



# Changes to ISA (UK) 570

## Going concern

*30 March 2020*

PRESENTED BY

HUGH MORGAN, RSM

BEN HAMAR, SMITH & WILLIAMSON

*The webinar will commence shortly*

# *Introduction*



Alex Russell  
Technical Manager  
ICAEW

# *Today's presenters*

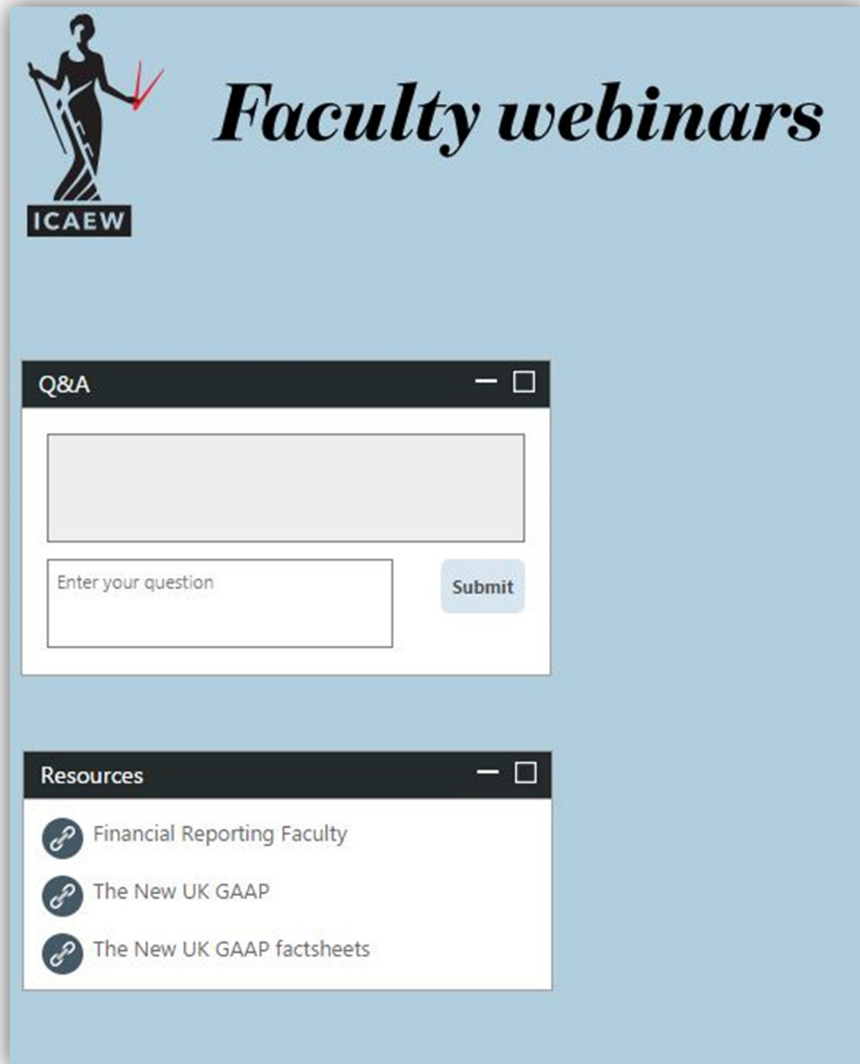


Hugh Morgan  
Technical Director  
RSM UK Audit LLP



Ben Hamar  
Associate Director  
Smith & Williamson LLP

# Ask a question



The screenshot shows the ICAEW Faculty webinars interface. At the top left is the ICAEW logo, featuring a figure holding a scale and a sword, with the text 'ICAEW' below it. To the right of the logo is the text 'Faculty webinars' in a large, bold, serif font. Below this is a 'Q&A' section with a large text input box, a smaller input box labeled 'Enter your question', and a 'Submit' button. Below the Q&A section is a 'Resources' section with three links, each preceded by a chain-link icon: 'Financial Reporting Faculty', 'The New UK GAAP', and 'The New UK GAAP factsheets'.



## Audio problems?

- Ensure your volume is turned on
- If you experience poor sound quality try refreshing your page.

## Ask a question

Type your question into the question box then click submit.

Download resources here

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Changes to ISA (UK) 570

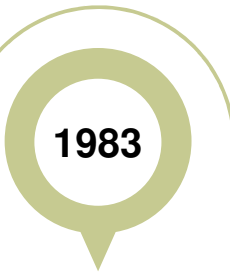
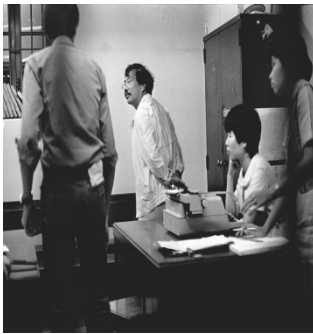
Impact on auditors

Timing and early adoption

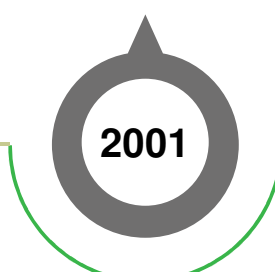
Coronavirus/COVID-19

Questions

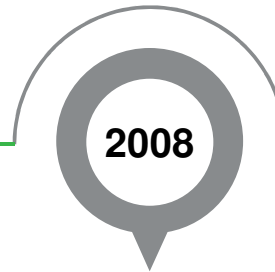
# *Not a new issue...*



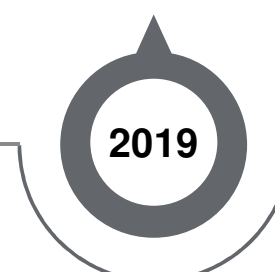
**Carrian**



**Enron**



**Lehman  
Brothers**



**Thomas  
Cook**

# *What is changing*

- ISA (UK) 570 (periods commencing on or after 15 December 2019)
- Brydon/Kingman

# *Changes to ISA(UK) 570*

- Objectives
- Key changes
- Risk assessment and evaluation
- Documentation
- Implications for the auditor's report



# *Objectives*

## 2016

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;

## 2017

To obtain sufficient appropriate audit evidence regarding, and conclude on,

- **Whether a material uncertainty related to going concern exists; and**
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements; and

# *Key changes*

01

More prescriptive risk assessment procedures

02

Link between ISA 315 and ISA 570

03

Greater focus on controls

04

Management bias

More prescriptive procedures for evaluating management's assessment

05

Appropriateness of method/data/assumptions used

06

Review of calculations

07

Analysis of future actions

08

# *Risk assessment*

- Risk assessment procedures and related activities
- Evaluation management's assessment
- Evaluating the sufficiency and appropriateness of the audit evidence obtained

# *Documentation*

- Key elements of the auditor's understanding of the entity and its environment, including the entity's internal control related to going concern;
- Indicators of possible management bias related to going concern, if any, and the auditor's evaluation of the implications for the audit.
- Significant judgments relating to the auditor's determination of:
  - Whether or not a material uncertainty related to going concern exists;
  - The appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements; and
  - The appropriateness of management's disclosures in the financial statements.

# *Implications for the auditor's report*

All - Positive statements in the audit report that:

- No material uncertainty has been identified
- Conclusion that management's use of going concern basis is appropriate

UK Corporate Governance Code reporters

- That the auditor has nothing material to add or draw attention to in relation to the directors' going concern statement.

PIEs, other listed, Code reporters, very large private companies

- Explanation of how the auditor evaluated management's assessment of going concern and, where relevant,
- key observations.

# *Impact on auditors*

- The education of management
- The quality of management's process
- Specific issues dealing with group audits
- Reporting

# *The education of management*

- Timing of management's assessment
- Requirement to identify events or conditions
- Implications of failing to identify and disclose events or conditions
- ISA (UK) 570 paragraph A3

# *The quality of management's process*

- “Discussed with FD process for assessment of Going Concern. She prepares annual budget in November agreed with the CEO (Owner) in December for next calendar year. Any Going Concern issues identified through discussion of budget. No formal minutes of meeting are kept.”



# *The quality of management's process*

Europe sub-group  
5-year plan  
reviewed by FC

US annual  
budget reviewed  
by FC

UK subs GC  
memos prepared  
by FC with each  
sub MD

# *Group audits*

- During planning risk assessment how can component auditors inform our assessment?
- Ad-hoc reporting for any events or conditions found during the audit
- ‘Letter of support’ implications to consider both giving or receiving support
- Statutory guarantee exemption from audit for subsidiaries
  - What if get audited this year but used exemption last year?
  - What are implications for parent giving guarantee?

# *Reporting*



# *Reporting*

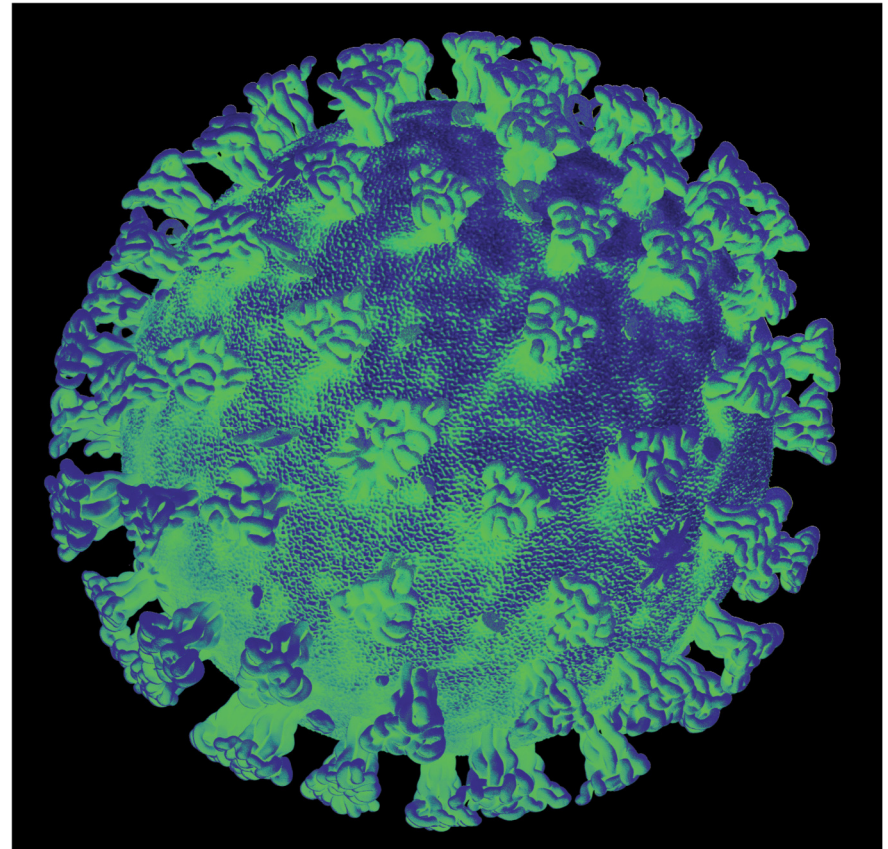


# *Timing and early adoption*

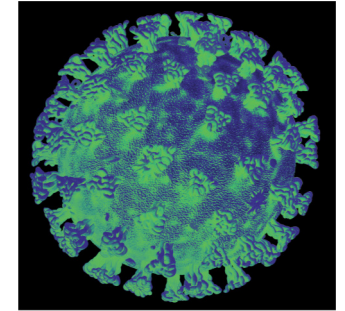
- Mandatory for periods beginning on or after 15 December 2019
  - Short periods or December 2020 year ends
- Available for early adoption
- Changes are additions to ISA and not contradictory, therefore can early adopt work effort while still claiming compliance with ISAs (IAASB)
- Wording for new positive confirmation expected from FRC but not yet published

# *Coronavirus / COVID-19*

- Attendance at client sites
- Stocktakes
- Valuations
- Group audits
- Company reporting dates
- For Financial Reporting impact see UK GAAP update webinar (19 March)

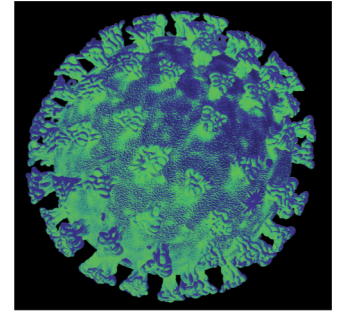


# *Attendance at client sites*



- Official advice to stay at home, communication options:
  - Emails
  - Instant messages
  - Cloud portals
  - Voice communications
  - Screen sharing
  - Video communications

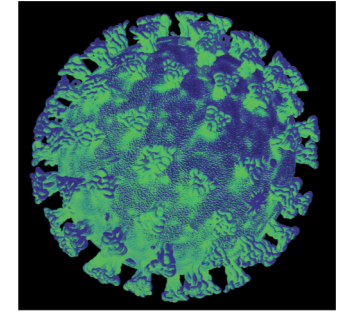
# *Stocktakes*



- ISA 501 mandatory requirement where stock material unless impracticable
- Remote stocktakes?
- Alternative date and rollback?
- Review documentation of sales after year end and purchases before year end?
- Limitation of scope?

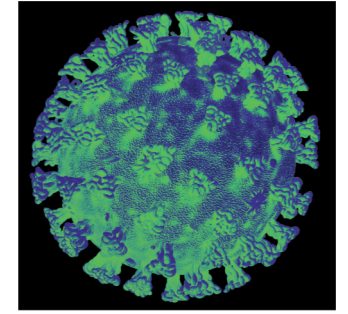


# *Valuations*



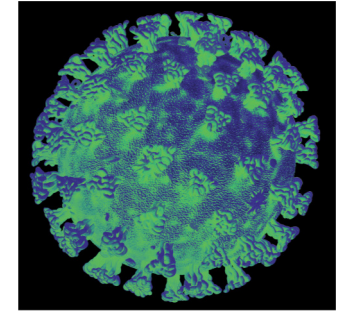
- When is COVID-19 an adjusting event?
  - Dec 2019?
  - March 2020?
- Fair value measurements
  - Are markets still active?
- Cash flow forecast based valuations/impairments
  - Estimation uncertainty
- Are we in ‘extremely rare’ circumstances?

# *Group audits*



- Risk assessment
- Communication
- Review of component auditor working papers
- New events or conditions which may cast significant doubt on the component's ability to continue as a going concern?

# *Company reporting dates*



- FRC Moratorium on preliminary announcements
- Changing the financial year end:
  - Only extend once every five years with some exceptions
  - Maximum 18 months
  - Must change before accounts overdue
  - Special rules for first year
- Requesting an extension to the filing deadline:
  - Must be requested before accounts overdue
  - <https://www.gov.uk/government/news/companies-to-receive-3-month-extension-period-to-file-accounts-during-covid-19>



*Any questions?*

# *Future events*

For details, please visit [icaew.com/aafevents](https://www.icaew.com/aafevents)

## **Webinars**



15 April -A Practical guide to auditing revenue

07 May – Practical considerations for auditing estimates

# *Thank you for attending*

Please take the time to fill out our short survey.

Contact the Audit & Assurance Faculty

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