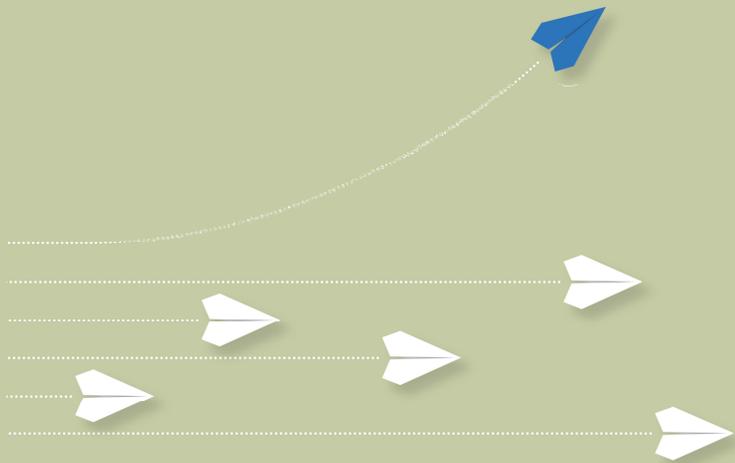


ICAEW KNOW-HOW  
AUDIT AND ASSURANCE FACULTY



# *Introducing Reverse Stress Testing*

11 June 2020

PRESENTED BY  
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## *Today's presenters*



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Mazars



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# *Introduction*



- A wider range of entities could benefit from RST
- Going concern assessments
- S172 responsibilities
- Wrongful trading
- Robust evidence for lenders



# *What is reverse stress testing?*



- Recap on stress testing
- What is RST?
- Key questions
- Severity and plausibility
- Using RST in going concern assessments



# *Why is it useful?*

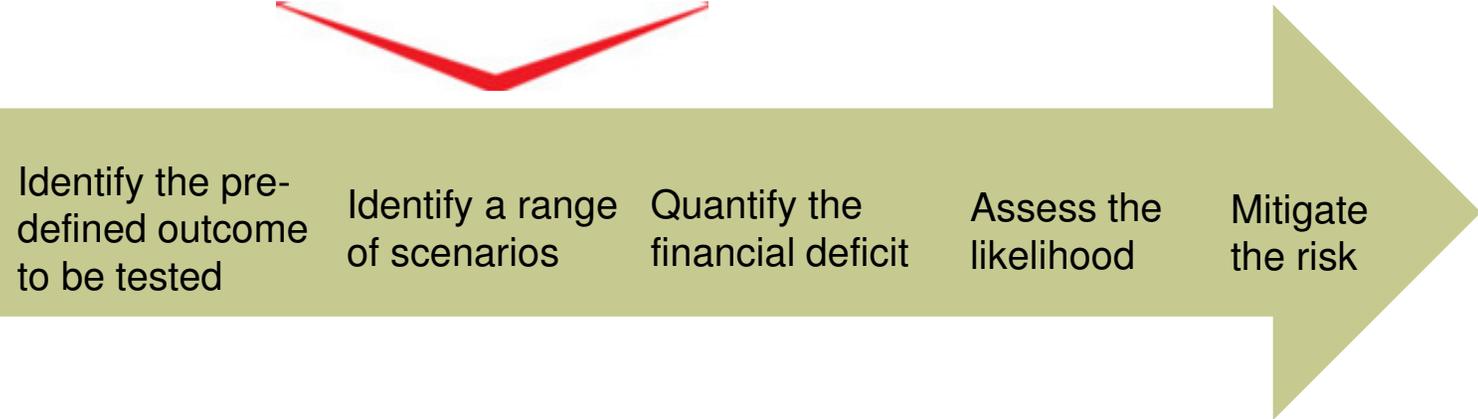


- Government schemes
- Business plans and risk assessment
- Risk model limitations
- Tail risks
- Stress testing bias
- Early warning system
- Going concern assessments





# *How is it done?*



Identify the pre-defined outcome to be tested

Identify a range of scenarios

Quantify the financial deficit

Assess the likelihood

Mitigate the risk

# *Example: coffee shop*



- Identify the pre-defined outcome to be tested
- Identify a range of scenarios
- Quantify the financial deficit
- Assess the likelihood
- Mitigate the risk



*Where  
to start*



- Cause
- Consequence
- Impact



# *COVID-19 scenarios*

- Operational
- Structural
- Financial
- Time horizon



# *Disclosures*



- Impact on forecasting
- Changes to risk assessment or strategic plans
- Disclose alongside stress tested scenarios
- Quantified disclosures



# *Going concern and auditing*



- Interaction with going concern assessment
- Material uncertainties
- Auditor challenge





# *Q&A*

# *Thank you for attending*



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