

FINANCIAL REPORTING (GOING CONCERN DISCLOSURES PRACTICES) GUIDANCE

Guidance issued by the Financial Reporting Council under Sections 6(2)(f) and 24 of the Financial Reporting Act and approved by the Council on 05 December 2025

FINANCIAL REPORTING COUNCIL

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Covering note

In its meeting held on 3 April 2023, the SRP IFRS Working Subgroup ('Committee') discussed about the projects that could be undertaken by FRC and agreed that priority would be given to the topic 'going concern disclosures' as this area is pervasive and is a matter of concern for both preparers and auditors.

The guidance on Going Concern Disclosures Practices followed the due process which started in April 2023, as set out below:

1. Internal Consultation

A number of internal consultations through meetings of the sub-group members were held to consider the findings identified from the FRC's thematic review, the requirements of ISA 570 Going Concern Considerations and IAS 1 Presentation of Financial Statements and other research data in respect of the going concern disclosures.

2. Draft of the Guidance on Going Concern Disclosures Practices

In July 2023, the Committee together with the staff of the FRC drafted a preliminary draft of the guidance for discussion among members. Several meetings were held to brainstorm on the preliminary document.

3. Feedback from members of the SRP IFRS Subgroup

In August 2023, FRC amended a draft guidance on Going Concern Disclosures Practices based on the discussion held on the meeting held on 28 July 2023 and circularised same to gather the views of the members of the Committee.

4. Evaluation of feedback

In the meeting dated 22 September 2023, the Committee analysed the feedback received from the members in a bid to finalise the guidance on Going Concern Disclosures Practices.

Following the assessment (of responses on the draft) by the Committee, amendments had been made to the draft guidance on Going Concern Disclosures Practices where necessary before issuing the final guidance

5. Finalisation of the guidance

In March 2025, the guidance on Going Concern Disclosures Practices was approved by the Standard Review Panel.

6. Council Approval

The final version of the guidance on Going Concern Disclosures Practices was submitted to the Council at its meeting held on 05 December 2025, whereby the Council approved the document and decided that it should be published in the Government Gazette.

Financial Reporting Council
19 January 2026

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Chapter 1

Introduction

I. Short title

This document may be cited as the Financial Reporting (Going Concern Disclosures Practices) Guidance.

II. Interpretation of this Guidance

“Act” means the Financial Reporting Act
“IFRS” has the same meaning as in the Act
“ISA” has the same meaning as in the Act
“PIE” has the same meaning as in the Act

III. Adoption of the International Financial Reporting Standards (“IFRS”) and International Standards on Auditing (“ISAs”)

Section 75(1) of the Act stipulates that *‘where a Public Interest Entity (“PIE”) is required under any enactment to prepare a financial statement or report, it shall ensure that the financial statement or report follows the financial reporting requirements of this Act or any other relevant enactment, any regulations or rules made under this Act and with the IFRS.’*

Also, Section 39(2) of the Act stipulates that *‘no licensed auditor shall, in his report, express an opinion unless he has complied with the auditing standards.’*

IV. Purpose of this Guidance

The purpose of this Guidance is to assist entities, in making sufficient and appropriate disclosures relating to Going Concern as required by IFRS, in the light of any prevailing events (actual and/or subsequent) that may impact going concern as described at Chapters 5 and 6 of this Guidance.

External events (e.g. a natural disaster, geopolitical affairs or pandemic) may cause economic conditions to deteriorate significantly and create economic uncertainty for many entities. Management needs to assess whether these events or conditions, either individually or collectively, may cast significant doubt on the entity’s ability to continue as a going concern or, in severe cases, whether the going concern assumption is still appropriate as a basis for the preparation of the entity’s financial statements.

Recent events continue to put pressure on the need for a detailed going concern analysis. The effect of changing quantitative and qualitative factors should be carefully considered by all entities.

Given the heightened sensitivity in the current environment of going concern assessments and the importance of related disclosure, going concern has been a topic for discussion among accounting standard-setters. As such, this Guidance focuses on the disclosures relating to going concern to be made in the financial statements prepared under IFRS, which will enhance consistency in reporting by entities.

It does not cover any obligations that the entity may be subject to base on size or nature of activity.

V. Scope of this Guidance

This Guidance relates to the Going Concern Disclosures. It is intended for entities preparing their financial statements under IFRS. While the purpose of this Guidance is to assist the entities in making sufficient and appropriate disclosures relating to Going Concern, it does not necessarily address all accounting matters nor all the challenges faced in practice, including those that may be specific to a particular entity or industry. In such cases, entities should refer to IFRS and apply judgments in deciding what disclosures are relevant and appropriate and in line with the requirements of IFRS.

This Guidance should be read in conjunction with IFRS, and in case of conflict, the IFRS requirements prevail.

Chapter 2

Overview of the requirements of IFRS relating to Going Concern

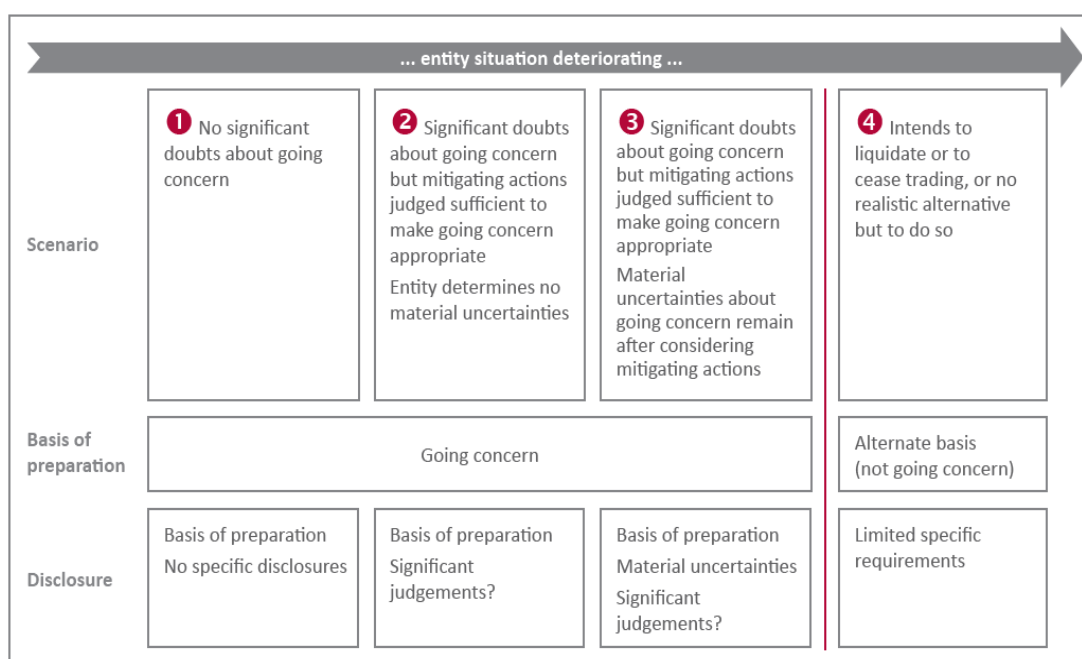
A fundamental decision management must make in preparing IFRS financial statements is whether to prepare them on a going concern basis which may involve a higher level of judgement.

An overview of the IFRS requirements affecting going concern assessment and disclosures are set out below:

a) Going concern assumption

IAS 1 contains guidance related to the going concern assumption and outlines when financial statements are prepared on the assumption the entity will continue as a going concern. IAS 1 explicitly states that at each reporting date, management is required to assess the entity's ability to continue as a going concern and consider all available information about the entity's future. If management concludes that the entity may be liquidated (either by choice or because it has no realistic alternative but to do so), the going concern assumption would not be appropriate and the financial statements may have to be prepared on another basis, such as a liquidation basis. If there is material uncertainty about the entity's ability to continue as a going concern, the entity should include going concern disclosure in the notes to its financial statements (IAS 1 Paragraphs 25 and 26).

An outline of the requirements of IAS 1 with respect to going concern assessment is depicted in the diagram below:



Source: IASB: *Going Concern – a focus on disclosure* (January 2021)

b) Significant judgements and sources of estimation and uncertainty

In addition to the above-required disclosures for going concern, disclosures for significant judgement and sources of estimation and uncertainty are also relevant.

Paragraph 122 of IAS 1 relates to judgements that have the most significant effect on the amounts recognised in the financial statements.

c) Period of assessment

IAS 1 explicitly states that at each reporting date, management is required to assess the entity's ability to continue as a going concern and consider all available information about the future, which is at least, but is not limited to, twelve months from the annual reporting date. As a result, all events that occur during an entity's subsequent events period should be considered when evaluating whether there is significant doubt about the entity's ability to continue as a going concern (IAS 10 Paragraph 14).

Chapters 4, 5 and 6 of the guidance make further reference to IFRS requirements relevant to going concern assessments and disclosures. Also, details of the IFRS requirements affecting going concern assessments and disclosures are at Appendix 1.

Chapter 3

Key findings of Thematic Review carried out by FRC

In January 2023, FRC had carried out a thematic review on the disclosures made by 167 PIEs on the impact of COVID 19 pandemic. Whilst conducting the thematic review on the topic going concern, FRC had made reference to the IFRS requirements (see also IFRS requirements at Chapter 2 and Appendix 1). Besides, FRC had focused on the circumstances in which PIEs prepared going concern basis in light of the four scenarios outlined in the application of IAS 1.

From the thematic review, FRC had identified the following observations with respect to going concern in view of IFRS requirements:

- Going concern assessment
 - Most PIEs that had significant doubts on going concern with no material uncertainties on the going concern status had not explained the mitigating actions to improve liquidity (Scenario 2 of the going concern assumption in Chapter 2 refers); and
 - The going concern assessment period was not mentioned in several cases.
- Going concern disclosures

The majority of PIEs did not include disclosures in respect to going concern in their annual reports, as described below:

- Expanded disclosures on liquidity risk in light of the impact of the COVID 19;
- Level of drawn and undrawn finance facilities in place;
- Information on renegotiation or amendment of lending arrangements;
- Key COVID 19 assumptions within each forecast which had impacted the going concern conclusions;
- Information on the scenarios modelled in the light the PIEs' reliance upon government support to conclude on the going concern assessments; and
- Details of financial support that was available.

Also, please refer to Appendix 2 for further details of the key findings regarding thematic review on going concern.

Chapter 4

Critical aspects of going concern assessments

IFRS requires management to satisfy itself that it is reasonable for the entity to conclude whether it is appropriate to prepare financial statements on a going concern basis.

These requirements are not intended to, and do not, guarantee that a entity will remain a going concern until the next annual financial statements are issued. Where entities are facing difficult economic conditions and/or are in financial difficulty this will necessitate careful considerations by management when making its assessment.

A going concern assessment involves consideration of the facts and circumstances of an individual entity. In many cases, a going concern basis may not be considered appropriate for an individual subsidiary, while the going concern basis may remain appropriate for the subsidiary's parent and the group.

Management is required to make going concern assessments based on the conditions existing at the date of finalising the financial report for release, including the impact of all events that occurred up to that date and the expectations of future events.

The following summarizes the key areas of the going concern assessment that are most important for management:

(a) How to perform the assessment

IFRSs do not prescribe how to perform the going concern assessment. IAS 1 only states that when a entity has a history of profitable operations and ready access to financial resources, management may reach a conclusion on the appropriateness of the going concern assessment without detailed analysis. It follows that when this is not the case, a detailed analysis will be necessary, which likely includes robust cash flow forecasts and a review of existing and forthcoming financial obligations. The assessment typically requires significant judgment.

(b) Procedures relevant to entities

Management is best placed to assess which factors are likely to be of greater significance to its entity. These factors will vary by industry and from entity to entity within a particular industry. For example, one entity may have significant economic dependence on a particular customer, whilst another entity on a large number of customers.

The procedures for going concern assessment include inter-alia the following:

Subsidiary companies	Management of subsidiary companies may need to make its own individual going concern assessment taking into account the specific facts and circumstances of the subsidiary company and in particular:
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	<ul style="list-style-type: none"> ➤ the need for support from the parent company or fellow subsidiaries; ➤ the ability and willingness of the parent company or fellow subsidiaries to provide such support; and ➤ the risks to the entity's going concern status arising from support that it has undertaken to provide to other members of the group.
Financial guarantees	Management may need to assess whether its entities will be required to intervene if its related entities to whom it has provided financial guarantees default and its entity becomes the principal obligor vis-à-vis lenders.
Forecasts and budgets	<p>Forecasting and budgeting are long-established techniques in business management.</p> <p>Management may prepare a budget, trading estimate, cash flow forecast or other equivalent analysis covering such period as it considers appropriate.</p>
Borrowing facilities	<p>The availability of borrowing facilities may be dependent upon the entity's compliance with specific terms and conditions (covenants).</p> <p>The onus is on the Management to be satisfied that there are likely to be appropriate and committed financing arrangements in place. The facilities available to the entity may be compared to the entity's expected cash requirements from such facilities, as indicated by the cash flow forecasts, budgets or trading estimates.</p> <p>Breach of covenants may have an impact on the classification of borrowings as current and non-current. Entities may consider such breaches and seek waivers from their lenders, as appropriate.</p>
Medium and long-term plans	Entities generally assess further periods beyond formal budgets and forecasts by way of medium or long-term plans that give an indication in general terms of how management expects the business of the entity to fare.
Products, services and markets	Management may obtain information about the major aspects of the economic environment within which the entity operates. It may consider the size of the market, its strength, its market share and assess whether there are any economic, political or other factors which may cause the market to change. This could be done for each of the main product or service markets.
Timing of cash flows	Management may assess whether its financial plans indicate an adequate matching of projected cash inflows with projected cash outflows. The projected outflows could include liabilities, such as loan repayments, payment of tax liabilities and other commitments.
Contingent liabilities	Management may consider the entity's exposure to contingent liabilities. These could include sources of potential cash outflows during the review period relating to legal proceedings, guarantees,

	margin or other credit support provisions under derivative contracts, environmental costs and product liability.
Financial and operational risk management	<p>There are many types of financial and operational risks facing a entity and management may identify which risks are most significant to its entity.</p> <p>Consideration may also be given to counterparty risks that arise from concentration on key suppliers or customers who may themselves be facing financial difficulty. Management could consider how such risks could affect the entity and how they are managed in practice.</p>
Sensitivity analysis and stress testing	<p>Sensitivity analysis may be prepared to enable an understanding to be gained of the critical assumptions that underlie the budgets and forecasts.</p> <p>Sensitivity analysis may be used to seek to ensure that there are no unexpected:</p> <ul style="list-style-type: none"> ➤ shortfalls in facilities against requirements; or ➤ breaches of covenants or other triggers within funding arrangements.
Time period to assess (the look-forward period)	<p>Management assesses all available information about the future for at least, but not limited to, 12 months from the reporting date. This means the 12-month period is a minimum and management may need to exercise judgment to determine the appropriate forward-looking period under the circumstances. Factors to consider include when the financial statements are authorized for issuance and whether there is any known event occurring after the minimum period of 12 months from the reporting date relevant to the analysis.</p>
Assessment of available information and outcomes of events	<p>Under IFRSs, management assesses all available information about the future, considering the possible outcomes of events and changes in conditions, and the realistically possible responses to such events and conditions. Events or conditions arising after the reporting date but before the financial statements are authorized for issuance should be considered.</p> <p>In its assessment of the entity's ability to continue as a going concern involves making a judgment, at a particular point in time, about inherently uncertain future outcomes of events or conditions, management may consider the following relevant factors:</p> <ul style="list-style-type: none"> ➤ The degree of uncertainty associated with the outcome of an event or condition increases significantly the further into the future an event or condition or the outcome occurs. ➤ The size and complexity of the entity, the nature and condition of its business and the degree to which it is

	<p>affected by external factors affect the judgment regarding the outcome of events or conditions.</p> <p>➤ Any judgment about the future is based on information available at the time at which the judgment is made. Subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made.</p> <p>Examples of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern:</p> <p><u>Financial</u></p> <ul style="list-style-type: none"> ○ Net liability or net current liability position. ○ Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment; or excessive reliance on short-term borrowings to finance long-term assets. ○ Indications of withdrawal of financial support by creditors. ○ Negative operating cash flows indicated by historical or prospective financial statements. ○ Adverse key financial ratios. ○ Substantial operating losses or significant deterioration in the value of assets used to generate cash flows. ○ Arrears or discontinuance of dividends. ○ Inability to pay creditors on due dates. ○ Inability to comply with the terms of loan agreements. ○ Change from credit to cash-on-delivery transactions with suppliers. ○ Inability to obtain financing for essential new product development or other essential investments. <p><u>Operating</u></p> <ul style="list-style-type: none"> ○ Management intentions to liquidate the entity or to cease operations. ○ Loss of key management without replacement. ○ Loss of a major market, key customer(s), franchise, license, or principal supplier(s). ○ Labor difficulties. ○ Shortages of important supplies. ○ Emergence of a highly successful competitor. <p><u>Other</u></p> <ul style="list-style-type: none"> ○ Non-compliance with capital or other statutory or regulatory requirements, such as solvency or liquidity requirements for financial institutions. ○ Pending legal or regulatory proceedings against the entity that may, if successful, result in claims that the entity is unlikely to be able to satisfy.
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	<ul style="list-style-type: none"> ○ Changes in law or regulation or government policy expected to adversely affect the entity. ○ Uninsured or underinsured catastrophes when they occur. <p>In order to assess whether the entity is a going concern or whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue as a going concern, management takes into account factors that mitigate the significance of such events or conditions.</p>
Management's plans to address going concern uncertainties	<p>Management typically develops plans to address going concern uncertainties – e.g. refinancing of debt, renegotiating breached covenants, and sale of assets to generate sufficient liquidity to continue to meet its obligations as they fall due. IFRS Standards do not prescribe how management evaluates its plans to mitigate the effects of these events or conditions in the going concern assessment.</p> <p>Historically management may have a track record of successfully planning and executing on similar plans, such as a refinancing, restructuring or asset disposal, which in a normal operating environment would support the feasibility of the plan. However, past precedents are not always indicative of current conditions.</p>

(c) Evaluation of the potential conclusions with respect to the going concern assessment

Based on the above, management evaluates which one of potential conclusions is appropriate to the specific circumstances of the entity.

Management may conclude:

➤ There is no significant doubt on going concern; or
➤ There are no material uncertainties that may cast significant doubt about the entity's ability to continue as a going concern; or.
➤ There are material uncertainties related to events or conditions that may cast significant doubt about the entity's ability to continue as a going concern but the going concern basis remains appropriate; or
➤ The use of the going concern basis is not appropriate i.e. the entity has no realistic alternative but to cease trading or go into liquidation or the management intends to cease trading or place the entity into liquidation.

Chapter 5

Key aspects of going concern and associated risk disclosures

5.1 Considerations with respect to going concern disclosures and information on risk in the financial statements

5.1.1 Introduction and context

It is the responsibility of management to determine whether it is appropriate for the financial statements to be prepared using the going concern assumption and for providing adequate related disclosures.

If a subsidiary of a parent company has no realistic alternative but to cease trading, this does not necessarily mean that the parent company should produce its financial statements on a basis other than a going concern basis. However, such circumstances are likely to trigger specific provisions of the IFRS and are likely to require additional disclosures so that the financial statements give a true and fair view.

In times of economic uncertainty, going concern disclosures are more likely to be considered necessary. It is important that disclosures on going concern are clear and robust to meet users' and regulators' expectations. The level of detail of disclosures will depend on the entity's specific facts and circumstances, including the nature and extent of impacts on the entity.

In the circumstances when an entity, the industry or the economy has been adversely affected by uncertain events or circumstances, preparers err on the side of caution and include more rather than less disclosure. The disclosures may include more detailed and specific qualitative and quantitative information.

5.1.2 Overview of going concern disclosures

The extent of disclosures in the financial statements is driven by management's assessment of an entity's ability to continue as a going concern and in accordance with the disclosure requirements of relevant IFRSs. Entities consider the need for disclosures not explicitly prescribed by IFRS to enable users of accounts to understand the impact of events and conditions on their position and financial performance, as required by IAS 1 in the current environment.

The disclosure requirements based on the conclusions drawn from the going concern assessment, are outlined in the flow chart at Appendix 3.

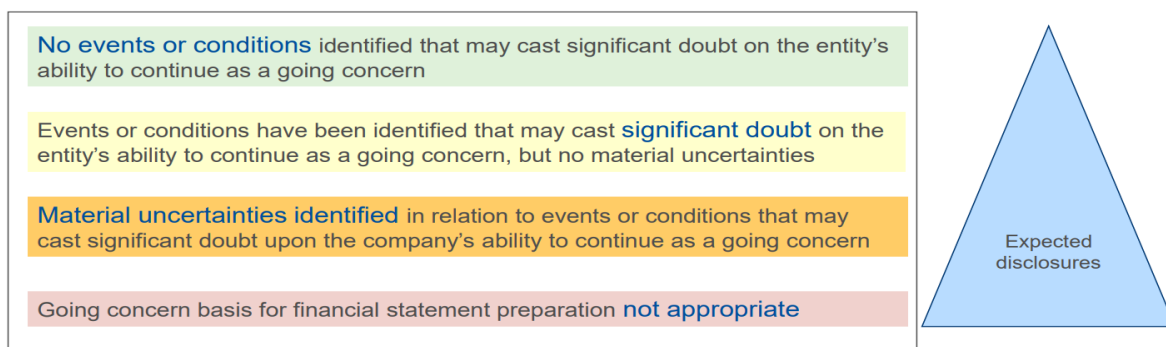
Furthermore, entities are expected to provide qualitative and quantitative information to enable a reader to fully understand going concern assessment.

It is important that additional disclosures in the annual reports provide more value relevant information to the users of financial statements.

5.1.3 Outcomes of going concern assessment

It is important that management's assessment considers different scenarios, including at least one severe but plausible downside scenario. The assumptions used in the going concern assessment should be consistent with those used in other areas of the entity's financial statements.

The outcomes of management's assessment of an entity's ability to continue operating as a going concern are illustrated below:



Source: External Reporting Board: NZ Sharing Knowledge Series: An accountant's guide to Going Concern Disclosures

5.1.3.1 Detailed going concern disclosures for the four types of scenarios

The going concern disclosures are dependent upon the following scenarios as set out below:

- a) Scenario 1 - No events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern

In scenario 1, there are no significant doubts about the entity's ability to continue as a going concern due to profitable operations and adequate liquidity. In this case, there are no specific disclosure requirements relating to going concern, apart from the basis of preparation. It is also less likely that significant judgements were involved in this case in the assessment of whether the going concern basis of preparation was appropriate.

The figure below illustrates the disclosures requirements and disclosure considerations for scenario 1:

Disclosures required by accounting standards	Other disclosure considerations
<ul style="list-style-type: none"> No specific disclosures on an entity's going concern assessment are required. General requirement to consider whether uncertain situations has had a material impact on the entity's financial position or performance that should be disclosed. 	<ul style="list-style-type: none"> Judgement applied in concluding that uncertain situations did not result in events or conditions being identified that may cast significant doubt on the entity's ability to continue as a going concern.

Source: External Reporting Board: Spotlight on Going Concern Disclosures

* Not specifically required by accounting standards but which are examples of information that might be material to users; examples are not exhaustive.

- b) Scenario 2 - Events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, but no material uncertainties

In scenario 2, there are significant doubts about the entity's ability to continue as a going concern. However, management concludes that there are no material uncertainties after considering mitigating factors. If management's conclusion involves significant judgement, the disclosure requirements of IAS 1.122 will be applicable.

The figure below illustrates the existing disclosures requirements and other disclosures considerations for scenario 2:

Disclosures required by accounting standards	Other disclosure considerations *
<ul style="list-style-type: none"> Disclose significant judgements made in reaching the conclusion that there are no material uncertainties related to events or conditions that may significantly cast doubt upon the entity's ability to continue as a going concern. 	<ul style="list-style-type: none"> Information about the nature of the events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern — e.g. expected drop in future revenue. Assumptions and judgements made as to the nature of any mitigating factors and why they lead to no material uncertainties — e.g. ongoing access to funding through multi-year agreements.

Source: External Reporting Board: Spotlight on Going Concern Disclosures

* Not specifically required by accounting standards but which are examples of information that might be material to users.

- c) Scenario 3 – Material uncertainties identified in relation to events or conditions that may cast significant doubt upon the entity’s ability to continue as a going concern

In scenario 3, after considering all relevant information, management has concluded that going concern basis of preparation of financial statements is appropriate. However, management concludes that there are material uncertainties relating to events or conditions that may cast significant doubt upon the entity’s ability to continue as a going concern.

In this case, the entity is required to disclose the material uncertainties relating to its ability to continue as a going concern, as required by IAS 1.25. It is also likely that the going concern assessment involved significant judgement and the entity would then be required to disclose those significant judgements in accordance with the requirements of IAS 1.122.

Instead, judgement is required to determine whether the extent of uncertainties about the entity’s ability to continue as a going concern is material as material uncertainties depend on the entity’s individual facts and circumstances. For example, there may be a material uncertainty about the entity’s ability to successfully implement its future plan to address the events or conditions identified at the reporting date.

The figure below illustrates the existing disclosures requirements and disclosure considerations for scenario 3:

Disclosures required by accounting standards	Other disclosure considerations *
<ul style="list-style-type: none"> When those charged with governance are aware, in making the going concern assessment, of material uncertainties related to events or conditions that cast significant doubt on the entity’s ability to continue as a going concern, the entity shall disclose those uncertainties. 	<ul style="list-style-type: none"> The potential impact of material uncertainties identified. Significant judgements considered as part of the assessment of the entity’s ability to continue as a going concern.

Source: External Reporting Board: Spotlight on Going Concern Disclosures

* Not specifically required by accounting standards but which are examples of information that might be material to users.

IAS 1 do not specify that this precise phrase must be used. However, when preparing its financial statements management will wish to bear in mind the need for the disclosures to be clear about them having identified a material uncertainty that has led to significant doubt about going concern. It will also wish to bear in mind the obligation on the auditor to report if that level of clarity has not been achieved in the words that have been used and made clear that the entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

- d) Scenario 4 – Going concern basis for financial statement preparation is not appropriate

If the entity is not a going concern, the financial statements are required to be prepared on an alternate basis. IAS 1.25 requires the entity to disclose this fact and the reasons why the entity is not regarded as a going concern, together with the basis of preparation that has been applied.

The figure below illustrates the existing disclosures requirements and other disclosure considerations for scenario 4:

Disclosures required by accounting standards	Other disclosure considerations *
<p>When an entity does not prepare its financial statements on a going concern basis, it shall disclose:</p> <ul style="list-style-type: none"> • that fact; • the reason why the entity is not regarded as a going concern; and • the basis on which it has prepared the financial statements. 	<ul style="list-style-type: none"> • Description of events that give rise to those charged with governance considering the going concern basis of preparation to no longer be appropriate. • Explanation of the changes in accounting policy and why.

Source: External Reporting Board: Spotlight on Going Concern Disclosures

* Not specifically required by accounting standards but which are examples of information that might be material to users.

5.1.4 Risk disclosures required by IFRSs

IFRS standards require specific disclosures to be made about liquidity risk and other risks that may have a bearing on a going concern assessment (see Appendix 1).

The table below summarises the IFRS requirements in respect of risks that might impact going concern risk:

Disclosure	IFRSs
Disclosures relating to risks arising from financial instruments, including liquidity risk where it is material.	IFRS 7 paragraphs 31 to 42
Disclosure is encouraged of undrawn borrowing facilities and any restrictions on the use of those facilities such as covenant requirements, where relevant.	IAS 7 paragraph 50(a)
Disclosure of defaults and covenant breaches.	IFRS 7 paragraphs 18 to 19
Disclosure of sources of estimation uncertainty	IAS 1 paragraphs 125 to 133

Source: FRC UK

5.1.4.1 Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting its obligations associated with financial liabilities. IFRS 7 *Financial Instruments: Disclosures* requires a entity to make both qualitative and quantitative disclosures concerning liquidity risk, where it is a material financial risk.

Where liquidity risk is material, IFRS 7 requires:

- disclosure of information that enables users to evaluate the nature and extent of the entity's exposure to liquidity risk;
- narrative disclosures explaining how liquidity risk arises in the business and how it is managed in practice;
- summary of relevant numerical data about liquidity risk based on the information that is provided to key management personnel, often the Board of Directors; and
- certain mandatory disclosures such as a maturity analysis of financial liabilities.

The disclosures required by IFRS 7 are supplemented by disclosures required by other IFRS standards. For example, IAS 7 *Statement of Cash Flows* requires disclosure of undrawn borrowing facilities where relevant to users' understanding of the financial position and liquidity of the entity and IFRS 7 requires disclosure of defaults and breaches of loan terms and conditions.

5.1.4.2 Other risks

Some entities may be exposed to potential fluctuations in commodity prices, foreign exchange rates, restrictions to imports and exports, availability of local materials and services and access to local resources will impact entities with uncertain situations, including:

- Significant subsidiaries, associates, joint arrangements, branches or other operations;
- Significant supplier and/or customer relationships with other entities;
- A direct or indirect parent; and
- Other significant relationships with other entities There will also be impacts for many entities arising from fluctuations in commodity prices and foreign currency rates, supply chain disruptions and possible slowdowns in global economies.

In this respect, entities may make focussed and expanded disclosures about other risks arising from financial instruments under IFRS 7 including:

- Disclosure of credit risk arising from financial assets (e.g. loans receivable, trade receivables, etc.) due to significant judgments and estimates; and
- Disclosure of market risks when the entity's operations are significantly affected by changes in market risks (e.g. currency, interest rate and other price risks).

Also, please refer to Appendix 1 for further IFRS 7 requirements with respect to other financial risks.

5.2 Balanced, proportionate and clear disclosures

Addressing the requirements of the IFRSs that apply to an entity may lead it to address going concern and liquidity risk in different sections of its annual report and financial statements. This may create difficulties for investors and other stakeholders in obtaining a clear, comprehensive and cohesive understanding of the issues facing the entity.

It is helpful to investors and other stakeholders if all of these disclosures are brought together in a single place in the entity's financial statements. It may be necessary to provide a cross reference to that single place from other parts of the annual report. If it is not practicable to provide all of the information in a single place, it is still helpful if the key disclosures are brought together by way of a note that includes appropriate cross references to information in the financial statements and from the financial statements to information included elsewhere in the annual report.

Balanced, proportionate and clear disclosures would include the following components:

- the key disclosures or references therein;
- the factors in particular management has considered in reaching a conclusion on going concern; and
- a concluding statement as to whether the use of the going concern basis of accounting is appropriate.

Clutter caused by excessive disclosure of irrelevant or immaterial data has the capacity to distract from the ability of users of financial statements to identify the relative significance of issues facing an entity and could undermine the ability of financial statements to provide a true and fair view.

5.3 Enhanced going concern disclosures

Users of accounts want to understand how entities intend to navigate through the pressures and uncertainties created by prevailing events (actual and subsequent). Consequently, it is important that annual reports and accounts include concise and comprehensive going concern disclosures. The guidance takes into consideration the findings on thematic review conducted by FRC (please refer to chapter 2 of the guidance).

The extent of disclosures relating to going concern will depend on each entity's individual circumstances and entities are encouraged to consider the following in respect to going concern assessment and disclosures, in order to improve the quality of corporate reporting:

- a) Going concern disclosures in annual financial statements to clearly explain the key underlying assumptions and judgements in determining the entities' ability to operate as a going concern in the scenarios described in Chapter 5, section IV of the guidance. In particular, any significant judgements taken in determining

whether or not there is a material uncertainty in respect of going concern must be clearly disclosed.

Specific disclosures about the significant judgements and assumptions may be made as part of the assessment of the going concern assumption in addition to the disclosure requirements relating to significant judgements and assumptions applied for accounting policies as per IAS 1.

- b) In scenarios 2 and 3 discussed in Chapter 5, section IV, information about the impact of uncertain situation on the entity and its ability to continue as a going concern will be value relevant information for the entity's stakeholders to assess the entity's financial position and prospects. The financial report may highlight the following:
 - Circumstances that the entity is facing considering also the measures and plans issued by governments and lenders.
 - Disclose the consequences of the current situation, both operationally and financially; and
 - Description of the measures taken to warrant going concern.
- c) With respect to scenario 3 Material uncertainties identified in relation to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, entities may consider the following additional disclosures regarding material uncertainties:
 - Information about the principal events or conditions giving rise to those material uncertainties;
 - Additional details of management's plans to mitigate the effect of those events or conditions;
 - Assumptions made by management – i.e. strategies relied upon, longevity of cash reserves;
 - Outline reasons why a material uncertainty remains; and
 - Other relevant information.
- d) Going concern disclosures may include enough entity's specific granular information, qualitative and quantitative, to enable a user to understand clearly how a entity will meet its liabilities as they fall due over the going concern period.
- e) Entities may clearly identify the period covered by the going concern assessment and ensure that information contained within the going concern disclosures throughout the accounts is consistent.
- f) Entities may account of significant events that may impact liquidity and going concern, such as large debt repayments, when assessing going concern, even if these events are expected to occur in a period subsequent to 12 months after the authorization of the financial statements. In addition, entities may explain how these events have influenced the length of the assessment period.

- g) Entities may include narrative within their going concern disclosures, either explicitly or by cross-reference, which addresses the nature, timing and extent of related parties and government support when assessing going concern when they have noted elsewhere in their accounts that they have relied on such support in the financial year.
- h) Entities may provide more useful and detailed information about stress testing, as set out below:
- What management considers to be a severe but plausible downside scenario;
 - The way in which the entity may be affected if a situation beyond a severe but plausible downside were to crystallise;
 - The situation under which the entity may fail; and
 - The judgements made by management in determining that the entity can meet its liabilities as they fall due.

Hence, entities are expected to provide disclosure of sufficiently granular, entity specific, quantitative and qualitative information in respect of the inputs and assumptions modelled in severe but plausible downside scenarios.

- i) The reverse stress testing disclosures may include the following details:
- Entity specific information;
 - Qualitative and quantitative information on the conditions that would have to exist for an entity to fail;
 - Risks tested in respect of reverse stress tests performed;
 - Explanations as to why the entity feels these conditions to be implausible; and
 - Identification of any mitigating actions that can be taken should the reverse stress test scenario arise.
- j) Entities are expected to include clear details of the level of drawn and undrawn facilities either within their going concern disclosures or cross-referenced, as this disclosure best communicates information about an entity's liquidity.
- k) Entities' disclosures that clearly described entity specific, qualitative and quantitative terms, the conditions that would have to exist for an entity to fail and why the entity felt those conditions to be implausible.
- l) It is useful when entities disclose the circumstances under which they can fail; and whether or not these circumstances are considered to be remote as this provided additional information on the way in which unforeseen circumstances can impact the entity's short-term liquidity.
- m) Entities are expected to provide disclosure of mitigating actions in the going concern disclosures, either explicitly or by cross-reference, where scenarios that could lead to entity failure are relevant.

- n) Entities may provide the impact of any post balance sheet liquidity events to be discussed either explicitly or by cross-reference within the going concern disclosures.
- o) Consistency in disclosures between the going concern assessments and other areas of the financial statements made, in light of the related accounting consequences or other uncertain situations.

Appendix 4 provides examples of plans that management may implement to mitigate conditions or events that raise substantial doubt.

Chapter 6

Conclusion

The guidance on going concern disclosures practices is a document that may assist entities in making going concern assessment and the disclosures of an organisation's ability to continue operating as a going concern for the foreseeable future in line with IFRSs.

A going concern assessment is based on an evaluation of various factors that impact an organisation's financial health, including its financial performance, liquidity, debt obligations, cash flow projections, and other relevant factors taking into consideration prevailing events.

With respect to going disclosures practices, entities may consider the need for disclosures not explicitly prescribed by IFRS to enable users of accounts to understand the impact of events and conditions on entities' position and financial performance, as required by paragraph 31 of IAS 1 'Presentation of Financial Statements' in the current environment. Besides, entities may include additional disclosures in the annual reports which provides more value relevant information to the users of financial statements.

Hence, entities are expected to provide disclosures that are specific in the light of IFRSs and make additional information that clearly explain how prevailing events may impact the entities' reported position and performance and how it may affect future prospects.

APPENDIX I – EXTRACTS FROM IFRS

Standard	IFRS Requirements
IAS 1	<p>Paragraph 25: When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. An entity shall prepare financial statements 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. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties. When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern.</p>
	<p>Paragraph 26: In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. The degree of consideration depends on the facts in each case. When an entity has a history of profitable operations and ready access to financial resources, the entity may reach a conclusion that the going concern basis of accounting is appropriate without detailed analysis. In other cases, management may need to consider a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate.</p>
	<p>Paragraph 31: Some IFRSs specify information that is required to be included in the financial statements, which include the notes. An entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material. This is the case even if the IFRS contains a list of specific requirements or describes them as minimum requirements. An entity shall also consider whether to provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.</p>
	<p>Paragraph 65: Information about expected dates of realisation of assets and liabilities is useful in assessing the liquidity and solvency of an entity. IFRS 7 Financial: Disclosures requires disclosure of the maturity dates of financial assets and financial liabilities. Financial assets include trade and other receivables, and financial liabilities include trade and other payables. Information on the expected date of recovery of non-monetary assets such as inventories and expected date of settlement for liabilities such as provisions is also useful, whether assets and liabilities are classified as current or as non-current. For example, an entity discloses the amount of inventories that are expected to be recovered more than twelve months after the reporting period.</p>

	<p>Paragraph 122: An entity shall disclose, along with its significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph 125), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.</p> <p>Paragraph 125: An entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:</p> <p>(a) their nature, and</p> <p>(b) their carrying amount as at the end of the reporting period.</p>
IAS 7	<p>Paragraph 50: Additional information may be relevant to users in understanding the financial position and liquidity of an entity. Disclosure of this information, together with a commentary by management, is encouraged and may include the amount of undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities.</p>
IAS 10	<p>Paragraph 14: An entity shall not prepare its financial statements on a going concern basis if management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so. 15 Deterioration in operating results and financial position after the reporting period may indicate a need to consider whether the going concern assumption is still appropriate. If the going concern assumption is no longer appropriate, the effect is so pervasive that this Standard requires a fundamental change in the basis of accounting, rather than an adjustment to the amounts recognised within the original basis of accounting. 16 IAS 1 specifies required disclosures if:</p> <p>(a) the financial statements are not prepared on a going concern basis; or</p> <p>(b) management is aware of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. The events or conditions requiring disclosure may arise after the reporting period.</p>
IAS 20	<p>Paragraph 39: The following matters shall be disclosed:</p> <p>(a) the accounting policy adopted for government grants, including the methods of presentation adopted in the financial statements;</p> <p>(b) the nature and extent of government grants recognised in the financial statements and an indication of other forms of government assistance from which the entity has directly benefited; and</p> <p>(c) unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.</p>
IAS 24	<p>Paragraph 18: If an entity has had related party transactions during the periods covered by the financial statements, it shall disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments, necessary</p>

	for users to understand the potential effect of the relationship on the financial statements.
IFRS 7	<p>Paragraph 18: For loans payable recognised at the end of the reporting period, an entity shall disclose:</p> <ul style="list-style-type: none"> (a) details of any defaults during the period of principal, interest, sinking fund, or redemption terms of those loans payable; (b) the carrying amount of the loans payable in default at the end of the reporting period; and (c) whether the default was remedied, or the terms of the loans payable were renegotiated, before the financial statements were authorised for issue.
	<p>Paragraph 19: If, during the period, there were breaches of loan agreement terms other than those described in paragraph 18, an entity shall disclose the same information as required by paragraph 18 if those breaches permitted the lender to demand accelerated repayment (unless the breaches were remedied, or the terms of the loan were renegotiated, on or before the end of the reporting period).</p>
	<p>Paragraph 31: An entity shall disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period.</p>
	<p>Paragraph 32: The disclosures required by paragraphs 33–42 focus on the risks that arise from financial instruments and how they have been managed. These risks typically include, but are not limited to, credit risk, liquidity risk and market risk.</p>
	<p>Paragraph 33: For each type of risk arising from financial instruments, an entity shall disclose:</p> <ul style="list-style-type: none"> (a) the exposures to risk and how they arise; (a) its objectives, policies and processes for managing the risk and the methods used to measure the risk; and (b) any changes in (a) or (b) from the previous period.
	<p>Paragraph 34: For each type of risk arising from financial instruments, an entity shall disclose:</p> <ul style="list-style-type: none"> (a) summary quantitative data about its exposure to that risk at the end of the reporting period. This disclosure shall be based on the information provided internally to key management personnel of the entity (as defined in IAS 24 Related Party Disclosures), for example the entity’s board of directors or chief executive officer. (b) the disclosures required by paragraphs 35A–42, to the extent not provided in accordance with (a). (c) concentrations of risk if not apparent from the disclosures made in accordance with (a) and (b).
	<p>Paragraph 35: If the quantitative data disclosed as at the end of the reporting period are unrepresentative of an entity’s exposure to risk during the period, an entity shall provide further information that is representative.</p>

	<p>Paragraph 36: For all financial instruments within the scope of this IFRS, but to which the impairment requirements in IFRS 9 are not applied, an entity shall disclose by class of financial instrument:</p> <ul style="list-style-type: none"> (a) the amount that best represents its maximum exposure to credit risk at the end of the reporting period without taking account of any collateral held or other credit enhancements (eg netting agreements that do not qualify for offset in accordance with IAS 32); this disclosure is not required for financial instruments whose carrying amount best represents the maximum exposure to credit risk. (b) a description of collateral held as security and other credit enhancements, and their financial effect (eg quantification of the extent to which collateral and other credit enhancements mitigate credit risk) in respect of the amount that best represents the maximum exposure to credit risk (whether disclosed in accordance with (a) or represented by the carrying amount of a financial instrument). <p>Paragraph 38: When an entity obtains financial or non-financial assets during the period by taking possession of collateral it holds as security or calling on other credit enhancements (eg guarantees), and such assets meet the recognition criteria in other IFRSs, an entity shall disclose for such assets held at the reporting date:</p> <ul style="list-style-type: none"> (a) the nature and carrying amount of the assets; and (b) when the assets are not readily convertible into cash, its policies for disposing of such assets or for using them in its operations.
	<p>Paragraph 39: An entity shall disclose:</p> <ul style="list-style-type: none"> (a) a maturity analysis for non-derivative financial liabilities (including issued financial guarantee contracts) that shows the remaining contractual maturities. (b) a maturity analysis for derivative financial liabilities. The maturity analysis shall include the remaining contractual maturities for those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows (see paragraph B11B). (c) a description of how it manages the liquidity risk inherent in (a) and (b).
	<p>Paragraph B11E: Paragraph 39(c) requires an entity to describe how it manages the liquidity risk inherent in the items disclosed in the quantitative disclosures required in paragraph 39(a) and (b). An entity shall disclose a maturity analysis of financial assets it holds for managing liquidity risk (eg financial assets that are readily saleable or expected to generate cash inflows to meet cash outflows on financial liabilities), if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk.</p>
	<p>Paragraph B11F: Other factors that an entity might consider in providing the disclosure required in paragraph 39(c) include, but are not limited to, whether the entity:</p>

	<ul style="list-style-type: none"> (a) has committed borrowing facilities (eg commercial paper facilities) or other lines of credit (eg stand-by credit facilities) that it can access to meet liquidity needs; (b) holds deposits at central banks to meet liquidity needs; (c) has very diverse funding sources; (d) has significant concentrations of liquidity risk in either its assets or its funding sources; (e) has internal control processes and contingency plans for managing liquidity risk; (f) has instruments that include accelerated repayment terms (eg on the downgrade of the entity's credit rating); (g) has instruments that could require the posting of collateral (eg margin calls for derivatives); (h) has instruments that allow the entity to choose whether it settles its financial liabilities by delivering cash (or another financial asset) or by delivering its own shares; or (i) has instruments that are subject to master netting agreements.
	<p>Paragraph 40: Unless an entity complies with paragraph 41, it shall disclose:</p> <ul style="list-style-type: none"> (a) a sensitivity analysis for each type of market risk to which the entity is exposed at the end of the reporting period, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date; (b) the methods and assumptions used in preparing the sensitivity analysis; and (c) changes from the previous period in the methods and assumptions used, and the reasons for such changes.
	<p>Paragraph 41: If an entity prepares a sensitivity analysis, such as value-at-risk, that reflects interdependencies between risk variables (eg interest rates and exchange rates) and uses it to manage financial risks, it may use that sensitivity analysis in place of the analysis specified in paragraph 40. The entity shall also disclose:</p> <ul style="list-style-type: none"> (a) an explanation of the method used in preparing such a sensitivity analysis, and of the main parameters and assumptions underlying the data provided; and (b) an explanation of the objective of the method used and of limitations that may result in the information not fully reflecting the fair value of the assets and liabilities involved.
	<p>Paragraph 42: When the sensitivity analyses disclosed in accordance with paragraph 40 or 41 are unrepresentative of a risk inherent in a financial instrument (for example because the year-end exposure does not reflect the exposure during the year), the entity shall disclose that fact and the reason it believes the sensitivity analyses are unrepresentative.</p>

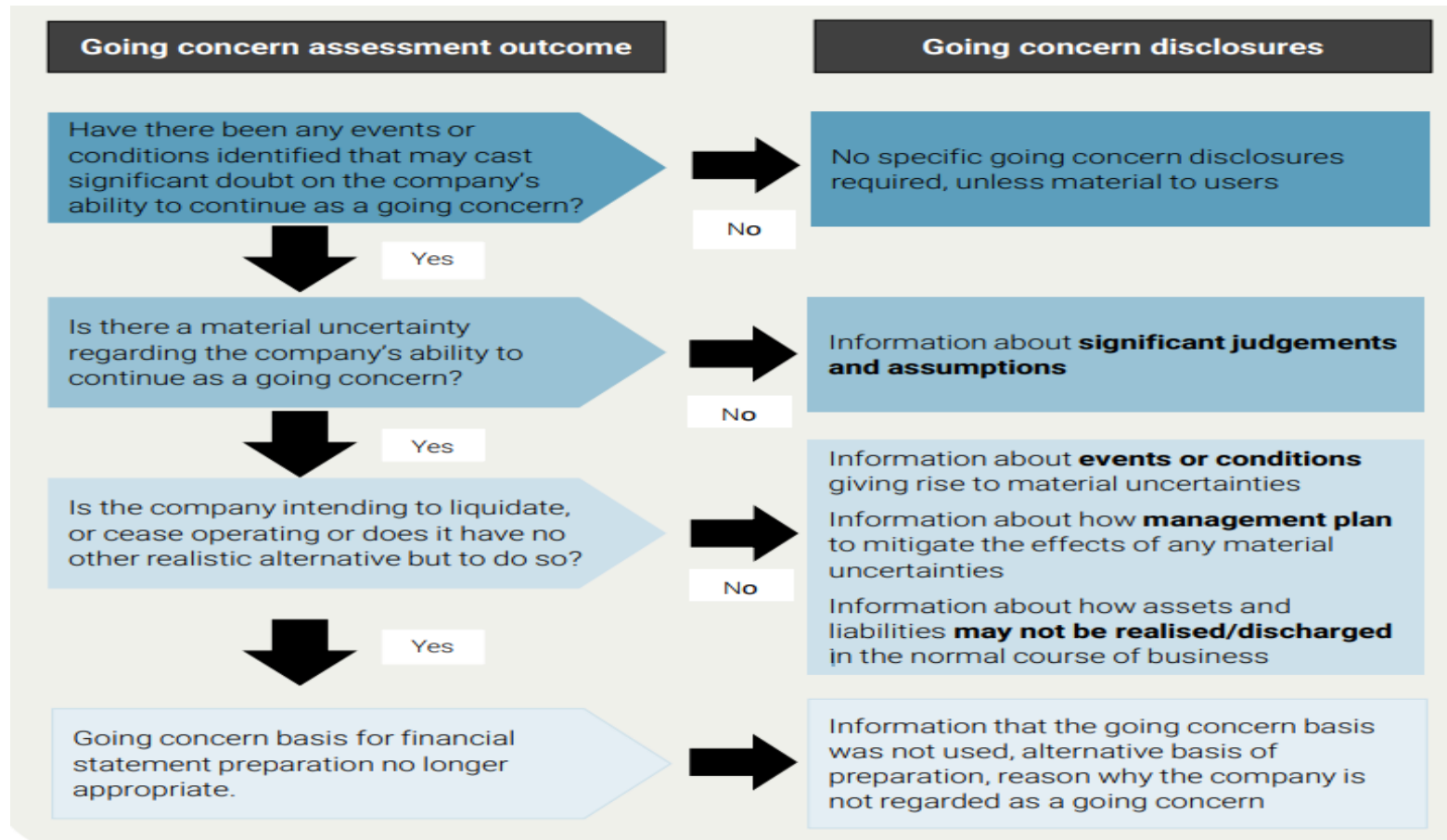
APPENDIX 2 – DETAILS OF THE KEY FINDINGS OF THEMATIC REVIEW CARRIED OUT BY FRC

Details of the key findings identified on the topic of going concern in light of IFRS requirements are as follows:

Going concern assessment	Mandatory or voluntary disclosures (see details at Appendix 1)
<p>In making the going concern assessment based on the conditions existing at the reporting date of the financial reports for 167 PIEs, the following scenarios were considered:</p> <p><i>Scenario 1 – No significant doubts about going concern</i></p> <p>In Scenario 1, 99 PIEs reported that there were no significant doubts about their ability to continue as a going concern as there were no conditions that may cast significant doubts about going concern.</p> <p><i>Scenario 2 – Significant doubts, but no material uncertainties</i></p> <p>In Scenario 2, 56 PIEs (out of 68 PIEs with adverse events) had reported that management had significant doubts on going concern and there were no material uncertainties on the going concern status. Only 14 of the 56 PIEs had not explained the mitigating actions to improve liquidity.</p> <p><i>Scenario 3 – Significant doubts, but material uncertainties remain</i></p> <p>In Scenario 3, among the above 68 PIEs with adverse events, 12 had made material uncertainty disclosures in their annual reports. Most of these were among the entities involved in leisure and hotel sectors. Out of the 12 PIEs, 11 had disclosed information about management's plans to mitigate the effect of those events or conditions.</p> <p><i>Scenario 4 – Not going concern</i></p> <p>In Scenario 4, no PIE had prepared its financial statements on a basis other than the going-concern basis.</p>	<p>IAS 1 Paragraphs 25 and 26 (mandatory) provides requirements on going concern assessment. No mitigation action required as per IAS 1.</p>

<p><u>Periods covered for the going concern assessments</u></p> <p>47% of the 167 entities had mentioned the periods covered for the going concern assessments.</p>	
<p>Going concern disclosures</p>	<p>Mandatory or voluntary disclosures (see also IFRS requirements at Appendix 1)</p>
<p>The following were noted with respect to the going concern disclosures:</p> <p><u>Financial Support</u></p> <ul style="list-style-type: none"> • 16% of the entities received financial support from their parent companies and/or shareholders. • 29% of the entities had government support. <p><u>Liquidity risk</u></p> <p>18% of the PIEs had provided expanded disclosures on liquidity risk in light of the impact of the COVID 19.</p>	<p>IAS 24 Paragraph 18 (mandatory)</p> <p>IAS 20 paragraph 39 (mandatory)</p> <p>IFRS 7 Paragraph 33 (mandatory)</p>
<p><u>Other related disclosures</u></p> <ul style="list-style-type: none"> • 14% disclosed the level of drawn and undrawn finance facilities in place. • 7% of the PIEs had disclosed the covenants that were in place and expected to be breached. • 31% of the 167 PIEs had renegotiated or amended their lending arrangements. • 19% of the 167 entities had explained the different going concern scenarios. In some cases, these going concern scenarios included information on the key COVID 19 assumptions within each forecast which had impacted the going concern conclusions. • 12% provided information on the scenarios modelled in the light the PIEs' reliance upon government support to conclude on the going concern assessments. 	<p>IAS 7 paragraph 50 (optional)</p> <p>IFRS 7 Paragraphs 18 and 19 (mandatory)</p> <p>IFRS 7 Paragraph 18 (mandatory)</p> <p>Voluntary disclosures</p> <p>Voluntary disclosures</p>

APPENDIX 3 – FLOW CHART ON GOING CONCERN AND RELATED DISCLOSURES



Source: External Reporting Board: Spotlight on Going Concern Disclosures

APPENDIX 4 - EXAMPLES OF PLANS THAT MANAGEMENT MAY IMPLEMENT TO MITIGATE CONDITIONS OR EVENTS THAT RAISE SUBSTANTIAL DOUBT

The following are examples of plans that management may implement to mitigate conditions or events that raise substantial doubt, including the types of information management consider in evaluating the feasibility of the plans:

- Plans to dispose of an asset or business
 - Restrictions on disposal of an asset or business, such as covenants that limit those transactions in loan or similar agreements, or encumbrances against the asset or business
 - Marketability of the asset or business that management plans to sell
 - Possible direct or indirect effects of disposal of the asset or business
- Plans to borrow money or restructure debt
 - Availability and terms of new debt financing, or availability and terms of existing debt refinancing, such as term debt, lines of credit or arrangements for factoring receivables or sale-leaseback of assets
 - Existing or committed arrangements to restructure or subordinate debt or to guarantee loans to the entity
 - Possible effects on management's borrowing plans of existing restrictions on additional borrowing or the sufficiency of available collateral
- Plans to reduce or delay expenditures
 - Feasibility of plans to reduce overhead or administrative expenditures, to postpone maintenance or research and development projects, or to lease rather than purchase assets
 - Possible direct or indirect effects on the entity and its cash flows of reduced or delayed expenditures
- Plans to increase ownership equity
 - Feasibility of plans to increase ownership equity, including existing or committed arrangements to raise additional capital
 - Existing or committed arrangements to reduce current dividend requirements or to accelerate cash infusions from affiliates or other investors

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