



# **CONSULTATION PAPER**

## **Proposal to Revise ISA (Ireland) 570 Going Concern**

**May 2019**

## **MISSION**

**To contribute to Ireland having a strong regulatory environment in which to do business by supervising and promoting high quality financial reporting, auditing and effective regulation of the accounting profession in the public interest**

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## 1. Summary

The purpose of this consultation paper is to obtain the views of stakeholders with regard to IAASA's proposal to issue a revised version of International Standard on Auditing (ISA) (Ireland) 570 Going Concern. These revisions are in line with the changes that are proposed and currently under consultation by the Financial Reporting Council (FRC) in respect of the exposure draft of ISA (UK) 570 Going Concern, which can be found [here](#).

The proposed revised ISA (Ireland) 570 can be found [here](#).

## 2. Introduction

ISAs (Ireland) are based on ISAs (UK) which, in turn, are based on the corresponding standards issued by the International Auditing and Assurance Standards Board (IAASB<sup>1</sup>). IAASA's policy is to make minimal amendments to the UK standards. Amendments are considered where there is a conflict with Irish or EU law or where there are distinct differences between the Irish and UK markets which impact on the applicability of a standard in Ireland.

On 4 March 2019, the FRC issued an exposure draft of ISA (UK) 570 - Going Concern. The revisions proposed by the FRC are designed to address concerns regarding the effectiveness of auditors' work on going concern arising from the collapse of large companies such as HBOS, BHS and Carillion and from a number of FRC enforcement cases. IAASA is not proposing to add any new Irish requirements to the changes made by the FRC.

Adoption of the revised ISA (UK) 570 is subject to the outcome of the FRC's consultation process. Any further significant changes to the current standard applicable in Ireland will be subject to a consultation process by IAASA prior to the issuing of a revised ISA (Ireland) 570.

## 3. Overview of revisions

The proposed effective date of the revised ISA (Ireland) 570 is for the audits of financial statements with accounting periods beginning on or after 15 December 2019. This is consistent with the effective date of the FRC's exposure draft of ISA (UK) 570 and also ISA (Ireland) 540 (revised December 2018) - Auditing Accounting Estimates and Related Disclosures.

IAASA supports the proposed amendments, noting their importance in supporting an enhanced focus by auditors on going concern. IAASA believes that they represent an improvement to the current ISA (Ireland) 570 and will lead to improvements in audit quality. The proposed revisions include:

- Improved links to the other ISAs (Ireland) (in particular, ISA (Ireland) 315 - Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment) to indicate how the requirement of those standards apply to going concern;
- Amendment of the standard's objectives to require auditors to obtain sufficient appropriate audit evidence regarding an entity's ability to continue as a going concern and to conclude on whether there is a material uncertainty relating to going concern. In contrast, one of the objectives of the current ISA (Ireland) 570 is for the auditor to conclude, based on the audit evidence obtained, whether there is a material uncertainty that may cast significant doubt on an entity's ability to continue as a going concern;
- Expanded requirements for the auditor to evaluate management's assessment of an entity's ability to continue as going concern;

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<sup>1</sup> IAASB is a committee of the International Federation of Accountants (IFAC). The IAASB's constitution and due process is described in its ['Terms of Reference'](#).

- Where the going concern basis of accounting is appropriate, a new requirement for the audit report to contain:
  - an explanation of how the auditor evaluated management’s assessment of going concern (including key observations);
  - where relevant, a statement that the auditor has not identified a material uncertainty related to going concern; and
  - a conclusion that management’s use of the going concern basis of accounting is appropriate;
- Auditors will be required to communicate with those charged with governance where management is unwilling to make or extend its assessment of going concern when requested to do so;
- Where going concern issues lead to qualification of the audit report, a new requirement for auditors to consider whether they are obliged by law, regulation or ethical requirements to report to an appropriate authority outside the entity; and
- The inclusion of documentation requirements to demonstrate the auditor’s decision making process.

The proposed standard is applicable to all entities. Where relevant, it reflects the requirements of the 2018 UK Corporate Governance Code and the Irish Corporate Governance Annex. It is intended to be scalable to the size, complexity and circumstances of individual entities.

#### 4. Matters on which IAASA is consulting

In light of the above, a number of matters are set out below on which IAASA is seeking views from stakeholders and interested parties by 5pm on **Friday 28 June 2019**.

| No. | Matter on which views are sought  |
|-----|---|
| 1.  | Do you agree that ISA (Ireland) 570 should be revised to adopt the proposed revisions? If not, please give your reasons and explain what action, if any, you believe should be taken to update the ISAs (Ireland) in respect of going concern.                                |
| 2.  | Do you believe that the proposed revisions will lead to a more robust process for the audit of going concern? If not, please give your reasons and explain what changes, if any, you believe should be made to ISA (Ireland) 570, including your rationale for those changes. |
| 3.  | Is the proposed effective date, i.e. for financial years beginning on or after 19 December 2019, appropriate? If not, please give reasons and indicate the effective date that you would consider appropriate.  |

#### 5. Making your submission

IAASA invites comments on all the proposed amendments to ISA (Ireland) 570 and, in particular, on the specific matters set out in Section 4 above.

Stakeholders and interested parties are invited to provide responses to the above questions by e-mail only to [submissions@iaasa.ie](mailto:submissions@iaasa.ie) no later than **5pm on 28 June 2019**.

Any submissions received after this time and all anonymous submissions will not be considered.

Comments are most helpful if they:

- (a) respond directly to the specific question posed;
- (b) provide a clear rationale for the position adopted by the respondent;
- (c) provide supporting evidence underpinning the views expressed/rationale proposed; and
- (d) describe in detail any alternative option(s) you wish IAASA to consider.

All responses from identifiable individuals and organisations received by the deadline will be considered by IAASA. Depending on the nature and scale of responses, IAASA may publish a feedback statement summarising the content of the responses. Respondents should note that, in the interest of transparency, their responses may be published in full or in part (and may be attributed to the respondent) by IAASA in that feedback statement.