Thematic Review:

Viability and Going Concern

September 2021

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1. Executive summary

The difficult economic conditions arising as a result of Covid-19 represented a significant challenge for businesses. Although the effects of Covid-19 were uneven across the economy, all companies were impacted and many were, and still are, operating under severe pressure and high levels of uncertainty.

In the face of these challenges, users of accounts want to understand not only how companies intend to navigate through the pressures and uncertainties created by Covid-19 but also the way in which they intend to maintain their solvency and liquidity over the short, medium and longer term. Consequently, it is important that annual reports and accounts include clear and comprehensive viability and going concern disclosures, which is the focus of this thematic review.

This report builds on the information contained within the **Guidance on Risk Management, Internal Control and Related Financial and Business Reporting**[1] document published by the FRC in September 2014 which is still relevant despite being based on the 2014 Corporate Governance Code. This thematic review complements the three reports published by the Financial Reporting Lab: **'Risk and Viability reporting'**[2], **'Covid-19: Going concern, risk and viability'**[3] and **'Reporting on risks, uncertainties, opportunities and scenarios'**[4]; and the **2020 AQR review of Going concern audit**[5] publication. The report also takes account of the findings in three of the Corporate Reporting Review's (CRR's) most recent thematic reviews: **'Thematic review: Review of financial reporting effects of Covid-19'**[6], **'Thematic review: Cash flow and liquidity disclosures'**[7], and **'Thematic review: Interim reporting'**[8].

This document summarises the key findings of our review of the viability and going concern disclosures for a selection of annual reports and accounts which have year ends between December 2020 and March 2021. It aims to provide useful guidance for preparers of annual accounts by identifying areas where viability and going concern disclosures could be improved, and by providing examples of better disclosures.

Our report includes extracts from the limited number of reports and accounts included in our sample. The examples will not be relevant for all companies or all circumstances, but each demonstrates a characteristic of useful disclosure. Inclusion of a company's disclosure should not be seen as an evaluation of that company's reporting as a whole; nor does it provide any assurance or confirmation of the viability or going concern of that company, and should not be relied upon as such.

Represents good quality application that we would want other companies to consider when preparing their annual reports.

Represents opportunities for improvement by companies to move them towards good practice.

Represents an omission of required disclosure or other issue. We want companies to avoid such issues in their annual reports.

1 https://www.frc.org.uk/getattachment/d672c107-b1fb-4051-84b0-f5b83a1b93f6/Guidance-on-Risk-Management-Internal-Control-and-Related-Reporting.pdf
2 https://www.frc.org.uk/getattachment/76e21dee-2be2-415f-b326-932e8a3fc1e6/Risk-and-Viability-Reporting.pdf
3 https://www.frc.org.uk/getattachment/1778c4a6-bb89-45f7-8de5-e4737545a98d/COVID-19-Going-concern,-risk-and-viability-a-look-forward.pdf
4 http://www.frc.org.uk/document-library/financial-reporting-lab/2021/frclab-risk-report-2021
5 https://www.frc.org.uk/getattachment/c1ec4c8f-0eb3-44b9-a4c7-5fe5e4c0e0f1/FRC-going-concern-review-letter-(phase-2).pdf
6 https://www.frc.org.uk/getattachment/03838acd-facc-4a06-879c-a4682672a6d7/CRR-COVID-19-Thematic-Review-Jul-2020.pdf
7 https://www.frc.org.uk/getattachment/291351f7-db47-4d36-8dbc-7fcdea764d73/Cash-flow-review-FINAL.pdf
8 https://www.frc.org.uk/getattachment/3631dc8c-2c7d-4ff7-8d56-f2d91afeda73/Interim-Thematic-Review-FINAL.pdf

1. Executive summary (continued)

Summary of key observations

- There are several areas where viability and going concern reporting can be improved. We encourage preparers to consider carefully the findings of this thematic when they are drafting their forthcoming annual accounts. When considering how to improve, companies should maintain a focus on providing better, more informative, company specific disclosure which is still clear and concise and avoids unnecessary clutter. In this respect, we noted an opportunity for companies to cut duplication in the annual report through better use of cross-referencing between viability and going concern statements.

- Generally, viability and going concern disclosures lack sufficient qualitative and quantitative detail in respect of the inputs and assumptions used in the scenarios prepared to aid the assessment of viability and going concern. While we think that in general companies can, and should, do a better job of providing more granular information we acknowledge that the amount of information provided should be proportionate to the uncertainties to which a company is exposed, and to its financial position. A company facing greater uncertainty and with less financial headroom should be providing more detail than one without such challenges.

- We identified several circumstances where information in the financial statements indicated that significant judgement may have been applied in determining whether the company was a going concern or whether there was a material uncertainty in respect of going concern to disclose, yet no significant judgement disclosures were presented. We expect company specific significant judgement disclosures to be presented in cases where significant judgement has been exercised either in determining whether a company is a going concern or whether a material uncertainty in respect of going concern exists.

- All companies preparing a viability statement noted that they had considered the principal risks and uncertainties identified in the strategic report when forming their assessment of viability. However, disclosure of how those risks and uncertainties had been modelled in the viability scenarios was not always clear. The best disclosures clearly mapped the principal risks identified to the viability scenarios tested.

- For the most part, companies did not disclose information on how they were resilient to risks which could threaten either their going concern status or longer term viability. We encourage companies to clearly disclose how they are resilient to principal risks and how the impact of such risks could be mitigated if they were to crystalise.

- The most common viability period selected by companies was three years. Although most companies disclosed why this was an appropriate viability period, the explanations provided often failed to fully identify and consider all of the relevant factors in determining this period. For instance, companies should consider debt repayment profiles, the nature of the business and its stage of development, planning and investment periods, strategy and business model and capital investment when selecting the viability assessment period.

- The **Restoring trust in audit and corporate governance**[9] consultation document proposes disclosure of a new resilience statement and proposes that the medium term assessment period should cover five years rather than the three year period most commonly used now. The Government is currently reviewing responses to the consultation and will bring forward final policy proposals in due course. Notwithstanding that ongoing process, we would encourage companies to provide longer term information and extend their period of assessment where possible. We do not expect the period of assessment to be shorter than the period covered by any detailed budgets or forecasts (before extrapolations) which have been approved by management and used in other forward-looking areas of the financial statements such as impairment testing.

- In many cases, the viability and going concern disclosures lacked sufficient detail to enable a reader to assess whether the assumptions used were consistent with those applied in other areas of the financial statements. We expect information provided within the viability and going concern disclosures to be internally consistent and consistent with other parts of the report and accounts. We also expect information to be presented in sufficient detail for the reader to appreciate the interrelationship between the various related disclosures.

9 https://www.gov.uk/government/publications/restoring-trust-in-audit-and-corporate-governance/restoring-trust-in-audit-and-corporate-governance#fnref:71

2. Viability and Going Concern: CRR's responsibilities and powers

CRR's responsibilities and powers

The FRC is authorised by the Secretary of State for the purposes of section 456 of the Companies Act 2006 (the "2006 Act"), meaning that it may make an application to the court for a declaration (in Scotland, a declarator) that the annual accounts of a company do not comply, or a strategic report or a directors' report does not comply, with the requirements of the 2006 Act (or, where applicable, of Article 4 of the IAS Regulation) and for an order requiring the directors of the company to prepare revised accounts or a revised report.

The FRC is also appointed to exercise the functions set out within section 14(2) of the Companies (Audit, Investigations and Community Enterprise) Act 2004 to keep under review periodic accounts and reports that are produced by issuers of transferable securities and are required to comply with any accounting requirements imposed by Financial Conduct Authority ('FCA') rules. The FCA issues the Listing Rules which are applicable to all companies listed on the London Stock Exchange. The Listing Rules require premium listed companies to comply (or explain why they have not complied) with the UK Corporate Governance Code which includes the preparation of a viability statement.

Consequently, the FRC (and specifically the CRR team) is responsible for reviewing the annual reports and accounts, the directors' report and the strategic report to check they comply with relevant reporting requirements. Aspects of the annual report relating to corporate governance (which includes the viability statement) are not currently subject to formal FRC oversight.

As outlined in 'Restoring trust in audit and corporate governance', the government intends to legislate to expand the FRC's existing powers so that its proposed power to direct a company to make changes to its report and accounts, extends to the entire annual report. This would bring the viability statement within scope, although it should be noted that the same government consultation also proposes to adopt and incorporate the viability statement within a new statutory resilience statement.

The government expects companies to engage voluntarily with the FRC and make necessary revisions to annual statements in respect of issues raised in areas which are currently outside of the FRC's formal enforcement remit. Given this direction, CRR have begun, on a sample basis, reviewing annual reports and engaging with companies in respect of areas which were previously outside remit where it appears that there is, or may be, a question as to whether there is a breach of the relevant reporting requirement; or in cases where there is an opportunity for a company to improve the quality of its reporting.

It is against this landscape that this Viability and Going Concern thematic review has been conducted.

3. Scope and sample

Scope of our review

We performed a desktop review of the annual reports and accounts of a selection of Main Market and AIM listed companies to assess the quality of the viability and going concern disclosures. A number of AIM companies were included within our sample to assess whether the presence of a viability statement impacted on the quality of going concern disclosures.

We also considered whether the information presented in these statements was consistent with information presented in other areas of the annual report and accounts.

We note that going concern disclosures are often presented in numerous places within the annual report and accounts. In assessing the quality of the going concern disclosures, we considered all the going concern disclosures presented by the companies in the sample irrespective of where such disclosures were presented.

In evaluating the quality of the viability and going concern disclosures presented, we considered the guidance and characteristics noted in the adjacent tables.

In line with our philosophy of promoting continuous improvement in reporting, we identified examples of better practice and highlighted areas where disclosures could be improved. The better examples presented in this report stem from reviews performed for the purpose of this thematic. They are provided alongside our key findings and demonstrate the level of detail, both entity and industry specific, we expect companies to provide.

Sources of guidance used
IAS 1 'Presentation of Financial Statements' paragraphs 25, 26 and 122
The IFRS Interpretations Committee 2014 Agenda decision [10] in relation to significant judgements in respect of going concern
The FRC's Thematic review: Review of financial reporting effects of Covid-19
The IASB's 'Going concern – a focus on disclosure'[11] document
The FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting document
The FRC's 'Company guidance (updated 4 December 2020) (COVID-19)'[12]
The FRC's Year end letter to CEOs, CFOs and Audit Committee Chairs (2020) [13]
The FRC's Thematic review: Cash flow and liquidity disclosures
The 2018 Corporate Governance Code [14]
The FRC's Guidance on board effectiveness (2018), paragraph 126 [15]

Characteristics considered
The period of assessment
The adequacy of assumptions, judgements and conclusions disclosed
Whether identified risks and uncertainties were reflected within modelled scenarios
The adequacy of the disclosure of the solvency and liquidity and reliance on facilities
The techniques used to form conclusions
The adequacy of material uncertainty disclosures
The adequacy of going concern related significant judgement disclosures
Whether viability and going concern reporting was clear and concise

10 http://media.ifrs.org/2014/IFRIC/July/IFRIC-Update-July-2014.html#F
11 https://cdn.ifrs.org/content/dam/ifrs/news/2021/going-concern-jan2021.pdf?la=en
12 https://www.frc.org.uk/getattachment/1c657620-7e15-401d-a74f-25e2305f1104/Company-Guidance-Covid-19-Updated-December-2020.pdf
13 https://www.frc.org.uk/getattachment/d0448212-fe6c-4752-8abb-aeb414510fec/FRC_Year_End_Letter_Nov_2020_Final.pdf
14 https://www.frc.org.uk/getattachment/88bd8c45-50ea-4841-95b0-d2f4f48069a2/2018-UK-Corporate-Governance-Code-FINAL.pdf
15 https://www.frc.org.uk/getattachment/61232f60-a338-471b-ba5a-bfed25219147/2018-Guidance-on-Board-Effectiveness-FINAL.PDF

3. Scope and sample (continued)

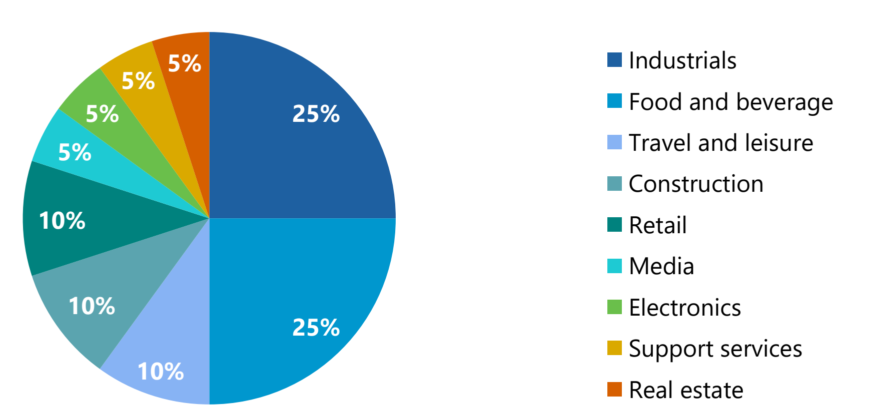
Our sample

We reviewed the full-year accounts of a sample of 20 entities, none of which were pre-informed of our review. Our sample was spread over a number of different industries and included companies with an accounting period end between December 2020 and March 2021.

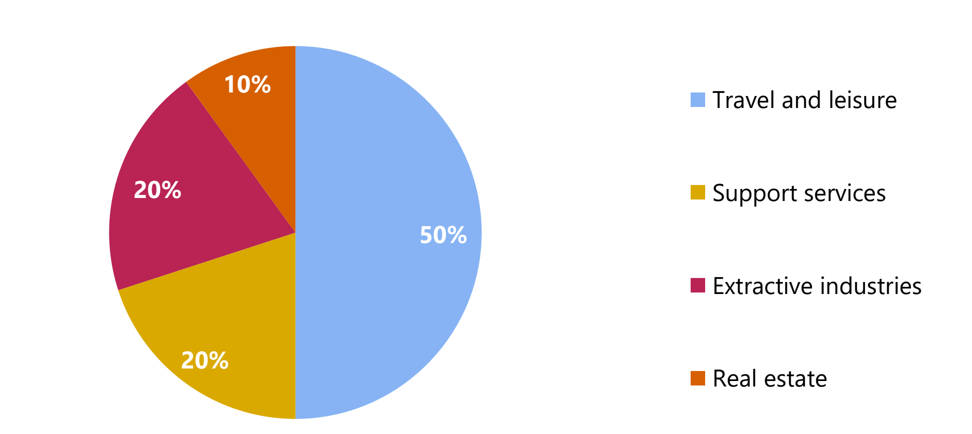
We also performed a more limited scope review of the viability and going concern statements (and any associated material uncertainties or significant judgements) of a further 10 companies. These companies were selected for a more limited scope review as they disclosed either a significant judgement in relation to going concern or a material uncertainty in respect of going concern.

A total of 27 companies within our sample prepared a viability statement. The remaining three companies in our sample were AIM companies that chose, in line with AIM rules, to adopt the QCA Corporate Governance Code rather than the FRC Corporate Governance Code, therefore they were not required to, and did not voluntarily present a viability statement.

Industries sampled: Detailed review



Industries sampled: More limited scope review



4. Viability statement: Period of assessment

Period of assessment

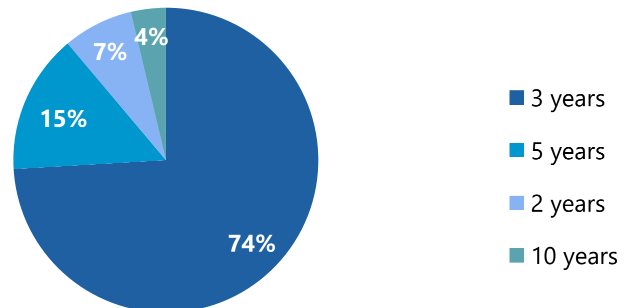
Provision 31 of the Corporate Governance Code 2018 states that the board should report on whether it has a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment.

Reasonable expectation does not mean certainty. It does mean that the assessment can be justified. The longer the period considered, the more the degree of certainty can be expected to reduce. That does not mean that the period chosen should be short. Except in rare circumstances, it should be significantly longer than 12 months from the approval of the financial statements.

Appendix B, paragraphs 2 and 3, Guidance on Risk Management, Internal Control and Related Financial and Business Reporting

74% of the 27 companies in our sample that prepared a viability statement had a viability assessment period of three years. The Financial Reporting Lab: 'Risk and Viability reporting' publication explained that companies often select a period consistent with their medium-term strategic plan. However, investors are looking for disclosure which gives them confidence that the board is addressing long-term threats to the company's business model and is making strategic decisions which maintain the relevance of the company in the long-term. The results of our review echo these findings. Justifications for viability periods of three years focused predominantly on strategic planning periods and budgets.

Viability assessment periods used



'Restoring trust in audit and corporate governance' proposes that the medium term section of the proposed new resilience statement be five years rather than the three year period most commonly used in viability statements. The consultation document also proposes that a longer term assessment should be carried out as part of the resilience statement.

Within our sample of 27, 19% of companies chose an assessment period of five years or more. These entities operated within the extractive, food and beverage, real estate, construction and travel and leisure industries.

Three of the companies reviewed had reduced their assessment periods from the prior year due to the uncertainty caused by the pandemic. All three were subject to Covid-19 retail and hospitality trading restrictions and two had disclosed material uncertainties over going concern. We note that this finding aligns with a comment made in previous FRC Lab reports that the viability statement is often treated as an extended going concern confirmation. The viability statement is about the company's ability to manage realistic 'what if' scenarios, not whether it can avoid liquidation in a given time-frame. The viability statement should express the directors' views about the longer term viability of the company with reference to the company's current position and the longer term risks that could threaten the business model, future performance, solvency or liquidity rather than explaining that the company is able to meets its liabilities as they fall due in the short term.

Covid-19 has resulted in acute financial stress in certain sectors. However, investors and other stakeholders find it helpful if there is consideration and discussion of factors and events that extend further than the short-term, even when there are significant short-term uncertainties. We highlight that the reasonable expectation required by provision 31 of the Corporate Governance Code 2018 does not mean certainty. Consequently, we encourage companies to disclose longer term information in their viability statements while drawing attention to any qualifications or assumptions as necessary.

When companies reduce their viability assessment periods due to uncertainty caused by Covid-19 or any other reason, we expect a clear explanation for the change and for why a new, shorter, period has been selected.

4. Viability statement: Period of assessment (continued)

Consistency with other forward-looking elements of the financial statements

In addition to investor views and proposals for the viability period in the government consultation document, companies should reflect on the suitability of the viability period when compared to other forward-looking elements of their financial statements.

When companies prepare cash flow forecasts for both deferred tax asset recognition and impairment testing purposes, the forecasts often use cash flows derived from short term management approved forecasts. These short term management approved forecasts are then typically extrapolated using a predicted growth rate.

Most companies in our sample considered their viability over a three year period. However, some of these companies also indicated that they had prepared and used detailed cash flow forecasts which covered a period in excess of three years for impairment testing and for assessing the recoverability of deferred tax assets (and then extrapolated these cash flows using a predicted growth rate as part of supporting the carrying value of these assets). It was unclear why the viability assessment period was restricted to the three year period when these companies had prepared detailed cash flow forecasts for periods that exceeded three years (before any extrapolation) for these other purposes.

Justification of assessment period

The length of the period should be determined, taking account of a number of factors, including, without limitation: the board's stewardship responsibilities; previous statements they have made, especially in raising capital; the nature of the business and its stage of development; and its investment and planning periods.

Appendix B, paragraph 3, Guidance on Risk Management, Internal Control and Related Financial and Business Reporting

93% of the 27 companies in our sample provided a justification for the period of assessment. However, 30% of these explanations did not provide sufficient detail or did not consider all appropriate factors. Simply stating that the viability period aligns with the strategic planning period of the business is insufficient justification.

Good disclosures considered debt repayment profiles, the nature of the business and its stage of development, planning and investment periods, strategy and business model, and capital investment.

Sometimes it was evident from the annual report that factors such as planning periods, contract lengths and debt maturities had different timeframes. However, it was unclear from the disclosure in the viability statement how management had settled on the period of assessment chosen. We encourage disclosures to discuss any discrepancies in timeframes and provide suitable, sufficiently detailed justification for the period of assessment chosen.

The Board has considered the longer-term viability of the Group, reviewing this over a 5 year period based on the strategy as outlined on pages 22 to 44 to the current performance of the Group and its principal risks.

The average life cycle of our developments falls within a 5 year time period and this aligns with the timeframe focused on for the annual strategic review exercise conducted within the business and reviewed by the Board.

Vistry Group PLC, Annual report and accounts 2020, p48

Explains the assessment period is based on the average life cycle of developments rather than just the annual strategic review period.

5. Viability statement: Risks and uncertainties

Risks discussed in the viability statement

The statement should be based on a robust assessment of those risks that would threaten the business model, future performance, solvency or liquidity of the company, including its resilience to the threats to its viability posed by those risks in severe but plausible scenarios.

Appendix B, paragraph 4, Guidance on Risk Management, Internal Control and Related Financial and Business Reporting

Companies should consider developing their viability statements in two stages; firstly, by considering and reporting on their longer-term prospects, taking into account the company's current position and principal risks, and then by stating whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their viability assessment, drawing attention to any qualifications or assumptions as necessary.

Paragraph 126, Guidance on Board Effectiveness (July 2018)

All companies in our sample referred to principal risks in their viability statements. However, the level of detail as to how those risks posed a threat to viability varied. For example, eight companies made boilerplate comments that principal risks or a combination of several principal risks had been considered in forming their assessment of viability. In these cases, cross-references were provided to the principal risk and uncertainties section of the strategic report.

While we encourage the use of cross-referencing to avoid repetition, good viability disclosures include a separate focused discussion of risks that specifically threaten the business model, future performance, solvency and liquidity of the company. They also explain how those risks have been factored into severe but plausible downside scenarios.

Discussion in the viability statement may not cover all principal risks and uncertainties. For example, one company in our sample focused on three risks that had been selected for enhanced stress testing. Another stated that, although all the risks identified could have an impact on Group performance, there were specific risks that could impact the Group's financial position. We found this useful as it was clear which risks posed the greatest threat to viability.

We encourage companies to provide information which explains the principal risks that have been included or excluded from their assessment of viability.

Whilst all the risks identified, including food safety and integrity, could have an impact on the Group's performance, the specific risks which could potentially impact the Group's financial position include the COVID-19 outbreak, a potential reduction in sales volumes and possible disruption and increases to the Group's cost base due to new rules around the importing into the UK of raw materials, the impact of higher labour costs and a scarcity of labour.

Bakkavor plc,
Annual Report & Accounts 2020, p73

Identifies key risks to viability and explains the risks excluded and why.

5. Viability statement: Risks and uncertainties (continued)

Risks reflected in scenarios

Most companies stated that they had modelled a number of scenarios. However, it was often unclear how these scenarios linked to their principal risks. This was exacerbated where companies had not identified key risks that threatened the viability of the company. Generic comments that the scenarios incorporate all of the company's principal risks and uncertainties are not useful to readers.

The best disclosures presented scenarios which were explicitly linked to particular principal risks and uncertainties.

We encourage the disclosure of scenarios that are explicitly linked to the risks and uncertainties that pose the greatest threat to the business model, future performance, solvency and liquidity of a company. Specific company and scenario detail is needed to enable a user to understand which risks have been considered in which viability scenarios.

Given investor demand for longer term information, we encourage companies to disclose the potential impact on viability of principal risks which may only be considered to have a potential impact on viability from a date which is outside the assessment period they used. For instance, seven companies in our sample identified climate change as a principal risk, yet only two of these companies considered the risk identified within their viability scenarios.

One of the ways in which a company could provide longer-term information is through the two stage approach to the viability statement as outlined on the previous page. Disclosure of longer-term prospects, taking into account the company's current position and principal risks, could be made for a period that exceeds that selected for the viability assessment.

5. Viability statement: Risks and uncertainties (continued)

Scenarios modelled	Links to principal risks
Scenario 1 **Demand/operational shock** The whole of Kingfisher's operations are subject to a material and unexpected reduction in demand or there is operational disruption resulting in an inability to trade for a period of time (e.g. a future pandemic, prolonged failure of our global IT infrastructure). Assumptions: **Sales:** No sales during the period of severe operational impact, followed by a short period of recovery to prior levels. **Margin:** Margin impacted by fixed distribution costs during lock down period. **Cost:** Minimal cost savings due to the nature of the event and the need for extra marketing and communications. **Inventory:** Limited adjustment opportunity given lead times.	**Risk 3:** Contagious diseases **Risk 7:** Political and market volatility **Risk 9:** Cyber and data security
Scenario 2 **Supply chain disruption** Our suppliers and supply chain continue to be affected through 2021/22 and into 2022/23 by the impact of Covid-19. Stock availability is severely reduced in a number of key product categories and logistics costs are significantly increased for others. Suppliers are not able to support the increased sales volumes on key ranges. Assumptions: **Sales:** Negative sales impact with smaller stores most affected (more limited range depth so fewer alternatives). Applied to three-year plan sales for the years 2021/22 and 2022/23. **Margin:** Increased shipping and transportation costs.	**Risk 3:** Contagious diseases **Risk 4:** Supply chain resilience
Scenario 3 **Economic downturn** Prolonged downturn in economic conditions across Europe with lower economic activity, higher unemployment and lower inflation resulting in changing customer behaviours, reduced consumer confidence and lower spending. Customers become more price sensitive and price reductions are required to manage overstocks. Suppliers of key ranges default on their supply commitments. Governments increase taxes in order to reduce deficits. Assumptions: **Sales:** Year-on-year sales reduction for a period of 18 months followed by recovery to initial level and then back to growth. **Margin:** Margin reduction for a period of 24 months followed by recovery in third year.	**Risk 3:** Contagious diseases **Risk 7:** Political and market volatility
Scenario 4 **Failure to successfully adjust our operating model** The planned changes to our model are implemented across the banners but fail to deliver the expected sales and margin increases (e.g. e-commerce proposition cannibalises existing sales, in-store formats deliver no additional sales, price competitiveness does not result in increased sales volumes). In addition, there is a failure to realise cost efficiency targets. Assumptions: **Sales:** Non-delivery of planned sales growth from initiatives included in the three-year plan. **Margin:** Non-delivery of margin increases linked to growth in own brand product sales. **Costs:** Non-delivery of efficiency benefits.	**Risk 1:** Our people **Risk 2:** Level and impact of change **Risk 5:** Competition **Risk 6:** Changing customer preferences
Scenario 5 **A combination of scenarios 1 to 4 above** This is seen as a worst-case scenario, and highly unlikely.	As above

Kingfisher plc, 2020/21 annual report & accounts, p48

Scenarios are clearly linked to principal risks.

Each scenario is clearly explained.

Explains that a scenario has been tested that combines all the individual scenarios and indicates the likelihood of this combined scenario occurring.

5. Viability statement: Risks and uncertainties (continued)

Resilience to risks and mitigating actions

As outlined in the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting, companies should consider how they are resilient to the threats posed to their viability. They should also consider the mitigating actions they may take should the identified threats materialise.

Resilience refers to a company's ability to withstand the risks posed to their viability. Mitigating actions refer to the measures a company could take to minimise the impact should the risk crystalise.

Very few companies discussed how they were resilient to risks, and even when disclosed, comments tended to lack granularity and were not linked to specific risks. Examples of the way in which companies discussed their resilience to risk included: geographical or product diversity, pipeline visibility and investments in new technologies. In contrast, many companies referred to mitigations although disclosures varied in their level of detail.

Some companies either provided a general comment that mitigating actions would be implemented and/or cross-referred to mitigations presented in the principal risk and uncertainty section of the strategic report. We encourage companies to include more helpful disclosures that are company specific and give clear descriptions of the mitigating actions that would be taken should the identified risks to viability crystalise.

We encourage companies to address both resilience and mitigations for identified risks to viability. While some companies in our sample linked mitigating actions to risks, none of the companies addressed both resilience and mitigation for these identified risks.

We encourage companies to convey a narrative in which risks are reflected in viability scenarios and the company's resilience to each scenario is clearly explained.

The Directors have considered a reverse stress test scenario in which it is assumed the current lockdown ends at the end of April 2021 (vs Government target date for reopening gyms of 12 April 2021) and a new lockdown starts in November 2021 (matching the timing of the winter lockdown in November 2020) and continues indefinitely, with the business trading in the months between lockdowns on an approximately cash flow neutral basis.

In such a scenario the Group would be able to continue operating until March 2022 before reaching the £100 million borrowing capacity. In such circumstances additional options may be available to mitigate the impact on the Group's liquidity and cash flow including:

(i) further reductions in operating and capital expenditure;

(ii) additional support from the UK Government;

(iii) extension of debt facilities;

(iv) continued deferral of, or reductions in, rent payments to landlords;

(v) the potential to raise additional funds from third parties.

The Gym Group PLC,
Annual Report and Accounts 2020, p52

Clear description of mitigating actions that could be taken should the reverse stress test crystalise.

6. Viability statement: Assumptions, judgements and conclusions

Assumptions and judgements

The statement should be based on a robust assessment of those risks that would threaten the business model, future performance, solvency or liquidity of the company, including its resilience to the threats to its viability posed by those risks in severe but plausible scenarios. **Such an assessment should include sufficient qualitative and quantitative analysis**, and be as thorough as is judged necessary to make a soundly based statement.

Appendix B, paragraph 4, Guidance on Risk Management, Internal Control and Related Financial and Business Reporting

In order to assess a company's resilience to threats posed by risks in severe but plausible scenarios, careful thought must be given to the assumptions and judgements factored into each scenario. Good viability statements should clearly describe each scenario and articulate any assumptions and judgements using both qualitative and quantitative information. It is important that the assumptions factored into the base case and any alterative scenarios are clearly disclosed. All but three companies in our sample referred to severe but plausible downside scenarios in their viability statement. However, we identified areas for improvement in over half the companies reviewed:

Viability disclosures should present scenarios that are specific to the company. A scenario is not specific unless it is tailored to the company's circumstances and accompanied by an explanation of the potential impact on the business.

We encourage companies to make scenarios clearer through better explanations and additional granular detail. Often good qualitative disclosures were not supported by the quantification of key assumptions. A lack of quantitative information provides readers of the annual report with no clear insight into how a change in a variable would affect a company's performance and position.

Viability disclosures should enable a reader of the accounts to understand how the directors have reached their assessment of viability. There should be a discussion of how assumptions and judgements have affected the overall assessment of viability.

To assess the Group's viability, management performed scenario analysis considering key factors expected to drive uncertainty in the recovery profile. Based on the principal risks identified above, the scenarios applied included:

– a more gradual return to pre-pandemic levels of cinema attendance, driven by restrictions and consumer appetite following the current lockdown;

Reopening at 35% of 2019 admissions levels in May and rising to 75% by September. Admissions would remain on average 12.5% below 2019 levels throughout 2022 and 10% below through 2023. Levels observed in 2019 would not be achieved until 2024 under this scenario. Mitigating actions in such circumstances would include further reductions to all capital expenditure and considering all additional external sources of liquidity.

Cineworld Group plc,
Annual Report and Accounts 2020, p20

Quantification of assumptions.

We compared the assumptions and judgements in viability scenarios with those used in other forward-looking parts of the financial statements to assess consistency. Our Thematic review: Review of financial reporting effects of Covid-19, explained that companies should present a consistent story throughout their corporate reporting:

Overwhelmingly, our main finding was that it was not possible to assess consistency due to the insufficient disclosure of quantified assumptions in the viability scenarios.

However, in the few cases where sufficient detail was provided, it was pleasing to see that there was evidence of consistency in assumptions, such as those used for impairment testing and for assessing the recoverability of deferred tax assets.

6. Viability statement: Assumptions, judgements and conclusions (continued)

Conclusions

Provision 31, Corporate Governance Code 2018 indicates that the board should state whether it has a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, drawing attention to any qualifications or assumptions as necessary.

The FRC's Company guidance (updated 4 December 2020) (COVID-19) stressed that, due to the systematic uncertainties that currently exist, the viability statement should be clear on the company's specific circumstances and the degree of uncertainty about the future. Information should be provided that is relevant to an understanding of the directors' rationale for making the statement.

All the companies in our sample that prepared a viability statement included a statement that the directors had a reasonable expectation that the company was viable over the period of assessment chosen. However, we identified several cases where conclusions either omitted or failed to provide sufficiently detailed information on the assumptions made and any related qualifications.

One company stated that it had a reasonable expectation that the company would be able to meet its liabilities as they fell due. However, it failed to draw attention to the potential breach of covenants that had been discussed in the going concern note.

One company included useful detail of the inherent uncertainty in later years of its financial plan due to a higher level of assumed housing completions from land currently owned without planning permission or land not yet owned by the Group.

We expect companies to present sufficiently detailed information about their assumptions and any necessary qualifications to support the statement that the directors have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of assessment. It was often evident that assumptions had been made but no information was disclosed.

Considering the above, the following conclusions can be drawn from the viability assessment:

- *In the event that the Group is able to successfully restructure its debt to an affordable level, the Group is not exposed in the near term to downside volatility if the Group's strategic, operational, liquidity or compliance risks arise in isolation;*
- *In the event that the Group is able to successfully restructure its debt to an affordable level, but a combination of the risks occur, then the Group is not exposed in the near term to downside volatility in the event that a combination of any three of the four considered scenarios arise;*
- *It is not plausible that all four risks would arise together, since, in the event of the strategic, operational and compliance risks manifesting, the Group would take mitigating actions to reduce costs and manage liquidity and so the likelihood of an increase in costs occurring concurrently with the other three scenarios is considered remote; and*
- *In the event that the Group is not able to restructure its debt, then under all reasonable assumptions the Group is unable to meet its US$725m debt liability due in July 2022;*

Based on these assessments and other matters considered by the Board during the year, on the assumption that the Notes are successfully restructured, the Directors confirm that they have a reasonable expectation that the Group will continue in operation and meet its restructured liabilities as they fall due through the three-year viability assessment period ending 31 December 2023. Nevertheless, as highlighted above, the material uncertainties referred to in respect of the Going Concern assessment may cast significant doubt over the future viability of the Group.

Nostrum Oil & Gas PLC,
Annual Report & Accounts 2020, p57

Clear statement that the directors have a reasonable expectation that the Group will continue in operation with justification provided. The conclusion draws attention to the specific material uncertainty qualification- the key assumption on which the conclusion is based.

7. Viability statement: Solvency and liquidity

Solvency and liquidity

> Directors are encouraged to think broadly as to relevant matters which may threaten the company's future performance and so its ability to continue in operation and remain viable. Directors should consider risks to solvency (the company's ability to meet its financial liabilities in full), as well as liquidity (the ability to meet such liabilities as they fall due) – which may be a timing issue even if the entity appears to be solvent over time – and other threats to the company's viability.
>
> *Appendix B, paragraph 6, Guidance on Risk Management, Internal Control and Related Financial and Business Reporting*

All but one company in our sample of 27 discussed liquidity within the viability statement. In contrast, solvency was mentioned by only a third of the companies reviewed.

As a number of companies had renegotiated borrowing facilities and/or covenants, it was not unreasonable that the focus of the viability statements was primarily on meeting financial liabilities as they fell due. However, we expect both solvency and liquidity to be addressed in the viability statement.

While companies often commented on facilities, headroom and covenants, the disclosures lacked detail.

The best disclosures quantified financial liabilities, stated repayment and expiry dates, detailed headroom on facilities and discussed forecast compliance with or potential breaches of covenants. We expect companies to consider providing these sorts of disclosures but acknowledge that the level of detail and information provided needs to be proportionate and reflect a company's liquidity position.

We were surprised none of the companies in our sample discussed any expected reliance on alternative forms of financing such as factoring or reverse factoring within the viability statement. However, this may reflect that no companies in our sample used such forms of financing. Where companies rely on alternative forms of financing such as factoring or reverse factoring, we expect details of the facilities to be disclosed within the viability statement, either explicitly or by cross-reference, in cases where the modelled scenarios depend on their use.

7. Viability statement: Solvency and liquidity (continued)

Drawn and undrawn facilities

11 companies included details of their banking facilities within the viability statement or included a cross-reference to where the information could be found. However, of these, only four disclosed the split between drawn and undrawn amounts within their viability statement (or by cross-reference).

Seven companies included the level of drawn and undrawn facilities in the going concern disclosures rather than the viability statement but no cross-reference was provided. A further nine companies did not provide details of drawn and undrawn amounts either in the viability statement or the going concern disclosures. We encourage the disclosure of facility headroom, either explicitly or by cross-reference, in the viability statement.

Credit facilities

The outputs of these tests were then reviewed against the Group's current and projected future net cash/debt and liquidity position. The Group closed the financial year with net cash at bank of £50.0m. In addition, the Group had £60m of committed and unutilised debt facilities, consisting of 3 revolving credit facilities with 3 individual banks. During the viability period, 2 out of 3 of these facilities, totalling £40m, will expire. The revolving credit facilities have two financial covenants, relating to interest cover and leverage, and a material adverse change clause.*

A.G. BARR p.l.c.,
Annual Report & Accounts 2021, p50

Disclosure of committed and unutilised debt facilities in addition to net cash at the year end.

Covenant disclosures and expected breaches

The discussion of covenants in the viability statements reviewed was limited in comparison to that provided in the going concern disclosures. While a number of companies effectively cross-referenced to information elsewhere in the annual report, 16 companies either provided no cross-reference or provided insufficient detail on covenants. Where potential covenant breaches are discussed as part of viability scenarios, it is important to provide sufficient information including testing dates and metrics (such as explaining how covenants are calculated with reference to amounts used in the accounts and providing covenant ratio details) in order that the reader understands the risk to liquidity.

Our Thematic review: Review of financial reporting effects of Covid-19 explained that we expected companies to disclose their banking covenants, even when they complied with the requirements and there was significant headroom. Some of the uncertainty caused by the pandemic has now abated. However, we continue to expect companies to provide additional information about their banking covenants unless the likelihood of any breach is considered remote.

7. Viability statement: Solvency and liquidity (continued)

Government support

Six companies in our sample of 27 had not received government support during the pandemic. A number had utilised the Coronavirus Job Retention Scheme, the Covid Corporate Financing Facility (CCFF) or the Coronavirus Large Business Interruption Loan Scheme (CLBILS). Of those that had arranged facilities under the CCFF or CLBILS, some had never drawn down these facilities. Others had already repaid amounts or had the intention of repaying in the short-term.

Better disclosure stated the size of the facility and whether or not the company intended to rely on this funding to support the assessment of viability.

The Group has strong liquidity, with £1.9 billion of cash and undrawn facilities available as at 31 December 2020. £0.6 billion of this is the Bank of England CCFF, which the Directors will allow to lapse in March 2021, given the strong liquidity position. The Group's credit rating is investment grade.

National Express Group PLC, Annual Report 2020, p42

Clearly stated that the company will not draw down on the CCFF.

Some companies operated in sectors whose operations were still severely curtailed by Covid-19 restrictions.

Better disclosure clearly articulated the assumptions for government support in viability scenarios. For example, the assumption that the furlough scheme would be extended if Covid-19 trading restrictions continued.

Four companies had relied on government support in the year under review but it was not clear what assumptions had been made regarding any future government support in the viability scenarios presented. We encourage companies to include details of the nature, timing and extent of government support assumed in assessing viability when they have noted elsewhere in their accounts that they have relied on such support in the financial year.

A 'base case' whereby the national lockdown is in operation until 17 May 2021 followed by two months of trading impacted by social restrictions (in line with October 2020) with around a 20% reduction in sales with normal trade resuming in August 2021. The projections assume the extension of business support initiatives in line with prior government policy, principally through the extension of VAT reduction to 5% and business rates relief to 17 May 2021 (i.e. during the period of national lockdown restrictions) and the extension of the Coronavirus Job Retention Scheme until the middle of July 2021 (i.e. during the period of social restrictions). Due to the impact of the pandemic on international travel, only 40% of our concession sites are forecast to be trading in 2021.

A 'stress case' whereby the national lockdown is in o operation until 17 May 2021 followed by trading impacted by social restrictions (in line with October 2020) to the end of December 2021. Government support is the same as in the 'base case' but with the Coronavirus Job Retention Scheme extended beyond the currently announced policy of September 2021 to the end of December 2021 due to the extended period of social restrictions. The Concessions business is also closed for the whole of 2021 reflecting the increased concerns around international travel.

The Restaurant Group plc, Annual Report 2020, p16

Explains the assumption that the Coronavirus Job Retention Scheme will be extended.

8. Viability statement: Techniques used in making the assessment

Stress testing

Stress and sensitivity analysis will often assist the directors in making their statement. These simulation techniques may help in assessing both the company's overall resilience to stress and its adaptability and the significance of particular variables to the projected outcome.

Appendix B, paragraph 4, Guidance on Risk Management, Internal Control and Related Financial and Business Reporting

21 companies stated that they had performed stress analysis of which 14 had conducted stress tests by modelling a number of alternative scenarios. This approach enables several inputs to be flexed at once, which we encourage. However, we acknowledge that there are instances where focusing on one specific input would be appropriate.

We expect clear articulation of the inputs and outcomes of stress tests performed. Although the majority of our sample had performed stress analysis, very few provided sufficient information on the inputs and even fewer described the results of the stress tests and the impact on viability.

Sensitivities

Only five companies explicitly mentioned sensitivities in their viability statement although a further five presented a series of modelled scenarios that could be viewed as sensitivity analysis.

Often there was qualitative discussion of inputs that had been factored into base and worst case scenarios but our findings were similar to those for stress testing regarding the lack of quantification and the level of detail provided for the sensitivities conducted.

The best disclosure described and quantified scenario inputs.

Comments that forecasts have been sensitised for the impact of risks along with a statement that the directors have concluded that a company is viable does not provide sufficient information to a reader of the annual report. We encourage the inclusion of quantified information as to how the forecasts have been sensitised.

The reader should be clear on the effects of sensitivities on a company's financial performance and position. We expect the quantified information provided and corresponding commentary to make clear the impact of forecast changes on the assessment of viability.

8. Viability statement: Techniques used in making the assessment (continued)

The effect of those principal risks and uncertainties or their combination on the base-case scenario were analysed within the following scenarios:

- *Strategic risks, being a deterioration in the business and market environment. The forward curve for Brent oil is currently broadly in line with the base-case scenario used in the viability assessment.*

Therefore, further scenarios were aimed at analysing the sensitivity to a 10% reduction in the oil prices and gas prices over the period of assessment;

- *Operational risks, principally around the development of proven developed producing reserves under which scenario a further 10% reduction in forecast production and sales volumes, respectively, over the three-year period was assumed;*
- *Liquidity risks, whereby the base-case scenario assumes that the Group meets the budgeted expenditures throughout the period of assessment. Therefore, a further scenario was considered whereby costs increased by 10%;*
- *Compliance risks, where a scenario considered an additional $15m per annum in fines and penalties per annum, not known at 31 December 2020, were incurred by the Group over the period of assessment; and*
- *Severe but plausible scenarios where a combination of two or three of the risks noted above occurred together.*

Nostrum Oil & Gas PLC,
Annual Report & Accounts 2020, p57

Sensitivities are clearly described and quantified.

Reverse stress tests

Five companies made use of reverse stress tests to help form their assessment of viability. We found these particularly helpful, especially for companies in greater financial stress.

We strongly encourage all companies to consider the use of reverse stress-testing.

Good disclosure included sufficient detail to enable the reader to be clear on the circumstances that could result in company failure.

Often disclosures stated that reverse stress tests had been carried out but no further information was provided or there was a statement that the reverse stress test covered multiple concurrent risks. We encourage companies to enhance their disclosure by including specific inputs and assumptions to the reverse stress test scenario.

Similarly, the disclosure of the outcome of reverse stress testing could be improved. Some companies included general comments that a scenario more severe than the severe but plausible scenario or a collective occurrence of highlighted events could result in a covenant breach. We encourage the inclusion of specific information such as break-even points and timeframes.

As a result of the uncertainties due to the Covid-19 pandemic, the Group has also modelled a reverse stress test scenario. This models the decline in sales that the Group would be able to absorb before breaching any financial covenants. Such a scenario, and the sequence of events that could lead to it, is considered to be remote, as it requires sales reductions of c.12.5% per annum between 2021 and 2023 compared to the central case before there is a breach in financial covenants in the period under review and is calculated before reflecting any mitigating actions.

Macfarlane Group PLC,
Annual Report and Accounts 2020, p27

Specific quantification of break-even point and timeframes are disclosed.

9. Going concern: Period of assessment

IAS 1 paragraph 26 requires the directors to make an assessment of the company's ability to continue to operate as a going concern for **at least 12 months from the balance sheet date**.

However, paragraph 30 of the Corporate Governance Code states that the board should disclose whether it considers it appropriate to adopt the going concern basis of accounting in preparing the annual accounts, and to identify any material uncertainties to the company's ability to continue to do so over a **period of at least twelve months from the date of approval of the financial statements**. This requirement is applicable to those companies that voluntarily adopt the code and those which fall within it's scope.

In making their statement in respect of going concern, auditors in the UK are required by paragraph 21-1 of **ISA (UK) 570 (revised September 2019)**[16] to consider a period of at least 12 months from the date that the financial statements are authorised for issue.

Consequently, in the UK the minimum period for the going concern assessment should be at least 12 months from the date that the financial statements are authorised for issue.

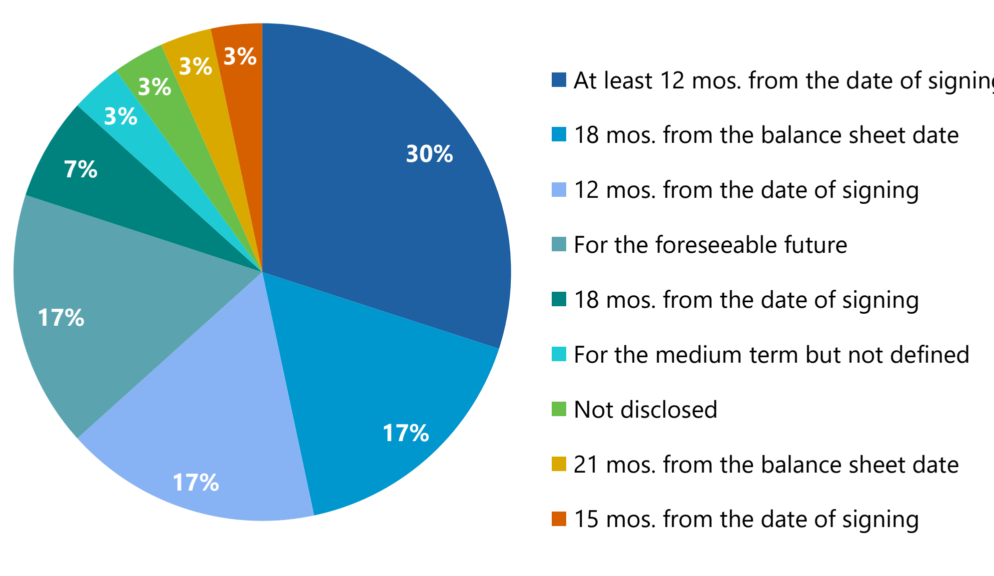
As illustrated by the adjacent graph, the going concern assessment period used by companies varied.

47% of companies in our sample indicated that they had used a period of either 12 months from the date of signing the financial statements, or at least 12 months from the date of signing the financial statements.

Although many companies selected the minimum period possible, 30% of companies indicated that they had considered the appropriateness of the going concern assumption over a longer period.

The longer periods considered ranged from 18 months to 21 months after the balance sheet date. Only two companies within this group explained why the period used had been selected. Disclosures explaining why companies had selected a specific assessment period or chosen a longer assessment period were particularly useful as they provided more insight into the liquidity risks faced by the company.

Going concern assessment periods



16 https://www.frc.org.uk/getattachment/13b19e6c-4d2c-425e-84f9-da8b6c1a19c9/ISA-UK-570-revised-September-2019-Full-Covers.pdf

9. Going concern: Period of assessment (continued)

We encourage the presentation of going concern disclosures which provide reasons for the duration of the period assessed for going concern.

We also encourage companies to select a going concern assessment period which extends beyond the minimum IAS 1, ISA (UK) 570 and corporate governance code requirements in cases where the use of a longer period provides more helpful information to the reader.

A number of companies within the sample did not provide quantitative information on the going concern period assessed. These companies either:

- failed to disclose the assessment period at all;
- noted that the company was expected to be a going concern for the 'foreseeable future' but did not define foreseeable future; or
- indicated that they would be a going concern for the medium term but did not define medium term.

We identified two companies where there was some inconsistency within the going concern disclosures in respect of the period used. Both companies explained that they had prepared cash flow forecasts when assessing going concern which spanned a period of 15 months from the date of signing the accounts with one company then concluding that they were a going concern for the foreseeable future and the other company concluding that they were a going concern for the next 12 months.

We found it unhelpful when the assessment period was not clearly identified or where related information within going concern disclosures throughout the accounts was not internally consistent. We encourage companies to clearly identify the period covered by the going concern assessment and to ensure that information contained within the going concern disclosures throughout the accounts is consistent.

We identified four companies where the going concern period selected ended prior to a specific liquidity event, such as a scheduled large debt repayment, or in advance of the performance of a debt covenant test. Only one of these four companies explained why they had selected the going concern assessment period used.

Although IFRSs are silent on this point, paragraph 10-4 of ISA (UK) 570 (revised September 2019) requires auditors to inquire of management as to its knowledge of events or conditions beyond the period of management's assessment that may cast significant doubt on the entity's ability to continue as a going concern. In cases where such events or conditions are identified, the auditor is required to request that management evaluates the potential significance of the events on the entity's ability to continue as a going concern.

Consequently, we expect companies to take account of significant events that may impact liquidity and going concern, such as large debt repayments, when assessing going concern, even if these events are expected to occur in a period subsequent to 12 months after the authorisation of the financial statements. In addition, we expect companies to explain how these events have influenced the length of the assessment period.

Accounting standards require that the foreseeable future covers a period of at least 12 months from the date of approval of the financial statements, although they do not specify how far beyond 12 months a Board should consider. In the prior year, the Board considered an extended period out to 31 August 2022 (30 months) which aligned with the expiry of the revolving credit facility (RCF). The Board continue to consider the period out to 31 August 2022 for the purpose of the going concern assessment, which reflects a period of at least18 months from the date of approval of these financial statements (the going concern period). While this is a shorter period, it does align with the expiry of the RCF which is a key consideration. The Board have also considered any committed outflows beyond this period in forming their assessment.

Capita plc,
Annual Report 2020, p129

Explains the liquidity factors considered in determining the assessment period to use.

10. Going concern: Reliance on facilities

Going concern disclosures should include enough company specific granular information to enable a user to understand clearly how a company will meet its liabilities as they fall due over the going concern period.

As highlighted in our previous publications [17,18,19], good going concern disclosures include liquidity information which explains:

- any expected reliance on government support (including the CCFF);
- whether there have been any post balance sheet changes to the liquidity position as at the balance sheet date; and
- the level of drawn and undrawn facilities in place.

Reliance on the CCFF

The CCFF closed to new purchases on 23 March 2021 but it will continue to hold companies' commercial paper until the final maturities in March 2022. As explained more fully within the thematic review: Review of financial reporting effects of Covid-19, in cases where a company has secured access to the Joint Bank of England and HMT's CCFF, we expect them to explain how their going concern status was affected by whether or not they had drawn down on the facility by selling eligible commercial paper to the Covid Corporate Financing Facility Limited (CCFFL)*.

As the terms of the CCFF** allow any unused portion of the facility to be withdrawn, we also expect companies to clearly distinguish between amounts of commercial paper already sold to CCFFL and any undrawn facility. We also expect companies to take account of all relevant circumstances, including whether the ability of the government and the Bank of England to withdraw the unused facilities represents a significant judgement or contributes to a material uncertainty in respect of going concern that warrants disclosure.

23 companies within our sample made no reference to the CCFF within their accounts. Of the seven remaining companies:

- Three companies noted in the narrative to the accounts that they had used the CCFF but no mention of the CCFF was included within the going concern disclosures. In these cases it appeared as though the CCFF had been drawn and repaid within the financial year.
- One company made reference to the CCFF in its narrative but it did not refer to it in the going concern disclosures. It was unclear whether the facility was still in place.
- One company indicated in the going concern disclosures that they had secured access to the CCFF but no information was provided as to whether the company intended to draw on it going forward.

Two companies explained within the going concern disclosures that they had access to the CCFF and clarified whether they intended to draw on the facility in the future.

The inclusion of information in respect of the CCFF in the going concern disclosures either explicitly or by cross-reference in cases where the company has secured access to the CCFF, is critical in providing readers with sufficient liquidity information to allow them to understand the going concern assessment.

Consequently we continue to expect companies to:

- explain how their going concern status is affected by whether or not they had drawn on the CCFF;
- clearly distinguish between CCFF amounts drawn and undrawn; and
- consider whether the reliance on the CCFF and the ability for any unutilised facility to be withdrawn represents a significant judgement or contributes to a material uncertainty in respect of going concern which requires disclosure.

17 Thematic review: Review of financial reporting effects of Covid-19 (pp 7,8,41), 18 Thematic review: Cash flow and liquidity disclosures (pp 18-21), 19 Year end letter to CEOs, CFOs and Audit Committee Chairs (2020) (p2)

* 'Each of the Bank, the Fund and the HM Treasury reserve the right in its sole discretion to deem any security ineligible for any reason, and to deem ineligible securities the Fund has previously purchased and vice versa. Notwithstanding the foregoing, the Bank confirms that, whereas it reserves the right not to roll over at maturity and not to acquire any commercial paper that is (or is deemed to be) ineligible, it does not have the right to and will not unilaterally:

- Cancel any commercial paper (whether or not it is ineligible or deemed to be so).
- Require or make any variations to the terms of any issued commercial paper acquired by the Fund.
- Require any ineligible commercial paper previously acquired by the Fund to be bought back by the issuer' (CCFF Market Notice).

** 'Each of the Bank and the HM treasury reserve the right, in its sole discretion, to deem any issuer ineligible for any reason after taking into account the information available to it.' (CCFF Market Notice)

10. Going concern: Reliance on facilities (continued)

The Group had £166m of cash at 31 December 2020, with no debt except for IFRS 16 lease liabilities of £103.5m. Debt facilities relevant to the period comprise a committed £30m RCF with BBVA (facility expiring in May 2022 with all covenants waived until the expiry of the facility), an uncommitted £300m government CCFF (available to March 2022 if drawn in March 2021), an uncommitted UK trade debtor discounting facility (up to £50m depending on debtor levels) and an uncommitted £20m UK bank overdraft facility.

The Group has developed Base Case and Downside scenarios that demonstrate the Board's best estimate and severe but plausible downside scenarios respectively for the review period. The Downside scenario is based on assumptions for gross profit and costs that take account of the possibility of further COVID lockdowns and further recessionary pressures, at similar levels to that experienced in 2020.

These are mitigated by the reduction in fee earner headcount as a result of natural attrition to some extent, but does not take account of all the other cost containment or cash preservation measures available to the Group if required. All scenarios demonstrate significant cash headroom, with no requirement to utilise any of the facilities.

PageGroup,
Annual Report and Accounts 2020, pp118-119

Explains no debt is currently drawn.

Discloses the amount of the CCFF and the circumstances surrounding its availability.

Explains that the CCFF and other loans are not expected to be drawn in any of the scenarios tested.

Reliance on other forms of government support

Approximately three quarters of companies within our sample noted within the narrative to their accounts that they had used some form of government support to help them navigate the pandemic. The types of support mentioned included:

- furlough scheme;
- use of CLBILS;
- tax payment deferrals; and
- business rate holidays.

However, less than 50% of the companies who noted they had accessed government support included information in the going concern disclosures in respect of any assumed government support going forward.

Although not stated in the accounts, in some cases it is likely that such disclosure was omitted as these forms of government support may not have been assumed within the going concern forecasts prepared.

We encourage companies to include narrative within their going concern disclosures, either explicitly or by cross-reference, which addresses the nature, timing and extent of government support assumed when assessing going concern when they have noted elsewhere in their accounts that they have relied on such support in the financial year.

In our sample we observed that the most helpful government support disclosures had the following characteristics:

- identified the type of support used historically;
- noted the type of support expected to be used going forward;
- highlighted any assumptions made in respect of the support that might be available from the government; and
- explained the timing and duration of support assumed.

10. Going concern: Reliance on facilities (continued)

Whilst the covid-19 situation is ongoing, the Group continues to maintain operational effectiveness and the Directors have considered the risks posed by the pandemic in the preparation of its financial forecasts. The Group did not take up any UK Government emergency funding or access related business assistance programmes (one VAT payment was deferred but paid in full before the end of the next VAT quarter). Primarily, the Group's day to day working capital requirements are expected to be met through existing cash resources and cash equivalents and receipts from its continuing business activities.

Sumo Group plc,
Annual Report & Accounts 2020, p81

Explains the extent of previous reliance on government funding.

Notes that they expect to remain liquid through existing cash resources, implying that government funding is not required.

Cash burn when gyms are closed

During the current period of closure, the Group has no revenue and is operating with a monthly cash burn (excluding new site capital expenditure) of around £5 million. This cash burn rate has been minimised as a result of significant reductions in operating costs and the following UK Government support:

- *£1.1 million per month of Business Rates relief, currently due to end August 2021 due to there being a cap on relief of £2.0 million in H2 2021;*
- *£1.1 million per month of furlough income support from the Coronavirus Job Retention Scheme ('CJRS'), currently due to end when we reopen in April 2021; and*
- *£0.5 million per month from Local Restrictions Support Grants ('LRSG') ongoing until we reopen in April 2021.*

In addition to the ongoing support the Group has also benefited from a one-off Government grant of £27,000 per site; these grants have a total one-off benefit of £4.5 million to the Group, of which £2.2 million had been received from the relevant local authorities before 28 February 2021.

The Gym Group Plc,
Annual report and accounts 2020, p107

Explains the type of support used, quantifies the support forecast and notes the timing of receipt of government support.

10. Going concern: Reliance on facilities (continued)

Post balance sheet changes to liquidity

We identified indicators, either from the financial statements or from other publicly available information, that 14 companies within our sample carried out transactions after the year end, but before the accounts were authorised for issue, which impacted the company's liquidity.

Several companies failed to draw attention to these post balance sheet events within their going concern disclosures. The omission of such information makes it difficult to understand the current liquidity status of the company.

We expect the impact of any post balance sheet liquidity events to be discussed either explicitly or by cross-reference within the going concern disclosures.

On the whole, when it was included, we were pleased with the quality of post balance sheet liquidity information within the going concern disclosures.

We observed that the most useful disclosures in this area:
- explained the nature of the event;
- noted when the liquidity event occurred;
- provided quantitative information of the impact of the post balance sheet event on cash balances, liabilities and headroom where relevant;
- noted if there were any conditions placed on the company in relation to the liquidity event;
- highlighted whether covenants had been impacted by the liquidity event; and
- explained whether the impact of the post balance sheet liquidity event had been included within the going concern forecasts used.

One company stated in their going concern disclosures that there had been no post balance sheet changes affecting liquidity head room; information which we found useful.

Since the year-end, the Group has:

- *agreed a new £500.0m package of debt facilities consisting of a £380.0m term loan expiring in 2026, and a £120.0m super senior Revolving Credit Facility expiring in 2025. These new facilities are subject to a Minimum Liquidity Requirement of £40.0m until 31 December 2022 and leverage covenant tests which begin in June 2022 for the RCF and December 2022 for the term loan. The Group is required to draw on the new term loan before the end of May 2021, in a single once-only drawdown of between £230.0m and £380.0m, simultaneously repaying the existing RCF, CLBILS and bond debt. The term loan and RCF drawdowns are subject to customary conditions and a change in control clause, all of which are under the control of the Directors.*
- *obtained covenant waivers for the current TRG and Wagamama super senior RCF through to September 2021; and*
- *announced an underwritten capital raise through a firm placing, and placing and open offer for £175.0m.*

The Restaurant Group plc,
Annual Report 2020, p89

Notes the nature of the post balance sheet liquidity event and quantifies the level of debt secured.

Highlights the covenants now in place.

States the restrictions arising as a result of the post balance sheet event.

10. Going concern: Reliance on facilities (continued)

Facilities drawn and undrawn

The majority of companies included sufficient information within the going concern disclosures, either explicitly or by cross-reference, to enable a user to understand the company's available facilities.

We found that more useful disclosures stated clearly within the going concern disclosures the level of facilities drawn, and the level of undrawn facilities available to the company.

We expect companies to include clear details of the level of drawn and undrawn facilities either within their going concern disclosures or cross-referenced, as this disclosure best communicates information about a company's liquidity.

At 31 December 2020, the Group had £328.3m of committed borrowing facilities, of which only £1.2m matures before December 2023 at the earliest, and a further £13.8m of on-demand facilities. The amount drawn down under these facilities at 31 December 2020 was £139.0m, which together with cash of £22.0m, gave total headroom of £225.1m.

Hill & Smith Holdings PLC,
Annual Report for the year ended 31 December 2020, p122

Identifies the drawn facilities as at the year end, the level of undrawn facilities outstanding and when these facilities mature.

Where companies rely on alternative forms of financing such as factoring or reverse factoring, we expect details of the facilities to be disclosed within the going concern statement, either explicitly or by cross-reference, in cases where the modelled scenarios depend on their use.

Covenants

As noted on page 17, while covenant disclosures provided as part of the going concern assessment were more extensive than the covenant disclosures provided in the viability statement, the level of detail varied.

We observed that companies disclosing either a significant judgement or a material uncertainty in respect of going concern included more detail in their going concern disclosures in respect of:

- covenants the company was subject to;
- the headroom;
- whether the company had sought any waivers; and
- whether the company expected to breach any covenants during the going concern period;

than companies not presenting either a material uncertainty or significant judgement in respect of going concern.

We found this additional detail useful for companies that were facing more significant short term liquidity uncertainty and encourage companies forecasting a breach of covenants within their going concern scenario testing to provide this level of detail.

In the thematic review: Review of financial reporting effects of Covid-19, we explained that we expected companies to disclose their banking covenants, even when they complied with the requirements and there was significant headroom. This was due to the significant uncertainty caused by the pandemic. Some of this uncertainty has now abated. However, we continue to expect companies to provide additional information about their banking covenants unless the likelihood of any breach is considered remote.

10. Going concern: Reliance on facilities (continued)

The principal borrowing facilities are subject to covenants that are measured biannually in June and December, being net debt to EBITDA of a maximum of 3.0x and interest cover of a minimum of 4.0x, based on measures as defined in the facilities agreements which are adjusted from the equivalent IFRS amounts. The ratio of net debt to EBITDA at 31 December 2020 was 1.3 times and interest cover was 17.0 times.

Provides quantitative and qualitative information in respect of covenants and the measures used to calculate them.

Notes the year end covenant level.

Note 22 to the Financial Statements sets out more information on the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit and liquidity risk.

The Group has carefully modelled its cash flow outlook for the period to 31 March 2022, taking account of the current uncertainties created by COVID-19 and its impact on global economic conditions.

In this 'base case' scenario, the forecasts indicate significant liquidity headroom will be maintained above the Group's borrowing facilities and financial covenants will be met throughout the period, including the covenant tests at 30 June 2021 and 31 December 2021.

Explains that they expect covenant tests to be met during the period.

Hill & Smith Holdings PLC,
Annual Report for the year ended 31 December 2020, p122

11. Going concern: Material uncertainties

IAS 1 paragraph 25 requires an entity to disclose any material uncertainties related to events or conditions which may cast significant doubt on an entity's ability to continue as a going concern.

Paragraph 9 of Appendix A of the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting expands upon the guidance in IAS 1 paragraph 25. This guidance explains that in cases where the going concern basis of accounting is appropriate but material uncertainties exist, the directors should:

- prepare the accounts on the going concern basis;
- make an explicit statement that the adoption of the going concern basis of accounting is considered appropriate;
- disclose and identify any material uncertainties; and
- make any other disclosures necessary to give a true and fair view.

Paragraph 7 of the same guidance explains that uncertainties should not usually be considered material if the likelihood of that company being unable to continue to use the going concern basis of accounting is assessed to be remote.

Nine companies presented a material uncertainty in respect of going concern.

On the whole, we were pleased with the quality of material uncertainty disclosures presented as they:

- highlighted that the accounts had been prepared on the going concern basis;
- signposted there was a material uncertainty;
- were clear and understandable;
- were company specific;
- explained the nature of the material uncertainty;
- clarified the way in which the uncertainty may impact liquidity; and
- noted when the uncertainties might crystalise.

The most useful material uncertainty disclosures also noted the mitigating actions available to the company should the material uncertainty crystalise.

Although we were encouraged by the quality of material uncertainty disclosures overall, there were some areas for improvement.

We identified one company whose viability statement and financial review suggested that within the assessment period for going concern, certain term loan repayments may need to be restructured and that covenant waivers may need to be sought from lenders. This raised the question of whether there was a material uncertainty in respect of going concern, or whether significant judgement had been applied in making this determination; however, no related disclosures had been made.

In determining whether or not a material uncertainty in respect of going concern exists in circumstances as outlined above, management should carefully consider:

- the magnitude of the potential impacts of the uncertain future events or changes in conditions on the company and the likelihood of their occurrence;
- the realistic availability and likely effectiveness of actions that the directors would consider undertaking to avoid, or reduce the impact or likelihood of occurrence, of the uncertain future events or changes in conditions; and
- whether the uncertain future events or changes in conditions are unusual, rather than occurring with sufficient regularity to make predictions about them with a high degree of confidence.

In cases where management has determined there is no material uncertainty to disclose but has exercised significant judgement in forming that conclusion, we expect disclosures about the significant judgement required by IAS 1 paragraph 122 to be presented. (See pages 31 and 32 for further details)

11. Going concern: Material uncertainties (continued)

In undertaking a going concern review, the Directors have reviewed financial projections to 31 March 2022 (the review period) containing both the base case and a severe stress case. In both cases, it is assumed that the capital raise announced on 10 March 2021 is successful, however this is subject to shareholder approval in the General Meeting on 29 March 2021. If this is not approved then the Group is forecasting a breach under the stress case of the Minimum Liquidity Requirement within the review period. In the base case scenario this covenant is not breached. Management has conducted a series of pre-marketing meetings with investors covering over 50% of the share register and has received positive support for indications of their intention to subscribe for shares. However, this is not guaranteed, and the vote may not pass at the General Meeting. If approval was not obtained, the Group would aim to take a number of co-ordinated actions designed to avoid a covenant breach, including further discussions with its landlords, selective disposal of assets, further cost reduction programmes, or other commercial actions.

Conclusion

The Directors have concluded that the conditionality of the capital raise, requiring shareholder approval at the General Meeting on 29 March 2021, represents a material uncertainty which may cast significant doubt on the group's ability to continue as a going concern. The Board is confident that shareholder approval will be obtained and therefore has a reasonable expectation that the Group has adequate resources to continue in operational existence for the period to 31 March 2022, being at least the next twelve months from the date of approval of the Annual Report and Accounts. On this basis, the Directors continue to adopt the going concern basis in preparing these accounts. Accordingly, these accounts do not include any adjustments to the carrying amount or classification of assets and liabilities that would result if the Group were unable to continue as a going concern.

The Restaurant Group plc,
Annual Report 2020, pp89-90

Identifies the specific area of uncertainty, the date on which the uncertainty is expected to crystalise, the circumstances under which the uncertainty would have an impact and the subsequent impact.

Notes the mitigating actions that could be taken if the uncertainty were to crystalise.

Clearly identifies the issue that constitutes a material uncertainty.

Explains that the accounts have been prepared on the going concern basis.

12. Going concern: Significant judgements

IAS 1 paragraph 122 requires the disclosure of significant judgements that management has made in preparing the financial statements. This disclosure requirement is applicable to all areas of the financial statements. Consequently, these disclosures should be presented in cases where significant judgement has been applied in determining whether an entity is a going concern.

These disclosures should also be provided in cases where the board concludes that a material uncertainty in respect of going concern does not exist but the conclusion reached required the application of significant judgement (IFRIC July 14).

Given the economic uncertainty arising as a result of Covid-19, we expected to see more instances of management disclosing that they had applied significant judgement in determining whether the company was a going concern or whether there was a material uncertainty to disclose in respect of going concern. However, only one company in our sample identified a significant judgement in assessing going concern.

We identified several circumstances where information presented in the accounts suggested that significant judgement may have been applied in determining whether the company was a going concern or whether there was a material uncertainty in respect of going concern to disclose, yet no significant judgement disclosure was presented.

We expect companies to identify and disclose any significant judgements that are made in determining whether:

- the entity is a going concern; or
- a material uncertainty in respect of going concern exists.

Disclosures presented should be company specific and should clearly identify the judgement made.

One company which had disclosed a significant judgement in relation to going concern in the prior year, explained why that judgement was no longer considered significant in the current year.

We encourage the inclusion of such disclosure as it can provide further insight into a company's performance during the year, its future prospects, and the level of risk to which it is exposed.

The Directors no longer consider going concern to be a critical accounting judgement as was previously disclosed in the prior year financial statements for the year ended 31 January 2020 and interim financial statements for the half year ended 31 July 2020. In determining that going concern is no longer a critical accounting judgement the Directors have taken into account the significantly reduced level of uncertainty based on the prolonged period of very positive trading and strong financial performance under social distancing provisions (resulting in LFL sales up 7.1% for the year), the continuing categorisation of the group's activities as 'essential' in its largest markets, the strong liquidity position of the Group and the progress on the Powered by Kingfisher strategy during the year within this environment.

Kingfisher plc,
2020/21 Annual Report & Accounts, p129

Identifies the factors considered by management in determining that no significant judgement was applied in determining whether or not the company was able to continue to operate as a going concern.

12. Going concern: Significant judgements (continued)

One company in our sample disclosed information in respect of the estimates they had made in formulating the forecast cash flows used in the going concern assessment. This disclosure was useful as it highlighted the specific assumptions made and provided further insight into how management determined the assumptions applied.

We encourage companies to include relevant, company specific disclosures about sources of estimation uncertainty involving the assumptions used in preparing the going concern scenarios when this provides useful information to the reader.

b) Forecast business cashflows

For purposes of the going concern assessment and as an input into the impairment assessment, the Group make estimates of likely future cash flows which are based on assumptions given the uncertainties involved. The assumptions include the extent of government restrictions and support, the recovery of the revenues through and beyond the pandemic, cost of labour and supplies and working capital movements. These assumptions are made by management based on recent performance, external forecasts and management's knowledge and expertise of the cashflow drivers.

The Restaurant Group plc,
Annual Report 2020, p104

Highlights the assumptions made.

Notes the factors considered by management in determining the appropriate assumptions to use.

13. Going concern: Assumptions and judgements

Assumptions

Given the current uncertain environment, we expect company specific going concern disclosures to explain clearly the key assumptions and judgements that the board has made in determining whether or not the company is a going concern and whether or not there are material uncertainties.

Thematic Review: Review of financial reporting effects of COVID-19, p7

Only 12 companies in our sample disclosed key assumptions in sufficiently granular detail to enable the reader to fully understand the basis on which the Board had concluded that the company was a going concern, and whether or not there were any material uncertainties.

14 companies provided some level of detail on assumptions. For example, statements that the impact of Brexit would not be significant or that the business would remain operational throughout Covid-19 lockdowns. They did not provide detailed information about individual inputs to scenarios.

We encourage companies to provide sufficiently granular qualitative and quantitative information in respect of the key assumptions used in preparing the going concern scenarios. A lack of quantitative information provides no insight into how changes in variables would affect a company's performance and position, or any potential impact on going concern.

Four companies in our sample did not provide any details of the assumptions that the Board had made in determining whether or not the company was a going concern and whether or not there were material uncertainties.

Quantified assumptions are given for both the base and severe but plausible scenario.

Assumptions and stress testing

The relevant forecast revenue assumptions as a percentage of the average pre-COVID-19 levels for the impacted ground and fuel services in the first half of 2021, second half of 2021 and for the first half of 2022 under the base case and a severe but plausible downside case are set out below.

	H1 2021	H2 2021	H1 2022
Base case	51%	62%	79%
Severe but plausible downside case	48%	54%	63%

These assumptions reflect the Company's view on the likely rate of recovery along with information from some of the Group's largest airline customers. The percentages have been benchmarked against various recovery scenarios prepared by external third parties including the European Organisation for the Safety of Air Navigation, the International Civil Aviation Organization and the International Air Transport Association.

John Menzies plc,
Annual Report and Accounts 2020, p149

Explanation that the assumptions have been benchmarked against third party data.

Good disclosure included clear and quantified assumptions with explanations as to how the assumptions had been determined.

Where multiple scenarios were presented, good disclosure presented separate, quantified assumptions for each.

13. Going concern: Assumptions and judgements (continued)

The downside case was prepared using the following key assumptions:

- *revenue is assumed at 37% down on the base case for FY21 and 9% down on the base case for FY22;*
- *where the base case expected trade to return to FY19 levels for the last quarter of FY21 and into the first quarter of FY22, the downside case reflects these at -65% and -30% of FY19 levels;*
- *in line with the revenue reduction, there is a reflective reduction in variable operating costs including employee costs. Where centres are forced to close, it is assumed CJRS is available and is taken up until September but after that no claim is assumed;*
- *reduced maintenance and marketing spend, as well as reducing all non-essential and non-committed capital expenditure in FY21 and FY22 as in the base case; and*
- *no dividend payments in FY21 or FY22.*

The downside case modelled is severe but plausible and would still leave the Group with £5m of liquidity at the end of FY21 and in 12 months from now and the Group would pass the minimum liquidity tests but would breach the EBITDA test for September and December 2021 as there would be no CJRS claimed after September when it is currently expected to end. The fixed cost and leverage covenants commencing from quarter one of FY22 pass. In the event of a full lockdown in any of the months in quarter one of FY22, there would be a breach of the first quarters covenants. In the event that a covenant is breached, an extension of this covenant would need to be negotiated with RBS. The Directors believe this would likely be given as the Group would still have £5m of liquidity available, has a strong relationship with RBS and has successfully obtained covenant waivers recently.

Ten Entertainment Group plc,
Annual Report & Accounts 2020, p112

Detailed assumptions are provided for the downside case.

The impact on going concern is discussed. The company disclosed a material uncertainty over going concern.

Consistency of assumptions and judgements with other forward-looking parts of the financial statements

As for viability, we compared the assumptions and judgements in going concern disclosures with those used in other forward-looking parts of the financial statements to assess consistency. We expect companies to present a consistent story throughout their corporate reporting.

Our main finding is consistent with that for viability statements. The majority of companies did not provide enough granular information on judgements, assumptions and inputs to scenarios within the going concern disclosures to be able to assess consistency with those in other forward-looking parts of the financial statements.

13. Going concern: Assumptions and judgements (continued)

Mitigating actions

We also expect disclosure of the possible scenarios that could lead to failure and details of any mitigating actions available to the board. The disclosures presented should be sufficiently granular to enable a user to understand clearly the way in which the company intends to meet its liabilities as they fall due.

Thematic Review: Review of financial reporting effects of COVID-19, p7

18 companies mentioned mitigating actions to possible events that could lead to company failure although varying levels of detail were disclosed. Two companies made boilerplate comments that mitigating actions could be taken.

The best disclosures were tailored to the business' circumstances and linked to specific scenarios.

We expect disclosure of mitigating actions in the going concern disclosures, either explicitly or by cross-reference, where scenarios that could lead to company failure are relevant.

We note that two companies had undergone restructuring in the year under review and had disclosed this appropriately in the going concern disclosures.

Three companies referred to structural changes that were still to take place, predominantly disposals. However, one referred to 'further restructuring' which provided insufficient information to users of the accounts. We expect disclosures to be sufficiently granular to enable the user to understand how the company intends to meet its liabilities as they fall due.

Against this reasonable worst case the Group has applied mitigations in the form of further reductions in expenditure, over and above those reflected in the base case. The majority of these further cost savings have already been identified and can be swiftly implemented should the reasonable worst case scenario occur. Whilst the cost savings in the base case and reasonable worst case would involve restructuring activity, they do not involve significant structural changes to the Group...

... should there be a more severe set of circumstances than those assumed in the reasonable worst case, the Group could also have a number of further mitigations available to it including: deeper and broader cost cutting measures, seeking further amendments or waivers of covenants, the renewal or replacement of borrowing facilities maturing in the next 12 months, raising further equity, sale and leaseback of vehicles, disposal of properties and disposal of investments or other assets.

National Express Group PLC,
Annual Report 2020, p151

Mitigating actions are explained for both the reasonable worst case scenario and a more severe set of circumstances.

14. Going concern: Techniques used in making the assessment

Stress testing

On page eight of our thematic review: Review of financial reporting effects of Covid-19, we noted that the more useful going concern disclosures explained which inputs were subject to stress tests and encouraged companies to disclose information in respect of any reverse stress testing conducted when undertaking their going concern assessment.

26 of the companies within our sample provided information in their going concern disclosures in respect of the stress testing they had carried out when undertaking the going concern assessment. All had created at least one severe, but plausible, downside scenario.

Three of the remaining four companies in our sample had carried out reverse stress tests when undertaking the going concern assessment.

Particularly in the current economic environment, we expect management to use stress or reverse stress testing techniques when assessing going concern and to provide sufficient granular detail to enable a user to clearly understand the assumptions and inputs used in developing the stressed scenarios.

We observed that useful quantitative input and assumption information was only provided for a handful of downside scenarios modelled. This lack of both quantitative and qualitative information makes it difficult for users to understand:

- what management considers to be a severe but plausible downside scenario;
- the way in which the company might be affected if a situation beyond a severe but plausible downside were to crystalise;
- the situation under which the company might fail; and
- the judgements management have made in determining that the company is able to meet its liabilities as they fall due.

We consider it good practice, and encourage disclosure of sufficiently granular, company specific, quantitative and qualitative information in respect of the inputs and assumptions modelled in severe but plausible downside scenarios.

14. Going concern: Techniques used in making the assessment (continued)

In light of the Covid-19 pandemic, a revised cashflow forecast has been completed for the Group to confirm the appropriateness of the going concern assumption in these accounts. The forecast was prepared using two scenarios – a likely base case including the expected impact of Covid-19 and a severe but plausible downside sensitivity scenario.

In the severe but plausible downside sensitivity scenario the following assumptions have been applied:
- *A 15-20% reduction in private sales volumes, with a corresponding reduction in development spend*
- *A 5-10% reduction in private sales prices*

The impact of these severe but plausible downsides are then mitigated by:
- *Cessation of uncommitted land spend*
- *Reduction in overheads to reflect reduction in bonuses, temporary employee costs, etc.*

In a severe but plausible downside scenario the delivery of affordable housing is not expected to be impacted as it will typically have been contracted for delivery in advance to a Registered Social Landlord or similar entity. As such the volumes and prices for affordable housing are not sensitised in the severe but plausible downside scenario.

In both the base and the severe but plausible downside sensitivity scenario, the forecasts indicated that there was sufficient headroom and liquidity for the business to continue based on the facilities available to the Group as discussed in Note 4.2 to the financial statements. In each of these scenarios the Group was also forecast to be in compliance with the required covenants on the aforementioned borrowing facilities. Consequently, the Directors have concluded that using the going concern basis for the preparation of the financial statements is appropriate.

Vistry Group PLC,
Annual report and accounts 2020, p151

Company specific quantitative and qualitative information disclosed.

Explains why certain assumptions have not been sensitised.

Clear conclusion from the severe but plausible scenario.

14. Going concern: Techniques used in making the assessment (continued)

Reverse stress testing

Around a third of companies explained, either explicitly or via cross-reference, that they had carried out reverse stress testing in helping them assess going concern. Most of these companies had not disclosed a material uncertainty in respect of going concern.

The detail provided in respect of reverse stress testing disclosures was variable. Some companies simply stated that they had conducted reverse stress tests; others provided more detailed quantitative and qualitative information and disclosed the results of the analysis performed.

The best reverse stress testing disclosures:

- were company specific;
- provided qualitative and quantitative information on the conditions that would have to exist for a company to fail;
- noted what risks were tested;
- explained why the company felt these conditions to be implausible; and
- identified any mitigating actions that could be taken should the reverse stress test scenario arise.

We encourage companies to include company specific quantitative and qualitative information in respect of reverse stress tests performed as this provides useful information in respect of the circumstances that could cause companies to fail.

The Group has carried out stress tests against the base case to determine the performance levels that would result in a breach of covenants or a reduction of headroom against its borrowing facilities to nil. For a breach of covenants to occur during the relevant period, the Group would need to experience a sustained revenue reduction of 30% compared with current expectations throughout the period from May to December 2021, while a reduction in headroom against borrowing facilities to nil would occur if the Group generated no revenue between May 2021 and March 2022.

The Directors do not consider either of these scenarios to be plausible given the ability of the Group to continue its operations throughout the COVID-19 pandemic (noting that revenues fell by only 22% in the second quarter of 2020, the worst-affected period), its ability to return to more normalised activity levels during the second half of 2020 and early part of 2021, and the positive future outlook across the infrastructure markets in which it operates.

The Group also has several mitigating actions under its control including minimising capital expenditure to critical requirements, reducing levels of discretionary spend, rationalising its overhead base and curtailing future dividend payments which, although not forecast to be required, could be implemented in order to be able to meet the covenant tests and to continue to operate within borrowing facility limits.

Hill & Smith Holdings PLC,
Annual Report for the year ended 31 December 2020, p122

Identifies the risks tested.

Provides quantitative information on the conditions that would need to arise for the company to fail.

Explains why these scenarios are not considered plausible.

Explains mitigating actions available.

14. Going concern: Techniques used in making the assessment (continued)

Company failure

Almost half of the companies within our sample included some information in the going concern disclosures, either explicitly or by cross-reference, of the instances in which the company could fail.

The majority of the companies providing this information had also disclosed a material uncertainty in respect of going concern. In these cases, the risk of failure was typically discussed in terms of the material uncertainty faced by the company.

Three companies in our sample included details of the circumstances under which the company may fail, despite not disclosing a material uncertainty. This information was disclosed in the context of reverse stress tests that had been performed.

The best disclosures in this area clearly described in company specific, qualitative and quantitative terms, the conditions that would have to exist for a company to fail and why the company felt those conditions to be implausible.

It was useful when companies disclosed the circumstances under which they could fail; and whether or not these circumstances were considered to be remote as this provided additional information on the way in which unforeseen circumstances could impact the company's short term liquidity. We encourage other companies to provide this type of information in future financial statements.

15. Clear and concise: Linkage between statements

Linkage between statements

The FRC encourages clear and concise reporting. Consequently, we continue to highlight the importance of the careful placement of information within the annual report. Going concern disclosures and viability statements will often have some degree of overlap. This can result in the duplication of disclosures which, in turn, creates clutter in the accounts.

Where both going concern disclosures and a viability statement were presented, our review considered how the two statements were linked. We assessed how effectively the narrative signposted readers to key information, avoiding duplication of disclosure.

We found that:

- 48% were not linked (or presented alongside each other);
- 41% included cross-references between the viability and going concern statements; and
- 11% presented a going concern note and the viability statement on the same page in the front half of the annual report.

The Directors are of the opinion that the Group's cash flow forecasts and profit projections, which they believe are based on a prudent assessment of the market and past experience taking account of reasonably possible changes in trading performance given current market and economic conditions, show that the Group should be able to operate within the current facility and comply with its banking covenants. As a consequence of the Covid-19 pandemic the Directors have modelled a range of scenarios, including a central case, a downside scenario, a severe but plausible downside and a reverse stress test, over a three-year horizon. Details are set out in the Viability statement review on page 27.

Macfarlane Group PLC,
Annual Report and Accounts 2020, p75

Cross-references to the viability statement to avoid repeating details of the scenarios.

In the case of an ongoing impact of the response to COVID-19, Management has undertaken a review of the financial impact were the recovery in air traffic volumes to be lower than expected, reflected in a severe but plausible downside scenario using the assumptions outlined in the going concern assessment in note 1 of the consolidated financial statements.

John Menzies plc, Annual Report and Accounts 2020, p35

Cross-references to the going concern note to avoid repetition of assumptions.

In reaching its conclusion on the going concern assessment, the Board also considered the findings of the work performed to support the statement on the long term viability of the Company and the Group. As noted below, this included assessing forecasts of severe but plausible downside scenarios and further downside stress testing related to the Company's principal risks, notably the extent to which the recovery in the ground and fuel services businesses assumed in its base case forecasts is at risk.

John Menzies plc, Annual Report and Accounts 2020, p149

Clarification that the going concern assessment incorporates the work performed for viability.

Effective cross-referencing makes it clear that the assumptions and judgements used in each of these assessments are consistent.

Effective cross-referencing avoided the duplication of lengthy descriptions detailing inputs and assumptions to scenarios.

We appreciate that companies present going concern disclosures in a number of different ways. Although going concern must be dealt with or referred to in some way in the financial statements themselves, the actual location of the related disclosures is less important than ensuring that a reader is able to easily and clearly understand the assessments being made, and the rationale that underlies them. Linking the related disclosures by clear cross-referencing can help achieve this and demonstrate consistency between these assessments.

15. Clear and concise: Linkage between statements (continued)

Level of detail provided in each statement

In addition to assessing the linkage between the viability statement and going concern disclosures, we compared the level of detail presented in each. We were interested in whether the level of detail in one was reduced due to the inclusion of detailed disclosures in the other.

We noted that:

- viability statements in 11% of the companies we sampled were more detailed than the going concern disclosures;
- going concern disclosures in 30% of the companies we sampled were more detailed than the viability statements; and
- 59% of companies sampled provided a similar level of detail in both their viability statements and going concern disclosures.

It is important to note that, of those companies whose statements presented a similar level of disclosure, a number lacked granularity in both. We expect disclosure to include sufficient, relevant and specific information.

We were concerned that, for many companies in our sample, there was insufficient disclosure to assess whether the assumptions and scenarios were consistent between the going concern disclosures and the viability statement.

Some companies provided slightly different information in their viability and going concern disclosures. For example, going concern disclosures sometimes included more detail on covenants and liquidity whereas viability statements focused on the impacts of plausible downside scenarios. Therefore, although the level of detail provided was often similar between statements, each statement provided useful information without unnecessary duplication.

In contrast, other companies with a similar level of detail in both statements, provided similar content in each leading to repetition without adding value. We encourage companies to assess how to make their reporting clearer and more concise.

Cross-referencing

The use of cross-referencing is not limited to linkage between the going concern disclosures and viability statement. It can also be an effective means of referring to information throughout the annual report. For example, our sample included signposting to details of mitigating actions discussed in the strategic report and to liquidity and covenant information within the financial statements. This approach reduces the need to summarise or repeat information provided elsewhere.

While a significant number of companies cross-referenced to the risks and uncertainties section of the strategic report within the viability statement, other cross-references identified within our sample were relatively few. We encourage companies to reflect on their use of cross-referencing.

Cross-referencing was used effectively to clarify key information. For example, providing evidence that assumptions and estimates were consistent throughout the annual report.

For the current period, value in use estimates have been prepared on the basis of the 'base case' forecast described above in Note 1 under the heading 'Going concern basis'. The most significant assumptions and estimates used in our impairment reviews are those contained within the base case forecast. Of these, the assumptions with the most significant impact on forecast site-by-site cash flows are those relating to revenue recovery and trends, where it is assumed that our businesses maintain a steady recovery in revenues, reaching 2019 levels by site and then growing at 2% per year, with pubs being the quickest to recover and concessions being the slowest. In addition to the forecast cash flows, a risk adjustment has been applied to these cash flows to reflect the uncertainty of future cash flows in the current environment.

The Restaurant Group plc,
Annual Report 2020, p118

The impairment review cross-references clearly to the going concern note and clarifies consistency of assumptions and estimates.

16. Key disclosure expectations

Although we saw many examples of good disclosure, there is much scope for improvement.

Given the nature of the viability and going concern disclosures and the way in which their contents overlap, some of our improvement observations apply to both statements with other observations being specific to either the viability or going concern statements.

We encourage companies to consider the findings within this report when drafting their upcoming annual reports.

More helpful viability and going concern disclosures:

- Include sufficient qualitative and quantitative information to enable a reader to fully understand the assessment. This requires detailed, company specific, information to be provided. These disclosures may, for example, include: details of drawn and undrawn facilities in place and reliance upon such facilities; explanation of any reliance on any government support programs; details of covenants including headroom; and information on post balance sheet changes to liquidity.
- Are based on assumptions which are clearly consistent with those used in other forward-looking areas of the financial statements such as impairment testing and the assessment of the recoverability of deferred tax assets.
- Clearly explain the inputs and assumptions used in forecast scenarios (providing quantitative as well as qualitative information).
- Explain the sensitivity analysis, stress and reverse stress tests carried out to support the assessment and provide details of the inputs (quantitative as well as qualitative detail) and outcomes of any such analysis.

We expect viability statements to:

- Clearly justify the period of assessment. Companies should consider debt repayment profiles, the nature of the business and its stage of development, planning and investment periods, strategy and business model and capital investment when selecting the viability assessment period. We encourage companies to provide longer term information where possible, which investors find more helpful.
- Draw attention to any assumptions or qualifications on which the assessment is dependent.

We expect going concern disclosures to:

- Clearly identify any material uncertainties related to events or conditions which may cast significant doubt on an entity's ability to continue as a going concern.
- Highlight the significant judgements made by management in determining whether or not the adoption of the going concern basis is appropriate and whether or not there are material uncertainties in respect of going concern to disclose.

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