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Assurance & Advisory

Corporate Governance disclosure checklist

A pair of black-rimmed glasses and a silver pen are resting on a white notepad with blue horizontal lines. The glasses are positioned in the upper middle section, and the pen is in the lower right section. The background is a light blue gradient.

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Audit • Tax • Consulting • Corporate Finance •

Preface

Once again we are entering the busy financial reporting season. For many, the 2004 financial year is the first full year of implementation of the July 2003 FRC Combined Code.

The Corporate Governance Disclosure Checklist we issued in November 2003 contained details of the new Code disclosure requirements. Thankfully very little has changed since that date in terms of detailed corporate governance disclosure requirements. However, there has been much discussion of a number of issues that may impact these disclosure requirements in future periods, for example the commencement of reviews of both the Combined Code and the Turnbull Guidance and forthcoming Regulations mandating the production of an Operating & Financial Review (OFR) for quoted companies.

This checklist sets out the current corporate governance disclosure requirements applicable for reporting periods beginning on or after 1 November 2003. The checklist focuses on the July 2003 FRC Combined Code and therefore does not include material on the detailed requirements for disclosure of directors' remuneration. This is the subject of a separate Deloitte checklist which can be obtained from the Corporate Governance section of our website www.deloitte.co.uk (under Services/Assurance & Advisory).

In December 2004 we issued a Corporate Governance Update that discussed the proposed OFR requirements and included a checklist of disclosure requirements based on the ASB's draft Reporting Standard. This document is also available from our website.

As mentioned above, during 2004 the Financial Reporting Council announced reviews of both the Combined Code and the Turnbull Guidance. Further changes may be implemented for accounting periods beginning on or after 1 January 2006. We will use our Corporate Governance Updates to inform you of proposed and final changes when they are announced.

Although not dealt with in this checklist, directors may also wish to consider the Directors' Report disclosure requirements arising from the new Companies (Audit, Investigations and Community Enterprise) Act 2004 in relation to the provision of third party indemnity provisions for directors (s309C CA85). This is yet to be implemented but is worth early consideration given the increasing risk that directors face.

We hope that you will find this checklist of use.

Ian Krieger

Senior Client Service Partner

Introduction

This checklist covers those aspects of the July 2003 FRC Combined Code on Corporate Governance that deal with the disclosures required of the Board. It does not cover all the other requirements of the Code, which govern processes within the company. In particular it deals only with company disclosure and not the points specified in Section 2 of the Code for Institutional Investors.

SEC Registrants will need to give consideration to the additional US requirements.

The checklist covers the guidance issued by The Institute of Chartered Accountants in England and Wales regarding the disclosure of the nature and cost of services provided by auditors. That guidance calls for greater analysis of fees paid to auditors for audit and non-audit services. Although the disclosures are not currently mandatory (enabling legislation has been passed, but detailed requirements are not expected to be implemented for some time yet) users of annual reports, including corporate governance pressure groups, will increasingly expect to see this information disclosed. The disclosures may also be relevant in the context of the new disclosure requirement in the Code on how auditor objectivity and independence have been safeguarded.

There are currently exemptions in the Listing Rules from the disclosures about compliance with the Code for companies that fall into one of the following categories:

- companies with only debt securities (or specialist debt securities) listed or with only fixed income shares listed;
- overseas companies with a primary or secondary listing by the UK Listing Authority; and
- investment companies (including investment trusts) and venture capital trusts that have no executive directors.

The exemptions available vary for each category of companies. Given the complexity of the rules in this area and the possibility of change, the Company Secretary should check the position with the latest version of the Listing Rules or with the Financial Services Authority.

We recommend that, if the company avails itself of an exemption, the following type of wording, adapted as appropriate, should be included in the annual report to avoid possible criticisms from those reviewing and commenting on the document.

“As the [company is not incorporated/trust is not constituted] within the UK [and is an investment entity], it has availed itself of an exemption from the Financial Services Authority's requirement to make corporate governance disclosures and from auditor review thereof.” (to be modified as appropriate)

In the situation where a company is eligible for such an exemption, but the directors decide to provide all corporate governance disclosures in any case, we would recommend the inclusion of the following type of wording.

“The company is eligible for exemption from the Financial Services Authority's requirements relating to corporate governance disclosures but the directors have decided to provide such disclosures which are set out on page x/below.”

Companies that have securities traded on the Alternative Investment Market ('AIM') are required to prepare annual reports in accordance with the AIM Rules of the London Stock Exchange (which should not be confused with the Listing Rules). These rules do not require AIM companies to make disclosures about compliance with the Combined Code. However, a way of generating investor confidence is by adopting some or all of the guidelines of the Code. Therefore AIM companies may wish to make a statement on the degree of compliance with the Code provisions set out within section 1 of the Combined Code and may wish to state how they have applied the Principles within section 1 of the Combined Code.

The representative association for smaller quoted companies, the Quoted Companies Alliance, issued an update of its 'Guidance for Smaller Quoted Companies' in August 2004 covering the July 2003 Combined Code. This guidance continues to urge AIM companies, in relation to corporate governance, to 'use the Principles of the Code as goals to be achieved'. It is recommended that, where the directors of AIM companies provide disclosures relating to the Combined Code, the directors disclose that they are volunteering the information. Suggested wording is:

“Although not required to do so by the AIM Rules, the directors have decided to provide corporate governance disclosures comparable with those required of a listed company.”

A few of the July 2003 FRC Combined Code provisions do not apply to companies below the FTSE 350. These are indicated where relevant in the checklist.

The checklist focuses on disclosure in the annual report. The Board may wish to make further disclosure on the corporate website or in other communications to the shareholders.

Disclosure checklist

	Reference, principle or provision	Included? (Yes/No/N/A)
Narrative statement		
<p>1. A narrative statement of how the company has applied the Principles set out in Section 1 of the July 2003 FRC Combined Code, providing an explanation which enables the company's shareholders to evaluate how the Principles have been applied.</p> <p>A brief bland statement will not suffice. Directors should satisfy themselves that all the main Principles and the supporting Principles (see below) are sufficiently covered in the narrative. But they should avoid "boilerplate" recitals of Code provisions which have been complied with. The focus should be on how those provisions have been applied to the company's particular circumstances.</p> <p>We recommend that the narrative statement should include, or cross refer to, the statement on internal control (see below).</p> <p>The Main Principles are set out below in bold. Supporting Principles are set out immediately below them. They are shown with the relevant reference in the Code.</p>	Listing Rules 12.43A(a)	
Statement of compliance with the code		
<p>2. A statement as to whether or not the company has complied with the Code provisions set out in Section 1 of the Combined Code, specifying any provisions with which it has not complied throughout the period under review, indicating the part of the period during which non-compliance continued, and giving the reasons for non-compliance.</p> <p>Suggested wording is as follows:</p> <p>"Throughout the year ended 31 December 2004 the company has been in compliance with the Code provisions set out in Section 1 of the July 2003 FRC Combined Code on Corporate Governance [except for the following matters]."</p> <p>Where there is non-compliance, there should be a clear statement of the provisions which have not been complied with, the period during which non-compliance continued and the reasons for the non-compliance. We recommend that the statement should be self contained. It should avoid vague cross references to non-compliance which are then scattered throughout the narrative statement.</p> <p>The Listing Rules do not prescribe where the statement of compliance should be given. It will usually be located together with the narrative statement about how the Principles have been applied. This is often a separate corporate governance statement but it may be part of the directors' report. The statement of compliance is usually positioned either at the beginning or at the end of the narrative statement. The former treatment gives the statement a higher profile but the latter treatment enables the statement to be set in the context of the narrative discussion. Either is acceptable.</p> <p>To keep the checklist succinct, the Code provisions are referred to only where they relate to a disclosure requirement. Other Code provisions also have to be considered for the purposes of the statement of compliance with the Code.</p>	Listing Rules 12.43A(a)	

Disclosure checklist

	Reference, principle or provision	Included? (Yes/No/N/A)
A. Directors		
A.1 The board		
Every company should be headed by an effective board, which is collectively responsible for the success of the company.		
<p>The board's role is to provide entrepreneurial leadership of the company within a framework of prudent and effective controls which enables risk to be assessed and managed. The board should set the company's strategic aims, ensure that the necessary financial and human resources are in place for the company to meet its objectives and review management performance. The board should set the company's values and standards and ensure that its obligations to its shareholders and others are understood and met.</p> <p>All directors must take decisions objectively in the interests of the company.</p> <p>As part of their role as members of a unitary board, non-executive directors should constructively challenge and help develop proposals on strategy. Non-executive directors should scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance. They should satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible. They are responsible for determining appropriate levels of remuneration of executive directors and have a prime role in appointing, and where necessary removing, executive directors, and in succession planning.</p>		
3. A statement of how the board operates, including a high level statement of which types of decisions are to be taken by the board and which are to be delegated to management.	A.1.1	
There was previously a requirement for the board to have a formal schedule of matters specifically reserved to it for decision. But there was no requirement to disclose this schedule.		
4. The names of the chairman, the deputy chairman (where there is one), the chief executive, the senior independent director and the chairmen and members of the nomination, audit and remuneration committees.	A.1.2	
This extends the previous requirements to include the identity of the deputy chairman (where there is one) and the identity of the chairmen of all three committees.		
5. The number of meetings of the board and of the nomination, audit and remuneration committees and individual attendance by directors.	A.1.2	
This is probably best presented in tabular form.		
A.2 Chairman and chief executive		
<p>There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision.</p> <p>The chairman is responsible for leadership of the board, ensuring its effectiveness on all aspects of its role and setting its agenda. The chairman is also responsible for ensuring that the directors receive accurate, timely and clear information. The chairman should ensure effective communication with shareholders. The chairman should also facilitate the effective contribution of non-executive directors in particular and ensure constructive relations between executive and non-executive directors.</p>		
6. If, exceptionally, a board decides that a chief executive should become chairman, the board should consult major shareholders in advance and should set out its reasons to shareholders at the time of the appointment and in the next annual report.	A.2.2	
Compliance or otherwise with this provision need be reported only for the year in which the appointment is made.		

	Reference, principle or provision	Included? (Yes/No/N/A)
<p>A.3 Board balance and independence</p> <p>The board should include a balance of executive and non-executive directors (and in particular independent non-executive directors) such that no individual or small group of individuals can dominate the board's decision taking.</p> <p>The board should not be so large as to be unwieldy. The board should be of sufficient size that the balance of skills and experience is appropriate for the requirements of the business and that changes to the board's composition can be managed without undue disruption.</p> <p>To ensure that power and information are not concentrated in one or two individuals, there should be a strong presence on the board of both executive and non-executive directors.</p> <p>The value of ensuring that committee membership is refreshed and that undue reliance is not placed on particular individuals should be taken into account in deciding chairmanship and membership of committees.</p> <p>No one other than the committee chairman and members is entitled to be present at a meeting of the nomination, audit or remuneration committee, but others may attend at the invitation of the committee.</p>		
<p>7. The names of the non-executive directors whom the board determines to be independent.</p> <p>The board should state its reasons if it determines that a director is independent notwithstanding the existence of relationship or circumstances which may appear relevant to its determination.</p> <p>There was a previous requirement to identify the directors considered by the board to be independent. But the July 2003 FRC Combined Code includes a list of relationships and circumstances which may indicate a lack of independence. If the board determines a director to be independent where such relationships or circumstances exist, the reasons must now be disclosed. It is possible that directors who were previously regarded as independent may no longer be regarded as independent in the light of this new guidance.</p>	A.3.1	
<p>A.4 Appointments to the Board</p> <p>There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board.</p> <p>Appointments to the board should be made on merit and against objective criteria. Care should be taken to ensure that appointees have enough time available to devote to the job. This is particularly important in the case of chairmanships.</p> <p>The board should satisfy itself that plans are in place for orderly succession for appointments to the board and to senior management, so as to maintain an appropriate balance of skills and experience within the company and on the board.</p> <p>Note – Where the board is deemed to be 'small', appropriate explanation can usefully be given when explaining how Principle A.4 has been applied.</p>		
<p>8. The nomination committee should make available its terms of reference, explaining its role and the authority delegated to it by the board.</p> <p>The Code states that this requirement may be met by making the information available on request and placing it on the company's website. Companies may wish to include this information in the annual report.</p>	A.4.1	
<p>9. The other significant commitments of the chairman and any changes to them during the year.</p> <p>Compliance with this provision need be reported only for the year in which the appointment is made or when there are changes during the year.</p>	A.4.3	

Disclosure checklist

	Reference, principle or provision	Included? (Yes/No/N/A)
<p>10. The terms and conditions of appointment of non-executive directors should be made available for inspection.</p> <p>The Code states that this information should be made available for inspection by any person at the company's registered office during normal business hours and at the AGM (for 15 minutes prior to the meeting and during the meeting). Although it is unlikely to be appropriate to include these details in full in the annual report, it may be appropriate to provide some key terms or at least refer to the fact that the terms and conditions are available for inspection.</p>	A.4.4	
<p>11. A separate section describing the work of the nomination committee, including the process it has used for board appointments. An explanation should be given if neither an external search consultancy nor open advertising has been used in the appointment of a chairman or a non-executive director.</p> <p>Although the July 2003 FRC Combined Code makes some concessions to smaller listed companies (those outside the FTSE 350), it does not repeat the previous exemption whereby a nomination committee was not needed when the board was "small". Companies that used this exemption will therefore have to establish a nomination committee or report non-compliance with the July 2003 FRC Combined Code.</p>	A.4.6	
<p>A.5 Information and professional development</p> <p>The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties. All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge.</p> <p>The chairman is responsible for ensuring that the directors receive accurate, timely and clear information. Management has an obligation to provide such information but directors should seek clarification or amplification where necessary.</p> <p>The chairman should ensure that the directors continually update their skills and the knowledge and familiarity with the company required to fulfil their role both on the board and on board committees. The company should provide the necessary resources for developing and updating its directors' knowledge and capabilities.</p> <p>Under the direction of the chairman, the company secretary's responsibilities include ensuring good information flows within the board and its committees and between senior management and non-executive directors, as well as facilitating induction and assisting with professional development as required.</p> <p>The company secretary should be responsible for advising the board through the chairman on all governance matters.</p>		
<p>12. There are no specific disclosure requirements but a complete report would include some information on how this principle has been applied.</p>	N/A	
<p>A.6 Performance evaluation</p> <p>The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.</p> <p>Individual evaluation should aim to show whether each director continues to contribute effectively and to demonstrate commitment to the role (including commitment of time for board and committee meetings and any other duties). The chairman should act on the results of the performance evaluation by recognising the strengths and addressing the weaknesses of the board and, where appropriate, proposing new members be appointed to the board or seeking the resignation of directors.</p>		
<p>13. A statement of how performance evaluation of the board, its committees and its directors has been conducted.</p>	A.6.1	

	Reference, principle or provision	Included? (Yes/No/N/A)
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A.7 Re-election

All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance. The board should ensure planned and progressive refreshing of the board.

Note – The Code requires the following details to be set out to shareholders in the papers accompanying a resolution to elect or re-elect directors. In practice these details will often be provided within the annual report which will either include, or be distributed with, the notice of the AGM.

14. The names of the directors submitted for election or re-election should be accompanied by sufficient biographical details and any other relevant information to enable shareholders to take an informed decision on their election or re-election. Many listed companies provide biographical details of all their directors rather than just those proposed for election or re-election.	A.7.1	
15. In the case of the election of a non-executive director, the board should set out to shareholders why it believes that an individual should be elected.	A.7.2	
16. When proposing re-election of a non-executive director, the chairman should confirm to shareholders that, following formal performance evaluation, the individual's performance continues to be effective and to demonstrate commitment to the role.	A.7.2	

B. Remuneration

Note – The July 2003 FRC Combined Code does not include material in the previous Code on the disclosure of directors' remuneration. This is because the legal requirement to prepare a directors' remuneration report has superseded the earlier Code provisions. The July 2003 FRC Combined Code states that it is important that the directors' remuneration report is clear, transparent and understandable to shareholders.

There is a separate Deloitte disclosure checklist on directors' remuneration, which sets out the requirements of the law and the Listing Rules in full.

B.1 The level and make up of remuneration

Levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the company successfully, but a company should avoid paying more than is necessary for this purpose. A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance.

The remuneration committee should judge where to position their company relative to other companies. But they should use such comparisons with caution, in view of the risk of an upward ratchet of remuneration levels with no corresponding improvement in performance. They should also be sensitive to pay and employment conditions elsewhere in the group, especially when determining annual salary increases.

17. Where an executive director serves as a non-executive director elsewhere, the remuneration report should include a statement as to whether or not the director will retain such earnings and, if so, what the remuneration is.	B.1.4	
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B.2 Procedure

There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration.

The remuneration committee should consult the chairman and/or chief executive about their proposals relating to the remuneration of other executive directors. The remuneration committee should also be responsible for appointing any consultants in respect of executive director remuneration. Where executive directors or senior management are involved in advising or supporting the remuneration committee, care should be taken to recognise and avoid conflicts of interest.

The chairman of the board should ensure that the company maintains contact as required with its principal shareholders about remuneration in the same way as for other matters.

Disclosure checklist

	Reference, principle or provision	Included? (Yes/No/N/A)
<p>Note – The Code states that the following requirements to make information available may be met by making it available on request and placing it on the company's website. But companies may wish to give the information in their directors' remuneration report or at least to include a cross reference to where it may be obtained.</p>		
18. The remuneration committee should make available its terms of reference, explaining its role and the authority delegated to it by the board.	B.2.1	
19. Where remuneration consultants are appointed, a statement should be made available of whether they have any other connection with the company. The reference to "other" connections with the company appears to refer to connections other than as advisers to the remuneration committee. There are statutory disclosure requirements concerning the identity of and fees paid to persons who have provided advice or services to the remuneration committee, that materially assisted the committee in the consideration of directors' remuneration.	B.2.1	
<h3>C. Accountability and Audit</h3>		
<h4>C.1 Financial Reporting</h4> <p>The board should present a balanced and understandable assessment of the company's position and prospects.</p> <p>The board's responsibility to present a balanced and understandable assessment extends to interim and other price-sensitive public reports and reports to regulators as well as to information required to be presented by statutory requirements.</p>		
20. A balanced and understandable assessment of the company's position and prospects that extends to interim and other price-sensitive public reports and reports to regulators as well as information required to be presented in the annual report. This disclosure requirement is in a Code principle rather than a Code provision but is listed here to ensure that it is not overlooked. In presenting the assessment, companies will find it helpful to refer to our December 2004 Corporate Governance Update which contains details of the Accounting Standards Board's exposure draft of a Reporting Standard for the OFR to support the DTI's forthcoming legislation mandating the preparation of an OFR by quoted companies.	C.1	
21. An explanation from the directors of their responsibility for preparing the financial statements and a statement by the auditors about their reporting responsibilities. The statement by the auditors will normally form part of their report. Statement of Auditing Standard SAS 600 "Auditors' reports on financial statements" states that it will aid communication with the reader, where the directors set out their responsibilities themselves, if this description is immediately before the auditors' report. The Code contains no prescribed contents for the statement of directors' responsibilities but SAS 600 effectively sets the minimum requirements.	C.1.1	

	Reference, principle or provision	Included? (Yes/No/N/A)
<p>22. SAS 600 states that the description of the directors' responsibilities is normally considered adequate when it includes the following points:</p> <ul style="list-style-type: none"> the legal requirement for directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company (or group) as at the end of the financial year and of the profit or loss for the year then ended; the directors' requirement in preparing financial statements to select suitable accounting policies and then apply them on a consistent basis, making judgements and estimates that are prudent and reasonable; (large companies only – all listed companies will meet the definition of large – CA 1985 definition) the directors' requirement in preparing financial statements to state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the notes to the accounts. (This does not obviate the need for a formal statement in the notes to the accounts disclosing whether the financial statements have been prepared in accordance with applicable accounting standards); (where no separate statement on going concern is made by the directors – this should therefore not apply to listed companies) the directors' requirement in preparing financial statements to prepare the financial statements on the going concern basis unless it is not appropriate to presume that the company/group will continue in business; and the responsibility of the directors for keeping proper accounting records, for safeguarding the assets of the company, and for taking reasonable steps for the prevention and detection of fraud and other irregularities. <p>An illustrative statement of directors' responsibilities is included in our model financial statements.</p>	SAS 600 (21)	
<p>23. A statement by the directors that the business is a going concern, with supporting assumptions or qualifications as necessary. This requirement should be interpreted in accordance with the Guidance on Going Concern and Financial Reporting for directors of listed companies published in 1994 (when the requirement for such a statement was first introduced).</p> <p>The November 1994 guidance identifies three conclusions which the directors can reach when considering the results of their procedures:</p> <ul style="list-style-type: none"> 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; 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 that it is appropriate to use the going concern basis in preparing the financial statements; or they consider that 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. <p>The statement by the directors should not be inconsistent with the disclosures regarding going concern either in the financial statements or the auditors' report thereon. Auditing Practices Board Bulletin 2004/3 indicates that where going concern matters are discussed in the financial statements, one method of achieving consistency is for the directors' statement to include a cross reference to the relevant note in the financial statements.</p>	Listing Rules 12.43(v) and C.1.2	

Disclosure checklist

	Reference, principle or provision	Included? (Yes/No/N/A)
<p>The November 1994 guidance indicates that the going concern statement should be included in the Operating and Financial Review (OFR). The guidance explains that the OFR will contain a significant amount of discussion and analysis which will help to put the statement on going concern in context. In November 2004, the Government announced legislation requiring quoted companies to prepare an OFR. This legislation (due to be introduced shortly) will be supplemented by a Reporting Standard from the ASB. As a result of this it may no longer be appropriate to consider including the going concern statement within the OFR. In any event, the comment in the November 1994 guidance about the positioning of the statement cannot be regarded as mandatory. In practice, the statement is made in a variety of locations including the directors' report and the corporate governance statement.</p>		
<h3>C.2 Internal Control</h3> <p>The board should maintain a sound system of internal control to safeguard shareholders' investment and the company's assets.</p>		
<p>24. A report that the board has conducted a review of the effectiveness of the group's system of internal controls.</p> <p>The review should cover all material controls, including financial, operational and compliance controls and risk management systems.</p> <p>A Working Party, established by the ICAEW and chaired by Nigel Turnbull, published guidance for directors on the previous version of the Combined Code at the end of September 1999. Full implementation of Turnbull will constitute compliance with the Principles and provisions in this section. The guidance is reproduced as an attachment to the July 2003 FRC Combined Code which can be accessed on the Financial Reporting Council's website www.frc.org.uk.</p>	C.2.1	
<h3>Summary of the Turnbull Guidance</h3> <p>The relevant matters for disclosure, specified in the section in the Turnbull guidance on the board's statement on internal control, are set out below.</p>		
<p>25. A narrative statement of how the company has applied Code Principle C.2 disclosing at a minimum that:</p> <ul style="list-style-type: none"> • there is an ongoing process for identifying, evaluating and managing the significant risks faced by the company; • it has been in place for the year under review and up to the date of approval of the annual report and financial statements; • it is regularly reviewed by the board; and • it accords with the Turnbull guidance. 	Turnbull guidance	
<p>26. A summary of the process which the board (where applicable, through its committees) has applied in reviewing the effectiveness of the system of internal control (e.g. reports from management, the role of the audit committee and other relevant committee(s), the role of the internal audit function and the annual assessment of the system).</p>	Turnbull guidance	
<p>27. The process the board has applied to deal with material internal control aspects of any significant problems disclosed in the annual report and financial statements.</p>	Turnbull guidance	
<p>28. Where a board cannot make one or more of the three disclosures above, it should state this fact and provide an explanation.</p>	Turnbull guidance	

	Reference, principle or provision	Included? (Yes/No/N/A)
<p>29. Other required disclosures are:</p> <ul style="list-style-type: none"> an acknowledgement by the board that it is responsible for the company's system of internal control and for reviewing its effectiveness. (For groups of companies, the review of effectiveness of internal control and the report to the shareholders should be from the perspective of the group as a whole); an explanation that such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss; and where material joint ventures and associates have not been dealt with as part of the group for the purposes of applying the guidance, a statement of this fact. <p>The Turnbull guidance recommends that the board ensures that its disclosures provide meaningful, high-level information and do not give a misleading impression. It also suggests that the board may wish to provide additional information in the annual report to assist understanding of the company's risk management processes and system of internal control.</p>	Turnbull guidance	
<p>30. The July 2003 FRC Combined Code, at C.3.4, requires audit committees to review the arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. Although there is no requirement to do so, boards may wish to refer to these procedures as part of the statement on internal control.</p>		
<p>31. We strongly recommend that:</p> <ul style="list-style-type: none"> co-ordination takes place within the company between those preparing the Operating and Financial Review and other parts of the annual report to ensure that they understand the consequences from a Turnbull perspective of disclosing significant problems. If there is any doubt whether or not a problem could be regarded as significant and no disclosure is made, it is suggested that there should be a board minute setting out the directors' rationale for the decision they have made; and no opinions be included on the system of internal control. Such opinions are neither encouraged nor required by Turnbull guidance. We also recommend that it will be useful for the statement on internal control to include wording along the lines that steps are being taken to embed internal control and risk management further into the operations of the business and to deal with areas of improvement which come to management's and the board's attention. This wording would reflect the reality of many companies and would help the directors if ever the statement is challenged. 		

C.3 Audit Committee and Auditors

The board should establish formal and transparent arrangements for considering how they should apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors.

32. The terms of reference of the audit committee, including its role and the authority delegated to it by the board, should be made available.

The Code states that this requirement may be met by making the information available on request and placing it on the company's website. Companies may wish to include this information in the annual report.

C.3.3

Disclosure checklist

	Reference, principle or provision	Included? (Yes/No/N/A)
<p>33. A separate section of the annual report should describe the work of the audit committee in discharging its responsibilities.</p> <p>The reference to a “separate section” of the annual report is presumably to ensure that that the description is clearly identifiable. A sub-section within a larger corporate governance statement would appear to be acceptable.</p>	C.3.3	
<p>34. The guidance on audit committees attached to the July 2003 FRC Combined Code (the “Smith Guidance”) recommends that the section describing the work of the audit committee should include:</p> <ul style="list-style-type: none"> • a summary of the role of the audit committee; • the names and qualifications of all members of the audit committee during the period; • the number of audit committee meeting; and • a report on the way the audit committee has discharged its responsibilities. <p>The guidance states that the section should also include the explanation of how auditor objectivity and independence is safeguarded if the auditor provides non-audit services (see below).</p>	Smith Guidance 5.2	
<p>35. Appendix 2 of the Smith Report, published in January 2003, gave more detailed guidance on the information to include in the report on the activities of the audit committee. To the extent not dealt with elsewhere in this checklist, the guidance is summarised here for reference but is not mandatory:</p> <p>Main activities of the committee in the year</p> <ul style="list-style-type: none"> • Financial statements Describe the activities carried out in to monitor the integrity of the financial statements. • Internal financial control and risk management systems Describe the activities carried out to review the integrity of the company’s financial control and risk management systems. • External auditors Describe 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 of how the policy protects auditor independence. Describe the oversight of the external audit process and confirm that an assessment of the effectiveness of the external audit was made. Explain the recommendation to the board on the appointment of the auditors and, if applicable, the process adopted to select the new auditors. • Internal audit function Confirm that a review of the plans and work of the department was carried out. 		
<p>36. Where there is no internal audit function, the reasons for the absence of such a function should be stated.</p> <p>Although there was a previous requirement for the companies to review, from time to time, the need for an internal audit function, the disclosure requirement is new.</p>	C.3.5	

	Reference, principle or provision	Included? (Yes/No/N/A)
<p>37. Where the board does not accept the audit committee's recommendation on the appointment, reappointment or removal of an external auditor, a statement from the audit committee explaining the recommendation and the reasons why the board has taken a different position.</p> <p>This disclosure is required in both the annual report and in any papers recommending appointment or re-appointment of the auditors. But circumstances leading to such disclosure should be very rare.</p>	C.3.6	
<p>38. An explanation of how, if the auditor provides non-audit services, auditor objectivity and independence are safeguarded.</p> <p>Although not necessary for compliance with the July 2003 FRC Combined Code, it is recommended that disclosures about auditors' remuneration for audit and non-audit services should be made in accordance with the guidance issued by the ICAEW in TECH 24/03. This is summarised in a separate section at the end of this checklist.</p>	C.3.7	

D. Relations with shareholders

D.1 Dialogue with Institutional Shareholders

There should be a dialogue with shareholders based on the mutual understanding of objectives. The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.

Whilst recognising that most shareholder contact is with the chief executive and finance director, the chairman (and the senior independent director and other directors as appropriate) should maintain sufficient contact with major shareholders to understand their issues and concerns.

The board should keep in touch with shareholder opinion in whatever ways are most practical and efficient.

39. The steps the board has taken to ensure that members of the board, and in particular the non-executive directors, develop an understanding of the views of major shareholders about their company.

D.1.2

D.2 Constructive Use of AGM

The board should use the AGM to communicate with investors and to encourage their participation.

40. There are no specific disclosure requirements but a complete report would include some information on how this principle has been applied.

N/A

Disclosure of Auditors' remuneration

In July 2003 the ICAEW issued TECH 24/03 "Disclosure of the nature and cost of services provided by auditors". This provides guidance for directors of UK companies quoted on a regulated market as to the form and extent of disclosures in their annual reports of the nature and cost to the company of services provided by the company's auditors. The guidance follows the principles of a Recommendation from the European Commission, taking account of UK law, while at the same time aligning with the approach to classification of fees taken by the SEC in the US.

Although the disclosures are not currently mandatory (enabling legislation has been passed, but detailed disclosure requirements are not expected to be implemented for some time yet) users of annual reports, including corporate governance pressure groups, will increasingly expect to see this information disclosed. The disclosures may also be seen as relevant in the context of the new disclosure requirement in the Code concerning how auditor objectivity and independence have been safeguarded.

The principal disclosure requirements in the guidance are set out below. For a fuller description of the amounts to be included within each caption, reference should be made to TECH 24/03 which can be obtained from the Institute of Chartered Accountants in England and Wales on its website at icaew.co.uk

Disclosure checklist

	Reference, principle or provision	Included? (Yes/No/N/A)
<p>41. Fees should be disclosed in the following categories and subcategories:</p> <p>Audit services:</p> <ul style="list-style-type: none"> • Statutory audit • Audit-related regulatory reporting <p>Further assurance services</p> <p>Tax services:</p> <ul style="list-style-type: none"> • Compliance services • Advisory services <p>Other services:</p> <ul style="list-style-type: none"> • Financial information technology • Internal audit • Valuation • Litigation • Recruitment • Other services that give rise to a self-review threat (listed separately) • Other services not covered by the above 	TECH 24/03 Para13	
<p>42. Narrative explanations should be given of what is included in the various categories and subcategories where this would be helpful.</p> <p>Further analysis of the fees for audit services should be given where it will increase the understanding of the user of the financial statements. An explanation of the basis of the breakdown should be given where it is not obvious from the description given.</p> <p>It is not necessary to show individual amounts for the different services under "Further assurance services" but there should be a narrative explanation of the nature of the services included in this category.</p> <p>These requirements are intended to ensure that users of the financial statements can understand what is included within the categories specified in the guidance.</p>	TECH 24/03 Para13, 16 and 17	
<p>43. Narrative disclosures should be provided to explain the company's policy for ensuring that the auditor's independence has not been compromised.</p> <p>This parallels Code provision C.3.7 (see 38 above).</p>	TECH 24/03 Para22	
<p>44. There should be additional disclosure of a material variation in services contracted to be performed after the period end, together with the amount of fees agreed, or a best estimate of the amount that will be payable. The guidance notes that such disclosure is only likely to be necessary in rare circumstances.</p> <p>An example of this might be where the auditors have been awarded or lost a significant contract to provide recurring non-audit services. The disclosure requirement is not intended to cover more routine engagements entered into after the year end.</p>	TECH 24/03 Para25	
<p>45. Fees in respect of subsidiaries that are excluded from consolidation because there are severe long-term restrictions hindering control should normally be excluded from the main tabulation, in which case additional disclosures should be made.</p> <p>Exclusion from the main tabulation follows from the general rule in the guidance that the disclosures are for the company and entities controlled by it alone. But the amount of fees for any such excluded subsidiaries should be disclosed by way of note in the interests of transparency.</p>	TECH 24/03 Para29	

	Reference, principle or provision	Included? (Yes/No/N/A)
46. Fees for work performed during the period for associates and joint ventures would not normally be disclosed. However, this should be considered on a case by case basis. Additional disclosures would be appropriate if associates and joint ventures form a particularly large part of the group financial statements.	TECH 24/03 Para 30	
47. Pension schemes are not regarded as controlled by the sponsoring company and any fees in respect of them should therefore be excluded from the main tabulation. However, in view of the close relationship between companies and their pension schemes, there should be additional disclosure of fees in respect of companies' pension schemes.	TECH 24/03 Para 31	
48. Further analysis of the fees for audit and non-audit services may be desirable in order to enable the users to reconcile the disclosures required by the guidance with those required by law. There are two principal sources of differences between the statutory disclosure requirements and those of the guidance (other than the greater level of detail required by the guidance). Company law is generally interpreted to require disclosure of audit fees in consolidated accounts in respect of both the principal and any secondary auditors (i.e. where some subsidiaries are audited by a different firm). The guidance calls for disclosure in respect of the principal auditor only. Statutory disclosure of non-audit fees is at present required, in effect, only in so far as the work is carried out for the company and its UK subsidiaries by the principal auditor and its narrowly defined "associates". The guidance calls for information in relation to all undertakings controlled by the company alone, including overseas subsidiaries, and in respect of services provided by the principal auditor and its widely defined "network".	TECH 24/03 Para 32 and 33	
49. TECH 24/03 imposes no specific requirement for comparative figures although paragraph 7 refers to the fact that compliance with the EC Recommendation would require comparative figures. Companies will generally wish to give comparative figures because this will be of value to users of the financial statements. But it would be reasonable to omit the comparatives in the first year of compliance with TECH 24/03 where they could not be produced without undue cost. Comparatives must be given for the statutory disclosures of audit and non-audit fees.		

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