Ask ICAS Webinar Series

Accounts and audit:
Going concern and events after reporting period end
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Ask ICAS Webinar Series

Accounts and audit:
Going concern and events after reporting period end
Your ICAS experts for today

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Ask ICAS
Webinar Series
Accounts and audit:
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after reporting period end
What we will cover

Going concern for small (FRS 102 Section 1A) and micro entities (FRS105)

Going concern - Practical considerations including accountants’ and auditor’s reports

Events after the end of the reporting period for small and micro-entities

Further resources and support
Going concern
Going concern for small entities

What does FRS 102 Section 1A say in relation to going concern?

- Requirement for small entities to make an assessment over appropriateness of the going concern basis of preparation.

- No explicit requirement to report on going concern or related material uncertainties

- Appendix E of Section 1A – entities are encouraged to make additional disclosures around any material uncertainties related to going concern.
Going concern for Micro-entities

Under FRS 105:
• Going concern assessment is required for micro-entities (paragraph 3.3 of FRS 105)
• Additional disclosures are permitted but not required (FRS 105 paragraph 1.3)
• Accounts are presumed to present a true and fair view if prepared in accordance with FRS 105
Going concern assessment - Practical considerations
The going concern assessment process for small and micro entities

• The FRC has indicated that they anticipate more disclosures on material uncertainties in relation to going concern due to COVID-19.
• Cash availability will be a key consideration.
• Forecasting may be challenging and therefore different scenarios may need to be considered.
• Supply chain disruption – can the entity still obtain products from the same source?
• Customer demand and liquidity.
• Debt servicing – both existing and any new financial support obtained.
• Can any planned discretionary spend be delayed or suspended?
Dividends – proceed with care

- Companies Act 2006 requires that dividends should be made out of profits available for that purpose

- These profits are accumulated realised profits less accumulated realised losses

- Potential implications for dividends declared and paid pre-COVID-19

- In some scenarios legal advice may be required
Implications for accountants’ reports


• Reporting accountants need to be satisfied that the going concern basis is appropriate and that sufficient disclosures are made where necessary.

• If you do not agree with the disclosures you should encourage management to amend them.

• If management refuse to amend them and you believe the accounts to be misleading you should withdraw from the engagement.
Implications for auditor’s reports

- Auditors will need to consider reporting implications of COVID-19 on an entity’s status as a going concern
- ISA 570, Going Concern - 2016 or 2019 version?
- Likelihood of more disclosures of material uncertainties relating to going concern and/or emphasis of matter

- FRC guidance on modified audit opinions during COVID-19
  
Events after the end of the reporting period
Section 1A - events after the end of the reporting period (1)

For 31 December 2019 and earlier periods:

- General consensus that for 31 December 2019 year ends COVID-19 is a non-adjusting event.
- Paragraph 1AC.39 requires disclosure of material events not reflected in the income statement.
- Paragraph 1A.16 provides some additional guidance.
Section 1A - events after the end of the reporting period (2)

For periods beyond 31 December 2019:

- No consensus as to the date beyond which COVID-19 is an adjusting event.
- It is likely that for 31 March 2020 year ends, COVID-19 would be an adjusting event.
- Paragraph 1A.16 provides the relevant guidance.
Events after the end of the reporting period – Micro-entities

• FRS 105 section 26 addresses both favourable and unfavourable events after the end of the reporting period.
• It considers both adjusting and non-adjusting events which have the same definition as in FRS 102.
• Date after which COVID-19 becomes adjusting - 31 March 2020?
• Adjusting events should be treated in the same way as under FRS 102 and FRS 102 Section 1A as covered earlier.
• Non-adjusting events – to disclose or not to disclose?
Further resources and support
Resources (1)

• ICAS Going concern guidance for large private companies

• ICAS/ICAEW joint guidance on going concern for SMEs
• The FRC produced going concern guidance in 2016 for companies not applying the UK Corporate Governance Code


• More general FRC guidance on COVID-19


• Financial Reporting Lab infographic

Adapted from FRC 2016 Going concern guidance

<table>
<thead>
<tr>
<th>Financial statements disclosure requirements</th>
<th>Micro-entities applying FRS 105</th>
<th>Small entities applying Section 1A of FRS 102</th>
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<tbody>
<tr>
<td>Assessment of the appropriateness of the going concern basis of accounting</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Disclosure when there are material uncertainties or when the company does not prepare financial statements on a going concern basis of accounting</td>
<td>No</td>
<td>No – NB There is no explicit requirement in the Companies Act 2006 or FRS 102 for companies entitled to prepare accounts in accordance with the small companies’ regime to report on the going concern basis of accounting and material uncertainties. However, directors of small companies are required to make such disclosures that are necessary for the financial statements to provide a true and fair view. Appendix E to Section 1A of FRS 102 encourages the inclusion of disclosures on material uncertainties in order to meet this requirement.</td>
</tr>
<tr>
<td>Additional disclosures that may be required to give a true and fair view (Companies Act 2006, s393)</td>
<td>No – NB The financial statements of micro-entities comprising only micro-entity minimum accounting items are presumed in law to give a true and fair view</td>
<td>No – NB There is no explicit requirement in the Companies Act 2006 or FRS 102 for companies entitled to prepare accounts in accordance with the small companies’ regime to report on the going concern basis of accounting and material uncertainties. However, directors of small companies are required to make such disclosures that are necessary for the financial statements to provide a true and fair view. Appendix E to Section 1A of FRS 102 encourages the inclusion of disclosures on material uncertainties in order to meet this requirement.</td>
</tr>
<tr>
<td>Other relevant financial statement disclosures</td>
<td>No</td>
<td>No</td>
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Further information and guidance

- Coronavirus Hub on icas.com/coronavirus
- CA Connect on icas.com/caconnect
- Technical Helpdesk (Contact us on icas.com)
- Follow on Twitter @ICASaccounting and LinkedIn ICAS - The Professional Body of CAs
## ICAS Webinars – What's coming up

### ASK ICAS

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<td>Coronavirus Job Retention Scheme &amp; SEISS update</td>
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<tr>
<td>25-Jun</td>
<td>Rescuing distressed businesses: Corporate Insolvency &amp; Governance Bill</td>
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### ICAS INSIGHTS

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<td>Getting Your Mind Right (Building Resilience: A FinBizz2030 series, led by Chartered Accountants Worldwide and One Young World)</td>
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<td>23-Jun</td>
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