

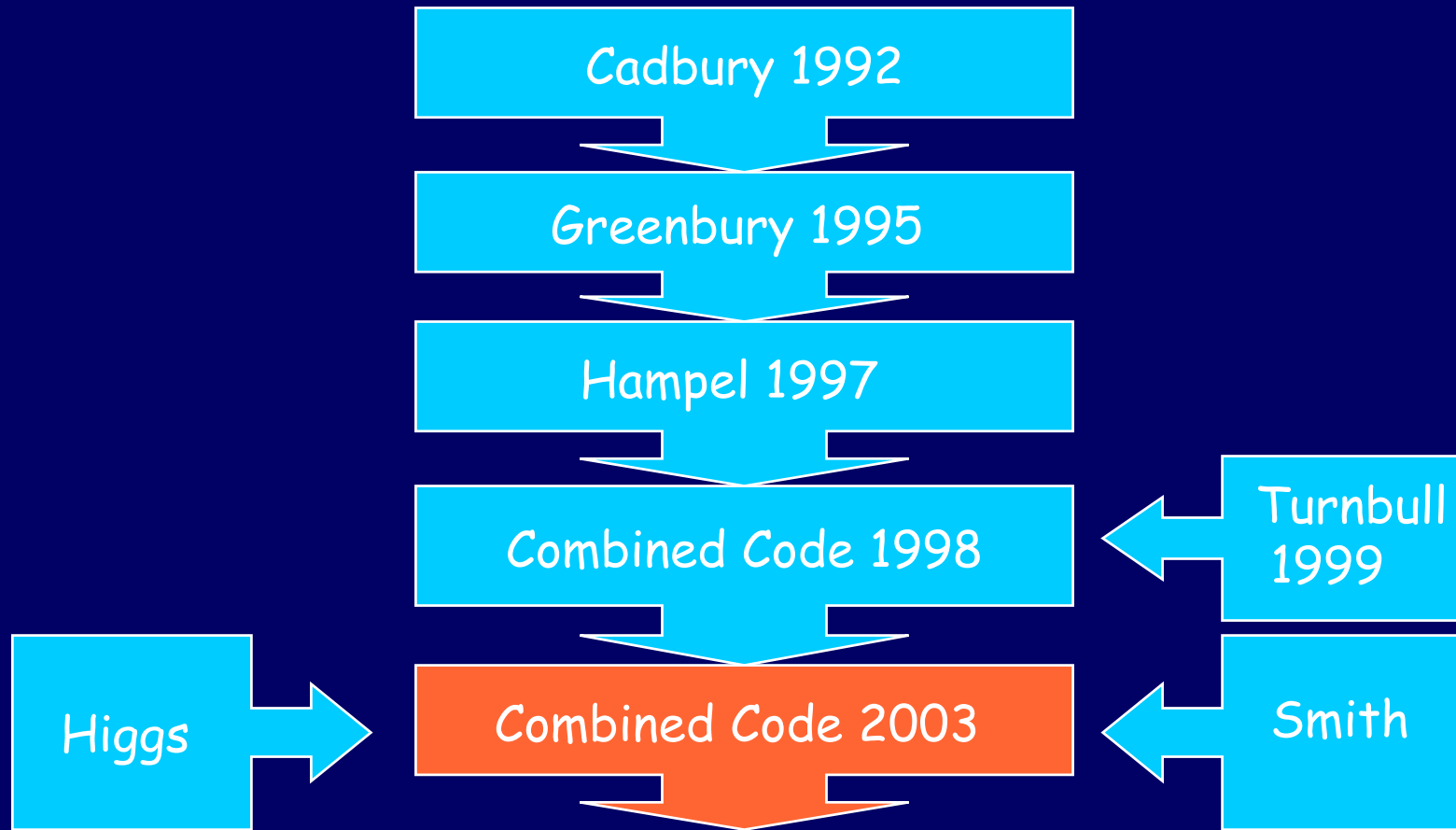
Corporate governance and regulatory update on the private sector

IRM Networking NW: 17th June 2004

Key recent developments

- Combined Code updated
(effective for financial years from 1/11/03)
- New mandatory Operating and Financial Review (OFR)
(effective for financial years from 1/1/05)

UK corporate governance developments



Revised Combined Code (2003)

'The board should, at least annually, conduct a review of the effectiveness of the group's system of internal controls and should report to shareholders that they have done so. The review should cover all *material* controls, including financial, operational and compliance controls and risk management *systems*'

Code provision C.2.1

Operating and Financial Review

- Efficacy of a company's risk management process to be under the external spotlight
- Will need to detail specific risks and how they are being managed - not just confirm the existence of a risk management process

Content of the OFR

Compulsory items to include:

- 'A statement of the business, objectives and strategies of the company'
- 'a description of the principal risks and uncertainties facing the company'

Content of the OFR

Other 'particular matters' to be included 'to the extent necessary' for an assessment of the business relating to:

- Employees
- Environmental matters
- Social and community issues
- Key stakeholder relationships

The goal is to:

- Encourage reporting on all matters that would enable shareholders and other stakeholders to 'assess the company's strategies and potential for them to succeed.'
- Significantly improve the scope and quality of information available
- Inform decision making and judgements on future prospects
- Enable directors to be held to account

Further information and guidance

- Draft Regulations on the Operating and Financial Review and Directors' Report: a consultative document, DTI, May 2004 (consultation period ends 6th August 2004)
www.dti.gov.uk/cld/financialreview.htm
- The Operating and Financial Review: Practical Guidance for Directors, DTI, May 2004 (includes examples of risks and their treatment)
www.dti.gov.uk/cld/financialreview.htm

Further information and guidance

- Accounting for People: Report of the Task Force on Human Capital Management (The Kingsmill Report), October 2003

Proposes appropriate information on human capital for inclusion in the OFR

www.accountingforpeople.gov.uk

Further information and guidance

- Operating and Financial Review Statement, Accounting Standards Board (ASB), Jan. 2003 (includes examples of risks and other items to be included: currently voluntary)

The ASB (a subsidiary board of the Financial Reporting Council - FRC) is to prepare a detailed OFR standard to support the new legislation. Exposure draft planned for second half 2004; to be finalised in 2005.

www.asb.org.uk