



GUIDANCE ON THE GOING CONCERN BASIS OF ACCOUNTING AND RELATED REPORTING (INCLUDING SOLVENCY AND LIQUIDITY RISKS)

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ICAEW welcomes the opportunity to comment on the Guidance on the Going Concern Basis of Accounting and Related Reporting (including Solvency and Liquidity Risks) published by the Financial Reporting Council (FRC) on 5 August 2024, a copy of which is available from this [link](#).

ICAEW supports the FRC's proposals for revised *Guidance on the Going Concern Basis of Accounting and Related Reporting (including Solvency and Liquidity Risks)* and expects the guide to be a valuable resource for companies, as well as their advisors and auditors.

We suggest that the FRC considers adding an appendix for Code companies to set out the context of this guide within their wider reporting requirements. A more detailed list of considerations to help guide all companies on the level of analysis and amount of information that should be disclosed would also be a welcome addition.

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KEY POINTS

SUPPORT FOR THE UPDATE

1. We commend the FRC for producing a clear and concise piece of draft Guidance that helpfully brings together the current requirements from standards, law and regulation relating to the going concern basis of accounting and the reporting of solvency and liquidity risks. We welcome the key updates made to this edition, particularly the inclusion of additional guidance on overarching disclosure requirements and the added section on techniques that can be used to support the assessment process.
2. We recognise that reporting in this area has evolved over recent years and strongly support the FRC's efforts to reflect this within the draft Guidance. We expect that the Guidance will be a valuable resource for companies, as well as their advisors and auditors. We think, importantly, that it has the potential to serve as an effective tool to help increase the quality of reporting in the annual report.

SCOPE OF GUIDANCE

3. We agree with the proposed scope of the draft Guidance and support the inclusion of companies that apply the UK Corporate Governance Code (Code companies) within its remit. A single source of guidance on this topic for UK companies is helpful and a welcome improvement on the existing 2016 Guidance.
4. Although we support the inclusion of Code companies within its scope, we think that the Guidance could do more to help these companies navigate relevant reporting requirements and better understand, and report on, the link between a company's assessment of going concern, its assessment of prospects (the viability statement) and the identification of principal risks and uncertainties. The inclusion of an appendix to this guide, aimed solely at Code companies, may be a suitable place to address these concerns. Such an appendix could provide a clear reference point for Code companies looking to locate FRC guidance that corresponds to their reporting requirements. This would also provide an opportunity to remind Code companies on the importance of connectivity and consistency within their reporting. The use of an appendix would allow the retention of the existing structure of the Guidance, which we feel works well.

PROPORTIONALITY

5. To increase the level of proportionality achieved by the draft Guidance, we suggest that wording is added to help directors identify key entity-specific factors that help determine what an appropriate going concern assessment should look like. Although this is clearly a matter of judgement, a more detailed list of considerations within the draft Guidance could help directors decide on the level of analysis and amount of information that should be disclosed. A reminder that the directors' analysis must be sufficiently robust to satisfy the auditor may also be useful.

ANSWERS TO SPECIFIC QUESTIONS

Question 1 – Do you think the scope of the draft Guidance as set out in Section 2 is appropriate? If not, why not?

6. We agree with the proposed scope as set out in Section 2 of the draft Guidance and welcome a single source of guidance on this topic applicable to both Code and non-Code companies.
7. The draft Guidance states that it is not relevant to small companies and micro-entities. While we support clarification of the intended audience, we recommend that the FRC considers the merits of making minor amendments to paragraph 2.6 to recognise that these entities may still benefit from the Guidance. As currently drafted, paragraph 2.6 is somewhat confusing as it states that the Guidance is not relevant to small companies and micro-entities as it has not been written with these companies in mind and some aspects are not relevant to them. This implies that some aspects are in fact relevant – a point we agree with. Furthermore, the relevance of the Guidance to these entities may be worth clarifying in the context of the Periodic Review 2024 amendments which require small companies to report on the going concern basis of accounting and material uncertainties for periods beginning on or after 1 January 2026. Alternatively, the FRC might consider extending footnotes 8 and 9 of the draft Guidance to state whether the Guidance will be updated to confirm its applicability to small companies from 1 January 2026.
8. Any amendments to take account of our point above would also need to be reflected in paragraph 11 in the Basis of Conclusions. However, in case the FRC decides against such changes, we would like to point out that we do not agree with the current logic used to justify the scoping decisions in regard to small companies and micro-entities. Paragraph 2.6 of the draft Guidance and paragraph 11 in the Basis for Conclusions indicate that small companies and micro-entities are scoped out because they are not required to be audited or prepare a strategic report and are less likely to have formal risk management and control processes. We see audit and strategic report requirements as outcomes of scoping decisions rather than justifications for the scoping of the draft Guidance and therefore do not agree that they are appropriate reasons.
9. We note that preparers of accounts of other entity types, such as LLPs, may also benefit from this Guidance. While we are not suggesting that the scope of the Guidance should change, it may be possible to mention that other entity types might find the Guidance useful and thereby extend the reach of this practical and informative document.

Question 2 – Is the draft Guidance sufficient for the different types of company that fall within its scope, particularly for Code companies? If not, what additional guidance do you consider necessary or beneficial?

10. Overall, we think that the draft Guidance is sufficient for non-Code companies but suggest that some improvements could be made to help Code companies better navigate the requirements and understand the relevant linkages between them.
11. Paragraph 2.7 of the draft Guidance makes clear that it does not cover certain Provisions of the Code relating to the going concern basis of accounting and the reporting of solvency and liquidity risks, including requirements for risk management, internal controls and the assessment of a company's prospects. Code companies are instead referred to the FRC's Corporate Governance Code 2024 Guidance. While we do not object to this approach, it might be helpful to include a separate appendix within the draft Guidance aimed solely at Code companies. Such an appendix could set out more clearly how the requirements covered by this Guidance fit within the context of the wider requirements for Code companies. This would provide an opportunity to signpost to relevant sections of the FRC's separate Code guidance (including the useful 'Questions for boards' in paragraph 317 of the Corporate Governance Code 2024 Guidance) and remind directors about the importance of consistency between the viability statement and the reporting related to the going concern basis of accounting and solvency and liquidity risks.

Question 3 – Do you think the guidance in Section 3 about the overarching disclosure requirements, including the requirements to report on significant judgements, assumptions and other sources of estimation uncertainty, when applicable to going concern assessments, is helpful? If not, how it could be improved?

12. We consider the guidance on the requirements to report on significant judgements, assumptions and other sources of estimation uncertainty, when applicable to going concern, to be helpful and have only one minor wording amendment to suggest - see below.
13. We propose that a minor wording amendment is made to paragraph 3.32 of the draft Guidance to reflect the situation (as recently illustrated in example 4 of the IASB's Exposure Draft for Climate-related and Other Uncertainties) where changes to a particular assumption might affect the financial statements in the next financial year, even though the underlying uncertainty is not expected to be resolved over that period. Paragraph 3.32 of the draft Guidance could be redrafted to say:

'Accounting standards require disclosure of information about the assumptions made about the future and other sources of estimation uncertainty at the reporting date that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year, irrespective of when the event or uncertainty underlying the assumption is expected to resolve.'

Question 4 – Do you have any comments on the guidance about the assessment process as set out in Section 5 of the draft Guidance.

14. The guidance about the assessment process in Section 5 appears to be useful and we particularly welcome the updated list of factors for directors to consider during their assessment, as well as the added section on techniques that could be used to test the identified risks and assumptions.
15. Although already mentioned in Section 3 of the draft Guidance, we think it is helpful for this section to include a reminder of the requirement for directors to consider all available information about the future when performing their assessment of the company's ability to continue as a going concern. This may help reinforce the message that despite having a required minimum period for the going concern assessment of 12 months, it will often be appropriate for directors to look beyond this period.
16. Section 5 may also benefit from a reminder for directors to carry out a thorough going concern assessment in advance of the auditor's procedures. This is made clear in Section 8 but could be missed by those reading Section 5 in isolation.
17. Paragraphs 5.30 to 5.34 of draft Guidance provide a useful list of techniques that may assist companies in preparing their assessments. However, little indication is given as to which techniques may be appropriate for which entity. An additional paragraph to explain how the techniques applied should be proportionate to the company's exposure to risks and uncertainties would be helpful.

Question 5 – Do you think that the draft Guidance is sufficiently proportionate? If not, how can the draft Guidance be improved?

18. On balance, we think that the defined use of 'must', 'should' and 'could' throughout the draft Guidance is a sensible way to bring in an element of proportionality and helps companies to consider and justify when it might be appropriate to go beyond the mandatory requirements. We have heard, however, that the inconsistent use of 'should' between the draft Guidance and other FRC publications such as FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* risks confusion.
19. We have identified a couple of areas where proportionality within the draft Guidance could be improved. Although clearly a matter of judgement for the directors, the Guidance could be more helpful if it provided a detailed list of considerations to help the directors decide on the appropriate level of analysis and amount of information that a company discloses. As written,

the Guidance does little more than to remind directors to consider the size, complexity and particular circumstances of the entity in their assessments. We suggest that this list is expanded with more detail given to help companies identify the key drivers that impact the level of assessment and amount of disclosure.

20. As set out in our response to question 4, we think that the guidance on assessment techniques in Section 5 could also be improved to provide companies with more of a steer when deciding which methods of analysis are likely to be suitable to analyse the company's exposure to risks and uncertainties. (See paragraph 17.)

Question 6 – Do you have any other comments on the draft Guidance?

21. We welcome that the Guidance acknowledges the impact of sustainability-related risks on the business environment, and highlights the need for companies to consider these risks in their assessments of going concern (section 1.4), solvency and liquidity risk (section 4.6) and for consideration by Directors when reviewing products, services and markets (section 5.13-5.15). We think incorporating sustainability considerations into the Guidance is important as we expect collective understanding of the connectivity between financial and sustainability information to continue to increase as the sustainability reporting and assurance landscape evolves further.
22. The definitions for 'solvency risk' and 'liquidity risk' in paragraphs 4.3 and 4.4 of the draft Guidance are confusing and impact the understandability of the subsequent paragraphs within this section on 'Assessment'. Paragraph 4.3 seems to imply that 'solvency risk' relates to the company's ability to meet its liabilities over the long term. This may not always hold true – indeed, a large loan to be re-paid in 10 years' time is not always relevant for solvency, especially where the loan can be rolled over. We suggest that these definitions are re-worded and ideally tied to existing definitions in statutory provisions where possible.
23. Following on from our point above, we are surprised that consideration of a company's exposure to working capital fluctuations is not mentioned within section 4 on solvency and liquidity risks. We think it would be helpful, perhaps by extending paragraph 4.4, to state clearly that the assessment of liquidity risk may need to take account of potential fluctuations in the company's working capital requirements over the course of the period.
24. Paragraph 1.5 of the draft Guidance clearly states that the Guidance is non-mandatory. While we agree with the inclusion of this statement, we suggest adding some wording to convey that the Guidance, despite being non-mandatory, provides insight into how mandatory reporting requirements can be met. We hope this might encourage greater uptake of the Guidance.
25. Section 8 of the draft Guidance helpfully provides directors with an understanding of the auditor's responsibilities with regard to the directors' assessment of going concern and the related disclosures. It would be helpful if the Guidance also reminded directors that their assessment process must be sufficiently robust to satisfy the auditor. Including wording to this effect should help directors recognise the value of section 8 of the draft Guidance. Paragraph 8.1 of the draft Guidance may be a suitable location for this.
26. Code companies are required by accounting standards, listing rules and the UK Corporate Governance Code to consider and report on the company's short-term prospects (via its assessment of going concern) as well as its long-term prospects (via the viability statement). Consideration of the company's medium-term prospects, which was set to be a requirement of the proposed Resilience Statement (as laid out in the withdrawn *draft Companies (Strategic Report and Directors' Report) (Amendment) Regulations 2023*), is not currently required by standards or regulation. We suggest that, in the interests of promoting best practice, the FRC considers whether there is any merit to addressing this gap through this Guidance. A suitable location might be within our suggested appendix for Code companies as explained within paragraph 11 of this response. This, in turn, may help Code companies to better see the link between its disclosures on going concern, principal risks and viability.

27. Although outside the scope of the draft Guidance, we would like to take the opportunity to highlight concerns within the profession about the lack of consensus on how to prepare financial statements for an entity which is deemed not to be a going concern. We acknowledge that the FRC is unable to take a view on matters that accounting standards are silent on. However, we wish to raise these concerns for the consideration of those within the FRC who may wish to investigate this area further, perhaps through targeted research activity. Other scenarios identified as problematic include where a company, usually because of a change in ownership, has its business/assets hived off to other companies within a new group structure. There is currently no consensus as to the appropriate basis of accounting in the financial statements of the 'shell' company once a decision has been made to transfer the business/assets and wind down that legal entity. ICAEW stands ready to assist the FRC in this regard should it wish to investigate the issue further in the future.