The Chartered Institute of Public Finance & Accountancy

Financial Reporting Council
Proposed International Standard on Auditing (UK) 570 (Revised)
Going Concern

Response from the Chartered Institute of Public Finance and Accountancy (CIPFA)

13 June 2019

the people in public finance

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. CIPFA shows the way in public finance globally, standing up for sound public financial management and good governance around the world as the leading commentator on managing and accounting for public money.

Further information about CIPFA can be obtained at www.cipfa.org

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

CIPFA is pleased to present its comments on this Exposure Draft which has been reviewed by CIPFA's Accounting and Auditing Standards Panel.

CIPFA is a professional accountancy body whose principal focus is promoting high standards in public sector governance and public financial management, and also encompassing wider public services delivered by charities and other non-profit bodies. CIPFA therefore responds to consultations which affect these sectors or where there are implications for accountancy generally that would impact on the public sector or non-profit sector.

Audits of public sector bodies and charities in the United Kingdom are carried out in accordance with ISAs (UK) developed by the FRC, having regard to additional guidance in relevant practice notes.

Response to Request for Comment

CIPFA's comments on the key changes are as follows:

- In our view the linkage of other ISAs (UK) to ISA 570(UK) is helpful, notwithstanding the fact that auditors are already required to consider the body of standards as a whole. It provides clarity for auditors, and as an additional benefit may also help non-auditors understand the nature of this assurance.

- We agree that the reframing of the responsibilities and objectives has the effect of strengthening the objectives of ISA 570(UK) in connection with the existence of material uncertainty. While it is arguable that properly addressing the objective of the current ISA 570(UK) will generally require the auditor to achieve the proposed objective, the reframing leaves this in no doubt. CIPFA has additionally considered whether the reframed objective requires the auditor to do more than might be reasonably expected. Based on our understanding of public sector audit (which may not encompass all aspects of financial statements audits and which do not necessarily encompass all aspects of going concern), we are content that the reframed objective is achievable in line with work which might reasonably be expected under current requirements. The reframed objectives do of course still need to be read in the context of paragraph 7, which references the inherent limitations of audit detection.

- The material on enhanced risk assessment procedures and related activities is helpful and additionally helps the reader understand what the auditor is expected to do in reaching their view, in connection with both management's assessment and material uncertainty.

- The material on obtaining sufficient appropriate audit evidence is similarly helpful.

- The material on professional scepticism and management bias should perhaps be unnecessary for auditors who are carrying out verification procedures in line with ISAs(UK). However, we understand that regulator findings suggest that additional reinforcement is necessary, and we agree that this material accurately reflects what the auditor is required to do to obtain sufficient appropriate audit evidence.

In the light of the above, CIPFA considers that the proposed revisions to ISA 570 (UK) are an improvement as they apply to private sector companies. We also see nothing technically wrong with the revised ISA as it applies to audits of public sector entities or charities.

However, we are aware of some issues arising in audits of public sector entities where additional drafting within ISA 570 (UK) would be helpful. Some auditors are applying standard procedures in circumstances where a more public sector specific approach is appropriate.

The circumstances under which a public sector body's inability to avoid a deficit would make the going concern basis of accounting inappropriate are more limited than for private sector companies. It depends upon how the body is constituted and the nature of any statutory guarantees or requirements that the functions carried out by the body will continue:

- If the body is constituted solely as a profit making body, then it will generally apply IAS 1 without interpretation or adaptation, and the requirements of ISA 570 (UK) will apply in the normal way.
- If the body is a government department or a non-departmental body which does not generate revenue or is not expected to be self-funding, then the appropriateness of the going concern basis will be grounded in statutory requirements to carry out the purposes for which the body is constituted. The going concern basis will therefore apply unless government removes or substantially amends these statutory requirements. The standard procedures in ISA 570 (UK) are therefore not directly relevant, and material uncertainty in relation to financial performance will not normally be a matter to be assessed.
- If the body generates revenue and is expected to be self-funding, then application of the going concern basis will depend on whether the body can be wound up or liquidated without statutory provision. If the body and its functions can be so discontinued, then ISA 570 (UK) applies in the normal way. Otherwise, the main requirements of ISA 570 (UK) are not relevant, although the auditor will often have other responsibilities to evaluate and report on financial performance under wider terms of their engagement

Explanation of the financial reporting requirements above is provided in the Government Financial Reporting Manual, the Code on Local Authority Accounting in the United Kingdom, the Department of Health Group Accounting Manual and related material. Their relevance from an audit perspective is discussed in the section on ISA 570(UK) in Practice Note 10.

It would not be appropriate to include the above detail in ISA 570 (UK). However, some auditors of public sector entities seem to be reading the current ISA 570 (UK) as requiring certain procedures in all cases, without regard to the relevant guidance. While paragraph A2 of ISA 570 (UK) correctly reflects on the fact that going concern may need to be applied differently for public sector entities, the more nuanced aspects may not be apparent.

CIPFA therefore suggests that it would be helpful to include a footnote attached to paragraph A2, directing auditors of public sector entities in the UK to consider going concern issues having regard to the guidance provided in Practice Note 10 and the relevant financial reporting framework for the entity.

We hope that this is a helpful contribution to the development of revised guidance.