



## Governance in brief

### Your summary of the latest corporate governance developments

#### Headlines

- FRC highlights current challenges for audit committees and users of actuarial information

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**In Brief:** Whilst the current economic outlook appears to be less depressed than this time last year, the FRC believes significant economic risks remain which will present challenges for many during the 2009/10 reporting season. In response to this, the FRC has published an updated document highlighting the challenges being faced by audit committees arising from the difficult economic conditions. There is also a document highlighting the challenges for users of actuarial information. The questions attached to the documents seek to identify issues that will be particularly relevant to the work of many audit committees over the next few months.

The FRC comments that past experience shows that insolvencies have increased after countries exit from slowdown as companies run out of working capital. Such conditions mean that the next twelve months are likely to be particularly difficult for directors, trustees and management and increase the risk that annual reports and accounts misreport facts and circumstances and contain unidentified errors and omissions.

The current year questions for audit committees focus upon the risks that arise as companies change their business models to help manage through the effects of a significant recession. Such changes often involve modifying the terms of trade including arrangements with pension funds. The existence of such changes may call into question whether accounting policies remain appropriate, whether internal control systems capture all of the relevant data in a reliable way and whether assumptions used in models for accounting and actuarial purposes are appropriate in the circumstances.

The questions fall under the following headings:

- Assessing and communicating risk and uncertainties.
- Reliance on models for cash flow and valuation information.
- Liquidity risk and going concern.
- Year-end planning considerations.

Issuing the document, Ian Wright, Director of Corporate Reporting of the FRC, said:

“Many companies and pension schemes did sterling work last year to make sure that all material issues were captured properly and reported in an appropriate way in their financial reports. Whilst there are some positive economic signs we must be even more alert to the risk of error and omission at this time given the risk of a rise in insolvencies over the next few months.”

**Date:** 14 November 2009

**Source:** Financial Reporting Council

**Further info:**

<http://www.frc.org.uk/press/pub2160.html>

#### Time to take action

- Consider the issues identified in the FRC document when preparing for the forthcoming reporting season.

#### On the horizon

- Sir David Walker’s final recommendations on bank governance.
- FRC consultation on proposed changes to the Combined Code.

For further information, visit the Corporate Governance section of our website at [www.deloitte.co.uk](http://www.deloitte.co.uk) (Services/Assurance & Advisory).

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