



Governance *in brief* Enhanced reporting of principal risks – will you adopt early?

Headlines

- The FRC has provided clear guidance on what it expects to see when companies report on their principal risks, in their latest consultation “Risk management, internal control and the going concern basis of accounting”.
- Although this is a consultation at present, the guidance on risk reporting provides useful information for shareholders and, in our view, boards should consider adopting this part of the consultation early.

‘The board should provide succinct, meaningful information tailored to the specific circumstances of the company and avoid using standardised language’

In its consultation on ‘Risk management, internal control and the going concern basis of accounting’, one element that the Financial Reporting Council (FRC) makes clear is that boards should be using their disclosures on risk to demonstrate the board’s stewardship and governance of risk. The intention is that these disclosures will facilitate better engagement with shareholders and encourage them to hold the board to account for risk management as part of their own stewardship role.

Disclosures should focus on the specific circumstances of the company. The consultation paper emphasises that the board “should avoid using standardised language which may be long on detail but short on insight”. It also makes clear that the board needs to consider whether the risk disclosures in themselves are “fair, balanced and understandable”, currently a requirement for the annual report as a whole, as well as how they fit within the annual report.

Enhanced reporting of principal risks

The draft Guidance explains that the board should focus on those risks it considers to be the most important to the future development, performance or position of the company. The draft Guidance then seeks to extend disclosure practice by indicating that, to be effective, risk descriptions should include:

- sufficient specific detail that a shareholder can understand why they are important to the company;
- a description of the likelihood of the risk;
- an indication of when the risk might be most relevant to the entity and its possible effect;
- details of any significant changes in principal risks, such as a change in the likelihood or possible effect, or the inclusion of new risks;
- a high-level explanation of how the principal risks and uncertainties are being managed or mitigated; and
- a description of how more generic risks or uncertainties might affect the entity specifically.

There should be an explicit indication of which, if any, of the principal risks and uncertainties are also material uncertainties for the purposes of reporting in the financial statements on the company’s ability to continue to adopt the going concern basis of accounting.

Good practice examples

Deloitte's publication 'A new beginning – Annual report insights 2013', issued in November 2013 (available from www.deloitte.co.uk/auditpublications) identified that just over half of companies surveyed provided clear, specific descriptions of risks – so there is room for improvement. The publication provides some good examples and illustrations.

'The Strategic Report – A practical guide' (also available from www.deloitte.co.uk/auditpublications) provides tips on how to approach disclosure of risk in the strategic report, as well as the other elements of the strategic report.

Deloitte view

- We support the FRC's attempts to improve the quality of risk reporting. While much progress has been made in recent years, more details along the lines suggested in the consultation would provide better quality information. There are some good examples available which companies can use to benchmark their own disclosures.
- In addition to clear risk descriptions specific to the circumstances of the company we believe it is important to link the strategy and business model disclosures with the principal risks and uncertainties.
- The proposed new disclosures acknowledge that drawing out both an explanation of the possible impact and timing of risk as well as mitigation being undertaken provides much more meaningful information and will facilitate better investor engagement on this topic.
- We encourage boards to take account of the FRC's proposals when considering whether their current risk disclosures are fair, balanced and understandable and to consider early adoption.

Contacts – we value your feedback:

corporategovernance@deloitte.co.uk

If you find our publications useful or would like to see other topics covered please provide your feedback

Tracy Gordon – 020 7007 3812 or trgordon@deloitte.co.uk.

William Touche – 020 7007 3352 or wtouche@deloitte.co.uk

The Deloitte Academy

The Deloitte Academy, located on the ground floor of Deloitte's Stonecutter Court offices, has been designed for main board directors of listed companies. The Deloitte Academy provides support and guidance to boards, individual directors and company secretaries of listed companies through a programme of briefings and update sessions. Bespoke training for the whole board or individual directors is also available.

If you would like further details about the Deloitte Academy, including membership enquiries, please email enquiries@deloitteacademy.co.uk.

UK Centre for Corporate Governance

For further information on corporate governance matters please click here

<http://www.corpgov.deloitte.com/site/uk/>

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited ("DTTL"), a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.co.uk/about for a detailed description of the legal structure of DTTL and its member firms.

Deloitte LLP is the United Kingdom member firm of DTTL.

This publication has been written in general terms and therefore cannot be relied on to cover specific situations; application of the principles set out will depend upon the particular circumstances involved and we recommend that you obtain professional advice before acting or refraining from acting on any of the contents of this publication. Deloitte LLP would be pleased to advise readers on how to apply the principles set out in this publication to their specific circumstances. Deloitte LLP accepts no duty of care or liability for any loss occasioned to any person acting or refraining from action as a result of any material in this publication.

© 2014 Deloitte LLP. All rights reserved.

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London EC4A 3BZ, United Kingdom. Tel: +44 (0) 20 7936 3000 Fax: +44 (0) 20 7583 1198.

Designed and produced by The Creative Studio at Deloitte, London. 32710A