

FRC - Financial Reporting Council Consultation
 Risk Management, Internal Control and the Going Concern Basis of Accounting
 Feedback on the draft guidance to the Directors of Companies applying the UK Corporate Governance Code and associated changes to the Code

Page 3	Section 2: Guidance on risk management and internal control
	<p>The primary focus of the current guidance, reflecting the content of the Code at that time, is the board’s role in establishing and monitoring the effectiveness of the internal control system. There is some reference to the board’s other responsibilities for risk, in particular that “In determining its policies with regard to internal control, and thereby assessing what constitutes a sound system of internal control in the particular circumstances of the company, the board’s deliberations should include consideration of the following factors:</p> <ul style="list-style-type: none"> - the nature and extent of the risks facing the company; - the extent and categories of risk which it regards as acceptable for the company to bear; - the likelihood of the risks concerned materialising; - the company’s ability to reduce the incidence and impact on the business of risks that do materialise; and - the costs of operating particular controls relative to the benefit thereby obtained in managing the related risks”. <p>The draft revised guidance seeks to address these aspects of the board’s responsibilities in more depth.</p> <p>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.</p>
SSE Response	The draft revised guidance meets its stated objectives and the structure and level of detail of the revision is adequate
Page 3	Section 2: Guidance on risk management and internal control
	<p>Sections 5 and 6 of the draft revised guidance address the design and process for reviewing the risk management and internal control system. They are largely unchanged from sections 2 and 3 of the current guidance (“Maintaining a sound system of internal control” and “Reviewing the effectiveness of internal control”), which the FRC considers remain fit for purpose. Do you agree or are more substantive changes to these sections required?</p>
SSE Response	<p>Overall fit for purpose, however comments:</p> <p>Section 5 Subsection 31, bullet point 1 last sentence should read 'identify <u>current/</u> emerging risks <u>and opportunities</u> on a continuous basis.... Subsection 31, bullet point 2 should be 'reduce the likelihood <u>and impact</u> of poor judgement.... Subsection 32, should be "will include: risk, issue and opportunity identification, evaluation systems including control activities..... Subsection 34, bullet point 1 should include opportunity after the word risks in the first sentence</p> <p>Section 6 Subsection 36, first sentence should read 'effective monitoring <u>and improvement</u> should be undertaken on a continuous basis' Subsection 39, would 6 monthly board assessments not be more effective? Business environments/ exposures can change on a daily basis. Subsection 40, the recommended annual assessment of the principle risks and process should be widened to reflect any financial reporting cycle</p> <p>General comment: There may be merit in ensuring any external reporting reflects any internal reports (where appropriate)</p>
Page 4	Section 2: Guidance on risk management and internal control
	<p>In 2005, a recommendation was added to the guidance that companies should “confirm that any necessary actions have been or are being taken to remedy any significant failings or weaknesses identified from [the] review”. The intention behind this change was to encourage greater transparency about the outcomes of the review without placing companies in a position where they were asked to certify that the internal control system were effective. Many companies have simply cut and pasted the sentence from the guidance into their internal control statements. On its own, this does not indicate whether or not any significant failings or weaknesses have been identified. The FRC therefore proposes to amend the guidance to recommend more explicitly that the board should “explain what actions have been or are being taken to remedy any significant failings or weaknesses identified from that review”. The FRC would welcome views on this proposed change to the guidance.</p>

SSE Response	Agree with change Comment - The guidance should continue to contain wording to the effect that these findings and actions taken should be disclosed in the Annual Report as is already required in the current guidance at section Four point 36. (the board's statement on internal control). - A template of a style report may be useful as a guide.
Page 4	Section 2: Guidance on risk management and internal control
	Appendices D and E contain questions which boards may wish to consider in applying the guidance, and indicators that may assist them in assessing how they are carrying out their responsibilities, the culture of the company, and the effectiveness of the risk management and internal control system. Appendix D is an updated version of the appendix to the existing guidance, while Appendix E is new. The FRC would welcome views on whether these appendices are of use to directors and, if so, how they might be improved.
SSE Response	Agree with Change. Additional comments from review: Appendices D - Very useful for senior stakeholders to use as an 'aide memoir', - Section: Risk, appetite and culture - bullet point 10 (Inappropriate Behaviour)....is there a general definition for inappropriate (e.g. slip of tongue at industry meeting or lewd behaviour etc)? - Section: Risk Assessment - bullet point 1. why only inherent risks mentioned....suggest taking out word inherent - Section: Risk Assessment - bullet point 5. suggest keeping to either 'significant or principle' to avoid confusion - Section: Risk Assessment - bullet point 6. suggest taking out all reference to both inherent and residual as people get confused by terms/ also temptation to score (or forecast) residual risks on how effective the controls maybe <u>prior to putting in place</u>what happens if controls fail and senior stakeholders have placed expectation on this false indication? Appendix E - Section: Warning signs/ Effectiveness of the board and committees- bullet points 1 and 2 maybe too loose with regards subjectivity e.g. when is 'insufficient' material?
Page 6	Section 3: Implementing the recommendation of the Sharman Panel on going concern/ Subsection - Addressing concerns about a 'high level of confidence' over the 'foreseeable future'
	The 'high level of confidence' threshold and the 'foreseeable future' terms have not therefore been taken forward in the Appendix B of the draft revised guidance. The high level of confidence concept has been retained only in the narrower and more appropriate context of the going concern basis of accounting (as discussed below). 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?
SSE Response	Appendix B of the draft revised guidance is appropriate
Page 7	Subsection - Guidance on determining material uncertainties to the going concern basis of accounting
	In responding to the comments received, the overriding requirement for judgement, which received strong support, has also been given greater emphasis and the more prescriptive thresholds removed. As flagged above, the term 'a high level of confidence' appears only in the statement that when severe distress has occurred or the directors judge that it will occur during the twelve months from approval of the financial statements "the board needs to have a high level of confidence that solvency and liquidity risk can be managed effectively" during that period. It is intended to indicate that there is likely to be a material uncertainty unless the directors are able to judge with a high level of confidence that they would have realistic options available to them for managing the identified risks in those circumstances. Do you agree with the guidance in Appendix C of the draft revised guidance? If not, how should it be amended and why?
SSE Response	No comment
Page 7	Section 3: Implementing the recommendation of the Sharman Panel on going concern/ Subsection - Related Documents/ Guidance to directors of banks
	The FRC therefore proposes to issue the 'Supplement for Banks' included in the January Consultation as a standalone document 'Guidance for the Directors of Banks: Solvency and Liquidity Risks and the Going Concern Basis of Accounting', making such changes as are necessary to keep it consistent with the final wording of the Code and the draft revised guidance. The resulting proposed amendments are shown in the draft now being published for comment concurrently with this consultation. Do you agree with the revised guidance? If not, what needs to be amended and why?

SSE Response	No comment.
Page 7	Section 3: Implementing the recommendation of the Sharman Panel on going concern/ Subsection - Related Documents/ Auditing Standards
	The proposed changes to auditing standards in the January Consultation were to encompass consideration of the principal solvency and liquidity risks and reporting thereon into that approach. Accordingly, the FRC proposes to implement the changes to the auditing standards proposed in the January Consultation, updated to reflect the other changes to the implementation approach. The requirement proposed in the January Consultation for the auditor to report if they have anything to add to what the directors' have included in the annual report and accounts in relation to solvency and liquidity risks and going concern, has been amended to require the auditor to report if they have anything material to add. Draft revised auditing standards are also being published concurrently with this consultation. Do you agree with the draft revised auditing standards? If not, what should be changed and why?
SSE Response	The new standards are welcome. Comments - There could be more clarification on type and purpose of the audits required as different types of audits will be undertaken for different stakeholders.
Page 10	Section 4: Associated changes to the UK Corporate Governance Code
	The second is to reword the existing Code provision to distinguish between the board's ongoing monitoring of the risk and internal control system and the formal annual review of the system's effectiveness on which the Code requires them to report. While the existing guidance makes it clear that "effective monitoring on a continuous basis is an essential component of a sound system of internal control", it has been suggested that the current wording of the Code can be interpreted as meaning that only a one-off review is required. The FRC proposes to clarify that this is not the case, and considers that companies that already apply the guidance will not face any additional burdens as result. 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.
SSE Response	Additions required and welcomed. Comment - Provision C.1.3 should be removed, however this won't change the contents of Annual Reports (for listed companies) as at present the Listing Rules still require companies to include this statement in their Annual Reports. Therefore amendments would be required to be made to the Listing Rules. - within the new proposed Code, what's the difference between Principle and Significant risk?.....definitions would assist - In section C.2.2 the proposed changes should read "The board should monitor the company's risk management and internal control <u>systems on a continuing basis</u> and,"
SSE Response	General comments: - Is there any proposed guidance on 'impartiality' where a joint Risk and Audit function operates as a single department within a business entity - Appendix to Consultation Paper/ Section 4: Identify and Assessing Principle Risks, subsection 26 infers 'Risk Aggregation' (the collective impact of risks), however there's very limited mention throughout the consultation document/guidance on Risk Aggregation? A final observation was that the consultation document itself could have been easier to navigate. Questions were embedded within the overall text, the layout could have outlined the proposed guidance and had a clear list of consultation questions, either at the end of each section or at the end of the guidance.