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Our ref: 73/BLC/Going concern
BLC00070

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Dear Mr Leonard

Consultation Paper on Going concern and Financial Reporting

We welcome the opportunity to comment on the proposed changes to the 1994 guidance for directors of listed companies on going concern and financial reporting.

We agree that an update of the 1994 document is required to reflect changes in accounting standards and in particular the move to international standards. However such an amendment should not take precedence over the need to issue guidance to the preparers and auditors of financial statements in the current economic climate. We note the additional guidance issued by the Financial Reporting Council last month including an update for directors on going concern and liquidity risk and challenges for audit committees arising from current economic conditions and the Bulletin recently issued by the Auditing Practices Board.

We disagree with the expansion of the possible conclusions from 3 to 4 in paragraph 47 of the Consultation Paper. We agree that the wording used in the new 3rd conclusion is better aligned with that in international standards. For example, IAS 1 paragraph 23 (FRS 18, paragraph 24) and ISA 570 paragraph 30. However that raises the question of why the 2nd conclusion has been retained. This is not explained in the proposed revised guidance. In addition the additional 3rd conclusion makes no reference to whether the going concern basis would still be appropriate.

The wording in the fourth conclusion paragraph 47 and in paragraph 52, that the directors consider the company is unlikely to continue in operational existence and that therefore the financial statements are not prepared on a going concern basis, differs from the approach in IAS 1 and FRS 18. IAS 1, paragraph 23 notes that financial statements shall be prepared on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. FRS 18, paragraph 21 has a similar requirement.

Our responses to the specific questions raised are set out below.

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Question 1: In the light of these developments, do you believe that there is a continuing need for separate Guidance for Directors about Going Concern?

Yes. We believe that there is a continuing need for separate Guidance for Directors about Going Concern.

Question 2: Do you believe that the proposed amendments are sufficient and appropriate? If not, what alternative amendments do you believe need to be made and why?

See our comments above.

Question 3: Do you believe that any significant parts of the proposed unnecessary? If so, which paragraphs can be removed and why?

See our comments above.

Question 4: Do you believe that it continues to be appropriate to include standardised text within the proposed Guidance for Directors indicating how directors might explain their use of the going concern basis of accounting?

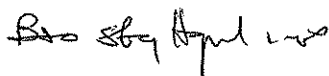
Yes, but it needs to be emphasised that the directors must draft disclosures specific to their circumstances.

Question 5: Do you believe that it continues to be appropriate for the Guidance for Directors to require directors to consider whether an additional disclosure should be given where they have not considered a period that extends to at least twelve months from the date of approval of the financial statements?

Yes.

If you would like to discuss any of these comments, please contact Graham Clayworth at 020 7893 3424.

Yours sincerely



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