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By email to: narrative@frc.org.uk

To whom it may concern,

Exposure Draft: Guidance on the Going Concern Basis of Accounting and Related Reporting (including Solvency and Liquidity Risks)

Deloitte LLP welcomes the opportunity to respond to the FRC's Exposure Draft *Guidance on the Going Concern Basis of Accounting and Related Reporting (including Solvency and Liquidity Risks)* (hereafter "the Guidance").

We welcome the efforts undertaken by the FRC to provide proportionate and practical guidance to companies on the matters outlined by the Guidance. The FRC's Guidance provides a timely opportunity to stand back and critically assess the current reporting that is being included in annual reports.

We draw your attention to the following key points that we believe should be considered before finalising the Guidance:

- **Director and auditor responsibilities:** the Guidance should state more explicitly that an organisation's process to conclude on going concern must be at least as robust as that expected of the auditor as the auditor's role is to evaluate the conclusions drawn from the directors' assessment.

- **Going concern disclosures:** clearer guidance is needed on going concern disclosures, particularly regarding placement and terminology.

- **Scope and proportionality:** the scope of the Guidance should include small companies, as we believe important aspects of the Guidance are equally relevant to these entities.

- **Drafting:** We support the move towards terminology that clearly distinguishes between requirements and guidance. However, we have highlighted certain instances that need to be addressed where we believe the language of the Guidance undermines the requirements by inappropriately implying that actions are optional.

The Appendix below sets out our detailed responses to those questions where we have particular views to share. If you would like to discuss any of our comments in more detail, please do not hesitate to contact Robert Carroll (rcarroll@deloitte.co.uk) or Linda Riedel (lriedel@deloitte.co.uk)

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Yours sincerely,

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Appendix: Responses to detailed questions

Question 1: Do you think the scope of the draft Guidance as set out in Section 2 is appropriate?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

We encourage the FRC to extend the scope of the Guidance to cover small companies. We believe the Guidance is equally relevant to these entities, particularly where they are small companies by size but are not entitled to prepare their annual reports under the small companies' regime. Appropriate consideration should then be given to the proportionality of the requirements. For example, small companies could be directed to concentrate on particular sections of the Guidance including the going concern basis of accounting, material uncertainties, solvency and liquidity risks, and (where the company is subject to audit) the sections on audit.

This would also have the benefit of future-proofing the Guidance against planned and future increases to the size limits under the Companies Act.

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?

We agree the draft Guidance is sufficient, however please refer to our response for Question 1 regarding our view on small companies.

In paragraph 1.5, we suggest that the Guidance clarifies that for Code companies, the going concern assessment and disclosure applies to both half-yearly and annual financial statements.

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?

We agree the Guidance in Section 3 is helpful and we welcome the FRC's inclusion of the scenario where the going concern basis of accounting is appropriate, and no material uncertainties exist, but reaching that conclusion involved significant judgement.

ISA (UK) 570 paragraph 19 requires auditors to determine that the directors have made certain specific representations in their public disclosures where a material uncertainty related to going concern exists. We recommend that the FRC considers including the specific wording from ISA (UK) 570 paragraph 19 in Section 3 (paragraphs 3.26-3.28) to make directors aware of this expectation.

We have the following observations on drafting in Section 3, taking into account the definitions set out on page 9 of the Guidance:

- In paragraph 3.9, directors' consideration of the realistically possible outcomes of events and changing conditions is established as a recommendation only by the use of "should". It would be helpful to clarify that the steps detailed in paragraph 3.9 are expected to be performed in order to meet the requirements of the accounting standards as outlined in paragraphs 3.7 and 3.8.
- In paragraph 3.24, "could" is used in respect of providing a summary of how the directors have reached their conclusions. While potentially suitable in straightforward situations, increased complexity or judgement necessitate more comprehensive and prominent disclosures and we suggest adding wording to emphasise this point.
- In paragraph 3.32, "could" is used in respect of assumptions made as part of the going concern assessment. We suggest rephrasing as: "Where relevant, this applies to assumptions made as part of the going concern assessment."
- In paragraphs 3.30 and 3.33, the Guidance states that disclosures about significant judgements and assumptions "should" be company-specific, implying that this is good practice as per 1.10 rather than a compliance requirement. We do not believe this is appropriate and the Guidance should use stronger language, stating disclosures "must" or are "required to" be company-specific.

In addition, we have also highlighted in our response to Question 6 other observations on drafting we noted throughout the Guidance.

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

We recommend including a statement at the beginning of Section 5, highlighting paragraph 8.6 of the Guidance which makes clear that the auditor is required to evaluate the directors' going concern assessment and must request the assessment at the risk assessment stage of the audit. If the assessment has not yet been performed, the auditor must request the directors to make their assessment. This would have the benefit of bringing these requirements more clearly to the attention of the users of the Guidance.

Additionally, we consider that it is critical that Section 5 and indeed the Guidance as a whole more explicitly emphasises the crucial role of directors in conducting and concluding upon a thorough going concern assessment in advance of any work performed by the external auditor. The Guidance should underscore that directors are expected to perform more detailed procedures than auditors, as the auditor's role is to evaluate the conclusions drawn from the directors' assessment.

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

See our response to Question 1 regarding the scope of the Guidance.

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

Yes, we have set out further observations as follows.

Placement of the going concern disclosure

Our general observation regarding the draft Guidance is the need for more explicit guidance on the placement of the going concern disclosure. The Guidance should clearly state that this disclosure must be positioned within the financial statements. We have observed uncertainty amongst entities that we audit regarding the appropriate placement of this disclosure, including Code entities.

The cross-referencing guidance, stating it "should identify the nature and location of the information", should be strengthened, in particular to ensure clarity of information in cases of material uncertainty. At a minimum, a brief summary of the material uncertainty must be provided. Merely referencing the existence of going concern disclosures within a specific note to the financial statements is insufficient and potentially misleading.

Drafting comments

Whilst we recognise and support the move towards drafting that clearly distinguishes between requirements and guidance, consistency within the draft Guidance and across other FRC publications is crucial. For instance, "should" in FRS 102 denotes a requirement, whilst in the Guidance this word represents a recommendation. This inconsistency, coupled with the frequent use of suggestive rather than prescriptive language, weakens the Guidance and would benefit from greater consideration and clarity.

In paragraph 1.5, we encourage the FRC to revise the phrase "assess and make disclosures related to the going concern basis of accounting and material uncertainties in their financial statements" to "...going concern basis of accounting and **any** material uncertainties..." for clarity.

The reference in paragraph 8.3 to "some additional requirements apply to auditors in respect of Code companies" is too vague and requires further clarification. Paragraph 8.9 should use the terminology used in the ISA , stating that auditors are required to "evaluate the directors' going concern assessment" instead of "challenge and test."

We have also highlighted specific drafting observations within Section 3 of the Guidance in our response for Question 3.

Other observations

Footnote 8 should clearly state whether the Guidance will be updated to confirm its applicability to small companies from the specified date.

The content of paragraph 8.13, focusing on management's responsibility, should also be incorporated into Section 6, as it pertains to both management and auditors. Additionally, section 8 should include the reporting requirements outlined in ISA (UK) 570 paragraph 21-1(c) and ISA (UK) 720 paragraph 22-4(a)(i), currently found in paragraph 8.10 under "Evaluating the directors' assessment".

Within Appendix A, paragraph A.4 contradicts footnote 50 regarding principal risks and uncertainties disclosures in half-yearly reporting. Footnote 50 mandates a description of these risks for the remaining six months of the financial year, whilst A.4 suggests considering whether the previous annual report's risk disclosures remain applicable. Our recommendation to address the contraction would be to reference the FCA technical note guidance provided from the UKLA.
"*If principal risks and uncertainties faced at the time of the last annual report remain valid for the purposes of the Interim Management Report, the FCA has indicated that it is acceptable to:*
• *state that the principal risks and uncertainties have not changed;*
• *provide a summary of those principal risks and uncertainties; and*
• *include a cross-reference to where a detailed explanation of the principal risks and uncertainties can be found in the Annual Report.*
If the risks and uncertainties have changed since the annual report, the entity should describe the new principal risks and uncertainties in the interim management report."

In paragraph A.20, we encourage that the Guidance be revised to state that a "material uncertainty related to going concern paragraph" should be added to the review report, rather than an emphasis of matter paragraph, when there is a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern.