

Independent Intelligence

Insights for the independent director

Spring 2011



Introduction

FTSE350 and mid-market Independent director (ID) programmes

Today's IDs must navigate a maze of regulatory and technical challenges, from financial reporting through to fraud.

We understand that the task of keeping up to date with these issues can often be difficult; this is where our ID programmes come into play. We provide comprehensive programmes throughout the UK.

To find out more information about our ID programmes please visit <http://www.ey.com/uk/independentdirectors>

The latest *Independent Intelligence* continues to bring you analysis on the business and regulatory changes that affect you as an independent director.


This edition covers issues, old and new. The Bribery Act has been delayed in terms of its release date, but its implications remain significant. Read the latest updates in the article by Jonathan Middup, Ernst & Young Partner, Fraud Investigation and Dispute Services.

As the economy stabilises and M&A activity increases, there will be an expanding role for audit committees and boards – our latest insights covers the key trends. Additionally, we will look at how your company can win in the new economy, as it competes for growth.

In light of continued media attention focused on boards, we look at how to tackle crisis communications. Specifically the importance of implementing a rigorous crisis management plan to communicate effectively with key stakeholders in challenging times.

I would also like to mention The Financial Reporting Council's (FRC) latest stewardship code is now released. It recommends that audit committees need to reinforce the way they hold management and auditors to account, by disclosing more information about committee responsibilities. For further information visit www.frc.org.uk

I hope you enjoy this edition of *Independent Intelligence*.



Richard Wilson

Chairman, Ernst & Young Independent director programme and Co-chairman of the Audit Committee Chair Forum

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Competing for growth

Winning in the new economy

Ernst & Young has been working closely with businesses across the globe to help them respond to the unprecedented challenges of the financial crisis and changing economy.

Richard Wilson

Chairman
Ernst & Young independent
director programme and
co-chairman of the Audit
Committee Chair Forum



Over the past two years, we have undertaken research and worked with thousands of companies around the world through programs such as *Opportunities in adversity*, *Lessons from change and Planning for growth*. Our work has identified a new performance agenda that leading companies are following as they seek to benefit from the new market environment.

One area of performance seems to be attracting more focus and management attention than all others, namely growth. More precisely, how can companies return to profitable and sustainable revenue growth in a new competitive environment?

During September and October 2010 we talked to over 1,400 senior executives from companies around the world to hear their experience, test our thinking and understand more about the actions they are taking to help their companies thrive.

Recognizing that industry sectors vary and performance is relative, we examined the distribution of companies across each sector. For each sector we identified the top and bottom quartiles for both EBITDA and revenue growth. These are 'high' and 'low' performers and we have explored the variation in their actions to seek to understand the difference in their performance.

In this report we explore the variation in focus and progress of these companies. We hope that their success will help you identify more effective programs of your own.

Executive summary

Companies across all sectors and markets are expecting the new economy to be even more competitive than the old over the next two years, according to our survey of 1,400 executives from around the world. The increased competitive pressure extends across the value chain for

labour, input materials and capital. And those from emerging markets expect competitiveness to increase the most, as companies from developed markets enter and local players intensify their focus.

Competition in the new economy is dynamic and being shaped by four macro-economic factors which, while not new, have a significantly more pronounced importance than before.

Market variation has increased

Emerging markets are growing, but there is a significant variation in performance across them. Similarly, some developed markets are doing better than expected, whereas others are struggling or continuing to decline.

The same variation in performance and forecast is true for market segments. There is a general re-emergence of increasingly cost-conscious buyers, but some luxury segments continue to thrive. Old purchase patterns are under pressure. Boundaries between buyer groups overlap and change, challenging the go-to-market assumptions of even the most established players.

The market is more volatile

Product life cycles continue to shorten as innovation is increased. Economic forecasts are being changed and measurements corrected on a quarterly basis – across almost all markets. This volatility is placing increased pressure on the supply chain, which must now accommodate rapid change.

There is pressure on margins

Expectations of price increases in the future are currently low – almost 60% of respondents expect a price rise that either only matches inflation or is below inflation. At the same time, many executives are experiencing both price erosion in

their market and increased costs – for input and labour – in their production, raising on-going questions about their financial viability.

Stakeholders are nervous

Attracting and retaining talent remains a problem with vastly divergent approaches to staffing levels, both through the downturn and in the emergence of the new economy. Capital seems limited and there is caution about the risks that are faced, the new regulation that is almost certain to come and the fiscal retrenchment that is being implemented. There are growing demands for greater transparency and improved governance.

Critical areas for growth

1. Customer reach

Maximising the potential market opportunity for their product or service:

- ▶ Focusing on the more profitable segments
- ▶ Broadening product service offer around current clients
- ▶ Prioritising markets to compete in
- ▶ Reinforcing their brand and marketing efforts to increase awareness and mitigate price pressure

2. Operational agility

Improving their ability to deliver effectively in a fast-changing market:

- ▶ Accelerating speed of response to get to market quicker
- ▶ Enhancing flexibility of their supply chain to respond to smaller but profitable opportunities
- ▶ Refocusing on innovation, especially at an incremental level

3. Cost competitiveness

Sustaining their economic viability:

- ▶ Informing the pricing decision with full cost information
- ▶ Passing on the pressure to others in their 'ecosystem'
- ▶ Sustaining cost-reduction efforts by focusing on process change, rather than just discretionary constraint
- ▶ Optimising capital, wherever possible

4. Stakeholder confidence

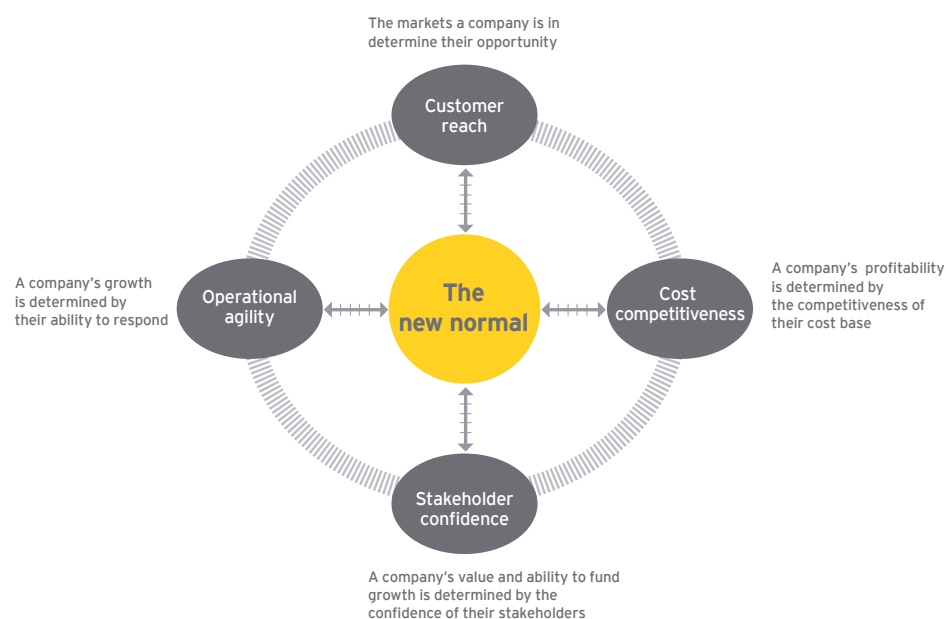
Building stronger relationships with their stakeholders:

- ▶ Identifying and explaining risk
- ▶ Anticipating regulatory change
- ▶ Enhancing their reporting
- ▶ Securing and developing their people

While companies may choose to focus on particular aspects of this competitive agenda as the basis of their strategy, we believe the four to be linked. A balanced approach is required and the ultimate competitive position is found when all are optimised.

Competition for growth framework

Our research shows that high performing companies are significantly ahead of their competition in four critical areas



Conclusion

A changing focus: from finance to management effectiveness

The past two years have been some of the hardest for business that today's executives will ever experience. It was to provide a source of reference and advice after the financial crash of 2008 that Ernst & Young launched its *Opportunities in adversity* program. In this we argued that performance was relative and that there was, consequently, a course of action that executives could take, whatever the difficulties that faced their company. Later, in our *Lessons from change* program, we identified the new performance agenda that was being formed by the changing market environment and the actions of high performers. The research for *Competing for growth* has moved to focus on a subset of that performance agenda that seems to be challenging many companies, namely returning to profitable growth.

Our research and day-to-day work with businesses around the world suggests there is not going to be an early return to the business conditions that drove growth in the past decade. The economic forecast for the coming years is for a slow recovery and some slowdown even in the faster growing emerging markets, as demand in developed markets remains weak. To grow and succeed in such an environment will require that companies intensify their competitive efforts. It is clear from our findings that executives are well aware of this challenge.

Success is likely to be driven by considered and connected programs that deliver advantage and an effective execution of those objectives that are timely, focused and consistently leveraged across the organisation. To this end, we have identified a series of actions that high-performing companies have progressed

more fully than low performers. These suggest priorities for companies that seek to grow.

All these issues need to be addressed – and the list is not exhaustive – but depending on where a company is currently positioned, there may be some areas that will yield greater returns than others. Focusing on current clients, for example, is more of a priority than entering new markets. Similarly improving current communications to stakeholders is a relatively lower cost route to improved returns than innovation.

Our research confirms that many companies continue to struggle to attain and certainly sustain consistently strong performance. Many others find themselves not ready for growth or too weak to fund

the options that are most likely to succeed. Nevertheless, our work has confirmed that there are meaningful actions that management can take to improve their performance – whatever the position of the company. The high performing companies in the major sectors are demonstrably executing against those areas and that, in turn, is delivering a competitive advantage in achieving growth.

To read the full report please visit: www.ey.com/GL/en/Issues/Business-environment/Competing-for-growth-Winning-in-the-new-economy---Competing-for-growth--the-framework

High performance summary



The Bribery Act

What does it mean for directors?

Jonathan Middup

Partner, Ernst & Young

Fraud Investigation and
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Even though the Government has delayed publishing its adequate procedures guidance and subsequent implementation for The Bribery Act, it is important that Directors are aware of how it could impact on their business and continue to ensure that their Executive Board is prepared to minimise the bribery risks to their organisation. The Bribery Act brings into sharp focus the degree of trust needed between Independent Directors and their Executive Board as the actions of the business bring risk to those at the top.

There has been a lot of comment and misinformation in the media about the Act and Directors need to ensure that their Executive Board understands the real implications of the Act and is on track to deliver the changes it will require.

There are three key areas where Ernst & Young are asked the most questions in relation to The Bribery Act.

1. Corporate hospitality and promotional expenses

There has been a certain amount of scaremongering in the press about what hospitality can and cannot be provided going forward.

The Serious Fraud Office (SFO), the main prosecutor, has said it does not want to put an end to proportionate and reasonable hospitality. However, it does want to stop lavish and extraordinary hospitality which could lead to improper behaviour.

The Act itself does not make this distinction so businesses need to determine what is appropriate for them. Many of our clients choose to implement defined cash limits with the ability to exceed these with appropriate consultation and pre-authorisation.

2. Facilitation payments

In non-legal language, these are small payments that are given to ensure an operation happens more quickly such as to prioritise release of goods from a port.

US legislation, the Foreign Corrupt Practices Act (the FCPA) allows for these types of payments under certain circumstances but the Bribery Act does not. This means that multinationals who carry out business in the UK will need to work to a higher standard.

The SFO has said that it will probably not serve the public interest to prosecute facilitation payments but they have not provided any clarity or certainty about what the limits are, and so have just produced another grey area for businesses. Be warned though, those businesses who carry on as they have in the past without providing training and support to employees or trying to attack the causes of small bribes may not escape the SFO's attention.

3. Associated persons

This is one of the most difficult areas of the Act as UK companies will be held responsible for business done in their name to include joint ventures, subsidiaries and contractors. Whilst it is unlikely that the adequate procedures guidance will recommend due diligence beyond the first level of third parties to interact with your business this still requires new controls for most organisations.

Depending on the level of risk associated, due diligence could vary from requiring all parties to adhere to the Bribery Act as part of its contract to requesting a copy of their Anti Bribery Policy to businesses acting on rights to audit third parties.

Conclusion

There is a need for the UK's Bribery legislation to be updated, however, businesses need clear guidance so they are certain that the correct processes and procedures are put in place. With many businesses looking overseas for growth, international pressure should be maintained so that the Act doesn't put UK companies at a disadvantage in comparison with non-UK competitors.

The delay in publishing the adequate procedures guidance is putting our best clients at a disadvantage as they aim for the highest standards whilst their less conscientious competitors delay taking action. With only three months between the guidance and the Act becoming enforceable though, all businesses would be well-advised to carry out a thorough risk assessment now to ensure they are prepared in time.

Ongoing competition risks

Competition and antitrust regulatory requirements are now arguably among the most pressing sets of regulations with which businesses need to conform. Large fines imposed by the European Commission, the US Department of Justice and other domestic regulators, and criminal convictions for guilty officials, have concentrated the efforts of many a legal or compliance officer to strengthen preventative measures against anti-competitive activity.

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Anti-trust Legislation

UK competition authorities and courts are empowered to apply and enforce the entirety of Articles 101 and 102 of the Treaty on the Functioning of the European Union, which apply to anti-competitive activity across EU member states. Within the UK, the Chapter 1 and Chapter 2 provisions of the UK Competition Act 1998 prohibit various forms of anti-competitive behaviour by companies.

Chapter 1 prohibits agreements and concerted practices, formal or informal, which have as their object or effect an appreciable prevention, restriction or distortion of competition in the UK. Price fixing and market sharing agreements are the most obvious examples. Chapter 2 prohibits conduct by one or more businesses that amount to abuse of a dominant position in the market or any part of it. An example of such an offence is predatory pricing, where a company charges a price below its average variable or total costs with the intention of driving its competitors out of the market.

The UK competition authorities have extensive powers, including the right to conduct dawn raids, to help them enforce

the law. The penalties for infringing competition law are severe. Companies may face fines of up to 10% of group worldwide turnover, whilst the introduction of the Enterprise Act 2002 permitted criminal charges to be brought against individuals who are shown to participate in cartel activities. Individuals may also find themselves the subject of Director Disqualification orders.

EU policy in recent times has also encouraged private enforcement of European and national competition law through private claims for damages made to national courts and tribunals.

One of the starkest cases of enforcement occurred in January 2009 when the European Commission announced that it had imposed fines totalling over €131 million on five companies involved in the marine hoses cartel. The cartel members fixed prices for marine hoses, allocated bids and markets and exchanged commercially sensitive information over a period of over 20 years. Three UK businessmen were convicted in June 2008 for dishonestly participating in the cartel, and disqualified from acting as company directors for periods of between five and seven years. These were the first ever convictions for a cartel offence under the Enterprise Act.

Risk management

Companies are often unaware that what some consider to be normal commercial activity, such as holding discussions around prices with competitors or intermediaries, could fall foul of the law. Thus, independent directors and executives should make themselves aware of the risks and focus on managing them. Ultimately, an effective competition compliance programme should be incorporated into the organisation's risk management regime. Such programmes

were recently endorsed in guidance issued by the OFT, which recommends that risks should be identified, assessed, remediated, and monitored. The existence of a compliance programme can also help in times of adversity, as the OFT has indicated that it is prepared to offer up to a 10% reduction in fines for companies that have an effective programme in place.

Compliance programmes

A standard corporate compliance programme will include the introduction of rules, manuals and training for relevant staff, in-house legal approvals for key decisions, and mechanisms for detecting and reporting suspected breaches. The ability of a compliance programme to facilitate the quick dissemination of evidence relating to identified breaches could give a company an advantage in getting information to the regulators more quickly than its competitors, since in many jurisdictions, complete exemptions from fines are offered to the first party which blows the whistle on any cartel activity.

However, it is not sufficient just to be seen to have a programme. There is a limit to how much credit the authorities are willing to give for an apparently well-implemented compliance process if it still does not prevent a blatant breach of the law. It is vital therefore that the compliance programme is updated and tested regularly to confirm that it is still capable of preventing and detecting infringements.

Independent reviews

There are many benefits of appointing an external, independent reviewer to review the compliance programme. Internal reviewers often suffer from over-familiarity with industry or corporate norms which may appear acceptable to an insider due to long-standing practice, but are potentially unlawful.

Independent reviewers also bring experience of having reviewed compliance programmes run by other companies, whether or not in the same industry. They can therefore perform benchmarking exercises and suggest best practice in specific areas.

It is also likely that an outsider would have more success in getting an honest view from confidential interviews with staff, who may be less likely to open up to internal reviewers.

Structure of a review

The exact way in which a compliance programme review will be carried out depends on the unique circumstances of each business. However, the independent reviewer is likely to seek answers to the following questions when undertaking the assessment:

- ▶ Is there a clear statement from the board that it is the company's policy to comply with the relevant legislation?
- ▶ Does the company have a compliance manual, which sets out the processes and controls by which unlawful conduct will be avoided?
- ▶ What are the policies for auditing compliance with the policy? For example, are 'at-risk' employees regularly interviewed or questionnaires conducted?
- ▶ How does the company ensure that concerns over anti-competitive behaviour can be raised? For instance, is there a whistle blowing hotline?
- ▶ What kind of training does the organisation provide for its employees on competition law, especially those in regular contact with competitors? Are seminars held with industry specific case studies to raise employees' awareness? How do employees know how to react in the event of a dawn raid by the regulator?

Wherever possible, the reviewer will seek to test a selection of procedures to see whether they are operating as intended. If gaps in compliance are identified, or there are some structural issues that prevent the compliance programme from operating as expected, these would be recorded and discussed with management and/or in-house counsel.

The findings of the review would be reported to senior management, focusing on where procedures should be improved or require immediate attention. Agreement would also be reached on any recommendations made and timescales agreed for their implementation.

Electronic reviews

Inevitably, where anti-competitive behaviour has been discovered, it has been the errant e-mail between conspirators that has provided the authorities with the 'smoking gun' that confirms liability. Therefore an effective competition compliance programme must include at least the capability for key employees' e-mail correspondence and other significant electronic data to be subject to monitoring and review at reasonable intervals so that a potential breach can be communicated to senior officials as soon as possible. Care must be taken though in not infringing data protection or employment law in the course of these activities.

Difficulty lies in the sheer volume of data that needs to be reviewed in order to obtain the level of comfort required. However, help is at hand in the form of computer programs that can now map clusters of information from unstructured data that may have suspicious content, so as to shorten the time a reviewer takes to search for incriminating documents. Once again, this highlights the benefit of using an independent external reviewer to carry out the investigation in a cost-effective way, if the company does not have the resources to do it itself.

Questions of judgement

Any good compliance system is bound at times to identify issues that are not easily determined as amounting to a breach of the rules being complied with. There are bound to be some 'grey' areas where the application of the law is still uncertain. It is vital, therefore, for responsible officials to keep abreast of latest developments, communicate this to colleagues, and consult with external counsel where necessary.

Conclusion

With the increasing bite of Competition Law enforcement in Europe, represented by fines, criminal sanctions and actions for damages, it has become more important than ever for corporates to reduce as much as possible the risk of breaching the law. The introduction of a robust compliance programme is a good start on the road to achieving this, but it must be regularly reviewed, tested and updated to ensure that it is fit for purpose.

The benefits of having a compliance programme in place also extend beyond avoiding liability. Should a company's staff be properly trained in competition compliance they will be able to spot any dubious practices by outside parties (including competitors), which may in some cases lead to action being taken against those parties.

The cost of not complying with competition law has never been higher, while the cost of ensuring compliance has never been easier to justify.

Increased oversight of M&A

An expanding role for audit committees

Key findings

1. Shareholders are concerned with high M&A failure rates
2. Most companies' M&A processes are surprisingly inadequate
3. Audit committees should use this time to prepare for future M&A

Executive Summary

Tasked as they are with oversight of financial controls, compliance with regulatory regimes and, in many cases, risk oversight, audit committee chairs are not eager to take on more duties. And yet, in mergers and acquisition (M&A), input from the audit committee offers tremendous benefit with very little extra work. It may be a matter of providing more focused attention.

There is still uncertainty around when M&A activity will return to pre-recession levels, but recent large deals involving cash-rich buyers signal at least a slow return of activity. Ernst & Young commissioned Tapestry Networks to ask over 40 board directors and subject matter experts whether audit committees, or boards as a whole, could contribute to their companies by strengthening their oversight of M&A. The answer was a resounding yes.

Conversations with research participants yielded three key findings:

1. Shareholders are concerned with high M&A failure rates

There is no 'one-size-fits-all' measure of success in M&A. However, many judge M&A success on whether the transaction achieves the expected increase in shareholder value. Several studies suggest that well over half of M&A deals fail to meet these objectives. Participants agreed with these findings and noted that M&A failure can have dire consequences for CEOs, boards and companies. Failed M&A can destroy a company's market

value, destabilise its financial position and credit ratings, impair its strategic position, weaken the organisation and damage the company's reputation. As a consequence, shareholders have become increasingly anxious about these high failure rates. One M&A advisor stated, *"The level of shareholder scrutiny has increased exponentially on transactions ... on both the target and acquirer sides."*

2. Most companies' M&A processes are surprisingly inadequate

Participants believe that most public companies perform poorly at all stages of the M&A process, from selecting potential acquisition targets, to performing due diligence, to accomplishing integration after the merger. As one audit chair stated, *"No one is holding management accountable for delivering on the key objectives and value drivers that were set out in the beginning."*

3. Audit committees should use this time to prepare for future M&A

Participants noted that M&A activity is currently patchy and inconsistent across regions and industries. Only acquisitions into and from emerging markets are uniformly picking up. Some experts expect large deals and hostile deals to continue over the next six months, but anticipate a slower increase in transactions in general, while confidence in the global economy strengthens¹. In that context, they urged boards and audit committees to review the company's strategic framework for

¹ 'Looking for growth?' Capital Confidence Barometer, Ernst & Young, October 2010



M&A with management to determine how future transactions will be assessed. Non-executive directors should also ensure that management's M&A process is robust and that they have a strong, independent cadre of advisors to turn to when they need to respond quickly to opportunities.

Participants suggested a significant oversight role for audit committees in M&A. This report outlines their recommendations and identifies key areas of the process that can notoriously destroy value.

If you would like a copy of this report please contact: assurance@uk.ey.com

About this document

InSights is produced by Tapestry Networks to provide assessments of key issues of interest to audit committee members. It will be distributed by Ernst & Young and Tapestry Networks. Anyone who receives *InSights* may share it with those in their own network. The ultimate value of *InSights* lies in its power to help all constituencies develop their own informed points of view.

The views expressed in this document represent those of the individuals who participated in the research. They do not reflect the views nor constitute the advice of network members, their companies, Ernst & Young or Tapestry Networks.

The European Audit Committee Leadership Network is a group of audit committee chairs drawn from leading European companies committed to improving the performance of audit committees and enhancing trust in financial markets. The network is convened by Ernst & Young and orchestrated by Tapestry Networks to assess emerging best practices and share insights into issues that dominate the new audit committee environment. *ViewPoints* is produced by Tapestry Networks to stimulate timely, substantive board discussions about the choices confronting audit committee members, management and their advisers as they endeavour to fulfil their respective responsibilities to the investing public. The ultimate value of *ViewPoints* lies in its power to help all constituencies develop their own informed points of view on these important issues. Anyone who receives *ViewPoints* may share it with those in their own network. The more board members, members of management and advisers who become systematically engaged in this dialogue, the more value will be created for all.

Crisis communications

Prepare to avert disaster, prepare to act when disaster strikes

The way a company reacts in a crisis may have a great impact on shareholder value.

High-profile business disasters, such as those that have captured headlines over the past 12 months, damage a company's bottom line and greatly affect its reputation with investors, regulators, consumers and other stakeholders. Yet, too frequently, companies do not have well thought out plans on how to handle communications during the crisis.

Many audit chairs in Ernst & Young's audit networks are currently evaluating what they can learn from the headline-grabbing crises that have occurred. Ernst & Young commissioned Tapestry Networks to speak with audit chairs and a range of crisis communication, risk and audit advisors regarding the best ways to prepare for risks that could become crises, and how best to respond if one occurs. Recommendations on preparing for and reacting to crises are summarized below.

Get prepared, get ahead. Research participants recommended several ways in which audit committees can prepare for crises:

- ▶ Improve early-warning systems
- ▶ Think more broadly about long-term risks
- ▶ Ask the "what-if" questions
- ▶ Ensure a communications plan is built into the risk management framework
- ▶ Review the succession plan for the top management
- ▶ Seek external advice
- ▶ React and act. When a crisis occurs, the emphasis is on the clarity, consistency and targeting of messages and on their timely delivery. Participants said that companies must plunge into the communications maelstrom to make their voice heard and to counter misinformation.

Get prepared, get ahead

Questions for audit committees:

- ▶ What early-warning systems does your company use to detect emerging reputational risks? What external advice do you receive?
- ▶ How do you evaluate your early-warning systems' ability to transmit the right information to the board or audit committee?
- ▶ How does your company incorporate a crisis communications strategy into its risk management framework?
- ▶ How do you evaluate your communications strategy? Are the target stakeholders known? Who will be the likely company representatives leading communications?

Building a foundation for effective crisis communications

The crisis management experts interviewed recommended that audit committees ensure management takes the following steps to prepare for communicating in a crisis:

- ▶ Build relations with key opinion formers
- ▶ Build relationships with key stakeholders
- ▶ Decide who will be communicating and prepare them

React and act

Does your board have the right experience?

Some directors said each board must consist of some directors with specialised knowledge, but a balanced board that includes directors who 'know what they don't know' may be better equipped to prepare for potential business disasters.

Key actions when communicating during a crisis

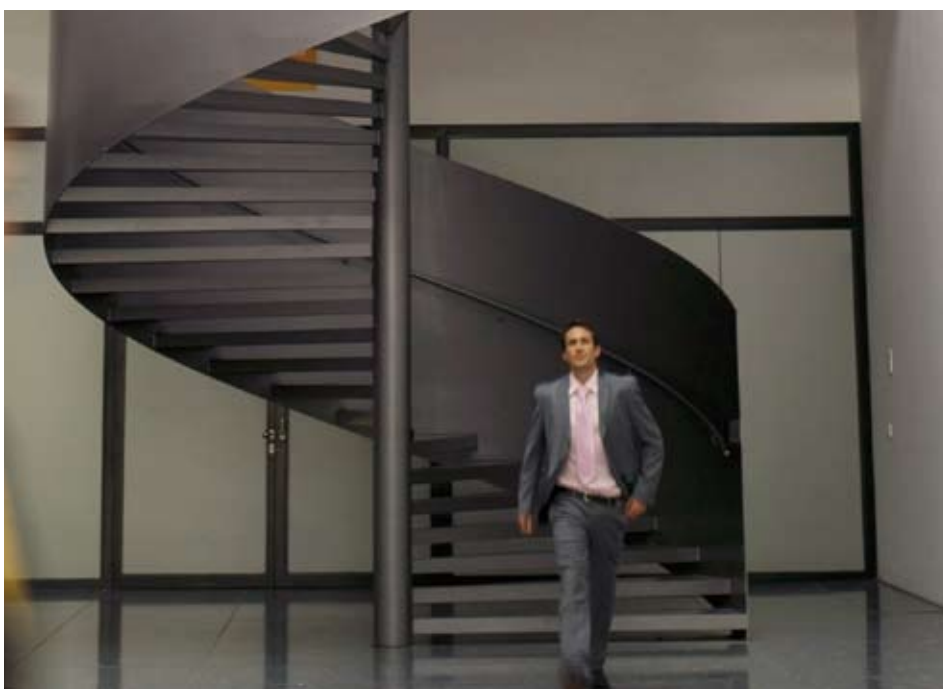
Crisis management experts recommended that audit committees should ensure their companies are taking these actions when addressing a crisis:

- ▶ Acknowledge what is happening, even before you investigate it
- ▶ Prioritise communications to your most important stakeholder groups
- ▶ Reassure employees
- ▶ Counter misinformation
- ▶ Ensure the company's communications are consistent
- ▶ Focus on business as usual

Conclusion

In the last 18 months, several major international companies have been embroiled in public crises, causing audit committee chairs to question their role – and that of the board – in crisis management. Directors surveyed for this report believed that business continuity planning falls squarely under the audit committee's risk management oversight duty. There are several actions the audit committee can take to ensure their company is getting ahead of the business disasters that lead to crises.

In addition, while communications may not be part of the audit committee's direct responsibility, the audit committee, or full board, must ensure that management has a comprehensive communications plan in place which allows the company to maintain stakeholder confidence during a crisis. This is critical because the way a company reacts in a crisis may have a great impact on shareholder value.



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Regulatory snapshot



On 7 January 2011 the Financial Reporting Council (FRC) issued a consultative report *Effective Company Stewardship, Enhancing Corporate Reporting and Audit*. The report forms part of the FRC's drive to raise the quality and accessibility of narrative reporting in the UK, with greater input from (and recognition for) audit committees. To this end, the FRC would like audit committees to become more transparent about the way they discharge their duties, with added assurance on the effectiveness of their role from the external auditor. The deadline for responses to the report, which can be accessed on the FRC's website is 31 March 2011.

FRC's recommendations

- ▶ Companies to take advantage of technological developments to increase the accessibility of the annual report and its components i.e., XBRL, and more web-based reporting and dispensing with hard-copy reports.
 - ▶ Greater investor involvement in the process by which auditors are appointed.
 - ▶ FRC's responsibilities should be developed to support the above. This includes consideration of how a review might be carried out quickly on a failed company's governance, accounts, and audit to ensure lessons are learned, and to identify whether further investigations or regulatory actions are necessary.
 - ▶ FRC to establish a market participants group, to advise it on market developments and international initiatives in the area of corporate reporting and the role of assurance, and on promoting best practice.
- ▶ Directors to take full responsibility for ensuring that an annual report, viewed as a whole, provides a fair and balanced report on their stewardship of the business.
 - ▶ Directors to describe in more detail: (a) how they seek to ensure the information on which management take decisions is reliable; and (b) the activities of the business and any associated risks.
 - ▶ Audit committee's ability to hold management and auditors to account to be reinforced through fuller reporting about how the AC discharges its responsibilities (e.g. integrity of the annual report, oversight of the audit and appointment of auditors).
 - ▶ An expanded audit report that includes: (a) a new section on the audit committee report; and (b) identifies any matters in the annual report that auditors believe are incorrect or inconsistent with the information contained in the financial statements or obtained during the audit.

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