# *Implementing the 2014 Code*

## Risk, viability and going concern

### *A sea change in thinking about risk and business prospects…*

The 2014 UK Corporate Governance Code has hit the headlines principally because it implements the recommendations of the Sharman Inquiry, including the new viability statement looking at the prospects for companies beyond the going concern horizon. But the 2014 Code – and the Guidance that was issued alongside it – also include updates on how boards should tackle and report on risk that will cause many companies to look again at areas such as setting risk appetite, encouraging the right attitude to risk throughout the organisation, and monitoring and reviewing risk management and internal control. The new version of the Code applies for premium listed companies for periods beginning on or after 1 October 2014 but it should be high on the agenda of boards and audit committees now so that they are in a position to make the related formal statements and confirmations when the year-end comes.

> *"The changes to the Code are designed to strengthen the focus of companies and investors on the longer term and the sustainability of value creation. The changes on going concern implement the reforms proposed by Lord Sharman whose work has stimulated a sea change in thinking about the assessment and reporting of risk and business prospects."*
>
> **Stephen Haddrill, CEO, FRC**

To tackle the 2014 Code effectively requires a range of skills and experience from risk to forecasting to reporting and beyond – we've set out some of the issues and challenges arising from the new aspects of the Code on the reverse side of this flyer. We've also put together a team of specialists who understand the challenges and can help companies deal with them in a coordinated way. Please get in touch with one of the team if you want to know more, or speak to your usual PwC contact.

## *Our team*


### *Changes to the Code as a whole:*

**Gillian Lord**
E: gillian.lord@uk.pwc.com
T: +44 (0) 20 7804 8123

**John Patterson**
E: john.t.patterson@uk.pwc.com
T: +44 (0) 1223 552 413

**Mark O'Sullivan**
E: mark.j.osullivan@uk.pwc.com
T: +44 (0) 20 7804 3459

### *Specialists in particular areas:*

#### Assessing, managing and mitigating risk

**Simon Perry**
E: simon.perry@uk.pwc.com
T: +44 (0) 20 7213 4242

**Hayley-Beth Peters**
E: hayley-beth.peters@uk.pwc.com
T: +44 (0) 20 780 40591

#### Viability forecasting and stress testing

**Susanne Godfrey**
E: susanne.e.godfrey@uk.pwc.com
T: +44 (0) 131 260 4329

**Glen Babcock**
E: glen.babcock@uk.pwc.com
T: +44 (0) 20 7804 5856

#### Organisational culture and behaviours

**Nicola Shield**
E: nicola.j.shield@uk.pwc.com
T: +44 (0) 20 7804 9315

**William Winter**
E: william.winter@uk.pwc.com
T: +44 (0) 20 7804 7190

#### Internal assurance

**Mark Stock**
E: mark.l.stock@uk.pwc.com
T: +44 (0) 1727 892 210

#### Documentation and procedure

**Kate Elsdon**
E: kate.elsdon@pwclegal.co.uk
T: +44 (0) 20 7212 5103

#### Financial reporting

**Peter Hogarth**
E: peter.hogarth@uk.pwc.com
T: +44 (0) 20 7213 1654


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# Practical issues and challenges

### Viability statement

*'Taking account of the company's current position and principal risks, the directors should explain in the annual report how they have assessed the prospects of the company, over what period they have done so and why they consider that period to be appropriate. The directors should state whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, drawing attention to any qualifications or assumptions as necessary.'*

[2014 Code provision C.2.2]

### Robust assessment of principal risks

*'The directors should confirm in the annual report that they have carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity. The directors should describe those risks and explain how they are being managed or mitigated.'*

[2014 Code provision C.2.1]

## Practical issues and challenges

**Viability statement**

- Deciding on the period to cover
- Identifying and describing the relevant qualifications and assumptions
- Making an assessment that is appropriate and proportionate to the company's circumstances
- Robust and realistic forecasting, taking into account the business, industry and macro-economic factors
- Appropriate stress testing, and exercise of prudence

**Robust assessment**

- Making the assessment 'robust', including:
  - Having the right people (including on the board)
  - Providing the right information
  - Open and honest discussion
- Capturing, assessing and describing risks
- Effective management and mitigation
- Linking risk assessment to the viability statement

***General considerations***

- Documenting and evidencing the quality of the processes and work done
- Internal assurance
- Quality of reporting and consistency with the rest of the annual report
- Code compliance
- Taking on board external auditor views

**Going concern confirmation**

- Integrating the going concern and viability assessments
- Distinguishing qualifications and assumptions from material uncertainties

**Monitoring and review**

- Carrying out and demonstrating ongoing monitoring, including monitoring of risk appetite and culture
- Deciding and reporting on when a failure or weakness in risk management or internal control is 'significant'

Practical issues and challenges

### Going concern confirmation

*'In annual and half-yearly financial statements, the directors should state whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and identify any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.'*

[2014 Code provision C.1.3]

### Monitoring and review of risk management and internal control

*'The board should monitor the company's risk management and internal control systems and, at least annually, carry out a review of their effectiveness, and report on that review in the annual report. The monitoring and review should cover all material controls, including financial, operational and compliance controls.'*

[2014 Code provision C.2.3]



141124-153309-LM-OS