A telling performance
Surveying narrative reporting in annual reports
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1. Executive summary

A Financial Reporting Council report, published in October 2009, contains the following:

“Addressing the requirements of the FRSSE, UK GAAP, IFRS, CA2006 and the Listing Rules that apply to a company may lead it to address going concern and liquidity risk in different sections of its annual report and financial statements. This may create difficulties ... in seeking to obtain a clear, comprehensive and cohesive understanding of the issues facing the company”.

The main adjectives therein probably represent an unintended alliteration by the FRC and it is regrettable that overused adjective “dysfunctional” is missing. That’s because dysfunctional is a good way to describe the competing disclosure regimes applying to the front half of companies’ annual reports.

Despite this, companies have performed better in 2009 than in 2008 in meeting the disclosure demands. That’s the main message from this 2009 annual Deloitte survey looking at what companies report in the narrative sections, that is the parts outwith the audited financial statements, of their annual reports. As with 2008, the population of listed companies is split into two categories, being investment trusts which make up 40% of listed companies (38% in 2008) and other companies. The findings on investment trusts are reported in section 13 while the results for other companies are reported in sections 4 to 12.

The main findings for companies other than investment trusts are:

• the length of the annual report has increased by 3% compared with 2008 and by 41% compared with 2005. There are no signs of recession here. The hope that 2008 was a plateau has been proven unfounded. While some companies have taken the option to publish some information on their websites rather than in the annual report, this has not compensated for the need to say more to meet the disclosure requirements and to tell how companies have performed in the choppy economic conditions in 2008/9;

• 62% of those companies, which reported after the November 2008 FRC Update on going concern and liquidity risk was published, clearly took on board voluntarily the guidance therein. They provided on average 253 words on going concern matters;

• nine companies (2008: five) had received modified audit reports, seven (2008: four) of which related to group going concern. Another one related to a subsidiary going into administration post year-end;

• three areas saw dramatic increases compared with 2008: 83% (2008: 47%) discussed their capital structure and financing; 68% (2008: 48%) discussed treasury policies and 47% (2008: 22%) discussed their current and prospective liquidity. In some cases companies were merely reassuring the market about the strength of their financial position. For about a third of companies, relative weaknesses or uncertainties related to their going concern and liquidity positions were discussed;

• 96% of companies (2008: 89%) clearly described their principal risks and uncertainties. Companies disclosed eight risks on average, with one FTSE 350 company identifying 30. The state of the economy was the most commonly noted risk;

• 84% of companies (2008: 77%) identified clearly their key performance indicators. The average number of KPIs per company was eight, of which five were financial in nature and three were non-financial. While these statistics are strong, companies’ performance in explaining the KPIs selected and their link with strategy was relatively poor, with less than half doing so;

• 35% (2008: 30%) of companies complied fully with the provisions of the Combined Code on corporate governance, the remainder using the facility to explain the areas in which they had not complied. The results demonstrated the relative burden of the Code on smaller listed companies, with only 18% complying in full; and

• only four out of 100 companies (2008: five) claimed that they had complied with the ASB’s Reporting Statement on operating and financial reviews.

The ASB has announced that it is carrying out a survey of narrative reporting in 2009, following up on the survey which it did a couple of years ago. The results of this Deloitte survey suggest that the ASB needs to take action to withdraw its Reporting Statement and to consider issuing a document which tackles the dysfunctional disclosures and provides companies with a complete and logically ordered guide to narrative reporting.
2. Regulatory overview

Narrative reporting by UK listed companies is subject to a complex tapestry of requirements, which has evolved significantly over the last couple of years and will continue to do so for the foreseeable future. This section provides an overview of the regulations and guidance which shape some of the “front half” of annual reports, being:

<table>
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<tr>
<th>Disclosures</th>
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<tr>
<td>Directors’ report, including the business review</td>
<td>Companies Act 2006</td>
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<tr>
<td>The Operating &amp; Financial Review</td>
<td>The Accounting Standards Board’s (ASB) Reporting Statement: Operating and Financial Review</td>
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<tr>
<td>Corporate governance</td>
<td>The Listing Rules, The Disclosure and Transparency Rules, The Combined Code (the Code) and supporting guidance</td>
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<tr>
<td>Other disclosures</td>
<td>The Disclosure and Transparency Rules</td>
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Also discussed here are directors’ liability and changes that may be made to the narrative disclosure regime in the foreseeable future. It excludes the directors’ remuneration report, the regulatory requirements for which are covered in the separate Deloitte publication, ‘Know the ropes – the remuneration committee knowledge’.

**Directors’ report, including the business review**

The general requirement to produce a directors’ report is contained in section 415 of the Companies Act 2006.

All quoted and unquoted companies (except those qualifying as small) are required to include a business review in their directors’ report. This includes subsidiary companies which do not qualify as small, even if they are wholly-owned. The purpose of the business review is to inform members of the company and help them assess how the directors have performed their duty to promote the success of the company.

Under section 417, a business review should include a fair review of the company’s business and a description of the principal risks and uncertainties facing the company. The review required is a balanced and comprehensive analysis, consistent with the size and complexity of the business, of:

- the development and performance of the business of the company during the financial year; and
- the position of the company at the end of the year.

The requirements include, to the extent necessary for an understanding of the development, performance or position of the business of the company:

- an analysis using financial key performance indicators (KPIs); and
- where appropriate, analysis using other KPIs, including information relating to environmental matters and employee matters.

In practice the interpretation of “necessary” and “appropriate” varies greatly depending on the size and nature of the company’s business.

In addition, a quoted company’s business review must disclose:

- the main trends and factors likely to affect the future development, performance and position of the company’s business;
- information about:
  - environmental matters (including the impact of the company’s business on the environment);
  - the company’s employees; and
  - social and community issues,
  including information about any policies of the company in relation to those matters and the effectiveness of those policies; and
- information about persons with whom the company has contractual or other arrangements which are essential to the business of the company. Disclosure about a person is not required if the disclosure would, in the opinion of the directors, be seriously prejudicial to that person and contrary to the public interest.

Although the above disclosures need to be included only “to the extent necessary” for an understanding of the business, a company not discussing each of the specific areas in the second and third bullets above has to state expressly that it has not done so.

Companies are not required to disclose information about impending developments or matters in the course of negotiation if the disclosure would, in the opinion of the directors, be seriously prejudicial to the interests of the company.
The exemption from disclosing information about persons with whom the company has contractual arrangements is somewhat different – disclosure of information about such a person may only be omitted if it would be seriously prejudicial to that person and contrary to the public interest. Non-disclosure is not permitted simply because it would be prejudicial to the company.

Compliance with the statutory requirements of the business review is analysed in sections 6, 7 and 8 of this publication.

**The Operating and Financial Review**

The ASB’s ‘Reporting Statement: Operating and Financial Review’ (RS) sets out best practice principles and guidelines, for a narrative report on operating and financial matters. The statement was originally issued in 1993 and subsequently revised in 2003 and 2006. While the Government had been planning to make compliance with the ASB statement mandatory in 2005, this did not happen and thus adherence to the ASB Statement has remained voluntary throughout its existence.

If a narrative report is called an ‘Operating and Financial Review’ (OFR) there is an expectation that directors will have followed the ASB’s guidance and if this is not the case it would be useful to give the narrative report a different name, such as a ‘Business Review’. In practice, as discussed in section 12 of this publication, only a handful of companies included in the survey called their narrative report an OFR or stated compliance with the RS. This publication refers to ‘OFR-style information’ which includes both formal OFRs and where companies have covered many of the items recommended by the RS within their chairman’s and/or chief executive’s statement, business review and financial review.

**Corporate governance disclosures**

**Corporate governance statements – the Combined Code and Listing Rules**

Listed companies are required by the Listing Rules to make certain disclosures about corporate governance in their annual reports. At the heart of this requirement is the Code. A listed company incorporated in the UK is required to make a statement about how it has applied the main principles in the Code and a statement of compliance with the Code. The Code is supported by additional guidance on internal controls (the ‘Turnbull Guidance’) and audit committees (the ‘Smith Guidance’).

In addition, the Listing Rules state that there should be a statement by the directors that the business is a going concern with supporting assumptions or qualifications as necessary. These requirements are discussed in more detail in sections 9 to 11 of this publication.

An updated Combined Code was issued in June 2008 which applies to accounting periods beginning on or after 29 June 2008. In practice this means that most companies will begin to apply the 2008 Code in 2009 and will report against its requirements for the first time in 2010.

The updated version includes two amendments to the 2006 Code:

- to remove the restriction on an individual chairing more than one FTSE 100 company; and
- to allow the chairman of a smaller listed company (outside the FTSE 350) to be a member of the audit committee where he or she was considered independent on appointment.

**Corporate governance statements – the DTR**

Following amendments to the EU Fourth, Seventh and Eighth Directives, the Financial Services Authority (FSA) has introduced new rules into the Disclosure and Transparency Rules (DTR) on corporate governance statements and audit committees. These rules apply to all UK companies, which have shares and/or debt admitted to trading on a regulated market in the EU, for periods commencing on or after 29 June 2008.

Listed companies will have to include a corporate governance statement in their directors’ report referring to:

- the corporate governance code that the company has decided to apply or is subject to under the law of the Member State in which it is incorporated (the Combined Code in the UK);
- an explanation as to whether, and to what extent the company complies with that code. To the extent that a company departs from the code, the company should explain the parts of the code from which it has departed and the reasons for doing so;
- a description of the main features of the company’s internal control and risk management systems in relation to the financial reporting process;
major shareholdings and related matters already required by the Takeover Directive; and

- a description of the composition and operation of the company’s administrative, management and supervisory bodies and their committees.

For companies complying in full with the relevant provisions of the 2008 Code, many of these disclosures will already be in place. What is new are the requirements to provide the information in a dedicated ‘corporate governance statement’ and to provide a description of the main features of the company’s internal control and risk management systems.

A company may elect that, instead of including its corporate governance statement in its directors’ report, the information required may be set out:

- in a separate report published together with and in the same manner as its annual report; or

- by means of a reference in its directors’ report to where such a document is publicly available on the company’s website.

Audit Committees

Under the new DTR 7.2, companies whose securities are traded on a regulated market in the EU are also required to have a body, such as an audit committee, which is responsible for performing the functions detailed below. At least one member of that body must be independent and at least one member must have competence in accounting and/or auditing. The requirements may be satisfied by the same member or by different members of the relevant body.

The company must ensure that, as a minimum, the relevant body should:

- monitor the financial reporting process;

- review and monitor the independence of the statutory auditor and in particular the provision of additional services to the company;

- monitor the effectiveness of the company’s internal control, internal audit function where applicable and risk management systems; and

- monitor the statutory audit of the annual and consolidated accounts.

The company must make a statement available to the public disclosing which body carries out the functions above and how it is composed. This statement can be included in any corporate governance statement.

The Smith Guidance

In October 2008 the Financial Reporting Council (FRC) issued a new edition of the Smith Guidance on audit committees. The report includes the following new recommendations that the audit committee:

- explains to shareholders in the audit committee report how it reached its recommendation to the board on the appointment, re-appointment or removal of the external auditors;

- considers whether there might be any benefit in using firms from more than one network; and

- considers the need to include the risk of the withdrawal of their auditor from the market in their risk evaluation and planning.

The explanation to shareholders on how the audit committee reached its recommendation to the board on the appointment, re-appointment or removal of the external auditors should normally include supporting information on tendering frequency, the tenure of the incumbent auditor, and any contractual obligations that acted to restrict the audit committee’s choice of external auditors.

Companies were invited to adopt the best practice guidance with immediate effect, but the recommendations on disclosure are only intended to apply to reports covering operating periods ending on or after 30 June 2009. This means that they take effect at the same time as new disclosure requirements contained in the revised Code and the DTR corporate governance rules discussed above.

Other disclosures

UK companies with shares and/or debt admitted to trading on a regulated market also have to comply with the requirements on periodic financial reporting in the DTR issued by the FSA. These rules replace some of the Listing Rules for such periods and are derived from the EU Transparency Obligations Directive. The DTR require most listed companies to prepare an annual management report. With one minor exception, these requirements duplicate the existing requirements within UK law for the directors’ report.
The requirements of DTR 4.1 for the annual report include a 'responsibility statement'. This is in force for annual periods beginning on or after 20 January 2007. ISA (UK and Ireland) 700 (revised), which is applicable for periods commencing on or after 6 April 2008 and ending on or after 5 April 2009, requires that the audit report contain a 'statement that those charged with governance are responsible for the preparation of the financial statements'. Whilst this is not as strict as the previous ISA, which required that either the annual report or the audit report contain a description of those responsibilities, all of APB’s examples refer to a separate Directors’ Responsibilities Statement. The APB has not provided an example of a statement for a public company, but market practice has generally been to continue preparing a similar statement to that used in previous years, combined with the statement required by DTR 4.1. This is presumably driven by a concern that removing the statement required under the old ISA could imply that directors were taking less responsibility for the accounts and reports.

The responsibility statement required by the DTR must be made by the person(s) responsible within the company. This is usually the directors, but it is up to each company to decide which person(s) is (are) considered responsible. The responsibility statement must include the name and function of the person making the statement. Only one person is required physically to sign the responsibility statement.

Each person making a responsibility statement must confirm that to the best of his or her knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and

- the management report (the DTR term to describe the narrative part of the annual report) includes a fair review of the development and performance of the business and of the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

The responsibility statement is discussed in more detail in section 6 of this publication.

**Directors’ liability for disclosures**

Section 463 of the Companies Act 2006 provides a level of protection for directors in respect of certain statements. It was introduced to encourage directors to provide more meaningful disclosures, particularly relating to the future. Under section 463, a director may be held liable only to the company itself (although existing civil or criminal offences are unchanged) and not to individual shareholders or third parties. Such liability to the company would exist only if the director knowingly made a statement that was untrue or misleading, or was reckless as to whether this was the case. For an omission from the directors’ report, liability would arise only if he or she knew that the omission was ‘dishonest concealment of a material fact’.

This protection extends only to the directors’ report and directors’ remuneration report and any summary financial statement derived from those reports. Statements made outside these reports, such as within an OFR or corporate governance statement (whether under the Listing Rules or DTR 7.2), are not protected unless the OFR or other relevant statement has been scoped into the directors’ report by means of a clear cross reference.

**On the horizon**

This section provides an overview of the latest developments which will impact narrative reporting next year and beyond.

**Review of the Combined Code**

At the beginning of 2009 the FRC announced another review of the impact of the 2008 Combined Code on Corporate Governance. Views were invited on the following questions:

- Which parts of the Code have worked well? Do any of them need further reinforcement?

- Have any parts of the Code inadvertently reduced the effectiveness of the board?

- Are there any aspects of good governance practice not currently addressed by the Code or its related guidance that should be?

- Is the ‘comply or explain’ mechanism operating effectively and, if not, how might its operation be improved?
In addition Sir David Walker was asked by the Chancellor of the Exchequer to review the corporate governance arrangements of the UK banking industry. The terms of reference for this review included consideration of the following areas:

- the effectiveness of risk management at board level including the incentive in remuneration policy to manage risk effectively;
- the balance of skills, experience and independence required on the boards of UK banking institutions;
- the effectiveness of board practices and the performance of audit, risk, remuneration and nomination committees; and
- whether the UK approach is consistent with international practice and how national and international best practice can be promulgated.

Sir David published his proposed recommendations in July 2009 and invited comment on these by 1 October. These will seek to address weaknesses in risk management, board quality and practice, control of remuneration and the exercise of ownership rights.

The FRC issued in July 2009 a progress report on its review of the Combined Code, which summarised the responses to the initial consultation paper, of which there were over 100, identified the areas of the Code the FRC may consider updating and cross-referred those areas to the relevant recommendations contained in the Walker Review consultation document. In particular the FRC is seeking views during the same period to October 2009 on whether the Walker Review recommendations should extend to all non-financial listed companies or some sub-set of those. The FRC aims to publish its final report, and begin consultation on whatever changes may be proposed to the Combined Code, before the end of the year. Subject to the outcome of that consultation, a revised Code would take effect in mid-2010.

**Going concern**

In November 2008 the FRC published an *Update for directors of listed companies: going concern and liquidity risk*. The Update brought together the requirements on directors to comment on going concern and liquidity in annual reports and accounts, in the light of the significant economic difficulties that were being experienced in the latter half of 2008. However, its status was that of guidance and it did not replace the formal 1994 Guidance on going concern to which reference is currently made in the Listing Rules. Section 11 of this publication considers how companies have adopted the Update’s recommendations.

In October 2009 the FRC published updated guidance for directors of UK companies for implementation for periods ending on or after 31 December 2009. It is expected that the FSA will take the necessary steps to replace the 1994 Guidance with the 2009 Guidance to meet this timetable.

The updated guidance brings together the Update published in November 2008 and the 1994 Guidance and draws on the experience gained in the first half of 2009. The format and style of the updated guidance is significantly different to the 1994 guidance. It follows the same practical approach to making a going concern assessment but seeks more disclosures. The FRC believes that its impact will be to support directors making high quality assessments of going concern and providing effective disclosures without increasing the costs for companies or users of financial statements.

**IASB exposure draft ‘management commentary’ and the ASB’s review of narrative reporting**

This exposure draft presents the International Accounting Standards Board’s (IASB) proposals for a broad framework for the preparation and presentation of management commentary to accompany financial statements in accordance with International Financial Reporting Standards (IFRSs). The IASB makes it clear that it is for the management of an entity to decide how best to apply this framework in the particular circumstances of its business. The Board’s proposals are intended to provide a basis for the development of good management commentary. It offers a non-binding framework which could be adapted to the legal and economic circumstances of individual jurisdictions. The guidance has been developed to apply to publicly traded entities.

The IASB’s ED is similar in content and proposed status to the ASB’s RS. The ASB carried out a review of narrative reporting in 2007 and is planning to issue a further report in 2009.
3. Survey objectives

The main objectives of the survey were to discover:

- what narrative reporting listed companies have provided in their annual reports;
- how disclosures varied depending on the size of the company;
- how companies met the requirements of the Companies Act 2006 to provide a business review within the directors’ report;
- to what extent companies have adopted the recommendations in the ASB’s best practice RS; and
- how the results compared with similar surveys performed in previous years.

The annual reports of 130 listed companies were surveyed to determine current practice. Consistent with the approach adopted in Deloitte’s 2008 survey, the companies were split into two groups being 30 investment trusts and 100 other companies. Investment trusts are those companies classified by the London Stock Exchange as non-equity or equity investment instruments (this excludes real estate investment trusts). They have been treated as a separate population due to their specialised nature and the particular needs of their investors.

The sample is, as far as possible, consistent with that used in last year’s survey. As a result of takeovers and mergers over the last twelve months, the sample could not be identical. Replacements and additional reports were selected evenly and at random from three categories being those within the top 350 companies by market capitalisation at 30 June 2009, those in the smallest 350 by market capitalisation, and those that fall in between those categories (the ‘middle’ group).

The annual reports used were those most recently available and published in the period from 1 August 2008 to 31 July 2009.

Consistent with last year, the scope of the survey included a review of corporate governance statements in annual reports against the provisions of the 2006 Code. It seemed timely to understand in more detail how companies are performing in this area as the new regulatory requirements under the DTR came into force for periods commencing on or after 29 June 2008.

As noted above the findings for investment trusts are analysed separately within this publication. Sections 4 to 12 summarise the results for the 100 companies excluding investment trusts and section 13 reviews the 30 investment trusts.

The disclosures in the directors’ remuneration report are not covered in this publication but are studied in the Deloitte publication Executive directors’ remuneration published in September 2009.
4. Overview of the annual report*

Length of annual report
The trend noted over recent years has continued in 2009, with the overall length of annual reports increasing to an average of 99 pages (2008: 96), an increase of 3%. The largest increase is seen in the top 350 companies (up 5% on prior year) whereas the length of the smallest companies’ annual reports has remained flat at 64 pages. It is perhaps surprising that annual reports have increased in length given that some companies have sought to make the reports shorter or at least less glossy to save costs and that some are now opting to put information on their websites e.g. environmental information which might hitherto have been included in their annual reports. On the other hand, there have been some additional disclosure requirements in 2008 and 2009 and the current economic climate and its effect on companies’ results will have warranted further explanations.

Over the four year period since the 2005 survey, the average length of reports has grown by 41% from 70 to 99 pages. The most significant increases in length are seen in the middle group of companies whose reports have increased by 46% since 2005, from an average of 57 to 83 pages. Length of reports for the smallest 350 companies has increased from 47 to 64 pages and the top 350 companies from 108 to 147 pages.

The longest report was 469 pages (2008: 473) and the shortest was 32 pages in length (2008: 30).

Balance of narrative and financial reporting
For the purposes of this survey the ‘narrative’ section or ‘front half’ of the annual report is defined as all the pages in the annual report excluding the audited financial statements. The ‘narrative’ reporting typically includes some or all of the following sections:

- Chairman’s statement.
- Chief executive’s statement.
- Business review.
- Financial review.
- Corporate social responsibility statement (CSR).
- Directors’ report.
- Corporate governance statement.
- Directors’ remuneration report.
- Statement of directors’ responsibilities.

Figure 1. What is the overall length of the annual report?

Average number of pages

* This section analyses the findings for all companies other than investment trusts.
The balance of narrative versus financial statements as a proportion of the total annual report has shifted slightly from the prior year. As shown in figure 2, below, financial statements now represent on average 2% more of the total report than last year at 48% (2008: 46%). The overall shift is to an increase in length of the financial statements. The larger companies continue to devote more of the report to narrative information than the middle and smaller companies, with total narrative of 56%, 50% and 45% respectively (2008: 59%, 51% and 47% respectively). The relative decline between 2008 and 2009 may be due to the factors referred to above regarding information being moved to company websites or separate reports.

### Speed of reporting

The DTR require that the annual report, which includes the audited financial statements, a management report and the responsibility statement, is published within four months of the end of the financial year. This is a significantly shorter deadline than the six months allowed under the previous Listing Rules.

All companies included in the survey are required to comply with the DTR requirement to publish their annual report within four months of their year-end. The potential impact of not complying with this rule is the suspension of shares.

Overall compliance with this requirement was good, with 99 companies meeting the deadline. The company which missed the deadline announced its preliminary, unaudited results within four months, but took 141 days to approve its financial statements.

During this period administrators were appointed to two of its subsidiaries and a company voluntary arrangement was entered into.

Of the 99 companies, 59 approved their financial statements within 75 days, 21 within 76 to 90 days and the remaining 19 companies over 90 days. Despite fewer companies reporting within 75 days (2008: 61 companies), there was an overall improvement in speed of reporting on prior year with only 20% of companies reporting after 90 days (2008: 25%) and the average number of days falling from 78 to 75.

### Presentation

Many companies invested in producing glossy annual reports. 89% of companies presented their annual reports in a manner which was visually interesting. The appeal of a report is a subjective assessment. However some of the criteria used to determine whether a report was well presented were structure of report, clear headings and use of colour, pictures, tables and charts.
As the disclosure requirements within narrative reporting increase and the length of annual reports follow suit, it is no surprise that so many companies include a summary page at the front of the annual report. The inclusion of a summary page is optional and not a regulatory requirement.

Overall 89% of companies (2008: 85%) presented a summary page at the front of their annual report. All of the top 350 companies included a summary page (2008: 94%) compared to 94% of middle-sized companies (2008: 97%) and only 73% of the smallest companies (2008: 64%). The smaller companies tended to have simpler structures and shorter reports, indicating that there is less need for a summary report.

The benefits of providing a summary page include being able to draw to the user’s attention the key statistics and developments in the period to support the narrative discussion that follows. A good example of this is Management Consulting Group PLC which presents key financial information in tabular format, alongside graphs with several years of comparatives and a summary performance statement.

Some companies also use the summary page to provide information about the structure and business of the organisation, thus portraying either graphically or simply in summary what would otherwise occupy further discussion in the business review. Good examples of these are Delta plc and BIOQUELL plc which present information about their divisions in alternative ways.

Figure 4. How many annual reports include a summary information page?

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<td>Top 350 companies</td>
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<td>Medium</td>
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<td>Smallest 350 companies</td>
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<td>by market capitalisation</td>
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* This section analyses the findings for all companies other than investment trusts
Some companies also use the summary page to provide information about the structure and business of the organisation, thus portraying either graphically or simply in summary what would otherwise occupy further discussion in the business review.
Other companies use the summary page as a way of setting the scene by explaining who the company is, what they do, what their strategy is and the key highlights from the financial year. A good example of this is Zotefoams plc.

**Information shown on the summary page**

As demonstrated in the examples above, the different approaches to a summary page result in a variety of information being given prominence at the start of the report. Of the companies including a summary page, 90% included narrative on the page (2008: 80%). Such narrative covered various topics, including strategic mission statements, an overview of the group’s business, and highlights of performance and developments during the period.

89% of companies provided financial information (2008: 91%). 79% of companies with a summary page provided both narrative and financial information.

Of the companies including a summary page, 90% included narrative on the page (2008: 80%).

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**Figure 5. What type of information is shown on the summary page?**

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Total</th>
<th>Top 350 companies by market capitalisation</th>
<th>Middle</th>
<th>Smallest 350 companies by market capitalisation</th>
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<tr>
<td>Narrative</td>
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<td>Financial</td>
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<td>KPIs</td>
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6. The business review*

Since 1 April 2005, all quoted and unquoted companies (except those qualifying as small) have been required by section 417 of the 2006 Companies Act to include a business review in their directors’ report. The review should include a fair review of the business and a description of the principal risks and uncertainties facing the company and contain a balanced and comprehensive analysis of:

- the development and performance of the business of the company during the financial year; and

- the position of the company at the end of that year.

Other requirements are discussed further below.

All companies except one identified the narrative which met the definition of a business review. The one exception had clearly complied with all the business review requirements within a very extensive directors’ report but had not clearly identified any particular sections as fulfilling the business review criteria.

Location of business review

The law requires the business review to be part of the directors’ report. The most common way of fulfilling this obligation across all sizes of companies was to prepare a separate business review outside the directors’ report and then scope it clearly into the directors’ report via a cross reference. 81% of companies did this. The reference to the business review in the directors’ report was often cross-referenced to the individual reviews of the chairman, chief executive and other financial and operating reviews.

13% of companies both cross-referenced to narrative outside the directors’ report and also included some of the business review requirements within the directors’ report. Only 6% of companies across all size groups presented their complete business review within the directors’ report.

An example of a clear cross-reference in the directors’ report is shown below in an extract from the Annual Report of PayPoint plc.

PayPoint plc Annual Report 2009

Results for the period

The consolidated income statement, balance sheet and cash flow statement for the 52 weeks ended 29 March 2009 are set out in pages 27 to 29. The business review of the group for the 52 weeks ended 29 March 2009, which complies with the Accounting Standards Board’s 2006 Statement on Operating and Financial Reviews, including an analysis of the group’s key performance indicators and financing and treasury policy, is set out on pages 5 to 10. An analysis of risk is set out on page 11 and of risk management on page 15. The balance sheet and cash flow statement of the holding company for the 52 weeks ended 29 March 2009 are set out on pages 30 and 31.

Figure 6. Where is the business review positioned?

Percentage

* This section analyses the findings for all companies other than investment trusts.
The inclusion of a formal OFR remains voluntary. 11 companies provided a narrative section titled “Operating and Financial Review”, a surprising increase on last year where only nine companies did so. In 2009, nine companies included the OFR within their business review, which consisted of the OFR and other narrative statements cross-referenced from the directors’ report. One company defined their business review through cross-reference in the directors’ report to the OFR and the financial statements. The remaining company chose to label the majority of the narrative (including the OFR) as the directors’ report without specifically defining any text as the business review. All requirements of the business review were met by this company. OFR-style information is discussed further in section 12.

Principal risks and uncertainties
96 companies clearly disclosed their principal risks and uncertainties. Principal risks and uncertainties are discussed further in section 7.

Key performance indicators
The Companies Act requires a business review to include, if considered necessary, an analysis using financial and non-financial KPIs. 84 companies identified KPIs with the majority of companies locating the discussion of KPIs in their business review presented separately from the directors’ report but scoped into it via a cross-reference. KPIs are discussed further in section 8.

Development and performance of the business
99% of companies provided a review of the business within the narrative identified as the business review. One company had included a cross-reference from the directors’ report to both the financial statements and the OFR to fulfil the business review requirements. However the brevity of the OFR, being only four sentences in length, and lack of discussion in the financial statements resulted in the conclusion that a review of the business had not been provided.

Of those companies providing a review of the business, 99% provided a fair review. The one company which was considered not to provide a fair review had failed to mention the group’s overall significant loss for the period, driven by discontinued operations. Instead, the review concentrated solely on the profitable continuing operations. Similarly, the business review made a fleeting mention of the large negative retained earnings when it confirmed no dividends would be proposed, but did not expand on this when discussing the year end position of the company or future strategy.

93% of companies included an analysis of the development and performance of the company during the year. All of the seven companies which did not clearly discuss performance during the year were within the smallest 350 companies. These companies focused solely on the year end position without commenting on factors during the year.

The 2006 Act strengthened the requirements regarding both non-financial and forward-looking information in the business review. In addition to the existing provisions, a quoted company’s review must disclose the main trends and factors likely to affect the future development, performance and position of the company’s business.

93% of companies included information on the trends and factors likely to affect the future development, performance and position of the business within the business review. Of the seven companies which did not, three had this information in the chairman’s statement which had not been cross-referenced into the defined business review. The four remaining companies did not clearly discuss future trends and factors that would affect the business at all.

Of the companies including a summary page, 90% included narrative on the page (2008: 80%).
Balanced review
8% of companies did not contain any negative comments within their business review, bringing into question whether the review met the criteria of being balanced. Three quarters of these were in the top 350 companies. Most acknowledged the troubled economic environment but failed to specify what, if any, effect this had had on the company. This is a key feature of the business review that the Financial Reporting Review Panel (FRRP) has said it will be taking into account when reviewing annual reports and deciding whether to raise a question on the business review.

Corporate and social responsibility
The Companies Act 2006 requires companies to discuss additional information about:

- environmental matters (including the impact of the company’s business on the environment);
- the company’s employees; and
- social and community issues,

including information about any policies of the company in relation to those matters and the effectiveness of those policies to the extent necessary for an understanding of the business. A company not discussing each of the specific areas above has to state expressly that it has not done so.

Overall the disclosure around the environment, employees and social and community issues has not improved significantly on last year. The most helpful information provided in any area was by companies who clearly identified and set out their policies and discussed future targets or related non-financial KPIs alongside the policies. An example of clearly set out key principles underpinning the company’s policy, complemented by corresponding KPIs is from Croda International Plc, right.

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**Croda International Plc Safety, Health and Environment policy**
Croda is a manufacturer of specialty chemicals currently employing approximately 3,500 people worldwide.

The Company operates its business in a manner which actively seeks to prevent or minimise the possibility of its operations causing harm to people, plants or animals. We strive to provide the resources to educate and involve every individual in the Company in achieving this objective.

It is my belief that aspiring to excellence in the management of safety, health and the environment is vital to ensuring the long term future and profitability of the Company.

**Principles:**
1. We believe that all accidents, incidents and work related ill health are preventable and we manage our business with this aim, including the provision of adequate resources for the prevention of major accident hazards.
2. Because we are human, mistakes can be made, but because we are committed, intelligent human beings, we investigate to identify the basic causes and take action to prevent these mistakes being repeated.
3. As an absolute minimum we will comply with all national regulations but in addition we set our own demanding internal corporate standards on matters relating to safety, health and the environment and endeavour to comply with them throughout our international operations.
4. Site management teams within the Company are measured for their contributions to the continuous improvement of safety, health and environmental performance in their areas of responsibility. Individual employees each have a responsibility to participate in and contribute to the improvement of the corporate SHE performance.
5. We will continue to search out new ways of conserving all the natural resources used in our processes.
6. We will continue to innov ate in order to improve our products and processes so that their effect on safety, health and the environment is reduced.
7. We will continue to improve communication and the exchange of views with employees, employees representatives, customers, contractors, suppliers, neighbours and any other individual or organisation affected by our business.

We have assessed the significant safety, health and environmental hazards posed by the Company’s activities and an appropriate set of arrangements has been implemented to control these hazards. The effectiveness of these arrangements is monitored and reviewed on a regular basis with action taken to rectify any deficiencies and ensure continuous improvement.

Mike Humphrey
Group Chief Executive
Director responsible for SHE

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**Indicators of SHE performance**

**Objective**
To continually improve the effectiveness of our SHE management systems.

**Targets**
All former Croda manufacturing sites to be certified to BS OHSAS 18001 by 2009.
All former Uniqema manufacturing sites to be certified to BS EN ISO 14001 and BS OHSAS 18001 by 2011.

The first target for all former Croda sites to be certified to BS OHSAS 18001 by 2009 has been successfully achieved. With respect to the second target, two of the former Uniqema sites are already certified to both BS EN ISO 14001 and BS OHSAS 18001 and the remaining three sites are expected to achieve certification by the target date.
Other useful ways to present policies and their effectiveness is in tabular format, an approach adopted by Pearson plc, shown below.

<table>
<thead>
<tr>
<th>Sustainable business practice</th>
<th>Progress</th>
<th>Plan 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expand our individual company environmental committees into our US and other businesses, directly involving many more of our people.</td>
<td>Ongoing: Over 30 Green Teams now in place in Pearson facilities in the UK, the US, Canada, Australia and India.</td>
<td>Continue to expand our network of environmental teams across our businesses.</td>
</tr>
<tr>
<td>Continue our environmental and labour standards auditing programme, revisiting our printers in Asia, North America and parts of Europe.</td>
<td>Achieved: Visits carried out in Australia, China, India, Japan, Mexico and in several European countries, including Germany, Italy, Spain and Slovakia.</td>
<td>Hold training refresher seminars with key Pearson production departments on labour standards and environmental issues.</td>
</tr>
<tr>
<td>Continue the process of becoming a climate neutral company with a view to completing that process globally by the end of 2009.</td>
<td>Ongoing: Highlights include: Reduced energy usage from a global investment programme in lighting upgrades and server virtualisation. Partnered The Nature Conservancy on its ‘Plant a Billion Trees’ programme. 1.5 million planted to date; Established funds in the UK and the US to stimulate innovative carbon saving programmes; Implemented a new policy in the UK to place a carbon cap on vehicle types and in the US introduced first hybrid vehicles into our car fleet.</td>
<td>Continue the process of becoming a climate neutral company with a view to completing that process globally by the end of 2009, including: Extend Planet Pearson, a new website designed by Pearson staff in the US, to be available internationally; Continue programme to ensure our key buildings are energy efficient; FT newspaper to assess feasibility of setting up its own offset programme; Purchase ‘green’ energy where available and affordable.</td>
</tr>
<tr>
<td>Audit the social and environmental policies and impact of companies acquired in 2007 and set out plans to integrate them into Pearson’s framework for corporate responsibility.</td>
<td>Achieved: Harcourt and other businesses now integrated into Pearson framework for reporting on labour standards and environmental matters.</td>
<td>Continue to work with industry partners to establish a methodology to assess the carbon footprint of a book,</td>
</tr>
<tr>
<td>Maintain our position in the key indices of social responsibility.</td>
<td>Achieved: Pearson retained its position as Global Leader for the Media Sector in the Dow Jones Sustainability Indices and maintained its Platinum rating in the Bizzarro’s Community Responsibility Index.</td>
<td>Maintain our position in the key indices of social responsibility.</td>
</tr>
</tbody>
</table>

Environment

Overall 87 companies included some information on their response to environmental matters. The most common location for the discussion of environmental factors across all sizes of company is the corporate and social responsibility (CSR) statement, with 54 companies including information therein. Over a third of these companies included their CSR statement within the business review. 17 companies provided detail directly in the directors’ report and 14 incorporated these comments in their stand alone business review without titling them ‘CSR’. Many companies produce separate CSR reports, in addition to their annual reports, which tend to be available on the companies’ websites; these have not been taken into account for the purposes of this survey.

Companies were less clear about specific environmental policies, with only 75 companies disclosing details around such policies. Of these, only 57 went on to provide details about the effectiveness of such policies. Common policies related to the ISO 14001 accreditation which is internationally recognised. Other popular environmental policies adopted include reduction in energy usage and waste output.

The smallest companies within the sample were noticeably weaker at disclosing information around environmental issues than their larger counterparts. While 73% of the smallest 350 companies provided some information, only 45% described their policies and 27% disclosed the effectiveness of such policies.

Wm Morrison Supermarkets PLC is a good example of clear disclosure in this area. An extract from the Annual report and financial statements 2009 highlighting environmental policies and the effectiveness of such policies, shown right.

The smallest companies within the sample were noticeably weaker at disclosing information around environmental issues than their larger counterparts.
Employees

Five companies in the sample do not have any employees. All of these companies’ principal activity is investment in either property or mortgage-backed securities, although they do not meet the definition of an Investment Trust (Investment Trusts are discussed in section 13). Of the remaining 95 companies, 94% provided some information around employees. Again, it was most common to include such information in the CSR statement (52%) with 25% choosing to disclose relevant information directly in the directors’ report and 17% in the stand-alone business review.

Companies were strong at including discussion around employee policies, with 91% of companies with employees doing so. However, detail of the effectiveness of such policies was lacking with only 56% of companies providing this information. Any information provided under the Companies Act requirement to disclose detail concerning disabled employees was not taken into account for the purpose of these questions.

Again it was the smallest companies who were weakest at providing details of policies (77% of the smallest 350) and the effectiveness of policies (26%).

Compass Group PLC is a good example of describing clearly the importance of employees and relevant policies in place.

Social and community issues

This was the weakest area of disclosure across all companies. All of the top 350 companies provided information around social and community issues, but the middle group and smallest 350 companies struggled, with only 67% and 42% complying respectively. Overall compliance with providing general information was 70%, an improvement on 64% from 2008.

As with the other disclosures, it was most common to include this information in the CSR statement with 46% of companies doing so. 14% disclosed information within the stand-alone business review and 10% directly within the directors’ report.
Less than half of the total sample detailed policies in this area, with 51% of companies not providing any detail at all (2008: 46%). Similarly, only 39% of companies (2008: 48%) discussed the effectiveness of policies in place.

Again it was the smallest companies whose disclosure in this area was considerably weaker than other companies. Only 42% provided any information at all, 15% disclosed their policies but only 12% discussed the effectiveness of such policies. Clearly these areas are proving burdensome for the smallest companies.

A good example of furthering the reader’s understanding of the business through describing relevant social and community activities is Punch Taverns plc.

There were 31 companies which did not disclose any detail about one or more of the above three issues. Of these, only two companies stated that they had not done so.

**Contractual arrangements**

A further stipulation of the Companies Act 2006 is to include information about persons with whom the company has contractual or other arrangements which are essential to the business of the company.

Thirteen companies disclosed persons with whom the company has contractual or other arrangements which are essential to the business of the company and ten confirmed that there were none to disclose. Of the total 23, ten were from the top 350 companies, nine from the middle group and the remaining four from the smallest 350. Although this is an increase on 2008 where only 15 companies disclosed specific information about contractual and other arrangements, the level of compliance with this legal requirement seems very low.

A possible reason for non-compliance is that the Companies Act caveats the requirement, stating that disclosure should only be made to the extent necessary for an understanding of the business and where such disclosure would not be seriously prejudicial to the interests of the person and contrary to the public interest. However, if a company does not make the disclosure, the Companies Act requires the company to state expressly that it has not done so.
A good example of clear disclosure in this area is taken from Goldshield Group plc’s Annual Report 2009.

Section 12 of this report discusses the dependency disclosure set out in the RS which is a broader but not necessarily overlapping disclosure with the specific Companies Act requirement discussed above.

**DTR responsibility statement**

The DTR requirement for directors to provide a responsibility statement is now effective for all companies within the sample. It was met by 86% of companies, a significant increase on 2008 (54% of eligible companies). Two non-compliant companies were in the top 350 group, six were from the middle group and six from the smallest 350 companies.

An example of the responsibility statement taken from Greene King plc’s Annual Report is shown left.

The DTR requirement for directors to provide a responsibility statement is now effective for all companies within the sample.
The requirement to include a description of the principal risks and uncertainties facing the company is stated in section 417 of the Companies Act 2006. Further to this, the responsibility statement required by DTR 4.1 requires the directors to confirm that the review of the business includes a description of principal risks and uncertainties that the company faces. Within the sample of 100 companies are four which report either under Guernsey or Jersey law and so are not caught by the UK Companies Act requirement to disclose principal risks and uncertainties. However these companies should still comply with the requirement of DTR 4.1.8 to disclose their principal risks and uncertainties.

Overall 96 companies clearly disclosed their principal risks and uncertainties. Of the remaining four companies, two were in the middle 350 category and two were in the smallest 350. Only one of these was a company reporting under Guernsey or Jersey law. This is a clear improvement from the results of 2008 where only 89% of companies complied with the requirement in company law.

Number of risks and uncertainties
An average of eight risks is disclosed per company. The number of risks per company was seen to correlate with the size of the business, with an average of 12, 8 and 5 for the top 350 companies, the middle group and the smallest 350 companies respectively.

The highest number of risks was 30 for one top 350 company and there were three small companies which identified only one risk or uncertainty facing the company. It is hard to see how identifying 30 risks is in the spirit of disclosing principal risks (none of them are marked as such), albeit the 30 risks are subdivided into 14 risk groups.

The Financial Reporting Review Panel (FRRP) also noted this in its report Review findings and recommendations – 2008. It confirmed that the disclosure of principal risks and uncertainties is likely to warrant greater attention during the 2009 reporting season as the current economic environment presents all companies with increased, and possibly different, risks.

Of the three companies with only one risk:

- one company identified the retention of key personnel as the principal risk or uncertainty;
- one referred from the directors’ report to the disclosure of financial instrument risks within the financial statements as its principal risks as well as referring to the business review, but the risks and uncertainties were not clearly stated there; and
- the third company also referred to the business review, but the only risk or uncertainty clearly stated was again the required disclosure of financial instrument risk management.

This is an improvement on the 2008 survey where 7% of companies considered it adequate only to include a cross-reference in the directors’ report to the financial instrument risk disclosures in the financial statements.

* This section analyses the findings for all companies other than investment trusts.
Location
A description of the principal risks and uncertainties facing the company is required to be included in the directors’ report. Of the 96 companies that disclosed their principal risks and uncertainties, 60 companies described their principal risks and uncertainties in a stand-alone business review, cross-referencing them from the directors’ report. 25 companies described them directly in the directors’ report.

Three of the top 350 companies described their principal risks and uncertainties within their corporate governance statement. Of these, one company had identified the whole of the narrative report to be a component of the directors’ report and the other two clearly cross-referred to the corporate governance statement from the directors’ report.

Eight companies described their principal risks and uncertainties elsewhere. Of these:

- two companies cross-referred from the directors’ report to the notes to the financial statements where they described all risks and uncertainties (including those other than the financial instrument risk disclosures);
- three companies set out risks and uncertainties in a separate statement clearly outside of the business review and directors’ report. Two of these companies clearly cross-referred to this statement from the directors’ report. The third company reports under Jersey law;
- two simply cross-referred from the directors’ report to the financial instrument risk disclosure (as discussed above); and
- the remaining company cross-referred from the directors’ report to both the business review (where it identified one uncertainty) and the financial instrument risk disclosures for the remaining risks.

It was good to see that, despite the varied locations where principal risks and uncertainties were described, most companies were adhering to the requirement under the Companies Act of presenting the risks and uncertainties in the directors’ report, albeit with most clearly cross-referencing to other locations.

Type of risk and uncertainty
91% of companies who clearly described their principal risks and uncertainties covered strategic, commercial and operational risks as well as financial risks. This is an improvement on last year where only 81% of companies did so. All of the top 350 companies covered risks other than financial risks, as did 97% of the middle group. Only 74% of the smallest 350 companies identified risks and uncertainties other than financial ones.

The most common risks identified were categorised as follows:

- State of economy – including the impact of the credit crunch.

Figure 11. Where are principal risks and uncertainties described?

![Chart showing percentage of companies describing risks in various locations](image-url)
• Demand – factors affecting demand including competition.
• Foreign exchange – exposure to movements in foreign exchange rates.
• Reputation and brand – loss of customer goodwill.
• Pensions – factors affecting pension contributions or liabilities.
• Regulation and legislation – including political risk abroad.
• Legal action and litigation – uncertainty regarding outcome.
• Operational issues – factors directly affecting operational output.
• Financing issues – factors directly affecting the company’s ability to raise finance or meet loan covenants in the future.
• Cost of raw materials – movement in commodity prices or other direct costs of sales.
• Financial instrument risks – market, credit and liquidity risks.
• People – loss of key personnel.

Other risks separately analysed in last year’s survey were tax and research & development. Only 10% of risks disclosed fell into these categories, thus proving less common than the other risks identified above.

Unsurprisingly, the most common risk companies were facing was the state of the economy, with 63% of companies overall identifying this as a principal risk. This is an increase on last year where 52% of companies identified economic factors as a key risk. 82% of the top 350 companies identified the state of the economy as a key risk, a significantly higher proportion than the middle group (52%) and the smallest 350 companies (48%).

The second most common risk was operational issues (57% of all companies), with most companies identifying some sort of technological failure as being a significant risk on the company’s ability to continue operations.

Demand and competition was also a key risk for many companies (56%), being the top risk alongside operational issues for the middle group of companies and the second most common risk for the smallest 350 companies. This is a similar result to last year’s survey.

Risks arising from local and overseas regulation and legislation were very common, with 52% of companies overall highlighting this as a key risk.

Figure 12. What are the main categories of risks that are disclosed?

Percentage

<table>
<thead>
<tr>
<th>Category</th>
<th>Total</th>
<th>Top 350 companies by market capitalisation</th>
<th>Middle</th>
<th>Smallest 350 companies by market capitalisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>State of economy</td>
<td>90</td>
<td>85</td>
<td>65</td>
<td>55</td>
</tr>
<tr>
<td>Demand</td>
<td>80</td>
<td>75</td>
<td>55</td>
<td>45</td>
</tr>
<tr>
<td>Foreign exchange</td>
<td>65</td>
<td>60</td>
<td>45</td>
<td>35</td>
</tr>
<tr>
<td>Reputation and brand</td>
<td>50</td>
<td>45</td>
<td>35</td>
<td>25</td>
</tr>
<tr>
<td>Pensions</td>
<td>40</td>
<td>35</td>
<td>25</td>
<td>15</td>
</tr>
<tr>
<td>Legal action and litigation</td>
<td>30</td>
<td>25</td>
<td>20</td>
<td>15</td>
</tr>
<tr>
<td>Regulation and legislation</td>
<td>20</td>
<td>15</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>Operational issues</td>
<td>15</td>
<td>10</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Financing issues</td>
<td>10</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Financial instrument risks</td>
<td>5</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>People</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>
This was actually the most common risk among the top 350 companies (85%), with only 21% of the smallest 350 companies identifying this as a key risk. Examples of such risks are taken from The Berkeley Group Holdings plc and GlaxoSmithKline plc, shown above.

The categorisation of risks in a manner similar to those shown in Figure 12 is not commonly performed by companies. Some of the key risks that are identified by companies will cover more than one category in the above analysis. Some companies present their risks in sub-groups of risk categories. An example of this is from Marks and Spencer Group plc, middle left.
Prudential plc provides a useful risk categorisation table with definitions of each risk category, thus providing the reader with an understanding of how management view the risks within the company.

While some companies had clearly explained how each particular risk was pertinent to its business, other companies merely provided boiler-plate descriptions of risks which could have been applied to many a company. It was therefore difficult to see how the risk actually would affect the results of the company.

**Risk management**

85 companies (89% of those clearly describing principal risks and uncertainties) included a description of how the risks identified are mitigated. This was represented by 100% of the top 350 companies, 81% of the middle group and 79% of the smallest 350 companies.

Most companies incorporated the description of risk mitigation within continuous prose. Several companies adopted a tabular format which clearly identified the risk, the impact and then the procedures in place to mitigate the risk. An example of this is from Persimmon plc right.

<table>
<thead>
<tr>
<th>Risk category</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial risks</td>
<td>Market risk: The risk that arises from adverse changes in the value of, or income from, assets and changes in interest rates or exchange rates.</td>
</tr>
<tr>
<td>Non-financial risks</td>
<td>Operational risk: The risk of loss or indirect loss resulting from inadequate or failed internal processes, people or systems, or from external events.</td>
</tr>
</tbody>
</table>

While some companies had clearly explained how each particular risk was pertinent to its business, other companies merely provided boiler-plate descriptions of risks which could have been applied to many a company.
8. Key performance indicators*

- 84% (2008: 77%) of companies clearly identify key performance indicators.
- An average of eight KPIs are disclosed, five financial and three non-financial.
- Only 15% of companies include targets for the KPIs to enable readers to assess the company’s performance.

The Companies Act 2006 requires a business review to include, to the extent necessary for the understanding of the development, performance or position of the business of the company:

- an analysis using financial KPIs; and
- where appropriate, analysis using other KPIs, including information relating to environmental matters and employee matters.

Identifying KPIs

A key performance indicator is defined in law as a factor by reference to which the development, performance or position of the company’s business can be measured effectively.

While the term is used and explained in the Companies Act 2006 (section 417), it is not required to be used explicitly by companies in their annual business reviews. This can lead to problems in practice in identifying which measures are considered “key” by the directors. The first step in this part of the survey was to identify those companies which clearly disclosed which of their performance measures were key, i.e. labelling them “key performance measures”, or “KPIs”. In some cases it was a challenge to determine exactly which the KPIs were. Figure 13 below shows the percentage of companies which clearly identified their KPIs.

The trend noted in last year’s survey of increasing compliance in this area has continued. Overall 84% of companies clearly disclosed their KPIs, an improvement on recent years.

94% of the top 350 companies continue to identify clearly their KPIs (2008: 94%). The smallest 350 companies have improved with 79% compliance compared to 70% in the prior year. The largest improvement has been seen among the middle group, with 79% disclosing KPIs in 2009, an increase of 12% on 2008.

Figure 13. What percentage of companies are identifying KPIs?

<table>
<thead>
<tr>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>100</td>
</tr>
</tbody>
</table>

* This section analyses the findings for all companies other than investment trusts
One company within the middle group clearly identified KPIs (both financial and non-financial) but argued that these are segment-specific. Given the spread of businesses within the group and local country definitional differences, the company considered it was not possible to aggregate meaningfully such data. In contrast, other companies provided KPIs on both a group basis and also by segment. An example of this is Ladbrokes plc, as shown below and right.
Of the 16% of companies not disclosing KPIs, only one company gave a reason why the directors deemed it unnecessary to refer to them. In this case the directors argued that there are no standardised indicators which can usefully be employed to gauge the performance of the group at the present stage of its development other than the performance of the parent company’s listed shares. Another company added a sentence at the end of the Financial Review which referred to “metrics discussed above” being the key performance indicators of the group, yet did not identify which these were and it was not clear. The remaining 14% were silent on the omission of KPIs, although 13% had presented some key financial ratios but had not clearly labelled them as KPIs.

Of the companies clearly identifying KPIs, 45% of companies also presented further information as if it were a KPI although they did not specifically refer to it as such. An example of such a situation is where a financial or non-financial statistic has been given particular prominence in the annual report (often on the summary page) and is then subsequently discussed as part of the business review narrative or otherwise.

These results indicate that some financial information and some KPIs are given equal or similar prominence within the annual report, with the distinction between KPI and other information not always being made clearly. Distinguishing between the two is important. The FRRP has noted that companies have generally been able to demonstrate that KPIs have been referred to in the business review although they had not been described as such but has also indicated in its Annual Review 2008 that companies will be challenged when KPIs are absent or have not been clearly labelled.

Consistent with previous surveys, the most common place for the KPIs to be located is in a business review presented separately from the directors’ report but scoped into it via a cross-reference, with 67% of companies that clearly identified KPIs adopting this approach. This was the most common positioning across all sizes of company, with 88%, 67% and 45% of the top, middle and smallest 350 companies respectively including them within a separate business review.

9% of companies which clearly identified KPIs disclosed them directly in the directors’ report, with most of these being in the smallest 350 companies. Four companies presented KPIs on the summary pages at the front of the annual report, albeit with corresponding discussion positioned in the business review.

A further four companies identified KPIs but the discussion and quantification could not easily be found in the annual report.

**Balance of financial and non-financial KPIs**

Company law refers to both financial and non-financial KPIs. The average number of both financial and non-financial KPIs across all companies has increased since the 2008 survey. In total there were an average of eight KPIs disclosed (2008: seven), with five being financial (2008: four) and three being non-financial (2008: three).

**Figure 15. How many KPIs are identified?**

<table>
<thead>
<tr>
<th>Average number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
</tr>
<tr>
<td>Top 350 companies by market capitalisation</td>
</tr>
<tr>
<td>Middle</td>
</tr>
<tr>
<td>Smallest 350 companies by market capitalisation</td>
</tr>
</tbody>
</table>

Consistent with previous surveys, the most common place for the KPIs to be located is in a business review presented separately from the directors’ report but scoped into it via a cross-reference, with 67% of companies that clearly identified KPIs adopting this approach. This was the most common positioning across all sizes of company, with 88%, 67% and 45% of the top, middle and smallest 350 companies respectively including them within a separate business review.

9% of companies which clearly identified KPIs disclosed them directly in the directors’ report, with most of these being in the smallest 350 companies. Four companies presented KPIs on the summary pages at the front of the annual report, albeit with corresponding discussion positioned in the business review.

A further four companies identified KPIs but the discussion and quantification could not easily be found in the annual report.

**Balance of financial and non-financial KPIs**

Company law refers to both financial and non-financial KPIs. The average number of both financial and non-financial KPIs across all companies has increased since the 2008 survey. In total there were an average of eight KPIs disclosed (2008: seven), with five being financial (2008: four) and three being non-financial (2008: three).
On average the larger companies tended to identify a larger number of KPIs, with an average of eleven, compared with six KPIs for the middle and smallest 350 companies.

One company identified 14 financial KPIs and another identified 16 non-financial KPIs. Both of these companies were in the top 350 companies. It is intriguing how these companies consider so many performance indicators to be key to their business.

Similarly, the larger the company, the more balanced the ratio of financial to non-financial KPIs identified. The trend for the larger companies to give more disclosure and discussion of non-financial information and other company policies is mirrored in other areas of the annual report, such as the corporate social responsibility discussion (see section 6) and description of the business (see section 12).

It is perhaps not surprising that non-financial KPIs and other information should be increasing year on year, given the importance now attributed to reporting on the environment and corporate responsibility. As climate change and other ethical trading considerations become more widely reported in the media, investors may be becoming more interested in this aspect of a company’s operations.

An example of clearly identifiable financial and non-financial KPIs is Rexam PLC, shown right.

**Categories of KPIs**

The top three most common KPIs disclosed were the same as in 2008, being profitability, shareholder return and employee-related measures. This was consistent across all sizes of company. Examples of such KPIs include profit before tax, earnings per share and staff retention. Figure 16 shows the percentage of companies identifying KPIs relating to the environment, employees and health and safety all increased significantly on last year.

**Understanding KPIs**

Companies were good at disclosing KPIs and providing a suitable balance between financial and non-financial measures. However, many companies did not provide sufficient information for a reader of the annual report to understand fully why the company had selected the KPIs and what the factors driving the KPIs are.
Although the Companies Act only requires the identification of KPIs used by a company, the following items are recommended to be disclosed by the RS and may be considered to be best practice:

- definition and calculation method;
- purpose;
- source of data;
- reconciliation to amounts included in the financial statements where figures used in KPIs have been adjusted;
- quantification or commentary on future targets;
- any changes to KPIs compared to previous financial years; and
- comparatives.

33% of companies did not define or disclose the calculation method for any of their KPIs (2008: 42%). Only a third of companies reconciled their financial KPIs to the financial statements (2008: one third). Some companies did not adjust the data used in the financial KPIs and so no reconciliation was necessary. Others used financial KPIs including numbers which are not shown in the financial statements, such as the sales order book. Where KPIs are not defined and where adjusted numbers from the financial statements are used, it is difficult for the reader to understand how the KPI relates to the performance of the company as otherwise disclosed. An example of well defined KPIs is taken from HSBC Holdings plc, below left.

15% of companies commented on future targets, an improvement on 2008 where only 9% did so. This remains a low area of adherence to the RS. KPIs are relatively meaningless if no target or benchmark is provided against which the reader can assess the company’s performance.

24% of companies discussed the purpose for each KPI (2008: 18%). 7% of companies showed a clear link between the KPIs and their strategy, an increase on 3% last year. 29% of companies showed a clear link for some but not all KPIs. For 24% of companies it was not possible to see a link between the strategy and the KPIs. KPIs should be those measures used by a company to monitor their performance against their objectives. Where neither the purpose nor a link to strategy is clearly identifiable, it is difficult to understand why company management rely on such indicators as a measure of the company’s performance.
The link between KPIs and strategy was shown in different ways. Halma plc clearly identified and discussed their strategy in the narrative and then summarised their principal objectives above the KPI table so that the link could be seen easily.

Other companies presented the link diagrammatically, such as Cobham plc shown below.

In terms of comparative information for the KPIs, 6% of companies did not show any comparatives at all, so it was not possible to determine whether performance had improved compared to previous periods.

On average two years’ of comparative figures was shown. Two companies presented ten or more comparatives by referencing the KPIs to a table showing the long-term performance of the company.

On average the larger companies tended to identify a larger number of KPIs, with an average of eleven, compared with six KPIs for the middle and smallest 350 companies.
Statement of compliance

Listing Rule 9.8.6 requires that UK incorporated listed companies make a statement as to whether or not they have complied with the provisions set out in Section 1 of the Code. 99% (2008: 96%) of the companies surveyed included a compliance statement. The one company which did not is incorporated outside the UK and therefore Listing Rule 9.8.6 does not currently apply. Such companies will however have to comply for periods commencing on or after 1 January 2010.

Figure 17 shows how companies are complying with the Code in each of the three groups by market capitalisation. 35% (2008: 30%) of companies complied in full with all the provisions and 65% (2008: 70%) partially complied. 47% of the top 350 companies applied all provisions of the Code compared to 39% of the mid tier companies and 18% of the smallest 350 companies.

54% of companies included the statement of compliance in a prominent position in the first paragraph of their corporate governance report. Where a company has not complied with all the provisions of the Code, or complied with them for only part of the year, the Listing Rules require the company to set out those provisions. Figure 19 below shows the most popular non-compliances for the smallest 350 companies which have reported partial compliance. Amongst the smaller companies the size of the company was the most common reason cited for not complying with specific provisions.

* 35% of companies comply fully with the provisions of the Combined Code.

* The chief executive is also the chairman for 9% of companies.

* This section analyses the findings for all companies other than investment trusts.
For 53% of the top 350 companies who reported partial compliance with the Code, 50% stated that they did not comply with Code provision A.3.2 which requires that at least half the board, excluding the chairman, should comprise non-executive directors determined by the board to be independent. 25% of the 20 companies reporting partial compliance from the middle group reported that they did not meet all the requirements of Code provision C.3.1 (on establishment of an audit committee) and Code provision B.2.1 (on establishment of a remuneration committee).

**Board composition and decision-making**

Code provision A.2 requires that the role of the chairman and chief executive should be clearly defined. The chairman has responsibility for leadership of the board and the chief executive is responsible for the day-to-day running of the business. The expectation was that the majority of the FTSE 350 companies would have separate people taking up these positions. In 9% of the companies surveyed, the roles of the chief executive and the chairman were performed by the same person. This comprised one company in the top 350 companies (see below), two in the middle group and six within the smallest 350 companies. Just six of these companies provided reasons why this was the case.

The other amendment included in the 2008 Code allows the chairman of a smaller listed company (outside the FTSE 350) to be a member of the audit committee where he or she was considered independent on appointment.

**Cadbury plc Annual Report & Accounts 2008**

It is interesting to note that this was already the case in 21% of the middle group of companies and in 42% of the smallest 350 companies. In addition one of the top 350 companies has the chairman as a member of their audit committee. The company includes the following explanation.

**The BSS Group plc Annual Report & Accounts 2009**

Meeting attendance

Many companies adopted a tabular format to give details of the number of meetings of the board and various committees including individual attendance at those meetings, in line with Code provision A.1.2.

Figure 20, overleaf, shows that at least 94% of companies surveyed gave the number of meetings held by the board and its committees. At least 90% gave details of individual attendance by directors at those meetings. Some reports also contained explanations of why members were unable to attend particular meetings.
Nomination committee

90% of the companies which had prepared a corporate governance statement had a nomination committee. The other 10% of companies without a nomination committee comprised one company from the middle group and nine companies from the smallest 350 companies. Of those companies which had a nomination committee 97% described the work of that committee, in accordance with provision A.4.6 of the Code.

The terms of reference of the nomination committee were included by reference to the company’s website by 70% (2008: 68%) of companies surveyed. In an improvement on last year only 12% of companies surveyed (2008: 28%) made no reference. This is expected given the Code (provision A.4.1) requires that the nomination committee should make available its terms of reference.

There has also been an improvement in the section describing the work of the nomination committee where 87% (2008: 59%) of companies complied with Code provision A.4.4 and outlined the specific procedures used for board appointments including the search and selection process. 55% of companies acknowledged or discussed succession planning. Over half of these were within the top 350 companies.

The Code requires a statement of how performance evaluation was conducted for the board, its committees and individual directors. Over two thirds of companies made such a statement.

Consistent with last year the top 350 companies were best at this, with 97% providing information on board evaluation and 91% on performance evaluation for both the committees and directors. The middle group followed with 82% (2008: 80%) detailing how performance evaluation had been conducted for the board. This group did less well at describing the process for its committees, with 67% (2008: 63%) giving this detail, although 73% (2008: 73%) did include information on appraisals for individual directors. 52% (2008: 50%) of the smallest 350 companies explained the procedure for board evaluation and 36% (2008: 41%) described the process for committees and 45% described the process for directors. This may be linked to smaller companies generally having a less formal appraisal process compared to larger organisations.

Risk committees

As noted in section 2 there are two key reviews in progress which could impact on governance arrangements going forward. One suggestion is the introduction of a separate risk committee with its own terms of reference. With this in mind, the survey companies were reviewed to see if they already have separate risk committees. Nine of the top 350 companies surveyed disclosed that they have a separate risk committee and some also provided details of the availability of the terms of reference, the names of the members of the committee and the number of meetings. The nine companies with a separate risk committee included two banks and seven non-financial companies.
10. Corporate governance – audit committees*

The Code requires a separate section of the annual report to describe the work of the audit committee in discharging its responsibilities (provision C.3.3). All except three companies (97%) complied with this provision of the Code and two of these stated that, due to their small size, they did not have an audit committee. While the Code refers to a “separate section” of the annual report, a sub-section within a larger corporate governance statement is generally considered acceptable and this is how the vast majority of companies (89% (2008: 91%)) presented information on their audit committees. As discussed in the regulatory overview in section 2, companies are required by the DTR to provide disclosure about the audit committee for periods beginning on or after 29 June 2008. It is therefore reassuring that most companies are already providing this information within their annual reports.

The Code also requires that the terms of reference of the audit committee, including its role and the authority delegated to it by the board, should be made available. Companies can meet this requirement by including the information in the annual report or by making the information available on request or placing it on the company’s website.

Last year over a quarter of companies in the sample (29%) included no information on the terms of reference of the audit committee. This year there is a marked improvement for this requirement, with 80% of companies with an audit committee referring the reader to the company website or stating that the terms of reference are available on request.

The Smith Guidance on audit committees recommends that the section describing the work of the audit committee should include the following:

- a summary of the role of the audit committee;
- the names and qualifications of the members of the audit committee during the period;
- the number of audit committee meetings; and
- a report on the way in which the audit committee has discharged its responsibilities.

96% (2008: 100%) of the companies which included an audit committee section in their annual report provided information on the role of the audit committee and all except three companies from the smallest 350 group indicated the number of meetings held during the period.

The Smith Guidance lists the following activities for inclusion in the report on the way in which an audit committee discharges its responsibilities:

- the activities carried out to monitor the integrity of the financial statements;

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*This section analyses the findings for all companies other than investment trusts.*

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**Figure 21. Where are the audit committee terms of reference?**

Percentage

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Annual report</th>
<th>Company website</th>
<th>On request</th>
<th>No reference</th>
<th>Referred to but no details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>100</td>
<td>80</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Top 350</td>
<td></td>
<td></td>
<td>10</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Middle</td>
<td></td>
<td></td>
<td>10</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Smallest 350</td>
<td></td>
<td></td>
<td>10</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

---

A telling performance Surveying narrative reporting in annual reports 35
the activities carried out to monitor the integrity of the internal financial controls and risk management systems;

• the procedures adopted to review the independence of the external auditors, including disclosure of the policy on the provision of non-audit services and an explanation on how the policy protects auditor independence;

• oversight of the external audit process and confirmation that an assessment of the effectiveness of the external audit has been made; and

• review of the plans and work of the internal audit department.

Although the detailed guidance above is not mandatory, it is an indication of best practice. Figure 22 indicates whether the companies included in the survey provided this information within their audit committee report. The results were mixed. Not surprisingly companies in the top 350 companies provided the most information and those in the smallest 350 companies disclosed the least. Overall the majority of companies provided some information about auditor independence, non-audit services and oversight of the external auditors. By contrast, less than half of companies disclosed whether an assessment of external audit effectiveness had been made or whether the work of internal audit had been reviewed.

An example of reporting on the activities undertaken by the audit committee during the year is included in the Ladbrokes plc Annual Report and Accounts 2008, right.
In compliance with the Code (provision C.3.5), 36% (2008: 35%) of companies in the survey stated explicitly that they did not have an internal audit function together with an explanation of why this was the case. Taking these companies into account in the results above, 23% (2008: 29%) of companies still failed to provide any disclosure on the internal audit function – either to confirm its review by the audit committee or to explain that such a function did not exist within the company.

The external auditors provided non-audit services in 95% (2008: 96%) of companies surveyed. Where this is the case, provision C.3.7 of the Code requires an explanation of how auditor objectivity and independence are safeguarded. 85% (2008: 87%) of companies for whom it was applicable gave a more detailed explanation of how auditor independence was protected in these circumstances.

**Leading the pack**

As noted in section 2, the revised Smith Guidance issued in October 2008 includes a recommendation that the audit committee should explain to shareholders in the audit committee report how it reached its recommendation to the board on the appointment, re-appointment or removal of the external auditors. Although not falling within the implementation period of the revised Smith Guidance, the sample was reviewed to determine if any companies had adopted this new guidance early. 16% of all companies had attempted to explain their auditor selection decision, including 32% of the top 350 companies.

The revised guidance also recommends that the audit committee should consider disclosing any contractual obligations that acted to restrict the audit committee’s choice of external auditor. Only three companies in the sample made reference to any contractual obligations and that was to confirm that there were none.

An example of these disclosures is included in the Cadbury plc Annual Report & Accounts 2008:

<table>
<thead>
<tr>
<th>Evaluation of external auditors:</th>
<th>In appropriate circumstances, the Committee is empowered to dismiss the external auditor and appoint another suitably qualified auditor in its place. The re-appointment of the external auditor is submitted for approval annually by the shareholders at the Annual General Meeting.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>To assess the effectiveness of the external auditors, the Audit Committee reviewed:</td>
</tr>
<tr>
<td></td>
<td>&gt; the arrangements for ensuring the auditor’s independence and objectivity</td>
</tr>
<tr>
<td></td>
<td>&gt; the external auditor’s fulfilment of the agreed audit plan;</td>
</tr>
<tr>
<td></td>
<td>&gt; the robustness and perceptiveness of the auditors in their handling of the key accounting and audit judgements; and</td>
</tr>
<tr>
<td></td>
<td>&gt; the content of the external auditor’s reporting on internal control.</td>
</tr>
<tr>
<td></td>
<td>As part of the decision to recommend to the Board the re-appointment of Deloitte LLP, the Committee has taken into account the tenure of the auditors and considered whether there should be a full tender process. There are no contractual obligations restricting the Committee’s choice of external auditors.</td>
</tr>
<tr>
<td></td>
<td>As a consequence of its satisfaction with the results of the activities reviewed above, the Audit Committee has recommended to the Board that a resolution proposing the re-appointment of Deloitte LLP as external auditors be put to shareholders at the Annual General Meeting.</td>
</tr>
</tbody>
</table>

Cadbury plc Annual Report & Accounts 2008

Information on tendering frequency and the tenure of the incumbent auditor are further recommendations for disclosure by the audit committee for periods commencing on or after 28 June 2008. Just 3% of the companies reviewed had provided details of tendering frequency and 5% on the tenure of the incumbent auditor. Prudential plc includes disclosures on both categories in their annual report:

Re-appointment of auditor

The Group operates a policy under which at least once every five years a formal review is undertaken by the Committee to assess whether the external audit should be re-tendered. The external audit was last put out to competitive tender in 1999 when the present auditor was appointed. In 2005, 2006, 2007 and 2008 the Committee formally considered the need to re-tender the external audit service and concluded that, given the significant changes in accounting, audit and regulatory requirements, the interests of the Company were better served by retaining the existing auditor through a period of continuing change. In addition, the Committee concluded that there was nothing in the performance of the auditor requiring a change.

Prudential plc Annual Report 2008

Only three companies in the sample made reference to any contractual obligations and that was to confirm that there were none.
11. Corporate governance: going concern*

The Listing Rules and the Code require a statement by the directors that the business is a going concern, together with supporting assumptions or qualification as necessary. For periods ending before 31 December 2009 this requirement should be prepared in accordance with the Going Concern and Financial Reporting: Guidance for Directors of Listed Companies registered in the United Kingdom published in 1994 (the 1994 guidance). This guidance was written by a working group formed under the auspices of the Cadbury Committee that reported on the financial aspects of corporate governance.

The 1994 guidance identifies three conclusions which the directors can reach when considering the results of their procedures:

1. they have a reasonable expectation that the company will continue in operational existence for the foreseeable future and have therefore used the going concern basis in preparing the financial statements;

2. they have identified factors which cast doubt on the ability of the company to continue in operational existence for the foreseeable future but they consider it appropriate to use the going concern basis in preparing the financial statements; or

3. they consider the company is unlikely to continue in operational existence for the foreseeable future and therefore the going concern basis is not an appropriate one on which to draw up the financial statements.

New guidance

In November 2008 the FRC issued the Update, An update for Directors of Listed Companies: Going Concern and Liquidity Risk, in response to the turmoil in the economic environment. This brought together existing guidance relating to going concern and liquidity risk disclosures and recommended that directors consider an expanded statement on going concern.

While the Update notes that it does not establish any new requirements, it sends out clear messages on the need for directors to consider early going concern and the importance of clear disclosure about going concern and liquidity risk in current economic conditions. The Update can be accessed on the FRC website at www.frc.org.uk/corporate/goingconcern.cfm

Paragraph 27 of the Update includes a useful summary of the three potential going concern outcomes together with the consequences for the directors’ statement on going concern and the auditors’ report. Crucially, the paper provides three examples of disclosures, setting out how directors have reached their going concern conclusion, differentiating among the following situations:

1. where the directors have little or no uncertainty about the entity’s ability to continue as a going concern;

2. where the directors have identified some uncertainty but where there are mitigating factors that address this uncertainty such that it does not result in a material uncertainty about the entity’s ability to continue as a going concern; and

3. material uncertainty about the entity’s ability to continue as a going concern.

The Update also provides guidance on assessing borrowing facilities based on the possible reluctance of bankers to confirm the continued availability of facilities. In short, the recent guidance recommends the discussion be extended in the following manner:

1. include cross-referencing to other appropriate and supporting discussion, such as discussion of the group’s business activities, together with the factors likely to affect its future development, performance and position in the business review, the financial position of the group, including its cash flows, liquidity position and borrowing facilities and financial risk management; and

2. discuss any uncertainties affecting the group (including a reference to the uncertain economic outlook, where appropriate) and the financial resources available to the group to address or manage such uncertainties,

before giving the standard going concern statement as required under the 1994 guidance.

* This section analyses the findings for all companies other than investment trusts

• 62% of companies clearly adopts the recent FRC guidance.

• The average length of the going concern statement of those companies clearly adopting the recent guidance is 253 words.

• Nine auditors’ reports contain an emphasis of matter, of which seven relate to going concern.
In October 2009 the FRC released an updated version of the 1994 guidance, based heavily upon the material in the November 2008 Update. The updated guidance will be effective for companies with 31 December 2009 year ends.

**Location of statement**

The 1994 guidance indicates that the going concern statement should be included in the OFR on the basis that the OFR contains a significant amount of discussion and analysis which will help to put the statement on going concern into context. As there is no statutory requirement to prepare an OFR, this guidance cannot be regarded as mandatory, even where listed companies voluntarily prepare an OFR.

There is no indication in the Update where the going concern statement and extended discussion should be positioned. A sensible option for listed companies is simply to expand the current going concern statement to take into account the Update. As this is a fundamental assumption supporting the preparation of the financial statements, it would seem right for this to be captured by the scope of the auditors’ report and as such a cross-reference from the notes to the financial statements could be made. Alternatively the extended discussion could be included within the notes, with the standard going concern statement remaining within the narrative reporting.

All companies included a statement on going concern. Figure 23 shows where the statement was positioned. 40% of companies included the statement within the directors’ report, this being the most common place for the middle group with 45% of them doing so. For 39% the statement was situated within the corporate governance statement, this being the most popular for the top and smallest 350 companies with 38% and 52% respectively.

14% of companies placed the going concern statement within the stand-alone business review which was referenced from the directors’ report. 7% of companies positioned the statement elsewhere. Of these, 4% made a brief reference to going concern within the narrative report, but the fuller statement reflecting the Update was located in the notes to the financial statements. 2% positioned the statement in the statement of directors’ responsibilities and the remaining company included the going concern statement only within the notes to the financial statements.

**Adoption of the FRC Update**

87 companies approved their financial statements on or after 15 December 2008 and therefore were able to take heed of the FRC Update published in November 2008. All of the following analysis of going concern statements uses these 87 eligible companies as its sample population.

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**Figure 23. Where is the going concern statement positioned?**

<table>
<thead>
<tr>
<th>Statement Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>50%</td>
</tr>
<tr>
<td>Top 350 companies by market capitalisation</td>
<td>30%</td>
</tr>
<tr>
<td>Middle</td>
<td>40%</td>
</tr>
<tr>
<td>Smallest 350 companies by market capitalisation</td>
<td>20%</td>
</tr>
</tbody>
</table>

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*A telling performance* Surveying narrative reporting in annual reports 39
62% of eligible companies clearly adopted the FRC guidance. Of the 38% which did not, 21% were in the smallest 350 companies, 13% in the top 350 and 5% in the middle group.

**Cross-referencing**
67% of all eligible companies either cross-referred to related discussion such as principal risks and uncertainties, liquidity and key judgements, or included or repeated relevant sections of narrative, such as liquidity, within the going concern statement. Of these, 30% were in the middle group, 27% in the top 350 companies and 10% in the smallest 350.

Cross-referencing is a recommendation in the Update (as noted above) and is deemed to be a positive attribute of the going concern statement as it brings together all related information into one clear location, enabling the user of the report to have a full understanding of issues affecting the going concern assessment.

**Identifying uncertainties**
30 companies out of the sample of 87 referred to an uncertainty within their going concern statement. Of these, 15 were from the middle group, eight from the smallest 350 companies and the remaining seven from the top 350 companies. In the current economic climate it is surprising that 57 companies chose not to mention any uncertainty, particularly given that the three example disclosures presented in the Update all include reference to some kind of uncertainty. Figure 24, below, illustrates what the uncertainties discussed related to.

Results per category of uncertainty are presented as a percentage of all companies identifying uncertainty, with some companies listing more than one uncertainty.

43% of uncertainties related to financing and shareholder support. This was particularly common among the smallest 350 companies. Understandably, this was a lesser concern for the larger companies who presumably are more able to generate support from financiers given the size and scale of their operations.

None of the largest companies considered there to be any uncertainty around trading volumes, in stark comparison to 27% of the middle group and 25% of the smallest companies. Seemingly the larger companies have already gained sufficient market share for trading volumes not to be an issue, assuming their operations are not cyclical.

17% of companies with uncertainties considered that specifically breaching or potentially breaching covenants presented an uncertainty. 40% of companies with uncertainties made a simple reference to the current uncertain economic outlook without expanding on the effect on the company itself. This is taken directly from the first example given in the FRC Update.

27% of uncertainties related to something other than those categories discussed. Two companies referred to current uncertainty in markets which particularly affected their business, such as the property market. One company considered the uncertainty around the funding position of the defined benefit pension scheme and its accounting deficit to be worthy of disclosure in the context of going concern. Other companies referred to other specific items as being uncertain, such as the re-assignment of leases on a retail portfolio, disposal of a particular division, foreign exchange movements and cash generation from current projects.

**Length of forecasts**
Standard UK Practice, as confirmed under FRS 18 Accounting Policies and auditing standards, is to prepare budgets and forecasts to cover a period of twelve months from the date of approval of the financial statements as a minimum. Medium or long-term plans are also considered as they give an indication in general terms of how the directors expect the company to fare. The updated guidance published in October 2009 confirms that directors should prepare budgets or forecasts covering the period up to twelve months from the date of approval of their financial statements or for a longer period.
80% of all 100 companies did not disclose the length of forecasts or budgets relied upon to support the going concern assumption.

A good example of a company which clearly adopted the spirit of the recent FRC guidance, providing appropriate information in a clear and concise manner, is Intermediate Capital Group PLC.

![Figure 25. Are the length of forecasts or budgets disclosed?](image)

Of the 20% of companies who disclosed the length of forecasts, 14% confirmed that they were longer than twelve months from the date of approval. A further 5% confirmed that forecasts covered the twelve month period from the date of approval. One company from the smallest 350 indicated that forecasts covered only twelve months from the balance sheet date.

Length of statement
Across all companies, the average length of the main statement on going concern was 168 words. The longest statement was 716 words and the shortest only 30.

Of those companies considered to have clearly adopted the Update, the average length increased significantly to 253. Of those eligible to have adopted the guidance but who did not clearly do so, the average word count was 78.

The additional information provided under the Update allows users of the annual report to have a more rounded understanding of the company’s position and its ability to continue in the near future. In a climate of significant uncertainty where there appears to be an abnormally high number of companies falling into administration or financial distress, clear disclosure and discussion around the directors’ assumption that the company is a going concern is undoubtedly of utmost importance.
**Consistent reporting**

The going concern statements were considered for consistency with disclosure in the financial statements, the auditors’ report and the narrative reporting as a whole. All going concern statements were consistent with any specific disclosures in the financial statements.

Two companies were inconsistent with the auditors’ report which included an emphasis of matter paragraph relating to a material uncertainty leading to significant doubt over going concern. Where auditors’ reports include an emphasis of matter paragraph the specific wording “... material uncertainty leading to significant doubt ...” must be used. The International Standards on Auditing require the directors’ going concern disclosures to mirror this wording. The third disclosure example in the Update uses such wording.

In both instances of inconsistency identified, the directors’ statements on going concern did not identify the material uncertainties that led to significant doubt over the company’s ability to continue as a going concern. Indeed, the directors of one company acknowledged that the company’s ability was dependent on the achievement of forecasts and continued support from suppliers and related parties yet did not describe these circumstances even as being uncertain.

The auditors of a third company included an emphasis of matter paragraph within their report, highlighting the basis of preparation as set out in the notes to the financial statements and the valuation of both intangibles and investments. There was no mention of a material uncertainty leading to significant doubt and no specific reference to going concern. It has been presumed that going concern is underlying the emphasis of matter as it highlights three future possible events that underpin the company’s success.

The directors of one company stated that they considered the company to have adequate resources to continue in operations for the foreseeable future. Curiously, the chairman had previously admitted in his statement that not only had order intake reduced significantly since the year end and that this was not likely to improve in the current year, the unprecedented level of uncertainty meant that it was not possible to indicate turnover for the following financial year.

All other companies were considered to have made statements on going concern which were consistent with the rest of the narrative report.

**Auditors’ reports**

Nine companies within the sample had modified opinions from their auditors and all were due to the inclusion of an emphasis of matter paragraph. This is a significant increase on last year where only five companies had an emphasis of matter paragraph. This year, for seven of the companies, these paragraphs related specifically to the group’s ability to continue as a going concern. This compares with five in 2008. The other two emphases of matter related to uncertainty around ongoing litigation and a subsidiary going into administration post year end.

One of the nine companies had both an emphasis of matter paragraph and a qualified audit opinion due to limitation of scope. This is in line with last year where one company’s auditors qualified their opinion arising from a disagreement and also included an emphasis of matter paragraph.

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Nine companies within the sample had modified opinions from their auditors and all were due to the inclusion of an emphasis of matter paragraph.
12. OFR-style information*

- 11 companies include a sub-section of their narrative headed OFR, an increase on nine companies in 2008.
- The number of companies complying with the ASB’s Reporting Statement declines from 5% in 2008 to 4% in 2009.
- 79% of companies include a discussion of their objectives.
- 36% more companies than last year discuss capital structure and financing, which is indicative of the heightened importance in the current climate.

**Narrative reporting statements**
Companies packaged their narrative reporting information in different ways. The front half of most annual reports contained a business or operating review and financial review, together with a Chairman’s and/or Chief Executive’s statement. Eleven companies surveyed had a statement which was titled ‘operating and financial review’. This small proportion of companies raises the question of whether there is scope to dispense with guidance on such a statement or a need to redraft the ASB RS to fit in with current law and practice.

**The OFR**
The preparation of an OFR is voluntary for all companies. For those companies providing OFR-style information best practice is to follow the ASB’s RS. Four companies in 2009 (2008: five) included a statement to say that they had complied with the RS. One of these companies had only partially complied with all requirements.

There is clear overlap between the RS and the requirements for the business review. It seems that having two sources of rules or guidance on what is essentially a review of the business is making narrative reporting more complicated than it needs to be. Section 6 of this survey, on “how companies met the requirements of the business review”, demonstrated that companies showed this information where it fitted best in their annual reports. This theme continues when it comes to the OFR information which is not specifically required by the law.

The table below identifies the overlap between the OFR and business review. The column on the left outlines the mandatory requirements of the business review that are also best practice in the RS. The column on the right shows the items for the best practice OFR. This list is not comprehensive but intended to highlight the key differences.

<table>
<thead>
<tr>
<th>BR</th>
<th>OFR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development and performance of the company’s business during the financial year and company’s position at the end of that year</td>
<td>✓</td>
</tr>
<tr>
<td>Forward looking information/ Trends and factors likely to affect the future of the business</td>
<td>✓</td>
</tr>
<tr>
<td>Information on environment, employees and social and community issues</td>
<td>✓</td>
</tr>
<tr>
<td>Objectives &amp; strategy</td>
<td>✗</td>
</tr>
<tr>
<td>Capital structure, cash flow, treasury policies &amp; liquidity</td>
<td>✗</td>
</tr>
<tr>
<td>Contractual or other arrangements essential to the business of the company</td>
<td>✓</td>
</tr>
<tr>
<td>Principal risks and uncertainties</td>
<td>✓</td>
</tr>
<tr>
<td>Financial &amp; non-financial KPIs</td>
<td>✓</td>
</tr>
<tr>
<td>Principles:</td>
<td></td>
</tr>
<tr>
<td>Balance</td>
<td>✓</td>
</tr>
<tr>
<td>Comprehensive</td>
<td>✓</td>
</tr>
<tr>
<td>Understandable</td>
<td>✗</td>
</tr>
<tr>
<td>Comparable</td>
<td>✗</td>
</tr>
</tbody>
</table>

Despite some of the above requirements such as objectives, strategy and a description of the nature of the business not being a legal requirement, this information would be expected in an annual report as it enhances a reader’s understanding of the business and sets the context for the financial statements.

Those items which are mandatory requirements of the business review, including KPIs and principal risks and uncertainties, have been discussed above in sections 6 to 8. The remainder of this section analyses whether companies have also included additional OFR-style information in their annual reports and whether this information meets the recommendations of the RS.

OFR-style information usually had two distinct elements. The first part was discussion of the business divisions, objectives and strategy. The second part was a review of the financial information.

All analysis below is based upon the whole sample and not only those companies which included a sub-section entitled OFR.

* This section analyses the findings for all companies other than investment trusts
Nature of the business
The RS states that the OFR should include a description of the business and the external environment in which it operates as context for the directors’ discussion and analysis of performance during the financial year and financial position.

Figure 26. To what extent is the business described?

Figure 26 shows the extent to which companies described various aspects of their business.

The extent to which the companies’ businesses were described was generally very good, with only a handful of companies (all within the smallest 350 companies) providing such little information that it was not clear what operations the company actually had or where they were carried out. The smallest 350 companies provided the least information across all categories shown in figure 27, presumably because their size naturally lent itself to a simple structure and operations which were self-explanatory.

89% of companies discussed or provided information relating to the main industries in which they operated. This was particularly common within the top 350 companies and the middle group, with 97% and 94% of companies providing such discussion respectively.

92% of companies provided a discussion of their main products or services, identifying their customers clearly and some detail of distribution methods (where appropriate). This was the area that the highest proportion of the smallest 350 companies (85%) provided information on. Several companies provided case studies to demonstrate how their products or services benefited their customers. Although this added to the length of the annual report, this was a convenient method of providing the reader with a rounded understanding of the company’s operations.

A third of all companies provided information around key dependencies, whether these are relationships with particular suppliers and customers or other parties such as financiers, regulators and key employees. This is an improvement on 2008 (17%) but in line with 2007 (37%). It is also higher than those who disclosed contractual arrangements essential to the business (a Companies Act requirement, as discussed in section 6) where 13 companies disclosed essential contractual arrangements and a further ten confirmed there were none.
79% of companies described the structure of the business and its economic model and 74% discussed their major markets and competitive position. In line with the number of companies identifying related risks, 57% of companies discussed the legal or regulatory environment within which they operated.

A common approach to presenting information about the business was to provide a separate review of operations for each division, thereby enabling an overall description of each division to be presented clearly as well as facilitating discussion of both financial and non-financial performance.

Alternatively, many companies described the structure of the group diagrammatically, identifying divisions which were subsequently referred to in the review of operations and financial performance. A good example of this is shown in the extract from Vislink plc’s annual report, right. This extract identifies some of the group’s divisions, explains the division’s operations and identifies operating locations, brand names and customers. Alongside this is an explanation of how two support divisions feed into the operations of the trading divisions.

A common approach to presenting information about the business was to provide a separate review of operations for each division, thereby enabling an overall description of each division to be clearly presented as well as facilitating discussion of both financial and non-financial performance.
BT Group plc also included a clear group structure, below.

**OVERVIEW**

**HOW WE ARE STRUCTURED**

We meet the needs of our different customer groups through four customer-facing lines of business, supported by two internal functional units. BT Retail, BT Wholesale and Openreach operate mainly in the UK. BT Global Services provides services in more than 170 countries around the world.

We believe that the way we are structured brings us closer to our customers, helps us get it right first time and enhances the customer experience, at the same time as helping us reduce our costs and drive value for our shareholders.

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**BT Group**

**BT Global Services**
- BT Global Services is a provider of networked IT products, services and solutions. It aims to be the partner of choice for large enterprise and government customers in the UK and globally.
- 2009: five-year US$26bn contract with Procter & Gamble, to provide communications infrastructure in 90+ countries
- Telemark Services Platinum award for best in class customer satisfaction for global data virtual private networks
- 40%+ reduction in average time to provide international MPLS

**BT Retail**
- BT Retail serves consumer customers and small and medium-sized enterprises in the UK, providing a range of innovative communications products and services that enable customers to enhance the way they live their lives and run their businesses. It also comprises BT Ireland and our BT Enterprises division.
- 2009: 4.8m broadband lines
- 20.7m fixed lines
- 65% improvement in time taken to get through to an adviser
- 20%+ improvement in average time to clear telephone network faults experienced by business customers

**BT Wholesale**
- BT Wholesale brings potential economies of scale to around 700 UK communications providers, through a diverse portfolio ranging from nationally available broadband, voice and data connectivity services and the interconnection of traffic across other service providers' networks, to managed network solutions.
- 2009: signed managed network services contracts worth a projected £1.2bn over their lifetimes
- Average time taken to repair broadband faults reduced by 40%
- ADSL2+ broadband now available to 10m UK homes

**Openreach**
- Openreach is responsible for the crucial 'first mile' connecting communications providers' customers to their local telephone exchange, giving them equal, open and economic access to the UK network.
- 2009: fulfilling 94,000 LLU orders a week
- 65%+ reduction in number of customers waiting more than three days for a fault to be fixed
- 20%+ reduction in access faults this year — a line goes wrong only every 13 years on average

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**BT Design**
- BT Design is responsible for the design and deployment of the platforms, systems and processes that support our products and services. It is also responsible for network planning and the implementation of BT's global 21CN platform.

**BT Operate**
- BT Operate is responsible for making sure that BT's products and services run smoothly. It manages our IT and network infrastructure platforms as a single converged operation.
Objectives and strategy

The RS recommends that the OFR discusses the objectives of the business to generate or preserve value over the long-term. Such a discussion would include both financial and non-financial objectives where appropriate.

79% of companies included a discussion of the objectives of the business. Of those which did not clearly do so, 2% were in the top 350 companies, 5% in the middle group and the remaining 14% in the smallest 350 companies. In some cases the objectives of the business were stated on a summary page but there was no further discussion on the matter.

Figure 27 shows the balance of discussion between financial and non-financial objectives and the directors’ strategy to meet such objectives.

48% of companies clearly identified and discussed objectives relating to financial performance. Less than half of the smallest 350 companies identified and defined any financial objectives. Common financial objectives related to profitability or cash generation.

Indeed, a number of companies admitted that in the current year they have deflected from their original objectives to focus on cash generation given the turmoil of the current economic environment.

It was more common across the top 350 companies and the middle group to discuss one or more non-financial objectives the most common of which was referred to simply as “increasing shareholder value”. 82% and 70% of these companies did so. Of the smallest 350 companies only 27% discussed non-financial objectives. Overall 60% of companies identified and discussed non-financial objectives (2008: 93%).

75% of companies set out their strategy to action their objectives. Of these companies, 52% were considered to set out their strategy clearly and the remaining 48% set it out only in part. The strategies which were most easy to understand were those which were illustrated in a diagram, or else set out clearly in the narrative. Rio Tinto provides both, describing clearly the objectives and strategy and illustrating this with a “Strategy Map”.

![Figure 27. Are business objectives and strategy discussed?](image)

**Objectives re financial performance**
- **Total**
- **Top 350 companies by market capitalisation**
- **Middle**
- **Smallest 350 companies by market capitalisation**

**Objectives re non-financial performance**

**Directors’ strategy for meeting objectives**

**Rio Tinto’s Strategy Map**

**Core objective**
- Enhance the Company’s value and the long-term return to shareholders by finding, mining and processing metal and mineral resources across the globe

**Long term strategy**
- Discovering Tier 1 opportunities
- Developing new and existing assets to the scale and efficiency of the Rio Tinto model
- Operating in an ethical and socially responsible manner
- Putting long term sustainability at the heart of all we do.

**Health & safety**
- An uncompromising approach to safety
- Zero harm environment
- Healthy employees, contractors and local communities

**Operational & financial delivery**
- Consistent delivery of production targets
- Value based decision making
- Cash generation assets at all points in commodity cycle

**Growth & innovation**
- Entrepreneurial developer and acquirer of value creating assets
- Ability to capitalise on changes in the markets
- Leader in developing and utilising new mining and processing technologies relevant to Rio Tinto’s orebodies

**People**
- Employee of choice
- High performing, engaged and flexible workforce

**Community & environment**
- Developer of choice
- Well positioned for a carbon priced world
- Respect for the environment and local communities

**Customers & markets**
- Supplier of choice
- Entry and growth in emerging markets
- Positioned to deliver products that underpin global economic growth
- Fact based marketing strategy and tactics

Rio Tinto’s core objective is to maximise the long term return to shareholders by finding, mining and processing metal and mineral resources across the globe.

To achieve this objective the Group follows a long term strategy that includes:
- The discovery of Tier 1 assets with cost effective methods and the development of a Group asset into saleable and self-financing scale asset that is a part of the Rio Tinto model
- Developing new assets that are at all points in the commodity cycle
- Operating in a socially and environmentally responsible manner
- Rio Tinto’s separation and ensures ongoing access to people, capital and mineral resources
- Putting long term sustainability at the heart of everything the Group does.

Rio Tinto Annual report 2008 (above and left)
A further example of using tabular format to illustrate clearly their objectives for 2009 and corresponding strategies is from Cadbury plc.

<table>
<thead>
<tr>
<th>Priority</th>
<th>2009 plans</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Growth</strong></td>
<td>&gt; Category focus for scale and simplicity</td>
</tr>
<tr>
<td>’Feuer, Faster, Bigger, Better’</td>
<td>&gt; Drive advantaged, consumer preferred brands and products</td>
</tr>
<tr>
<td></td>
<td>&gt; Accelerate use of space market via ‘Smart Variety’</td>
</tr>
<tr>
<td></td>
<td>&gt; Create advantaged customer partnerships via total confectionery solutions</td>
</tr>
<tr>
<td></td>
<td>&gt; Expand product platforms and strengthen route to market through partnership and acquisition</td>
</tr>
<tr>
<td><strong>2. Efficiency</strong></td>
<td>&gt; Realise price and optimise customer investment</td>
</tr>
<tr>
<td>’Relevant focus on cost &amp; efficiency’</td>
<td>&gt; Reduce SG&amp;A cost base</td>
</tr>
<tr>
<td></td>
<td>&gt; Deliver supply chain cost reduction and reconfiguration initiatives</td>
</tr>
<tr>
<td></td>
<td>&gt; Rationialise portfolio</td>
</tr>
<tr>
<td></td>
<td>&gt; Optimise capital management</td>
</tr>
<tr>
<td><strong>3. Capabilities</strong></td>
<td>&gt; Operate a category-led business enabled through consistent commercial capabilities</td>
</tr>
<tr>
<td>’Ensure world-class quality’</td>
<td>&gt; Invest in science, technology &amp; innovation to deliver preferred products at competitive cost</td>
</tr>
<tr>
<td></td>
<td>&gt; Drive focused decision making and speed of execution</td>
</tr>
<tr>
<td></td>
<td>&gt; Sharpen talent, diversity and inclusiveness agenda</td>
</tr>
<tr>
<td></td>
<td>&gt; Leverage partnerships to streamline processes and reduce costs</td>
</tr>
</tbody>
</table>

69% of companies discussed their performance in the context of the objectives identified, indicating a positive trend of improvement in this area with 63% and 50% of companies achieving this in 2008 and 2007 respectively.

**Other non-financial information**

The RS seeks discussion of other non-financial information, a description of the resources available to the entity and how they are managed.

24% of companies discussed the management structure of the business, providing helpful information of reporting lines and business divisions. This is an improvement on last year where 22% did so. 92% of companies discussed receipts from and returns to members. This is unsurprising given the need for companies to re-assess their dividend policies in the current economic environment as cash generation and retention remains a high priority for the majority of companies.

67% commented on resources that will assist the pursuit of objectives. While these resources were wide-ranging, many companies referred to their in-house research and development, brand and people.

**Financial information**

The RS recommends that the OFR should contain a description of the development and performance of the business in the financial year, which is covered in the business review requirement under the Companies Act.

The OFR should also contain an analysis of the financial position of the entity. The table below summarises the recommended content of this analysis and the percentage of companies including the items listed:

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial position</td>
<td>99%</td>
<td>100%</td>
</tr>
<tr>
<td>Capital structure and financing</td>
<td>83%</td>
<td>47%</td>
</tr>
<tr>
<td>Treasury policies</td>
<td>68%</td>
<td>48%</td>
</tr>
<tr>
<td>Cash flows and ability to generate cash</td>
<td>84%</td>
<td>86%</td>
</tr>
<tr>
<td>Current and prospective liquidity</td>
<td>47%</td>
<td>22%</td>
</tr>
</tbody>
</table>

One company failed to provide any meaningful analysis or discussion of the financial position at the year end. All other companies did provide such information, although seven companies were noted to include very minimal discussion of the balance sheet at the year end.
There was a significant increase in the number of companies providing discussion around capital structure and financing, with 83% of companies providing commentary. All of the top 350 companies included such discussion, as did 82% of the middle group and 67% of the smallest 350 companies. This is unsurprising, given the elevated importance of going concern (see section 11) and availability of funding from banks in the current economic environment. Similarly, the number of companies discussing current and prospective liquidity more than doubled on last year from 22% to 46%, again a reflection of increased narrative around funding from banks and expiration of current loan agreements.

**Forward-looking information**

The RS states that OFRs should have a “forward-looking orientation”. 95% of companies included some discussion about the future which is in line with the results of the 2008 survey (98%).

Almost all of these companies also commented specifically on trends and factors that were expected to affect the future development, performance or financial position of the business. Not only is this a recommendation of the RS for OFRs, it is also a requirement of the Companies Act 2006 that listed companies disclose such information in their business reviews (see section 6).

The RS encourages companies to explain how they have invested in the future performance of the business. 73% of companies provided discussion in areas such as capital expenditure, advertising and marketing, training, research and new products. 43% of companies went on to describe how investment would assist achieving the objectives set out.

Alongside the forward-looking information the RS indicates that directors may wish to include a statement in the OFR to treat forward-looking information with caution, explaining the uncertainties underpinning such information. As explained in section 2, the Companies Act 2006 affords a level of protection to directors for statements made in the directors’ report and directors’ remuneration report. This does not extend to OFR-style information unless it has been specifically scoped into one of these reports.

43% of companies included a statement in their annual report that forward-looking information should be treated with caution, an increase from 39% in 2008. As with previous years, it was among the largest companies that the inclusion of a cautionary statement was most common (68%; 2008: 64%). 39% and 21% of the middle group and smallest 350 companies respectively included such statements (2008: 25% and 16% respectively). Examples of cautionary statements are shown below, taken from Zotefoams plc and Triad Group plc.

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**Forward-looking statements**

This document contains statements that are not historical facts, but forward looking statements that involve risks and uncertainties, including the timing and results of technical trials, product development and commercialisation risks, the risks of satisfying the regulatory approval process in a timely manner and the need for and the availability of additional capital. A discussion of these and other risks and uncertainties is contained in the Directors’ Report under the section entitled “Risks and Uncertainties”. These forward looking statements are based on knowledge and information available to the Directors at the date the Directors’ Report was prepared, and are believed to be reasonable at the time of preparation of the Directors’ Report, though they are inherently uncertain and difficult to predict. Actual results or experience could differ materially from the forward-looking statements.

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Zotefoams plc Annual Report and Financial Statements 2008

Two companies made reference to past predictive comments and whether or not these were borne out by subsequent events, as recommended by the RS. This compares with one company last year and three in 2007.

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Triad Group Plc Annual Report and Accounts 2008-2009
This section analyses the findings for the 30 investment trusts included in the survey. Investment trusts are those companies which have been classified by the London Stock Exchange as “non-equity investment instruments” or “equity investment instruments”. Real estate investments trusts have not been included in this analysis. As with the other companies surveyed, the investment trusts have been split into three categories being those within the top 350 companies by market capitalisation at 30 June 2009, those in the smallest 350 by market capitalisation, and those that fall in between those categories (the middle group).

Two (2008: three) of these companies are registered in Guernsey and one (2008: one) in Jersey, and therefore are not subject to UK company law. Where these have affected the results of the survey, this has been discussed in more detail below.

**Overview**

**Length of annual reports**

The average length of the annual reports for those investment trusts in the smallest 350 companies was 48 pages (2008: 48 pages) and in the middle group was 51 pages (2008: 48 pages). As expected, the investment trusts in the top 350 companies generally had longer annual reports, with an average length of 60 pages, which is higher than 57 pages in the 2008 survey. There is no specific reason for this increase. Generally there were additional disclosures in the directors’ report and corporate governance report, along with enhanced disclosures on financial instruments and risk management.

The ratio between narrative reporting and the financial statements remained almost constant, with financial statements on average making up 36% of the annual report, compared to 37% in the previous year.

**Speed of reporting**

Regarding the speed at which annual reports were approved, the average for companies in the smallest 350 group was 95 days, which is nine days longer than in 2008. The annual reports in the middle group were approved slightly more quickly, taking on average 73 days in 2009 compared to 74 in 2008. As expected, companies in the top 350 group were quickest at approving their annual reports, taking on average only 58 days (59 days in 2008).

Overall, 60% (2008: 60%) of the annual reports were approved within 75 days, 20% (2008: 10%) within 76 to 90 days and 20% (2008: 30%) in over 90 days.

For the sample of ten companies in the smallest 350 group, the average time taken to approve annual reports in 2009 was higher than in 2008, yet, the actual number of annual reports signed in over 90 days reduced to four in 2009 from six in 2008. This is because the four companies in the over 90 day’s category took an average of 129 days to approve the accounts in 2009 which is significantly longer than the average of 106 in 2008. This reduced number of companies approved in over 90 days accounted for the overall decrease in the proportion of the companies in the over 90 days category in figure 28 below.

![Figure 28. How quickly are annual reports approved? (2009)](image)

![Figure 29. How quickly are annual reports approved? (2008)](image)
Reporting framework
73% of trusts surveyed were stand-alone companies and therefore not required to adopt IFRS. 86% of these stand-alone companies had continued to report under UK GAAP which is higher than 82% in the previous year. The remaining 14% had chosen to adopt IFRS.

Investment managers
All reports included details on the appointment of their investment managers and the associated terms, although the location of the disclosure varied between the notes to the financial statements and the narrative reporting. Only one company had not included an investment manager’s report, which is consistent with 2008 survey. In 63% of the annual reports (2008: 53%) the directors had cross-referenced to the investment manager’s report or the Chairman’s statement rather than preparing additional financial analysis. In 27% (2008: 37%) of cases the directors had performed a separate financial review and the remaining 10% (2008: 10%) of reports failed to include either a financial review by the directors or a cross-reference to the aforementioned alternatives.

Summary information
97% of companies presented a summary page or pages near the start of their annual reports as compared to 93% in the previous year, although the content was variable. Summary information for 93% of the companies contained some financial information and 97% of the companies had included KPIs, as compared to 96% in 2008. Only 11% provided any level of narrative to accompany and interpret this financial information as compared to 29% in 2008. 93% of companies provided narrative explaining their company background or investment objectives in 2009, compared to 96% in 2008.

Gartmore Global Trust PLC provides a good example of a summary information page. It included information on its investment objectives, investment policy, performance, investment and structural highlights, including KPIs.
Key performance indicators

93% of the companies surveyed disclosed KPIs in their Business Review in 2009 compared to 90% in 2008. The 7% that didn't disclose KPIs were companies registered in Guernsey and were therefore not required to prepare a Business Review in accordance with UK company law.

The average number of financial KPIs disclosed was 4, which is consistent with 2008. Only 7% of companies disclosed non-financial KPIs, which is also consistent with the 7% in the prior year.

As illustrated in Figure 30, opposite, the most popular KPI presented was net asset value with 80% (2008: 78%) of the companies disclosing KPIs using this measure. Other popular measures included performance vs. benchmark 60% (2008: 52%), share price discounts 53% (2008: 67%) and the total expense ratio 50% (2008: 56%).

Principal risks and uncertainties

All companies, excluding two which were registered in the Channel Islands, discussed principal risks and uncertainties in their business reviews, a statistic unchanged from the previous year.

The average number of risks disclosed, including via cross-references, was five. A wide variety of risks were identified, although certain themes were common.

As shown in Figure 31, most companies understandably identified the performance of their relevant markets as a principal risk. 80% (2008: 60%) of companies also identified regulatory risks, typically around compliance with taxation, accounting and other legal legislation. Despite the current economic climate only 57% (2008: 27%) of companies identified credit risk, for example, that a broker could fail to discharge its obligations in a transaction, resulting in a loss to the company. All companies disclosing principal risks and uncertainties went on to describe the directors’ policies for managing those risks.

JPMorgan Indian Investment Trust plc provides a good example of principal risks and uncertainties. It includes a description of strategic, commercial, operational and financial risks with the directors’ policy for managing those risks.
Corporate governance
The disclosures on corporate governance varied greatly in quality and quantity for the companies surveyed. Some companies provide relatively little information beyond the statutory minimum because of the nature of their business as an investment trust. Other companies provided insightful, meaningful disclosures that were clearly specific to their business, rather than just generic comments. A good example was The Monks Investment Trust PLC.

Compliance
As investment trusts generally outsource all of their day-to-day management and operational functions and do not have any employees or executive directors, a number of the provisions in the Combined Code on Corporate Governance (the Combined Code) relating to, for example, board composition (such as balance of executives and non-executives) and senior management (such as succession planning) are not relevant for such companies.

There are other important areas of governance specific to investment companies (such as how the board manages its relationship with the manager) which are not covered by the Combined Code but which are of fundamental importance to investors. For this reason, the Association of Investment Companies (AIC) has developed a complementary Corporate Governance Code and related Guide. The Financial Reporting Council (FRC) has confirmed that companies who report against the AIC Code of Corporate Governance produced by the AIC (AIC Code) and who follow the AIC’s Corporate Governance Guide for Investment Companies (AIC Guide) will be meeting their obligations in relation to the Combined Code and paragraph 9.8.6 of the Listing Rules.

A large number of companies disclosed that they had reviewed the AIC Code to ensure they had met their specific obligations as investment trusts.
Only one company surveyed actually stated that it complied fully with the Combined Code. 10% of the companies surveyed were registered in the Channel Islands and therefore exempt from reporting on the Combined Code’s requirements, instead developing their own company-specific framework. All other companies stated compliance with the provisions of the Combined Code insofar as they considered them relevant.

Where UK companies had not complied with all the provisions of the Combined Code, only 37% (2008: 19%) actually stated all the provisions with which they had not complied. Of these companies, 93% gave reasons for their non-compliance.

Directors’ roles and board committees
83% of the investment trusts provided information on the types of decisions delegated to management or in this case the investment managers. Such detail is to be expected given the lack of employees in these companies and the prominent role that the investment managers play in the trusts’ day-to-day operations. 97% of companies also explained the types of decisions taken by the board. The quality varied tremendously, with the best cases providing information on formal schedules of matters reserved for the board’s decision.

As expected, all companies had a chairman, but none had a deputy chairman or a chief executive, with the investment managers fulfilling this role. 57% (2008: 63%) of companies explained that they did not feel the need for a chief executive, whilst the remaining 43% (2008: 37%) did not mention the lack of such a position. 43% of companies had appointed a senior independent director as required under the Combined Code, compared to 47% in 2008.

As shown in Figure 32, all companies fulfilled the Combined Code’s requirement to have an audit committee and 73% had a nomination committee, which is consistent with 2008. Only 47% (2008: 33%) had remuneration committees in place. Since the board tended to consist solely of non-executive directors, this was to be expected as Listing Rule 15.6.6 provides an exemption for investments trusts with no executive directors from those provisions of the Combined Code that deal with directors’ remuneration. 50% (2008: 43%) of companies had other committees in place. These included management engagement committees which reviewed the relationship with the investment manager. One company had formed a valuations committee to provide additional oversight on the investment manager’s valuation process. Foreign and Colonial had a Private Equity Committee to carry out its transition to hold a significant interest in private equity investments and a Service Providers and Marketing Committee to review and encourage F&C’s promotion and marketing activity. Both of these committees were disbanded during the year as both the committees had achieved their main objectives. Details of the members of each committee and their chairmen, along with attendance at meetings, were provided by all companies.

Nomination committee
This year all the companies with nomination committees explained the role that this played compared to 95% in 2008. 90% of the companies provided some level of information on the processes undertaken around board appointments, but only 20% (2008: 13%) specifically discussed succession planning. 77% (2008: 82%) of companies with nomination committees provided information on where their terms of reference could be obtained, although none included them in the annual report.

73% of companies discussed performance evaluation of the Board (2008: 80%). Of the remainder 7% (2008: 10%) stated their belief that this Combined Code provision was not relevant and 20% (2008: 10%) did not comment on it at all. A similar pattern was noted around the evaluation of individual directors’ performance and that of the various committees. 100% (2008: 90%) of companies clearly disclosed the significant commitments of their Chairman, but only 10% (2008: 7%) stated that there had been any change in those commitments during the year.
Internal controls and audit committee

On the whole this was a strong area for the companies surveyed. All companies included a statement around internal control as well as details of how the Board had reviewed effectiveness. Only 3% (2008: 7%) of companies failed to give additional information about the company’s risk management processes.

No companies highlighted any control breakdowns.

All companies described the work of their audit committee. 87% (2008: 73%) provided information on where their terms of reference could be found. Only 13% (2008: 17%) disclosed relevant qualifications for all committee members. There was also a low level of compliance with the requirement to report on the way that the audit committee had discharged its responsibilities, with 57% (2008: 17%) of companies failing to provide detail in this respect. In some cases, improvements in this area could be achieved easily by clarifying that audit committees had discharged all their responsibilities, rather than just listing what their duties were. On a similar note, in the majority of cases it was stated that an assessment of the effectiveness of auditors had been undertaken. 37% (2008: 3%) of companies confirmed that the external audit process was effective, which was much higher than in 2008.

As expected, no companies had their own internal audit function and thus included an explanation that this was because of the nature of their business. 33% (2008: 40%) either had in place their own arrangements for staff to raise concerns about improprieties or had checked that their investment managers had suitable controls in place.

Going concern

As illustrated by Figure 33, in 30% (2008: 57%) of the annual reports surveyed the statement around going concern was located in the corporate governance statement, in 67% (2008: 43%) the statement was found in the directors’ report and the remaining 3% were found elsewhere in the narrative section.

In addition 37% also had an explicit statement included within the audited financial statements that the business was a going concern.

As noted in section 2 of this report, the FRC issued an update for the Directors of listed companies on Going Concern and Liquidity Risk in November 2008. The FRC highlighted the importance of clear disclosure about going concern and liquidity risk in the current difficult market conditions. The guidance suggested that the going concern disclosure should be brought together in a single section of a company’s annual report. If it was not practical to provide a single note, the disclosure could be brought together by way of references. It was recommended that the going concern note should include the following components in three paragraphs:

- cash and borrowing positions and how liquidity risk is managed in practice;
- whether confirmation of the renewal of banking and other facilities has been sought; and, if so
- whether those confirmations have been obtained and whether the use of the going concern basis of accounting is appropriate and explaining the basis of that conclusion.

Figure 33. Where is the statement on going concern located?

23% of the annual reports surveyed were approved on or after 1 December 2008. Out of that group, only 9% of the Companies had clearly adopted the FRC guidance.
Appendix 1. Dear Deloitte – addressing common narrative reporting problems

The table below sets out some of the common problems identified from the survey and provides suggested solutions for addressing those problems.

<table>
<thead>
<tr>
<th>Problem</th>
<th>Solution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Difficulty interpreting the requirement to provide “a fair review” of the company’s business?</td>
<td>The review should be balanced and comprehensive and consistent with the numbers presented in the financial statements. Avoid the temptation to include only positive aspects of the performance for the year. Remember the order of the annual report and consider what users will have read before they get to the business review section. Ensure that cross references are clear, specific and do not distract from conveying the message. The Business Review is discussed in more detail in section 6.</td>
</tr>
<tr>
<td>Principal risks are too generic</td>
<td>When disclosing principal risks and uncertainties avoid presenting a list of generic risk headings without any focus on the impact such a risk would have on the company’s business were it to materialise. Best practice is to include the nature of the risk, the potential impact and planned mitigation. The discipline of providing disclosures under each of these headings for each risk should avoid falling into the trap of producing a generic list of risks that could affect any company. See the extract from Persimmon plc’s annual report on page 25. Risks and uncertainties are discussed in more detail in section 7.</td>
</tr>
<tr>
<td>Lack of detail on trends and factors likely to affect the future development, performance and position of the company’s business</td>
<td>There should be a read across between these disclosures and the disclosures on principal risks and uncertainties. However, in the case of trends and factors, it is possible that more generic elements will be appropriate to disclose. For example, the current environment is likely to be a factor which could affect the future development, performance and position of the company’s business. To provide meaningful disclosure in this area it is important to include a description of how the trends and factors identified would affect the future development, performance and position of the company’s business. The requirements for the Business Review are discussed in more detail in section 6.</td>
</tr>
<tr>
<td>Too many key performance indicators</td>
<td>There is no magic number but it is important to be pragmatic and to ensure that the user is not overloaded with data which will serve only to hide the true ‘key performance indicators’. This is a good example of the importance of quality over quantity. As with principal risks and uncertainties, a useful mechanism is to attempt to include disclosures on the definition, calculation and use of each KPI in the business. This process would usually identify those measures which are superfluous. KPIs are discussed in more detail in section 8.</td>
</tr>
<tr>
<td>Inclusion of non-financial KPIs which are not relevant to the business</td>
<td>Avoid the temptation to include disclosures on non-financial KPIs simply because it is ‘fashionable’ to do so at present. For example, if disclosures of measures relating to the environment, employees or social and community issues are not relevant to the business then there is no harm in disclosing that fact. Cluttering the annual report with irrelevant KPIs is not helpful to the users. KPIs are discussed in more detail in section 8.</td>
</tr>
<tr>
<td>No explanation of the link between strategy and objectives</td>
<td>To assess properly the performance of a business the reader of the annual report should have a clear understanding of the objectives of the business and how these objectives are translated into the business strategy. A further step to enhance transparency would be to link the strategy to the key performance indicators. See the extract from Cobham plc’s annual report on page 31.</td>
</tr>
<tr>
<td>Summary information lacks structure and purpose</td>
<td>Consider the summary information provided on a stand-alone basis and ensure that it tells a relevant and coherent story highlighting statistics and developments. Then consider the summary information in conjunction with the rest of the annual report and ensure that a consistent message is given and that highlights provided in the summary information achieve similar prominence in the narrative. See the extract from Management Consulting Group PLC’s annual report on page 10. Summary information is discussed in more detail in section 5.</td>
</tr>
<tr>
<td>Fragmented and inconsistent disclosures on going concern</td>
<td>References to going concern can appear in three areas of the annual report: the narrative reporting, the financial statements and the auditors’ report. It is important to ensure that these disclosures are consistent and that appropriate cross references are included as recommended by the FRC’s updated guidance. See the extracts from Intermediate Capital Group PLC and Triad Group plc’s annual report on page 41. Going concern is discussed in more detail in section 11.</td>
</tr>
<tr>
<td>No disclosure of the actual activities of the audit committee during the year</td>
<td>Review the audit committee report and determine whether there is disclosure of audit committee activities or audit committee responsibilities. There is a difference. The responsibilities will be set out in the audit committee terms of reference and will be broadly generic for all audit committees as they are set out in the Smith Guidance. The activities will describe the work the audit committee undertook to discharge those responsibilities. Confidence in the effectiveness of the audit committee will be enhanced if users can see clearly the activities undertaken by the audit committee during the year. See the extract from Ladbrokes plc’s annual report on page 36. Audit committees are discussed in more detail in section 10.</td>
</tr>
<tr>
<td>Confusion regarding the requirements for the Business Review and the OFR</td>
<td>The requirement for the Business Review comes from s417 of the Companies Act 2006. There are no mandatory requirements for an OFR. The ASB has a Reporting Statement which sets out guidance for the OFR. There are elements of overlap between the Business Review requirements and the recommended content of the OFR. The ASB has produced a reconciliation between the two which can be accessed from <a href="http://www.frc.org.uk/asb/press/pub1480.html">http://www.frc.org.uk/asb/press/pub1480.html</a> Sections 6 and 12 provide further detail on the Business Review and the OFR and section 2 sets out the current regulatory requirements.</td>
</tr>
</tbody>
</table>
Appendix 2. Glossary of terms and abbreviations

**AIC – Association of Investment Companies**
The Association of Investment Companies is the trade organisation for the closed-ended investment company industry. Amongst other initiatives, it provides technical support and guidance to Members and their advisers in areas such as accounting, tax, company law and regulation.

**ASB – Accounting Standards Board**
The role of the Accounting Standards Board is to issue UK accounting standards. The ASB also collaborates with accounting standard-setters from other countries and the International Accounting Standards Board (IASB) both to influence the development of international standards and to ensure that its standards are developed with due regard to international developments.

**BR – Business Review**
The Companies Act 2006 requires that directors’ reports include a Business Review.

**Cadbury Committee**
The Committee on the Financial Aspects of Corporate Governance.

**Combined Code**
The Combined Code on Corporate Governance sets out standards of good practice on issues such as board composition and development, remuneration, accountability and audit, and relations with shareholders. All companies incorporated in the UK and listed on the Main Market of the London Stock Exchange are required under the Listing Rules to report in their annual report on how they have applied the Combined Code. The Combined Code is updated at regular intervals. The 2006 edition applies to accounting periods beginning on or after 1 November 2006. The June 2008 edition applies to accounting periods beginning on or after 29 June 2008.

**CSR – Corporate social responsibility**
Corporate social responsibility is about how businesses take account of their economic, social and environmental impact. The Companies Act 2006 requires that companies disclose information, about environmental matters, their employees, and social and community issues, in their annual report.

**DTR – Disclosure and Transparency Rules**
These rules, which include requirements for periodic financial reporting, replace some of the Listing Rules and have been inserted into the Disclosure Rules sourcebook of the Financial Services Authority (FSA). The periodic financial reporting rules of DTR 4.1 apply to companies with shares and/or debt admitted to trading on a regulated market for periods commencing on or after 20 January 2007. The corporate governance requirements of DTR 7 apply to the same companies for periods commencing on or after 29 June 2008.

**EU – European Union**
**EU Takeovers Directive**
The main objectives of the Directive are to provide a framework of common laws for takeovers in the EU. It has been implemented in the UK via the Companies Act 2006. It requires in the directors’ report certain disclosures about capital structures.

**FRC – Financial Reporting Council**
The UK’s independent regulator responsible for promoting confidence in corporate reporting and governance.

**FSA – Financial Services Authority**
The Financial Services Authority is an independent non-governmental body, given statutory powers by the Financial Services and Markets Act 2000. The FSA regulates the financial services industry in the UK and acts as the Competent Authority for setting and enforcing the rules applicable to listed companies and those admitted to trading on a regulated market.

**FTSE 100/350 – Financial Times Stock Exchange top 100/350 companies (share index)**

**GAAP – Generally accepted accounting practice**

**IASB – International Accounting Standards Board**
The IASB is an independent body that issues International Financial Reporting Standards.

**KPI – Key performance indicator**
A factor by reference to which the development, performance or position of the company’s business can be measured effectively.
**Listed company**
A company, any class of whose securities is listed (i.e. admitted to the Official List of the UK Listing Authority).

**Listing Rules**
The Listing Rules made by the UK Listing Authority for the purposes of Part VI of the Financial Services and Markets Act 2000 and published in the manual entitled ‘The Listing Rules’ as from time to time amended.

**Market capitalisation**
A measure of company size calculated as share price multiplied by the number of shares in issue at a certain point in time.

**OFR – Operating and financial review**
The OFR is a voluntary statement for inclusion in annual reports. It provides an analysis of the business through the eyes of the board of directors. Where an OFR is prepared, the Reporting Statement: Operating and Financial Review issued by the ASB provides recommendations on best practice.

**Quoted Company**
Section 385 of the Companies Act 2006 defines a quoted company as a company whose equity share capital:

- a) has been included in the official list in accordance with the provisions of Part 6 of the Financial Services and Markets Act 2000; or

- b) is officially listed in an EEA State; or

- c) is admitted to dealing on either the New York Stock Exchange or the exchange known as Nasdaq.

**Regulated market**
Regulated market is defined in the Markets in Financial Instruments Directive. The European Commission website also includes a list of regulated markets at: http://ec.europa.eu/internal_market/securities/sd/index_en.htm

**RS – The Reporting Statement: Operating and Financial Review**
A statement of best practice on OFRs published by the ASB in January 2006.

**Smith guidance**
The guidance on audit committees issued by the FRC.

**TOD – EU Transparency Obligations Directive**
This Directive aims to enhance the transparency of publicly traded companies through an EU-wide framework, by improving the information available to investors. It has been implemented in the UK via the DTR (see above).

**Turnbull guidance**
The guidance issued by the Turnbull Committee in September 1999 (subsequently updated in 2005) to assist listed companies in implementing the requirements of the Combined Code relating to internal control.

**UKLA – UK Listing Authority**
The FSA acting in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000.
How can we help?

Deloitte would be pleased to advise on specific application of the principles set out in this publication. Professional advice should be obtained as this general advice cannot be relied upon to cover specific situations; application will depend on the particular circumstances involved. If you would like further, more detailed information or advice, or would like to meet with us to discuss your reporting issues, please contact your local Deloitte partner:

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Introducing the Deloitte Global Centre for Corporate Governance
For further information and resources on governance matters please refer to:
http://www.corpgov.deloitte.com/site/uk/
The following publications survey a consistent sample of companies through a full cycle of periodic financial reporting requirements. All are available at www.deloitte.co.uk/audit

**In Many Styles – The second year’s interim management statements (July 2009)**
This publication considers how UK listed companies have met the requirements for an interim management statement (IMS) in the second year of compliance with the Disclosure and Transparency Rules. It also includes an illustrative IMS and an IMS disclosure checklist containing all the requirements.

**Our better halves – Surveying half-yearly financial reporting (February 2009)**
“Our better halves” analyses half-yearly financial statements. It reviews compliance with the Disclosure and Transparency Rules and IAS 34, and considers the different presentations adopted in half-yearly financial statements and how companies complied with the requirements for their Interim Management Report.

**Down the wire – Surveying preliminary announcements (May 2009)**
This publication reviews compliance with the dissemination requirement of the Disclosure and Transparency Rules, the different forms of announcements used by listed companies and what information companies choose to include in their preliminary announcements.

**Right to the end – Surveying financial statements in annual reports (November 2008)**
This survey analyses the financial statements of listed companies. It includes a review of how compliance with disclosure requirements and the accounting policy choices made under IFRS varied, the level of variety in the presentation of primary statements and which critical judgements and key estimation uncertainties directors consider to be the most significant. A 2009 study is expected to be published in November.
A telling performance

Surveying narrative reporting in annual reports