2019

Feedback Paper

ISA (Ireland) 570 (Revised October 2019) Going Concern

October 2019

IAASA
Irish Auditing & Accounting Supervisory Authority

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

Contents

1. Summary

The International Standards on Auditing (Ireland) ('ISAs (Ireland)') are based on ISAs (UK) issued by the Financial Reporting Council ('FRC') which, in turn, are based on the corresponding standards issued by the International Auditing and Assurance Standards Board ('IAASB'[1]).

In May 2019, IAASA issued a public consultation on the proposal to revise ISA (Ireland) 570, to reflect changes proposed by the FRC in the exposure draft of ISA (UK) issued for public consultation in March 2019. IAASA did not amend the FRC proposals or propose to add any new Irish requirements to ISA (Ireland) 570.

On 30 September 2019, the Financial Reporting Council ('FRC') issued a revised version of ISA (UK) 570 - Going Concern. The effective date of the revised UK standard is for the audits of financial statements for accounting periods beginning on or after 15 December 2019.

2. Responses Received

IAASA's consultation closed on 28 June 2019. IAASA received 5 responses, as listed below – two from professional accountancy bodies and three from audit firms.

1. Chartered Accountants Ireland (CAI)
2. CPA Ireland (CPA)
3. EY
4. KPMG
5. PwC

3. Matters on which IAASA Consulted, Summary of Responses and IAASA Response

A summary of the responses received to the specific questions asked in the consultation, and IAASA's response, are set out below.

No.	Matter on which IAASA sought views
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.
Summary of Responses	All five respondents expressed reservations regarding the proposed revisions. The principal views raised in the responses were: • Sufficient consideration has not been given to the needs of the Irish market; • Auditors' responsibilities in the draft ISA are disproportionate to the responsibilities of directors; • The proposed revisions depart from standards issued by the IAASB and the possibility that, in future, the FRC standards may not remain in full compliance with EU law; • Scalability for the audits of smaller entities, including the challenges arising from the requirements for enhanced auditor reporting applicable to all audits. A number of respondents noted

[1] 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'.

	that legislative differences result in a higher proportion of smaller entities in Ireland being subject to audit than in the UK; and • Changes should not be made until the Brydon review on the quality and effectiveness of audit in the UK has concluded, due to the possibility that this may result in further changes to this standard.
IAASA Response	**Needs of the Irish market** Until 2016, when IAASA was made responsible for the adoption of auditing framework in Ireland, the FRC issued auditing standards for use in both the UK and Ireland. It is IAASA policy to adopt the UK auditing standards for Ireland, with minimal changes. IAASA's reasons for adopting this approach include that the FRC standards: • provide more detail in certain areas than the international equivalents, particularly in relation to ethical matters; and • while based on International Standards, have led in the development and implementation of new provisions designed to improve audit quality. It is IAASA's view that the public interest in Ireland is best served by adopting auditing standards that are designed to enhance audit quality and represent best practice. Further, IAASA has not identified issues specific to the Irish audit market that indicate that the changes in ISA (Ireland) 570 (Revised October 2019) will have a disproportionate effect on Irish auditors or impact on the standard's applicability in Ireland. In this context, IAASA considers it appropriate in this instance to adopt the FRC's proposals with minimal changes (section 4 below refers). **Directors' vs auditors' responsibilities** Paragraph 6 of the ISA (Ireland) 570 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."* Consequently, auditors are currently required to undertake work on the going concern basis of accounting and determine whether a material uncertainty related to going concern exists, regardless of whether or not management have made any assessment. The revisions to ISA (Ireland) 570 are designed to ensure that process will be more consistent and robust. If auditors are concerned that directors' and auditors' respective responsibilities in respect of going concern may be unclear to financial statement users, they should consider including the description of the auditor's responsibilities for the audit of the financial statements in the body of the auditor's report, rather than as an appendix to the auditor's report or by cross-reference to IAASA's website, as permitted by paragraph 41 or ISA (Ireland) 700 (Updated December 2018) – Forming an Opinion and Reporting on Financial Statements. **Consistency with IAASB standards and EU requirements**

	We acknowledge the arguments in favour of having auditing standards that are consistent at both international and EU level. However, it is likely to be some years before the IAASB issues any proposals to update ISA 570 and none of the proposed changes are contrary to current EU law. In this context, IAASA believes that it is in the public interest to revise ISA (Ireland) 570 in line with the changes proposed by the FRC which are intended to create a more robust process for the audit of going concern. Further, we note that the extant Irish auditing framework already provides more detail in certain areas than the international standards, particularly in relation to ethical matters. This additional detail provides clarity for stakeholders and reduces the possibility of significant differences in application. IAASA will continue to monitor changes to the auditing framework proposed by the FRC to ensure that it continues to be appropriate to adopt them in Ireland. IAASA will adapt the standard where there is a conflict with Irish or EU law and engage in a public consultation where substantive changes to the Irish auditing framework are proposed. **Scalability** The provisions of ISA (Ireland) 570 (Revised October 2019) are designed to be scalable and consequently, they are applicable to all entities. However, the requirement to provide an explanation in the auditor's report of how the auditor evaluated management's assessment of going concern has been amended to apply in limited circumstances i.e. the audits of PIEs, other listed entities and entities applying the UK Corporate Governance Code and the Irish Corporate Governance Annex. This should limit the impact of the revised standard on the audit of smaller and medium entities, which was raised as a concern by several respondents. **Brydon review** IAASA does not consider it appropriate to await the outcome of the Brydon review and any consequential impact that review may have on the UK auditing framework before revising ISA (Ireland) 570. Any changes proposed to the ISAs (UK) by the FRC following the Brydon review will be considered by IAASA and, if it is considered appropriate to make corresponding amendments to Irish auditing framework, IAASA will engage in a public consultation on the proposed changes at that time.
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.
Summary of Responses	The responses to this question largely reflected the comments provided in response to question 1. In particular, respondents were of the opinion that the proposed revisions to auditors' responsibilities were disproportionate in comparison with requirements on directors.
IAASA Response	IAASA's views on the respective responsibilities of directors and auditors in respect of going concern re set out above in response to question 1.
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.

Summary of Responses	Two respondents (CAI and EY) commented that further consideration of the issues arising was required before determining an appropriate effective date. Two other respondents (KPMG and PwC) did not support the proposed effective date, while one respondent (CPA) was of the view that the revised ISAs should be effective for financial periods beginning on or after 15 December 2020.
IAASA Response	IAASA does not consider that it is in the public interest to delay amendments to ISA (Ireland) 570 that are designed to enhance auditor focus on going concern. In this context, IAASA is of the view that is appropriate for ISA (Ireland) 570 (revised October 2019) to apply to financial years beginning on or after 15 December 2019, consistent with the UK standard and ISA (Ireland) 540 (revised December 2018) - Auditing Accounting Estimates and Related Disclosures.

All responses are provided in full in the Appendix to this Feedback Paper.

4. Difference to the requirements of ISA (UK) 570

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.

In this context, ISA (Ireland) 570 (Revised October 2019), reflects the requirements of ISA (UK) 570 (Revised September 2019), except that the requirement to include an explanation in the auditors' report of how the auditor evaluated management's assessment of going concern has been limited to PIEs, other listed entities and entities reporting on how they have applied the UK Corporate Governance Code and the Irish Corporate Governance Annex.

In comparison, the UK standard also applies this requirement to the auditors of certain significant entities, that are required to comply with governance requirements set out in UK legislation. There is no equivalent provision in Irish legislation.

5. Conclusion

Following the consultation and having regard to the responses received, IAASA is adopting ISA (Ireland) 570 (Revised October 2019).

The effective date is for audits of financial statements for periods beginning on or after 15 December 2019. Early adoption is permitted.

Appendix

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Kevin Prendergast,
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submissions@iaasa

27 June 2019

Dear Kevin

Proposal to revise International Standard on Auditing (Ireland) 570 – Going Concern

We are pleased to provide the Authority with views on the proposed adoption of revised standards relating to the assessment of going concern in the course of a financial statement audit, as invited by its Consultation Paper issued in May 2019.

Chartered Accountants Ireland ('the Institute') supports steps to clarify and strengthen the process whereby auditors assess and report on the appropriateness of the use of the going concern basis of accounting. We also consider that reassessment of the auditing standards in this area is in the public interest.

In response to the matters on which IAASA has indicated it is seeking views, we have the following comments:

1) ***Do you agree that ISA (Ireland) 570 should be revised to adopt the proposed revisions?***

Whilst supportive of steps to support a robust assessment of going concern in the context of a financial statement audit, we have a number of reservations concerning the changes that the Financial Reporting Council (FRC) is suggesting in its exposure draft, on which the proposed ISA (Ireland) is based.

These concerns are set out in our response to the FRC, a copy of which is attached. They include, in particular, that some of the proposed steps required of auditors extend beyond matters required by the current accounting framework and hence are disproportionate to the obligations placed on directors under current accounting frameworks. We consider that each of the matters noted in our letter require consideration and resolution before a new revised standard is applied.

Additionally, given that the proposed new standard significantly diverges from current international requirements, we have some concern that effective application of a consistent and enhanced auditor response to going concern in the audit process in the light of its new provisions may be difficult to achieve in practice.

We would also draw your attention to the point noted in our letter to the FRC concerning the possibility of further changes to the UK standard being proposed in the light of matters currently under consideration as part of the independent review of independence and quality of audit in the UK, being undertaken by Sir Donald Brydon, and the need to consider the effect of such changes before finalising revised auditing requirements.

Impact of the Irish business environment

We note IAASA's stated policy, as set out in its consultation paper, of taking into account differences between the UK and Irish markets which impact on the applicability of a particular standard in Ireland, prior to adopting a particular UK standard.

In this particular case we consider that, before taking a decision to adopt a standard based on the proposed new UK standard, formal research should be undertaken into the needs and requirements of the Irish business and regulatory market, both to assess the nature of the challenges presented in relation to financial reporting by, and audits of, listed and other public interest entities and to consider the appropriateness and value of the extended procedures in the context of smaller and non-complex entities, particularly those that are owner-managed. Matters identified in the International Auditing and Assurance Standards Board's (IAASB's) discussion paper on '*Audits of Less Complex Entities: exploring possible options to address the challenges in applying the ISAs'* should also be taken into account.

Additionally, we would recommend that IAASA evaluates the appropriateness of applying, at this time, new requirements based on a UK standard that, as currently drafted, marks a significant departure from current international standards established by the IAASB. As noted in IAASA's consultation paper 'The future auditing framework for Ireland', issued in October 2016, the result of the United Kingdom voting to leave the European Union is that there is uncertainty in both political and economic landscapes and hence it is possible that the FRC auditing standards may not remain in full compliance with EU law in the future and that, as a consequence, Irish and UK audit frameworks may need to diverge significantly in the future.

2) ***Do you believe that the proposed revisions will lead to a more robust procedures for the audit of going concern?***

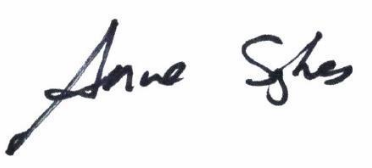
As set out in our letter to the FRC, we have a number of areas of concern relating to the proposed new requirements to be placed on auditors, in particular their proportionality vis-à-vis the obligations placed on directors in relation to assessing going concern. Hence although the proposed new requirements viewed in isolation set out a robust framework for audit work in this area, the feasibility of the steps involved may be open to question in the absence of clear equivalent obligations being placed on directors.

3) ***Is the proposed effective date appropriate?***

We consider that all the factors set out above – including both alignment of the proposed ISA (Ireland) with IAASB or FRC and, in the latter case, the completion of the Brydon review, require further consideration before determining an appropriate effective date.

We hope that these observations, and those set out in our response to the FRC, are of assistance to IAASA as considers the next steps to be taken in relation to this important area. We would be happy to discuss any aspects of our views in more detail if that would be of help in that process and we look forward to the next stage in development of updated requirements.

Yours sincerely,



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Anne Sykes
Secretary
Audit & Assurance Committee
Chartered Accountants Ireland

Attachments:

ISA (UK) 570 revision: CAI comments to FRC
ISA (UK) 570 revision: CAI responses to specific consultation questions raised by FRC

Irish Auditing and Accounting Supervisory Authority,

Millennium Park,

Naas,

Co. Kildare

28th June 2019

Submitted by email to: submissions@iaasa.ie

Dear Sir/Madam,

Consultation Paper – Proposal to Revise ISA (Ireland) 570 Going Concern

We are pleased to have this opportunity to respond to the consultation regarding the proposal to revise ISA (Ireland) 570 Going Concern.

We note that one of the drivers of this consultation has been the concern arising from the collapse of large companies such as HBOS, BHS and Carillion and from a number of FRC enforcement cases. There is a concern that a review of the needs of the Irish market has not been conducted as part of this consultation and that changes are being introduced to the Irish market without evidence that these changes represent the most appropriate response to the Irish market.

It is noted that the FRC conducted an impact assessment as part of its consultation for the UK market, but we note with disappointment that this has not been done in the context of the Irish market.

We believe that the audit market in Ireland differs substantially from the UK market at the smaller entity end of the scale, given the loss of audit exemption implications for companies who file their annual returns with CRO late. This we believe results in proportionately more small and micro companies requiring statutory audit than would be required in the UK. Such small companies would typically have an SMP firm as their auditor.

We also note that this proposed standard diverges further from the International Standards on Auditing as issued by the IAASB. We wish to express concern that in the face of a potential Brexit situation in October 2019, that the continued approval and adoption of FRC auditing standards by Ireland may result in unacceptable differences arising between auditing standards in Ireland and the EU.

We fully support the global harmonisation of auditing standards and this direction is concerning.

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.**

   Whilst we support the ongoing enhancement of auditing standards and believe that this topic is fundamental to the usefulness of audited financial statements, for the reasons outlined above we do not believe that sufficient consideration has been given to the needs of the Irish market in arriving at this proposal. It is important to note that significant changes were introduced to ISA 570 and ISA 700, for periods commencing on or after 17 June 2016, the impact of which has not yet been completely assessed.

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.**

   We believe that ensuring that there is a robust process around the auditor's consideration of going concern is essential to protect the public interest. This applies for both small and large companies. However, we believe that the balance of scalability has not been entirely delivered by the standard. We would like to see the guidance elements of the standard expanded for consideration of applicability to the audit of small companies given that the information systems of an SME may not be able to deliver sophisticated information requests from the auditor. Perhaps separate additional guidance of this nature could be developed for the audit of SMEs in this area.

   In particular the requirement 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 is more appropriate to the PIE market given the breadth of the potential users of the financial statements and the impact of the potential failure of a PIE.

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.**

   We believe that an additional twelve months would be necessary to give audit firms the required time to make the required changes to their policies and procedures in this area.

If you have any queries on any aspect of our response, please do not hesitate to contact us.

Yours sincerely,

Emer Kelly

Emer Kelly
Secretary – Audit Practices Sub Committee

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Mr Kevin Prendergast
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28 June 2019

Dear Mr. Prendergast

IAASA Consultation: Proposal to Revise ISA (Ireland) 570 Going Concern

KPMG is pleased to provide our comments and observations on the Irish Auditing & Accounting Supervisory Authority's (IAASA) consultation on the 'Proposal to Revise ISA (Ireland) 570 Going Concern' issued on 3 May 2018.

We welcome the development of auditing standards that support consistent and high quality audit work by auditors, both locally and internationally, over the going concern basis of accounting. This is an area of financial reporting which is not well understood and is becoming increasingly conflated with an entity's on-going financial viability. We believe that the reassessment of the auditing standards in this area to be in the public interest.

However, of paramount importance to reducing the "expectation gap" in this area is the alignment of directors' responsibilities in relation to the performance of their assessment of an entity's ability to using the going concern basis of accounting, to the requirements placed on auditors to performed audit procedures over that assessment. In addition, the current situation in which there are additional disclosure requirements in the auditing standards in respect of the going concern basis of accounting which do not exist in the financial reporting framework is a clear illustration that there is a critical need to enhance the clarity and specificity of directors' responsibilities in this area.

In relation to the specific matters on which views were sought, we note our responses as follows:

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.**

   We are supportive of steps to reduce the "expectation gap" in relation to the audit of the going concern basis of accounting and enhance the robustness of the auditor's assessment thereof in a financial statement audit. However we have a number of concerns in relation to the changes proposed by the Financial Reporting Council (FRC) on which the proposed ISA (Ireland) standard is based. Those concerns are included in Chartered Accountants Ireland's (CAI) response to the FRC's consultation which we understand CAI has provided you a copy of. These concerns centre around 1) the inconsistencies between the auditor's responsibilities set out in the proposed standard and the requirements of the financial reporting framework and responsibilities of directors in the use of the going concern basis of accounting for preparation and presentation of financial statements; 2) the confusion around the requirement to obtain "sufficient and appropriate audit evidence"; 3) the need to consider the scalability of the requirements in the audits of smaller entities; 4) the need for further consideration of "management's assessment"; 5) risks arising from the requirements for enhanced auditor reporting in relation to their audit work in relation to going concern and 6) in relation to the application material relating to the suggested procedures in the area of consideration of the "Director's Assessment of the Ongoing Viability of the Entity".

We would also highlight that on foot of the independent review of the quality and effectiveness of audit being undertaken by Sir Donald Brydon, there is the possibility of there being further changes made to the FRC's auditing standards in this area and as such we believe no changes should be made to ISA's Ireland until that review has concluded.

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.**

There are a number of areas in which we have concerns which are included in CAI's response to the FRC and in particular the proportionality of the proposed revisions to the responsibilities of the auditor in comparison with the requirements placed on directors in relation to assessing an entity's ability to use the going concern basis of accounting. We are concerned that in practice, the proposals will not be operable without clear and equivalent requirements being placed on directors.

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 could consider appropriate.**

No. The proposed effective date does not allow sufficient time to implement the changes required by the proposed standard in audit methodology, audit tools and systems and rollout training to all audit professionals. Critically, we believe not allowing sufficient time for implementation of changes to auditing standards is damaging to audit quality both in the short and long term. We believe that an effective date should not be determined until the Brydon review has been completed and until the necessary changes to the financial reporting framework and the responsibilities of directors are implemented.

We hope you find our comments useful. We are committed to contributing to the constructive implementation of the revised ISA 570 'Going Concern'. If you would like to discuss any of the above please contact Daniel O'Donovan or myself.

Yours sincerely

Eamonn Russell
Partner, Department of Professional Practice

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Mr. Kevin Prendergast
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28 June 2019

Dear Mr. Prendergast

Proposal to revise ISA (Ireland) 570 Going Concern

EY welcomes the opportunity to comment on the Authority's consultation paper on the proposal to revise ISA (Ireland) 570 Going Concern, with reference to the proposals set out by the Financial Reporting Council's (FRC) in their Exposure Draft (ED), *Proposed International Standard on Auditing (UK) 570 (Revised) Going Concern*.

The consultation paper sets out the Authority's policy to make minimal amendments to UK auditing standards when adopting in Ireland and that amendments to the UK standards are considered by the Authority 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.

We fully support IAASA's commitment to high quality audit and the adoption of auditing standards which will ensure the maintenance of investor and wider stakeholder confidence in audit, however we believe the current FRC proposals to amend ISA (UK) 570 reflects a clear move to depart from the international auditing standards issued by the IAASB and consequentially the proposals misalign with the requirements of statutory auditors as set out in the international standards applied by other European jurisdictions.

We have provided our responses to the questions posed in the consultation paper in the Appendix to this letter. Set out below are some further high level observations of the proposed changes:

- We have significant concerns that some of the proposed revisions to the standard will lead to confusion between the obligation of the directors and auditors in considering going concern when the primary responsibility for the going concern assertion rests on the board of directors and is an important aspect of the board's corporate governance responsibilities, not the auditors (Para 10.4 Risk assessment procedures and related activities).
- It is unclear how the auditor will be able to address obtaining sufficient audit evidence where the directors do not prepare an assessment of the going concern status (Para 17.2 - The auditor shall attempt to obtain further audit evidence).
- The inclusion of new disclosures required in the auditor's report will likely lead to the development of boilerplate reporting, detracting from the intended value of including this additional information in the auditor's report. (Paragraph 21.1 - Implications for the auditor's report).

- We have concerns on the lack of clarity with regard to how the requirement in para 25.1 interrelates with the pre-existing requirement in ISA250 (Ireland). We do not believe the expectations of the specific actions that auditors should take is sufficiently clear. (Paragraph 25.1 - Communication with regulatory and enforcement authorities).

As a member firm of Chartered Accountants Ireland we have also contributed to and our supportive of the submission made by our professional body on this consultation.

If you would like to discuss any of the points raised in this letter, or in our responses to the ED's questions, please contact me.

Yours sincerely

Dermot Quinn

Audit Compliance Principal
Ernst & Young

Appendix

Q1. Do you agree that ISA (Ireland) 570 should be revised to adopt the proposed revisions?

We refer you to our overall general concerns in our letter on the Authority's proposals to adopt the revisions to the UK standard ISA 570 (UK) and which depart from the international standards issued by the IAASB.

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

The proposed revisions to ISA 570 (UK) is part of a broader response to stakeholder concerns on corporate failures in the UK. The reasons given by the FRC for issuing proposed revisions to the standard are clearly articulated in the ED (e.g., recognition of the public interest in going concern).

We believe that it is important for all stakeholders and users of the report and accounts to understand exactly what is meant by "going concern", so they are clear which "test" is being applied by the directors and auditors.

Changes to an auditing standard on going concern will not by itself address the public interest. Proposing new requirements on the auditor without concurrent expectations being clearly defined for the directors will create an expectations gap of the duties of companies and the auditor. The governance and stewardship of companies, by their directors and institutional investors respectively, and the quality and veracity of the companies' reports and financial statements matter just as much, if not more than, the opinion of an auditor.

Q3. Is the proposed effective date appropriate?

We believe that further consideration by the Authority is relevant in deciding to adopt all of the changes to ISA 570 (UK) before concluding on the proposed effective date.

Mr Kevin Prendergast
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28 June 2019

Consultation Paper – Proposal to Revise ISA (Ireland) 570 (May 2019)

Dear Kevin,

We welcome the opportunity to reply to the consultation paper "Proposal to Revise ISA (Ireland) 570 Going Concern".

We have participated in the working group established by Chartered Accounting Ireland in drafting a response to the FRC consultation, a copy of which we understand has been forwarded to IAASA for information. We concur with the views expressed in that response. We are of the view that the changes proposed to ISA 570 need further consideration if they are to be an effective and a proportionate response to matters raised in the FRC consultation paper.

In particular we draw your attention to the view expressed in that response that in order for auditors to consistently implement the proposed new requirements in the standard, changes will also need to be made to the responsibilities of directors in the relevant accounting framework and/or Irish legislation.

In our view, the proposals significantly increase the audit work required in this important area for all companies, regardless of the level of assessed risk that the going concern basis of accounting will be applied in situations where it is not appropriate or that sufficient disclosures about material uncertainties will not be made. In our opinion, this will significantly increase the cost of audit for all entities in Ireland well above the amounts estimated in the impact assessment prepared by the FRC.

We also think that is it important that IAASA consider, as part of its decision to adopt the proposed changes to ISA 570 at this point in time, the possibility of further changes to ISA (UK) 570 and other standards in light of the matters being considered as part of the independent review being undertaken by Sir Donald Brydon into the quality and effectiveness of audit in the UK and changes that may be made to ISA (UK) as a result of Brexit. The quantum of these changes may result in the auditing standards in the UK significantly diverging from auditing standards in Europe and internationally.

We set out below our detailed responses to the questions raised in the consultation paper.

Question 1
Do you agree that ISA (Ireland) 570 should be revised to adopt the proposed

Whilst we recognise that the changes being proposed by the FRC are to address concerns regarding the effectiveness of auditors' work on going concern following the collapse of certain large companies in the UK, we consider that the underlying causes of these failures has not been sufficiently analysed to identify whether the root causes were a failure to apply the requirements of the existing standard or deficiencies in the requirements of the standard itself.

A key change in the proposed standard is to require the auditor to perform detailed additional procedures to evaluate management's assessment in all circumstances regardless of the assessed risk, as opposed to the extant standard where these additional procedures were only performed when events or conditions were identified that may cast significant doubt on the entity's ability to continue as a going concern.

In our opinion, prior to the introduction of changes that are as extensive as those proposed and presumably the necessary changes that will be required to directors responsibilities in this area as outlined above, further research should be undertaken by IAASA on recent corporate failures in Ireland to assess whether revision is required to the responsibilities of directors and auditors in relation to the use of the going concern basis of accounting.

As part of this analysis, IAASA could consider the various types of entities that are subject to statutory audit in Ireland. The market in Ireland includes a substantial number of subsidiary companies of large multinationals, special purpose vehicles and investment funds. Large groups may consider going concern primarily at an overall level and enhanced entity by entity management assessments will represent a significant additional requirement, which may be disproportionate to the benefit achieved.

A difference of note between the UK and Irish audit markets that should also be considered by IAASA is the exemption from audit by parent guarantee under the section 479A –C of the Companies Act 2006. This exemption allows UK subsidiary companies of any size to avail of an audit exemption where an EEA parent undertaking guarantees the outstanding liabilities of the subsidiary and providing a number of other conditions are met. There is no equivalent exemption in Irish company law.

Question 2
Do you believe that the proposed revisions will lead to a more robust procedures for the audit of going concern?revisions?

As set out above, we have concerns that the proposed new requirements of auditors in the absence of revisions of directors' responsibilities and or the accounting frameworks may lead to difficulties in the implementation of the standard and inconsistent application of the requirements. In addition, as set out in the CAI response to the FRC, there are a number of areas where we consider the requirements of the proposed standard need clarification.

We also have concerns that the proposed changes may increase the expectation gap as the responsibilities of the auditor as set out in the proposed standard appear to be greater than the responsibilities of directors.

Question 3
Is the proposed effective date appropriate?

No – in light of the comments made above we do not consider the effective date of changes to be appropriate.

Should you wish to discuss any aspect of this response please feel free to contact the undersigned or Ronan Doyle on 01 792 6559 / email ronan.doyle@pwc.com.

Yours sincerely,

Paul O'Connor

Paul W O'Connor
Partner
28 June 2019

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