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Catherine Woods
Financial Reporting Council
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23 January 2014

By email: riskreview@frc.org.uk

Dear Ms. Woods

Risk Management, Internal Control and the Going Concern Basis of Accounting – Consultation on Draft Guidance to the Directors of Companies applying the UK Corporate Governance Code and associated changes to the Code ('the draft guidance')

Chartered Accountants Ireland ('the Institute') is pleased to respond to the above consultation. We welcome the guidance on the responsibility of the Board to consider its risk appetite, to assess the risks to the business model and to communicate the outcome of that assessment in the Annual Report. We are pleased to note that many comments raised by us and other respondents to last January's consultation "Implementing the Recommendations of the Sharman Panel: Revised Guidance on Going Concern and revised International Standards on Auditing (UK and Ireland)" (the January Consultation') have been considered and addressed in the current draft guidance.

General remarks

We have considered the particular questions asked in the Consultation and have provided our answers later in this letter. As noted above, we welcome the fact that the FRC has taken account of earlier comments and consider that, in general, the resulting draft guidance is, in substance both practicable and capable of supporting improvements in the quality of reporting. However, we have some remaining overarching comments on the draft guidance which we set out here. These relate to:

- Review for overall readability and accessibility
- Guidance in Appendix C
- The terminology “high level of confidence”
- The proposed requirement in draft revised ISA (UK and Ireland) 570 for the auditor to report in relation to the annual report disclosures on the principal risks.
- Engagement with the Central Bank of Ireland in relation to the Supplement for Banks

Review for overall readability and accessibility

The accessibility of the document in terms of clarity of layout and consistency of language throughout will be essential to its usefulness in practice. Given the complexity of the document, the extent to which it is integrating a number of extant guidance documents and the level of feedback received in the course of the consultations, we believe it will be important that the guidance is subjected to a thorough “final read” before publication to ensure the final structure and language is fit for purpose.

We encourage the FRC to engage in a communication initiative to accompany the publication of this guidance to ensure directors of listed companies are aware of its implications for them. We believe it will be important to evaluate the impact of this guidance on smaller listed companies and to consider the additional guidance, support and transitional measures which may be required in that sector.

Guidance in Appendix C

We have concerns about the FRC giving guidance on the application of IFRS as this is the remit of IASB and IFRIC. We are concerned that the draft guidance in Appendix C at times strays into the area of interpretation of IFRS. We note your statement that “the FRC will continue to seek to influence the IASB to develop greater clarity in relation to the requirements for the determination of when going concern material uncertainties exist and what should be disclosed under IFRS”. We believe that there is sufficient time before the likely effective date of the new guidance to get the required clarification from the IASB. We strongly recommend active pursuit of this approach.

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The terminology "high level of confidence"

While we support the restriction of the "high level of confidence" threshold in the draft guidance we remain concerned about the continued use of that terminology in Appendices B and C. Notwithstanding our comments in relation to Appendix C above, if the clarifications in that Appendix are retained we consider the terminology "high level of confidence" to be inappropriate. Hindsight can often prove that high confidence was ill-founded and it is, in our view, an unrealistic hurdle. We are also concerned about the introduction of new terminology which is not universally understood and which might give rise to inconsistent application of the guidance. We strongly recommend that FRC reconsiders the language used in this regard and identifies appropriate alternative terminology.

The proposed requirement in draft revised ISA (UK and Ireland) 570 for the auditor to report in relation to the annual report disclosures on the principal risks.

We do not support the addition of paragraph 17-2 to draft revised ISA (UK and Ireland) 570 nor paragraph 16-1 (e) to draft revised ISA (UK and Ireland) 260. We believe that the auditor's responsibility in relation to the other information in the annual report outside of the financial statements is adequately addressed in ISA (UK and Ireland) 720 and in ISA (UK and Ireland) 700, specifically paragraph 22A and 22B. It is unnecessary to create a specific reporting responsibility in relation to the directors' disclosures regarding principal risks and indeed we believe that it contributes potentially to an expectation gap regarding the work the auditor does in relation to narrative disclosures in the "front-end" of the annual report. The terminology "anything material to report" could result in inconsistent reporting as the term "material" in this regard is undefined and may give rise to differing interpretations.

Engagement with the Central Bank of Ireland in relation to the Supplement for Banks

We understand that the FRC is engaging with the appropriate authorities, including the Central Bank of Ireland, in relation to this supplement to the draft guidance. We believe that consultation is important.

Specific consultation questions

Q1. The FRC would welcome views on whether the draft revised guidance achieves these objectives, and on the structure of, and level of detail in, the draft revised guidance.

Subject to the issues identified in this response, the draft guidance meets the objectives set out in the consultation document.

Please note in particular our comments concerning the "readability" of the final guidance.

Q2. Do you agree or are more substantive changes to these sections required?

We have no recommendations for further changes to Sections 2,3,4,5 and 6 of the draft guidance.

Q3. The FRC would welcome views on this proposed change to the guidance.

We are not convinced of the necessity for the change to require the board to "explain what actions have been or are being taken to remedy any significant failings or weaknesses identified from" the review of risk management and internal control systems. Since there is no requirement for the board to explain what the significant failings and weaknesses are, the explanation of the remedies in isolation is unlikely to be useful. Also as there is no definition of what is meant by "significant failings or weaknesses" it is possible that inconsistencies will arise in the application of this part of the guidance. We are unclear of what market information need is intended to be addressed by this change and therefore cannot agree that the change is necessary or helpful.

Q4. The FRC would welcome views on whether these appendices are of use to directors and, if so, how they might be improved.

We consider Appendices D and E of the draft guidance to be useful to directors.

Q5. Do you believe that the approach taken in Appendix B of the draft revised guidance is appropriate? If not, how should it be amended and why?

As we have set out in our general comments above we remain concerned about the continued use of the terminology "high level of confidence" which appears in Appendix B and Appendix C.

Q6. Do you agree with the guidance in Appendix C of the draft revised guidance? If not, how should it be amended?

Our answer to this is addressed in our general comments above.

Q7. Do you agree with the revised guidance (guidance to directors of banks). If not, what needs to be amended and why?

As already noted in our comments, we encourage the FRC to engage with the Central Bank of Ireland in relation to that guidance.

Q8. Do you agree with the draft revised auditing standards? If not, what should be changed and why?

Please refer to our comments above in relation to draft revised ISA (UK and Ireland) 570 and draft revised ISA (UK and Ireland) 260.

Q9. The proposed revisions to Sections C.1 and C.2 of the Code are set out in full on the next page. The FRC would welcome views on whether the additions are required and, if so, on the detailed wording; and on whether the existing Provision C.1.3 (on the going concern statement) should be removed.

We support the proposed revisions to the UK Corporate Governance Code.

In relation to the detailed wording of proposed provision C.2.1 of the Code we note that the last sentence of that provision appears to refer to the material uncertainties, if any, which are disclosed in the financial statements in accordance with IAS 1. If this is indeed the case we suggest that the language used be more closely aligned with that used in IAS 1 for the avoidance of any doubt. Therefore we suggest the wording might be amended to "which [risks], if any, **give rise** to material uncertainties **related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern**."

Please contact my colleague Karen Flannery at karen.flannery@charteredaccountants.ie if you would like to discuss any of the points raised in our response.

Yours sincerely

Aidan Lambe
Director, Representation and Technical Policy