a number of the FRC's enforcement cases, the FRC consulted on revisions to this standard in 2019 with the view to driving necessary improvements in audit quality.

In proposing the changes, the FRC stated that they were seeking the following outcomes:

- **Fostering an appropriately independent and challenging mindset of the auditor** – Professional scepticism is a fundamental concept and core to audit quality, an important outcome is to reinforce the application of professional scepticism when challenging management's assessment of going concern.
- **Transparency** – to provide investors and other stakeholders (such as those charged with governance) with greater insight into the audit process through enhanced auditor reporting.
- **Enhancing documentation of the auditor's judgments** – The audit file should appropriately demonstrate the auditor's decision-making processes, including essential interactions and key judgments made.
- **Keeping ISAs fit for purpose** – the ISAs should contain robust requirements and guidance to drive appropriate engagement partner and engagement team performance, regardless of the circumstances.
- **Reinforcing the need for robust communication and interactions during the audit** – Strengthen interactions between engagement partners, their teams as well as communications with those charged with governance.

IAASA also consulted on the revised standard in May 2019 and did not propose any additional Irish content:

- [https://www.iaasa.ie/getmedia/6bof6bda-f9d5-4d5f-b88e-900371463db6/IAASA\\_Consultation-Paper-on-ISA570\\_final.pdf?ext=.pdf](https://www.iaasa.ie/getmedia/6bof6bda-f9d5-4d5f-b88e-900371463db6/IAASA_Consultation-Paper-on-ISA570_final.pdf?ext=.pdf)

The results of the consultation in the form of published feedback statements are available on the relevant websites and the updated standards were published in late 2019.

Feedback statements:

- FRC (<https://www.frc.org.uk/getattachment/d0922877-903c-4566-940b-d60dcd2165f5/Going-Concern-Feedback-Statement-2019-Full-Covers.pdf>)
- IAASA ([https://www.iaasa.ie/Publications/Consultation-Papers/Consultation-on-proposal-to-revise-ISA-\(Ireland\)-5/Feedback-Paper-ISA-\(Ireland\)-570-\(Revised-October\)](https://www.iaasa.ie/Publications/Consultation-Papers/Consultation-on-proposal-to-revise-ISA-(Ireland)-5/Feedback-Paper-ISA-(Ireland)-570-(Revised-October)))

## 6. Audit reports:

As a result of the revised ISA in both Ireland the UK the wording of the audit report is changing for virtually all audits. Paragraphs 21 – 24 of the standard and application notes A26 – 33 provide guidance on this area, follow the links below for example illustrative audit reports applicable for audits performed in accordance with ISAs Ireland and UK.

- IAASA Compendium of Illustrative Auditor's Reports (Oct 2020) includes a brief discussion and example wording on page 6. <https://www.iaasa.ie/Publications/Auditing-standards/Guidance-Notes/Compendium-of-Illustrative-Auditor%E2%80%99s-Reports>
- The FRC Illustrative Audit reports Bulletin (March 2020) pages 6–8 <https://www.frc.org.uk/getattachment/d2efe37f-6953-40af-a277-1746ad94e057/Illustrative-Auditors-Reports-Bulletin-March-2020-V1-2-4.pdf>

## 7. Further information

Where to access the standard:

- ISA (Ireland) 570 (Revised October 2019) Going Concern can be downloaded from IAASA's website. <https://www.iaasa.ie/Publications/Auditing-standards>
- The FRC UK standards can be accessed on the FRC website. <https://www.frc.org.uk/auditors/audit-assurance/standards-and-guidance>

Relevant articles

**Article in Accountancy Ireland (July 2020)**

- What does ISA 570 (Ireland) Going Concern (Revised) mean for directors and statutory auditors?

<https://www.charteredaccountants.ie/Accountancy-Ireland/Articles2/Technical/Latest-News/Article-item/going-concern>

**Institute Of chartered Accountants in Scotland**

- Implications for auditors (November 2019):

<https://www.icas.com/professional-resources/audit-and-assurance/information-and-support/revised-uk-going-concern-standard>

- Commentary on FRC findings on additional measures in audit firms: (July 2020)

<https://www.icas.com/professional-resources/audit-and-assurance/audit-firms-introduce-range-of-additional-measures-to-enhance-their-evaluation-of-companies-going-concern-assessments>