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THE
INSTITUTE OF
CHARTERED
ACCOUNTANTS
OF SCOTLAND



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Dear Steven

FINANCIAL REPORTING COUNCIL CONSULTATION PAPER: GOING CONCERN AND FINANCIAL REPORTING PROPOSALS TO REVISE THE GUIDANCE FOR DIRECTORS OF LISTED COMPANIES

The Institute of Chartered Accountants of Scotland's Audit and Assurance Committee welcomes the opportunity to comment on the above Consultation Paper.

The Institute is the first incorporated professional accountancy body in the world. The Institute's Charter requires its Committees to act primarily in the public interest, and our responses to consultations are therefore intended to place the general public interest first. Our Charter also requires us to represent our members' views and protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

Our responses to the questions in the consultation paper are set out below.

Need for Guidance for Directors

Q1: In the light of these developments, do you believe that there is a continuing need for separate Guidance for Directors about Going Concern?

We firmly believe that there is a continuing need for this separate guidance for directors on going concern. Withdrawing the guidance would run the risk of being perceived as downgrading the importance of the consideration of going concern. In the current financial climate, this is obviously undesirable since investors need to have confidence in the completeness and transparency of information provided in the annual report. The re-issuing of the guidance will help to focus directors' minds on the potentially challenging area of going concern.

Adequacy of proposed amendments to the existing guidance

Q2: Do you believe that the proposed amendments are sufficient and appropriate? If not, what alternative amendments do you believe need to be made and why?

We believe that the proposed amendments are sufficient and appropriate. We agree with the inclusion of a fourth category of disclosure i.e. where management have identified material uncertainties that may cast significant doubt about the ability of the company to continue as a going concern. This is in line with the requirements under IAS 1 and the requirements for auditors under ISA 570. We see that there could now be some degree of overlap between the 'doubt' and 'significant doubt' conclusions, but believe that it is necessary for these to be set out separately, in order to retain the principle behind the original guidance as well as reflecting current accounting standards.

Redundant content in the proposed guidance

Q3: Do you believe that any significant parts of the proposed guidance can be deleted as unnecessary? If so, which paragraphs can be removed and why?

We are content that the redundant paragraphs have been removed in this revision and that the remaining text is relevant and appropriate.

Approach to the inclusion of example text for directors to include in financial statements

Q4: Do you believe that it continues to be appropriate to include standardised text within the proposed Guidance for Directors indicating how directors might explain their use of the going concern basis of accounting?

In general, we do not favour the prescription of standardised text as this can lead to boiler-plate statements which are less meaningful to the user. Therefore it is appropriate that the updating of the guidance has not introduced any standardised wording in respect of the new category of 'significant doubt'.

Approach to the disclosure of a minimum period of review

Q5: Do you believe that it continues to be appropriate for the Guidance for Directors to require directors to consider whether an additional disclosure should be given where they have not considered a period that extends to at least twelve months from the date of the approval of the financial statements?

Yes, we believe that this continues to be appropriate. We note that this is more stringent than the requirements under international accounting and auditing standards, but believe that the UK position is a more robust one which should be adopted internationally.

I hope our comments are useful to you; if you wish to discuss them further, please do not hesitate to contact me.

Yours sincerely



AMY HUTCHINSON
Assistant Director, Accounting and Auditing
Secretary to the Audit and Assurance Committee