Chatsworth House,
Blakes Lane,West Horsley,
Surrey, KT24 6EA.

8th June 2011

Sharman Secretariat, c/o Financial Reporting Council,
5th Floor,Aldwych House,
71-91 Aldwych,
London, WC2B 4HN.

Dear Sirs,

Going concern and liquidity risks, lessons for companies and auditors.

1. I respond to your request for evidence dated 26th May to the Sharman Enquiry regarding lessons learnt from going concern assessments and liquidity risk during the recent downturn and financial crisis. My response is a personal one based on having been the finance director of Smith & Nephew plc for 15 years until 2006, chairman of the audit committee of Cobham plc for 9 years until this May and a member of and latterly chairman of the audit committee of Xstrata plc for the last 24 months.
2. The FRC's guidance of November 2009 was a timely reminder of the obligation to assess going concern. Whilst corporates by this time had already become acutely alert to covenant risks, maturity profiles and deteriorating bank and debt market liquidity, the FRC's guidance raised the profile of the need to satisfy the going concern assumption and the need for its explicit assessment. Forecasting mechanics already existed for looking at least 12 months ahead as did headroom and risk assessments, with the auditors then adding their own observations. What the FRC ensured was that a rigorous assessment was made a specific agenda item and minuted as such. Thus my experience has been that management, auditors and audit committee assessments of going concern have been and are fit for purpose.
3. Perhaps the more important lessons learnt from the recent crisis have been the downside risks associated with financing arrangements (covenants, maturities and the lack of liquidity of source markets) and the speed at which one or more of these can deteriorate. One would not want these learnings lost as the better times return, thus an explicit assessment of financing risk could usefully be made a more explicit and lasting component of the going concern assessment.
4. I don't think the audit of going concern requires upgrading to something akin to a working capital investigation. We are not talking about a 'deal' requiring certainty of funds and modern management have good planning and forecasting systems off which going concern feeds. If they don't this is an internal control weakness and should be highlighted and dealt with as such. Clearly if financing is a risk then more work has to be done, but if going concern remains the satisfied presumption then I do not see the need to change audit scope.
5. My experience is that corporates have become much more transparent with their disclosures of sources of financing, maturity profiles and key covenants in their Financal Reviews and presentations. This should be encouraged with perhaps a good practice guidance note issued, rather than incorporated as another IFRS disclosure.

Yours faithfully,

Peter Hooley, FCA., MSc.