

The Companies Act 2006

Enhanced business review requirements

December 2008

Quoted companies are now required to disclose additional information within their narrative reports.

Quoted companies with financial periods beginning on or after 1 October 2007 are now required to disclose additional information within their Business Reviews.

Existing requirements are:

- A fair review of the company's business.
- A description of the principal risks and uncertainties facing the company.
- The review required is a balanced and comprehensive analysis of –
 - the development and performance of the company's business during the financial year; and
 - the position of the company's business at the end of the year, consistent with the size and complexity of the business.
- The review must include key performance indicators to the extent necessary for an understanding of the development, performance or position of the business.
- The review must, where appropriate, include references to, and additional explanations of, amounts included in the company's annual accounts.

New requirements are:

To the extent necessary for an understanding of the development, performance or position of the company's business, the Business Review must include:

- The main trends and factors likely to affect the future development, performance and position of the company's business; and
- 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.

- Information about persons with whom the company has contractual or other arrangements which are essential to the business of the company. Note that disclosure need not be given if the disclosure would, in the opinion of the directors, be seriously prejudicial to that person and contrary to the public interest.

FRRP's review of narrative statements¹

The FRRP's remit was extended to cover Directors' Reports for financial years beginning on or after 1 March 2006. Companies should consider the FRRP's comments on Business Review disclosure when compiling their next narrative statements. The Panel's comments are:

Risks and uncertainties

- The FRRP note that experience has shown that risk to a company's business model cannot be disregarded on the grounds that its materialisation would require a fundamental change in the market in which a company operates.
- Some companies have produced a long list of risks but failed to identify the principal risks/uncertainties and/or properly describe such risks.
- Some companies omitted specific risks that were queried by the Panel.
- Note for the future – the Panel noted that the recent change in market conditions, together with unprecedented increases in some commodity prices means that all companies are facing increased, and possibly different, risks when compared to prior years.

Key performance indicators

- Whilst non disclosure of KPIs could be justified on the grounds that they are not necessary for an understanding of the development, performance or position of the business of a company, the Panel have stated that they will challenge boards to justify an absence of KPIs.
- Panel stated that companies have generally been able to demonstrate that KPIs have been referred to in the business review although they have not been described as such.
- Panel encountered some instances where lists of KPIs were given but not applied in the accompanying analysis of the company's performance. At times, alternative earnings measures were highlighted, including some disclosed on the face of the income statement, but they had not been identified as KPIs.

Other matters

- The Business Review must include, where appropriate, references to, and additional explanations of, amounts included in the accounts. The Panel raised queries in a number of cases where material items disclosed in the accounts were not referred to in the Business Review. Examples queried included a material loss on disposal and a significant impairment.
- The Panel also asked for explanation in cases where statements made in the Business Review were not clear or where there was a question as to whether the statements were correct, for example, where the statements appeared to be inconsistent with the audited accounts.

The FRRP's focus during 2009/10 will be biased towards the following industry sectors: banking, retail, travel and leisure, commercial property and house builders. In view of the deteriorating economy the FRRP will extend its selection to include other entities which derive significant revenue from the provision of services such as advertising, media, recruitment and technology.

¹ For further information on the FRRP's findings please visit <http://www.frc.org.uk/frrp/press/pub1717.html>

About the Audit Committee Institute

The Audit Committee Institute (ACI) was created in 1999 to serve audit committee members and help them to adapt to their changing role. Sponsored by KPMG, the ACI exists to help audit committee members enhance their awareness, commitment, and ability to implement effective audit committee processes.



Contact us:

For more information on the work of the ACI please click on our web site www.kpmg.co.uk/kpmg/aci/index.cfm

or contact:

Nicola Collins
Manager
Audit Committee Institute

KPMG LLP (UK)
1-2 Dorset Rise London EC4Y 8EN
Tel: 020 7694 8855
e-Mail: auditcommittee@kpmg.co.uk

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2008 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. All rights reserved.
KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.
Designed and produced by KPMG LLP (UK)'s Design Services
Publication name: The Companies Act 2006
Publication number: RRD-118524
Publication date: December 2008