



Governance in Brief

Your summary of the latest corporate governance developments

Headlines

- FRC highlights latest issues for audit committees.
- Deloitte sponsors the new Institute of Directors' Corporate Governance Guidance and Principles for unlisted companies in the UK.

FRC highlights latest issues for audit committees

In Brief: Audit committees should be focussing on the following key areas according to the latest issues document from the Financial Reporting Council:

- assessing and communicating risk and uncertainties;
- reliance on estimates, assumptions and forecasts; and
- assessing audit quality and creating the right environment for constructive challenge.

The FRC believes there is room for improvement in the relevance and focus of corporate disclosures about principal risks and uncertainties and that some risk disclosures lack company specific detail to enable a reader to properly understand the true nature of the exposure.

Work by the FRC has also identified that it is not always clear from the risks and uncertainties reported whether they have been fully evaluated and taken into account in preparing budgets and forecasts that support going concern and impairment assessments.

On enhancing the contribution of audit the FRC says that audit committees have an important role to play in creating the appropriate environment in which the audit team can challenge material assumptions and estimates effectively and communicate their views in a forthright and constructive manner.

As in previous years, the FRC has set out some key questions on each of the three areas listed above. We urge audit committees to consider these questions carefully as they head into the financial reporting and audit season.

Date: 18 November 2010

Source: Financial Reporting Council

Further info: <http://www.frc.org.uk/press/pub2442.html>

Deloitte sponsors the new Institute of Directors' Corporate Governance Guidance and Principles for unlisted companies in the UK

In Brief: The Institute of Directors' (IoD) guidance sets out fourteen principles of good governance for unlisted companies on a dynamic phased approach. This takes into account size, complexity and level of maturity of individual enterprises. It is hoped that unlisted companies – such as founder and family-owned businesses – can utilise this framework to ensure their long-term sustainability, to bring external parties to their boards, to attract funds, and to solve issues between shareholders and other stakeholders. Adoption of the guidance is a voluntary decision for each unlisted company.

There are nine phase one principles which are deemed to be applicable to all unlisted companies and cover areas such as the establishment of a constitutional and governance framework, the size and composition of the board, remuneration, dialogue between the board and shareholders and induction and training for the board.

The remaining five phase two principles are aimed at large and/or more complex unlisted companies and cover division of responsibilities, board committees, performance evaluation and the presentation of the company's position and prospects for external stakeholders.

Launching the new guidance Stuart Counsell, Managing Partner, Deloitte said "Here at Deloitte we believe passionately in the importance of the role played by unlisted companies in helping continued recovery in the UK economy. We believe that the Principles and Guidance being launched by the IoD will make a significant contribution to the governance of such companies. Acknowledging that good governance will look different depending on a company's size and situation, this short set of principles will help boards to challenge whether their existing governance arrangements are appropriate and keep these under review as they grow. The comprehensive guidance supporting the principles will help boards to implement any necessary changes in a practical way. We are proud to be associated with this publication and commend it to all unlisted companies and their stakeholders."

Date: 22 November 2010

Source: The Institute of Directors

Further info:

<http://press.iod.com/2010/11/22/corporate-governance-guidance-for-unlisted-companies-launched-by-iod/>

Time to take action

- We urge audit committees to consider carefully the key issues identified by the FRC as they head into the financial reporting and audit season.
- Be aware of the new guidance from the IoD and consider using in unlisted entities as appropriate.

On the horizon

- EC Green Paper on corporate governance of listed companies.
- Updated Higgs Guidance.
- Revised Guidance for audit committees.

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Designed and produced by The Creative Studio at Deloitte, London. 8093A

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