



17th July 2019

FAO: Kate Dalby
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Via email: AAT@frc.org.uk

Dear Kate

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

The Corporate Reporting Users' Forum welcomes the opportunity to comment on the exposure draft: proposed international standard on auditing (UK) 570 (Revised) Going Concern issued March 2019.

The CRUF welcomes the proposed reporting improvements relating to going concern. Detailed company specific auditor disclosures help users understand potential issues, model scenarios and attach probabilities to these scenarios. As a result, the market should be able to better anticipate failure. The CRUF welcomes the formalisation of audit best practice; however, the CRUF does not believe that these revisions will necessarily reduce the likelihood of corporate failure.

Responses to the questions raised in the exposure draft that relate to the issues that concern investors are set out below.

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

All stakeholders in a company benefit from the trustworthiness of audited financial information and from the assurance that a company is expected to remain a going concern for at least 12 months. However, it needs to be made clear to the public what can reasonably be expected of an auditor when signing off a company as a "going concern". The auditor does not have a crystal ball, and a clean bill of health on a particular date does not mean the company will have no problems even in the relatively near future.

It is the directors/management of a company who produce the accounts and state that it is a going concern. The emphasis of the revisions to ISA (UK) 570 on the need for auditors to robustly challenge management's assessment is to be welcomed. So are some of the specifics, such as evaluating the risk of management bias.

There is a link between this question and the 'expectation gap' that affects perceptions of audit. The CRUF feels that the gap is widest for the public and some non-investor interest groups. But even for professional users of accounts, a key expectation gap is the degree to which auditors have exercised professional scepticism in relation to management's judgements.

Detection of fraud is another aspect of the expectation gap and is clearly in the public interest. While hunting for fraud is not a primary function of the audit, there is a need for a better understanding of what the auditor does do on this count when looking for potential sources of misstatements. It would be remiss of the auditors and the audit committee to dismiss the possibility of fraud and guarding against it should be an integral part of risk management.

4. In making an assessment of going concern, the directors are required to consider a period of at least 12 months. In evaluating the directors' assessment should the auditor be required to consider a longer period, and if so what should it be?

Some CRUF participants believe the period should be longer than 12 months, which might chime with public opinion. Others think the longer view is best dealt with in the directors' viability statement. It might enhance confidence in the viability statement if the auditor did more than cast an eye over it to check for inconsistencies with the audited numbers. The revised ISA (UK) 570 rightly suggests that the auditor should make greater use of the viability statement, implying a more holistic approach to assessing emerging and existential risks.

7. Do you agree with the proposals for auditors of all entities 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?

The CRUF welcomes the proposals for increased explanation of the auditor's assessment of going concern in every audit report as it improves transparency and helps demonstrate auditor scepticism.

The CRUF believes that the quality of reporting has an important part to play in such failures, as management will often attempt to obfuscate initially hoping that they can turn the situation around. Inevitably questions arise following corporate collapse because the problems were not always apparent from the auditor's report and the audit committee's report. More public disclosure of the communication between the auditor and audit committee would be welcomed by users, to help get a sense of the management's mind-set and the level of auditor scepticism.

CRUF is also very aware that listed companies that fail usually see a significant change in their shareholder base and an increase in short interest before actual failure. This is usually the result of detailed financial analysis and increasing evidence of deteriorating operational performance. We would recommend auditors and audit committees pay attention to these situations and become more sceptical and open to their opinions.

This would create an opportunity for the auditor's report to include a graduated opinion which would be more informative than current commentary, recognising that the market has already woken up to the issue. This would go some way towards reducing the binary nature of the audit opinion. The CRUF accepts that it is a challenge to ensure consistency of a rating system, but this is no different from the credit rating agency ratings that investors utilise. The CRUF also notes that the vast majority of audit opinions are "clean" and so do not serve as a tool for differentiating one company's reporting quality from another's, or for understanding potential threats to the going concern judgement.

11. What mechanisms should the FRC employ to ensure there is widespread awareness of the Director's responsibilities in respect of going concern?

The Kingman review found that many respondents complained that "the current position is inadequate in holding 'non-member' [non-accountant] directors to account for any part they have played in a serious reporting or audit-related failure". The CRUF agrees with the review's recommendation that there should be "an effective enforcement regime" for directors in exercising their duties to prepare true and fair accounts and to deal honestly with auditors. The



evidence and assumptions that go into the going concern statement are an important part of the accounts and the audit. The duties of both management and auditor should be clear and strictly enforced.

About the Corporate Reporting Users' Forum (CRUF)

The CRUF was set up in 2005 by users of financial reports to be an open forum for learning about and responding to the many accounting and regulatory changes that affect corporate reporting. In particular, participants are keen to have a fuller input into the deliberations of accounting standard setters and regulators. CRUF participants include buy and sell-side analysts, credit ratings analysts, fund managers and corporate governance professionals. Participants focus on equity and fixed income markets. The Forum includes individuals with global or regional responsibilities and from around the world, including Australia, Canada, France, Germany, Hong Kong, India, Japan, New Zealand, South Africa, UK and USA.

The CRUF is a discussion forum. Different individuals take leadership in discussions on different topics and in the initial drafting of representations. In our meetings around the world, we seek to explore and understand the differences in opinions of participants. The CRUF does not seek to achieve consensus views, but instead we focus on why reasonable participants can have different positions. Furthermore, it would not be correct to assume that those individuals who do not participate in a given initiative disagree with that initiative. This response is a summary of the range of opinions discussed at the CRUF meetings held globally. Local country differences of opinion are noted where applicable.

Participants take part in CRUF discussions and joint representations as individuals, not as representatives of their employer organisations. Accordingly, we sign this letter in our individual capacity as participants of the Corporate Reporting Users' Forum and not as representatives of our respective organisations. The participants in the Forum that have specifically endorsed this response are listed below.

(Signatures)

Anna Czarniecka
Financial Reporting Consultant

Jane Fuller
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Nina Marques

Jeremy Stuber

Greg Collett
Pictet Asset Management



Peter Elwin

Chris Moore
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