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Dear Noranne

Consultation Paper: Revised Operating Procedures for Reviewing Corporate Reporting

We are pleased to have the opportunity to comment on the *Consultation Paper - Revised Operating Procedures for Reviewing Corporate Reporting* (the Consultation Paper).

Enhanced transparency about CRR reviews and their outcomes

We support the Conduct Committee's (the Committee) desire to improve the transparency of its activities and are of the view that the changes proposed in the revised Operating Procedures will help achieve this aim. However, we have some concerns about the clarity and transparency of the proposals set out in the Consultation Paper that relate particularly to the "closed case list" and the expectations placed on companies that do not adopt the UK Corporate Governance Code.

Efficiency of the CRR procedures

If the Committee considers that a better staffing/operating model can be achieved, which is both cost effective and maintains the quality of the CRRT's output, we would support its introduction.

Our more detailed responses to the specific questions asked in the Consultation Paper are set out in an appendix to this letter.

If you wish to discuss any of the points further, please do not hesitate in contacting me directly.

Yours sincerely,

Nicole Kissun
Partner
For and on behalf of BDO LLP



*Appendix: Responses to the questions asked in the Consultation Paper***Question 1**

Do you consider that the changes to the Operating Procedures are clear and understandable?

We have one principal concern about the clarity of the revised Operating Procedures, which relates to the list of closed cases that the FRC is proposing to publish from early 2017 onwards.

Under the proposals set out in the Consultation Paper, in addition to the inclusion of a company's name on the "closed case list", there are three formal ways in which an individual review might be publicised, namely:

- A company specific press announcement (Paragraphs 62-67 of the revised Operating Procedures);
- A request from the Corporate Reporting Review Team (the CRRT) for the company to include reference to correspondence with the FRC in its next annual report (Paragraphs 69-70 of the revised Operating Procedures); or
- A discussion of the nature of the company's interaction with the CRRT in the audit committee report in accordance with the UK Corporate Governance Code (the Code) and Guidance on Audit Committees (Paragraphs 71-72 of the revised Operating Procedures).

There is an implicit expectation in the revised Operating Procedures that companies not falling into one of these three categories (eg most AIM-listed and large private companies, which will not generally adopt the Code) will also include reference to a CRRT review in their next annual report. However, as there is no formal reporting requirement for them to do so, it is possible that an AIM-listed or large private company will include no reference to the review. In consequence, we are concerned that there is a risk that the inclusion of such companies' names on a "closed case" list without reference to the nature and conclusions of the correspondence might be open to misinterpretation (eg under or over estimating the seriousness of the CRRT enquiry; the assurance that can be drawn from it; and/or whether the accounts might generally be considered a "good example" for others to follow). We, therefore, encourage the FRC to include clear guidance on the "closed case list" regarding what can and cannot be inferred from a company's inclusion on it both within the revised Operating Procedures and on the "closed case list" itself.

In addition, whilst we accept that the revised Operating Procedures are not the place to be including explicit disclosure *requirements*, we would consider it helpful if the FRC could encourage companies that do not apply the Code, and which are not otherwise explicitly asked to make a reference to a CRRT review in their annual reports, to include a discussion of the nature of the company's interaction with the CRRT in their strategic report.

Question 2

Do you consider that the changes to the Operating Procedures will promote more efficient and effective processes?

We note the new staffing model proposed by the FRC. In our view, the existing operating procedures which have, by and large, been in place for some time has resulted in high quality output from the CRRT's activities. However, this point notwithstanding, if the Committee considers that a better staffing/operating model can be achieved, which is both cost effective and maintains the quality of the CRRT's output, we would support its introduction.

Question 3***Do you consider that the revised Operating Procedures are fair and transparent?***

We support the Conduct Committee's (the Committee) desire to improve the transparency of its activities, particularly in respect of reviews which have:

- Been closed without writing to the companies concerned;
- Identified only relatively minor points; or
- Involved significant discussions with companies but concluded that no significant changes were required.

However, we have two principal concerns on the approach the FRC is proposing to adopt.

First, we accept that "no issues" letters are necessary if the FRC is expecting companies to refer to a CRRT review in their next annual report, in advance of their inclusion on a list of closed cases. We are, however, concerned that these "no issues" letters may be taken by companies receiving them to offer greater assurance than the FRC intends and may, therefore, hinder the attempts of auditors (and the FRC) to drive continuous improvement in a companies' reporting. We understand that the "no issues" letters will be clearly caveated in order to reduce the risk of companies taking undue assurance from them but note that, other than a passing reference in paragraph 17, the inherent limitations of the CRRT's review are not covered in the revised Operating Procedures. In consequence, we would recommend that the FRC sets out the caveats that it intends to include in its letters to companies in the revised Operating Procedures. In addition, we recommend that the FRC continues to monitor the effect of these letters to ensure that our concerns are unfounded.

Second, we note that a company's name is expected to be published on the "closed case list" after the publication of the first annual report following the conclusion of the CRRT's correspondence. This will allow the company the opportunity to make reference to the correspondence in that annual report. Some CRRT enquiries are initiated towards the end of the company's financial year and other enquires may take an extended period of time to conclude due to their complexity. In both of these cases, it is possible that the first annual report following the conclusion of the CRRT's enquiry may be dated two years after those on which the CRRT's enquiry is based. In consequence, we recommend that the FRC clearly indicates the financial year to which the correspondence related and the date on which the correspondence was closed.

Question 4***Do you have any other comments about the revised Operating Procedures?***

We have no comments about the revised Operating Procedures, other than those we have made in the body of this response letter.