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**Sent:** 13 January 2016 18:10  
**To:** Narrative  
**Cc:** Jo Morgan; Gail Dean; MATHERS, Kate; Hilary Lower; SMITH, Stephen; THORPE, John; MORLAND, Peter (NEWC); KNIGHTS, Lewis  
**Subject:** Response to Going Concern guidance

Dear FRC colleagues,

I am submitting a response to the October exposure draft on Going Concern for non-code companies as one of the directors on Companies Act work at the National Audit Office. I hope the comments are helpful and I am happy to follow up; I am also copying in AQR colleagues since going concern has come up previously in their reviews into our public sector company audits, and they may want to comment.

On the whole we see the guidance on going concern as very helpful, and are minded to answer positively to all the questions in the invitation for comment, although we have a suggestion to enhance the solvency and liquidity risks section (q3) as set out below.

From an auditor's perspective, we see this material as helping us to communicate with company directors about their responsibilities and as a useful aid to effective conversations with directors around the audit of going concern.

We have a particular perspective as the auditors of central government, which informs our response here. Most of our audited bodies operate under government accounting rules and a standard definition of going concern may not always be applicable or appropriate to their circumstances – the government Financial Reporting Manual adapts IAS 1 for this purpose, and the difference in circumstances is also reflected for the audit side in *APB Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom*. However, a growing minority of the bodies we audit are public sector companies, preparing financial statements under the Companies Act and unadapted IFRS.

These public sector companies are required to consider going concern under the exact same frameworks as apply in the private sector. The risks and matters to consider in forming and auditing the going concern judgement and disclosures for public sector companies are therefore different to those we typically need to consider for public sector bodies which are not companies. By way of rough characterisation this generally means more rigour/risk applies to the judgement for companies than other bodies in the public sector.

The drivers of going concern judgements for public sector companies are shared in many respects with those listed in section 5 of the exposure draft. There are, however, some additional drivers which are not typical in the wider private sector. For instance, public sector companies are often reliant on continuing support from government and/or sensitive to changes of policy or fiscal plans. These additional drivers can be key and we feel that it would be helpful to include reference to this in the guidance.

In light of this we suggest a small addition, following paragraph 5.18, in the exposure draft, along the following lines.

***Companies operating in the public sector***

*5.19 In addition to the going concern considerations set out at 5.XX – 5.XY, directors of companies either owned by government or receiving government support may also need to consider the impact of:*

- risks arising from the need for support from government bodies; and*
- developments in policy or public finance which may affect the body's viability.*

*Directors should make their own assessment and disclosures relevant to the company's particular circumstances and the nature of its business model.*

Matt Kay  
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