

Steven Leonard
Financial Reporting Council

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Dear Steven,

Going Concern – Guidance for Directors – FRC Exposure Draft

“Unless the requirements for ‘demand creation process’ remain unimpaired an entities future becomes more doubtful”.

Preface.

The purpose of business is to satisfy customers need. The purpose of financial statements is to collate the activities of the period and report the results in monetary terms. Business is a continuum of interrelated activities requiring decisions at vital points of control some of which do not form part of a financial statement. Top management is work as it provides direction and control of the organisation. Employees as with customers, shareholders and suppliers are stakeholders who will benefit from the success of the business.

Business.

The key issue is whether the products designed, produced and delivered satisfy customer requirements, demand creation processes. There are but four business processes; Mission management process, Resource management process, Demand creation process and Demand fulfilment process.

Mission Management process determines the direction of the business, continually confirms that the business is proceeding in the right direction and makes course corrections to keep the business focused on its mission.

Resource management process specifies, acquires and maintains the resources required by the business to fulfil the mission. It will dispose of any resources no longer required.

Demand creation process penetrates new markets and services existing markets with products that influences decision makers and attracts potential customers.

Demand fulfilment process converts customer requirements into products and services in a manner that satisfies all stakeholders.

To survive, any business organisation will require giving relative equal time to these processes to be a going concern. This will also include the management of risks encountered in its activities as part of the Business Management System. Neither would this exclude a tested Business Continuity Plan to ensure continuance of supply to their customers.

Conclusion.

An organisation works everyday to fulfil the mission of the enterprise. It is interconnected and interrelated with an hierarchy of authority and responsibilities demonstrating competence in its many differing activities resulting in satisfying customer needs. A missing link can bring the house down and to not consider the organisation as a whole can lead to failure of the business. Financing needs maybe necessary but ensuring that product design is keeping pace with market trends is vital for survival. A going concern must reflect the capability of the organisation to meet customer's needs failure is guaranteed to bring the house down.

If I was a banker (and I am not), with resources to lend, to which organisation would I have more confidence in repaying the loan? Would it be one that demonstrated its capability with evidence from its Business Management System as outlined above or one that followed the exposure draft of the FRC's guidelines for a going concern? Unless it is a comprehensive set of principles for managing a business in all of its requirements it would not lead me to a conclusion of a going concern.

Regretfully the exposure draft by the FRC fails to highlight the sequence of business processes for survival. It lists many attributes to be controlled but it is not until the 5th question that the source of revenue is mentioned. The guidelines should cover a much longer view and as such help to prevent, for next years assessment, failure to have understood product life cycles, for example for which it may well now be too late. I would also recommend that a 'tested Business Continuity Plan (BS25999)' would be helpful for any operation or an explanation as to why it is not considered necessary, to be included in the guidelines.

Yours sincerely
(signed) Cliff Moggs FCMA, CMA(USA), retired

