Audit Committee Briefing Document

Proactive monitoring
Limited scope thematic review:

Cash flow information and disclosures of liquidity and going concern

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Overview

Our detailed report is published alongside this audit committee briefing document. We expect our detailed report to be more relevant for executive directors and those responsible for implementing IFRS application by the issuer. We strongly urge audit committees to ensure that the necessary processes are in place to ensure that the matters noted in the detailed report (and our other PM reports) are considered when preparing their AFS and interim results (hereafter "**financial reports**").

This document provides an overview of findings and other matters to our most recent limited scope proactive monitoring review ("**LS review**"). We summarise key points that we believe are relevant to audit committees in navigating the content of our review.

Detailed review vs LS review

Our annual PM reports explain our approach to detailed reviews we have historically undertaken. These are compared to LS reviews below:

- ***Detailed reviews*** consider financial reports holistically. They are essentially a vertical review of an entire financial report for a specific issuer. Detailed reviews focus on identifying risk areas and potentially material IFRS non-compliance matters, with no limit being placed on the scope of the review.
- In contrast ***LS reviews*** apply a horizontal lens to the financial report to focus on a specific area (or theme) across several issuers. LS reviews execute an in-depth review of specific focus areas and therefore limit the subject matter considered in the reviews.

Scope of this LS review

We modelled this LS review to assess IFRS compliance of (and usefulness of disclosures to) the following topics:

- The presentation of the SCF;
- Liquidity-based disclosures and their impact on debt covenants; and
- Going concern disclosures.

Our annual PM reports have regularly communicated non-compliance of IFRS matters related to the statement of cash flows ("**SCF**"). We considered these findings and the importance of providing useful and appropriate, IFRS compliant information in a strained post-Covid business environment. An issuer's ability to generate the necessary cash flows to settle scheduled liability (and other) payments greatly impacts its overall 'liquidity health'. Many going concern uncertainties, in turn, are linked to a deteriorating liquidity position at a financial reporting year end.

Process applied

We evaluated financial reports of the review sample against the appropriate IFRS requirements using a pre-determined questionnaire.

Our internal questionnaire assessed the appropriateness of information reported in the SCF as measured against other areas of the AFS and the requirements of *IAS 7: Statement of Cash Flows* as well as the nature (and usefulness) of disclosures made.

Our review of liquidity risk disclosures considered the disclosure requirements of *IAS 7* and *IFRS 7: Financial Instruments: Disclosures* after reflecting on the:

1. Quantitative information reported in the financial reports;
2. Potential liquidity risks discussed outside of the financial report; and
3. Linkage between all of the above information.

We considered the quality of the information provided in the financial report looking for disclosures that were specific to the liquidity circumstances faced by the entity. We believe that application of a similar assessment would be helpful for issuers (and audit committee members) to apply.

We assessed the quality of going concern disclosures against the requirements of IAS 1.25, taking guidance from an educational document published by the International Standards Board ("**IASB**") in January 2021. We suggest that issuers (and audit committee members) similarly consider the IASB document, especially where significant judgement is exercised in the assessment of going concern.

Issuers reviewed

Our review covered a cross section of equity and interest rate issues. We balanced our sample to include a cross section of sectors; types of issuers and sizes of issuer. Our detailed report provides more detail to the issuers reviewed. An issuer selected for review could undergo either a detailed or LS review. In most instances we would not expect an issuer to undergo both a detailed review and LS review within their selection period.

Purpose of our detailed report

Our report highlights the findings identified during our LS review, giving details of our expectations for financial reporting in the target areas covered. We set out identified areas of non-compliance to IFRS and also provide examples good reporting which, in certain instances, go beyond the minimum standards of the IFRS's themselves.

Findings

Statement of Cash Flows

Our LS review once again identified non-compliance matters in terms of:

- Discrepancies between amounts and reasoning/ relationship to amounts reported in the SCF and other areas of financial reports;
- Inappropriate treatment of non-cash flow items; and
- Incorrect classification of cash flows between operating, investing and financing activities.

Many of these items were identified in our previous detailed reviews and are captured in our combined findings report of PM reviews. As such we believe that the non-compliance was avoidable.

We urge audit committees and non-executive directors to test the robustness of the processes applied by the management team in considering the content of our PM reports (both this and previous reports) to mitigate against the occurrence of errors.

Our detailed report discusses the following topics not previously covered in our PM reports: disclosures of restricted cash; incomplete disclosures supporting material cash flows recorded in the SCF; treatment of bank borrowings; discontinued operations; editing ('copy and paste') errors made in interim results; working capital movements in interims. It also points to gaps in the disclosure of the amendment to IAS 7: changes in liabilities arising from financing activities. We explain how to improve this disclosure to make it useful to users.

Liquidity risk

We were pleased to find that issuers who had minimal (or no) liquidity risk concerns did not unnecessarily burden their financial reports with disclosure in this area. However, we noted varying levels of disclosure for issuers for whom liquidity risk was a concern and illustrate this with examples. Our detailed report also sets out our findings regarding quantitative information in the maturity analysis section of AFS. This was incomplete or over-aggregated in certain instances.

Debt covenant disclosures

Most issuers provided generic statements of compliance (rather than factual and specific information) with respect to debt covenant targets. Our detailed report explains why we believe this is an area where more specific information is useful to users of AFS.

Going concern disclosures

Our LS review identified varying degrees of disclosure in this area. We emphasise the importance of disclosing company specific information to the nature of assumptions made by directors in their assessment of the going concern assumption.