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Financial Reporting Council  
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Submitted by email to: riskreview@frc.org.uk

6 January 2014

Dear Ms Woods,

**Consultation on Draft Guidance: Risk Management, Internal Control and the Going Concern Basis of Accounting**

Thank-you for the opportunity to respond to the above consultation. By way of background, Prism Cosec is a company secretarial practice and corporate governance consultancy that seeks to promote integrity and effectiveness within the boardroom. Our principal activity is in assisting companies with quoted securities on the Main Market of the London Stock Exchange and AIM on company secretarial and governance matters. A number of our clients are listed in the FTSE100 index and we are Company Secretary for one FTSE100 quoted company.

We set out below responses to the questions raised in the consultation which was published in November 2013.

Question	Prism Cosec Response
<b>Section 2: Guidance on risk management and internal control</b>	
<p><b>Question 1</b></p> <p>The draft revised guidance seeks to address these aspects of the board’s responsibilities in more depth.</p> <p><b>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.</b></p>	<p>We welcome the draft guidance and feel it does achieve its objectives on the whole. However, we question whether it is possible to have a “one size fits all” set of principles. Liquidity issues, for instance, are likely to be very different for different sectors and markets where business models will differ enormously. We feel the Council should be very clear that this is guidance only and not a prescriptive set of rules.</p> <p>We would also suggest that the aspect set out in the last bullet point, ie cost vs benefit, is not adequately covered in the guidance. Perhaps this factor could be included in Appendix D as one of the questions for the board to consider.</p>

<p><b>Question 2</b></p> <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 FRC considers to remain fit for purpose.</p> <p><b>Do you agree or are more substantive changes to these sections required?</b></p>	<p>We feel that sections 5 and 6 of the usefully explain the outputs of a risk management and internal control system and the assessment of such systems but there is no guidance on how to go about putting a system in place in the first place. We feel some guidance on this would be helpful. Perhaps a summary of the main elements you would expect to see in the system.</p>
<p><b>Question 3</b></p> <p>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 and significant failings or weaknesses identified from that review”.</p> <p><b>The FRC would welcome views on this proposed change to the guidance.</b></p>	<p>We welcome this requirement to explain actions and feel it will reduce the propensity of companies to cut and paste the wording from the guidance. In fact, the requirement to explain remedial actions will encourage companies to properly ascertain whether failings are, in actual fact, “significant” in the context of the business as a whole. This might lead to an increase in companies reporting that there were “no significant failings or weaknesses identified”.</p>
<p><b>Question 4</b></p> <p>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.</p> <p><b>The FRC would welcome views on whether these appendices are of use to directors and, if so, how they might be improved.</b></p>	<p>We feel it should be borne in mind that there is only so much that any board of directors will be prepared, or at liberty, to say. In section 7, there is no indication of the level of protection that will be afforded to boards who disclose significant failings and weaknesses. We wonder if it is realistic to expect “warts and all” disclosures and narrative on specific remedial actions taken.</p> <p>As mentioned above, we feel that a question on the cost vs benefit aspect of risk management should be included in Appendix D to help boards focus on maximising the returns on spending on risk management systems.</p> <p>We feel that the questions posed in Appendix D should also be part of a board effectiveness review rather than simply for internal use.</p> <p>Appendix E is extremely useful.</p>

<b>Section 3: Implementing the recommendations of the Sharman Panel on going concern</b>	
<p><b>Question 5</b></p> <p>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.</p> <p><b>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?</b></p>	<p>We feel this is appropriate.</p>
<p><b>Question 6</b></p> <p>It is intended to indicate that there is likely to be 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.</p> <p><b>Do you agree with the guidance in Appendix C of the draft guidance? If not, how should it be amended and why?</b></p>	<p>We believe that the guidance in Appendix C is appropriate.</p>

We hope that these observations and suggestions are helpful. Please contact us if you would like to discuss any of the points made in this submission in more detail.

Yours sincerely,

**Viv Hemming**  
Assistant Director  
Prism Cosec