Finance & Management

March 2003 Issue 97

The monthly newsletter for members, with news, views and updates on current topics.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND & WALES

Faculty of Finance and Management

'THE BUSINESS OF AMERICA IS BUSINESS ' – President Calvin Coolidge

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Financial PR – is it necessary?

We explore the pros and cons of using financial public relations consultants and suggest the best ways to obtain value from the relationship. *Page 9*

FORTHCOMING EVENT ...

Managing risk

27 March – Richard Sharman, head of risk management at KPMG, explores ways to assess the real value delivered by your risk management framework and the return on your investment in the risk management process.

For further details – see page 15

IN THIS MONTH'S MAILING ...

Good Practice Guideline

Issue 41

Implementing international accounting standards
The introduction of IAS regulations in Europe from 2005 represents a major change in financial reporting and requires detailed planning for the change now. This GPG looks at the processes that companies need to consider.

What Sarbanes-Oxley means for UK FDs

Post-Enron legislation in the US will affect businesses around the world. **Brian Singleton-Green** sets out the key requirements of the new law.

The Sarbanes-Oxley Act in the US is aimed at SEC-registered companies. So those caught by it are companies with a US listing and subsidiaries of companies with a US listing. While this means that a substantial part of the UK's corporate sector, in terms of economic activity, will come under the Act, it is irrelevant to the overwhelming majority of UK companies. The SEC will allow some exemptions to non-US groups, but it is not clear at the moment how extensive these will be.

The Act comes into effect at various times. Some of it is effective already; much of it depends on SEC rules that have yet to be made and will become effective in due course. On various issues, the SEC is taking the opportunity, in implementing Sarbanes-Oxley, to introduce additional requirements that are not strictly stipulated by the Act. The Act introduces a host of new requirements, and I have tried to pick out in this article only the most relevant.

Certification of accounts

The Act requires CEOs and CFOs to attest to (among other things) the accuracy of their accounts. Broadly, the Act requires the relevant directors to certify that:

- the report does not contain any untrue statements or omit anything that would be necessary for the report not to be misleading;
- the report fairly presents the company's financial condition and results;
- they are responsible for the internal controls and have reported on their effectiveness; and
- they have reported all significant weaknesses in controls and all management frauds to the auditors and the audit committee.

This requirement became effective on 29 August 2002.

A second, overlapping provision in the Act requires the CEO and CFO to certify that the accounts comply with all statutory requirements and that they report fairly the company's financial condition and results.

Wilful breach of the provision, which became effective on 30 July 2002 (when the Act was passed), can result

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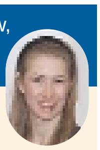
THE FACULTY COMMITTEE

A message from Caron Bradshaw, head of the ethics advisory services at the ICAEW



SUPPORT AND GUIDANCE WHEN THE HEAT IS ON...

You may come under pressure to disguise financial difficulties or to inflate the well-being of the business, to extend banking facilities, entice new customers, or maintain a façade of prosperity and success.

The Institute provides **free** and **confidential** advice and guidance to members on all ethical issues – somewhere you can turn when faced with such pressures.

The ethics advisory services (replacing 'IMACE' and 'CAASE') provide prompt, skilful and sympathetic assistance on everything from your responsibilities in business to inappropriate behaviour of a colleague.

Visit our web pages on:
www.icaew.co.uk/ethicsadvice
call: 01908 248258 or
e-mail: ethics@icaew.co.uk

Sarbanes-Oxley *– from page 1*

in a fine of $5 million or 20 years in prison or both.

Internal controls

In addition to the references to internal controls in the certification requirement, the Act has a separate requirement for the management of a company to assess and report on the effectiveness of its internal controls. The auditors then have to report on this report. The SEC has issued draft rules to implement these requirements. The legislation does not lay down a deadline for implementation, but as the certification procedure mentioned earlier in effect cross-refers to these requirements, it would be sensible to implement them as quickly as possible, and this seems to be the SEC's intention.

The Institute has written to the SEC seeking exemption from these requirements for UK companies and their auditors.

Financial reporting

The accounts must 'reflect' all material correcting adjustments identified by the auditors. American lawyers are unclear what this means; one authority advances three possible interpretations. No doubt the SEC will make everything clear.

The Act requires companies to disclose all material off balance sheet transactions and arrangements. The SEC has issued rules to implement this (through disclosures in the 'management discussion and analysis'). The Act also requires companies' 'pro forma' figures not to be untrue or misleading and to be reconciled with the figures produced under GAAP. The SEC has also issued rules to implement this requirement.

The Act deals with situations where – because of misconduct – a company has failed to comply with financial reporting requirements and then has to restate its accounts. In these circumstances, the CEO and CFO have to pay back to the company any incentive-based or equity-based compensation and any profits on the sale of shares in the company in the 12 months after the defective accounts were filed. This requirement became effective on 30 July 2002. It has been

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suggested that the SEC would have difficulty enforcing this outside the US.

Corporate governance

The principal corporate governance reforms introduced by the Act affect the role and composition of audit committees. First, the Act requires the SEC to require US stock exchanges to require every listed company to have an audit committee. The audit committee's members must all be independent members of the board of directors, which means that – other than in their role as a director – they cannot be an affiliated person of the company or receive remuneration from it. The SEC's requirements must be in place by 26 April 2003, but this is one area where the SEC has indicated a willingness to make allowances for the requirements of foreign legislation.

> The accounts must 'reflect' all material adjustments

Auditors must disclose to the audit committee: all critical accounting policies used by the company; alternative accounting treatments that have been discussed with management and their ramifications; and other material written communications between the auditors and management.

The company must disclose whether the audit committee contains a 'financial expert', and if not, why not. Companies must disclose whether they have a code of ethics for their senior financial officers, and if not, why not. The SEC has issued rules to implement all these requirements.

The audit committee will be responsible for the appointment, compensation and oversight of the auditors, and for resolving disagreements between management and auditors about financial reporting, and must approve any non-audit work to be performed by the auditors (so far as that is allowed by the Act). This is another area where the SEC seems likely to make some concessions to foreign legislation (for example, the UK's requirement that the auditors should be appointed by the company in general meeting).

The audit committee also has to establish procedures for dealing with complaints about accounting or auditing matters and for whistle-blowing by employees about these matters.

Loans to directors

With effect from 30 July 2002, the Act prohibits loans to directors, except for certain loans made in the ordinary course of business, on arm's length terms, by banks regulated under US legislation. (This means that non-US banks are excluded from the exception.)

Auditors

The Act establishes a new regulatory regime for auditors of US-listed companies. In charge of the new regime (but under the SEC) is a Public Company Accounting Oversight Board. The Board will be responsible for registering, regulating, approving standards for and monitoring audit firms. Audit firms from outside the US are not exempt from this new regime.

The Board has to be operational by 26 April 2003 and firms have to be registered within 180 days of whenever it is deemed to be operational, which (if 26 April is the starting date) takes us to October 2003. A number of the Act's requirements relating to auditors are worded as applying to 'registered public accounting firms', so in some cases their implementation will have to await the firms' registration.

Confusingly, in other cases, the SEC has changed its rules anyway (in accordance with another requirement of the Act), in advance of the new regime becoming operational.

The Act prohibits auditors from providing a range of non-audit services to audit clients. Broadly, these are: book-keeping, financial information systems design and implementation, valuations, actuarial services, internal audit, management functions, human resources work, investment broking, dealing, or advising, investment banking, legal services, and expert services.

> The SEC does appear to recognise the difficulties

Under the Act, the lead audit partner and the reviewing partner on the audit will each have to be replaced after a maximum of five years. The SEC has extended this to other key partners involved in the audit (including auditors of major subsidiaries). It has also prohibited an audit partner's compensation from being based on the procurement of any non-audit services provided to the audit client. The Act imposes a one-year quarantine on moving from the audit team to the client as CEO, CFO or another senior financial position. The SEC has issued rules on all these matters.

Exemptions

The SEC has power to grant exemptions to many, but not all, of the Act's requirements. However, it has made it clear that it is not in business to overturn the safeguards that Congress has only just enacted. If anything, it seems keen to extend them.

The basic attitude in Washington is: 'if you want to raise money in our markets, you play by our rules'. And those seeking exemptions will generally have to satisfy the SEC that they have equivalent protections in place for the US investor to those in the provisions from which exemption is sought.

Foreign companies must hope that in due course there is also recognition of the advantages to the US in welcoming them to its capital markets, and that some allowances can safely be made for how companies outside America organise themselves.

The SEC does appear, though, to recognise the difficulties where the US legislation conflicts with foreign legislative requirements and to be willing to make allowances for this at least. F&M

FACULTY OF FINANCE AND MANAGEMENT

Formal notice of date of AGM and Faculty lecture

Thursday 12th June • 12.30pm to 2.00pm

Chartered Accountants' Hall, London

A Faculty lecture on Business Valuation will be given by Maggie Mullen on the same day as the Faculty's annual general meeting (AGM) The proceedings will start at 12.30pm and will be followed by a buffet lunch.

This event is free to Faculty members and is not open to non-members.

VBM – what the consultants don't tell you

Consultants endorsing the virtues of value based management can be surprisingly short on the practical details of its implementation. **Chris Sharp** and **Jonathan Plumtree** from UnumProvident, describe how their finance department opted to 'grow' the process internally, with very positive results.

Chris Sharp (top) and Jonathan Plumtree are both Faculty members, and head of business planning and director of finance respectively at UnumProvident.
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UnumProvident is the UK's leading provider of group income protection insurance, with 30 years' experience and 30% of the market. As a company we have adopted many best practice approaches fuelled by our 'conversion' to the European Foundation for Quality Management (EFQM) model for business excellence. Our performance management approach is built around our own interpretation of the balanced business scorecard and we place great emphasis on driving performance through disciplined review and action setting.

In early 2001 we embarked on our journey to embed value based management at UnumProvident, mindful of the impact that this approach has had on businesses across the globe in terms of activity, if not always in terms of ultimate value creation!

Although the concept of VBM appeared sound, most of the articles on the subject seemed to be written by consultants, hardly anxious to give away all of their fee-generating know-how. As a consequence much of the reading on the topic concentrated on the high level theory and remained a little vague in terms of practical application. Our previous experience of implementing best practice approaches supported a practical approach with minimal reliance on external 'experts'.

Thus, having attended the Faculty conference on the subject, we formulated our own plan of action. Rather than set up a feeding frenzy for consultants we decided to 'grow' the concept internally, increasing both the momentum and value realised with each step we took down the 'chain'.

Our VBM framework

Our first step was to establish a broad framework within which to develop our VBM approach, consisting of five key components:

1) measure value;
2) understand drivers of value;
3) align strategy, structures and processes to value – removing any barriers to value delivery;
4) incentivise value delivery by directly rewarding people for creating value; and
5) report value internally and externally.

In this article we concentrate on the first two of these components, where we have already realised real benefits.

> Value is not a short-term commodity

Drawing up a value map

Interestingly, from the very outset it was clear that no-one had really stopped to think about which operational drivers were adding the most value to our organisation. We were a company doing well but each area of the business was sure that its own contribution had really delivered most to increase the organisation's value. There was often conflict in reaching decisions as to where we should focus further resources to maximise value.

Value is not a short-term commodity, measured merely in terms of the projected profit over the next few years, but of the true increase in the organisation's value over time. In our own case we were not interested merely in the turnover or profit that our customers would create in the current year, but in the future net positive cashflows that they were likely to generate.

We needed to measure embedded value by looking at our existing policy holders and making assumptions as to their likely behaviour patterns for the duration of their time as our customer, together with anticipated movements in other external factors such as inflation and interest rates. By making a change to the assumptions made for any given driver in isolation it would therefore become possible to map the value sensitivity of that driver.

We began to draw up a value map. Starting at the left-hand side of the sheet we began with the strategic goal of increasing our 'embedded value' and mapped backwards though our key financial drivers. Embedded value was driven by discounted future profits, which were a factor of the other financial measures driving our future revenue and expense streams. Each financial measure could in turn be broken down into further components and sub components. Obviously there was also some linkage. For example increased prices would potentially increase premium income but would also have the likelihood of increasing lapses of policies if they became out of line with accepted market rates. Thus some of the drivers had the potential to both add and destroy value.

Perhaps the hardest, but arguably most crucial, part of drawing the map came with introducing the final section at the far right hand side of the page – the links to our operational drivers. What were the operational levers that could be pulled to impact on each of our financial measures?

Identifying the key value drivers

The best way to find the most effective operational levers was clearly to get out amongst the business and ask the experts. To grow the concept our first step was to obtain a wider buy-in. Dangling the carrot of increased credibility for future business cases soon dampened any scepticism that the business had in terms of what we were doing. Here was a finance department trying to understand the way the business really worked and, since each department genuinely believed that its was the greatest contributor to the future value of the company, they were all exceptionally willing to share their expertise.

We had received an actuarial model that we could confidently use to project our embedded value. As is the wont of actuaries it modelled every variable we could have imagined, and some that we couldn't! Clearly there were far too many variables to consider all at once and had we tried to do so, we would undoubtedly have lost the impact of the work we subsequently produced. Our next step was therefore to identify the key value drivers, which we did through a combination of experience, sensitivity modelling and intuition (see Figure 1, below).

A paper on each key value driver

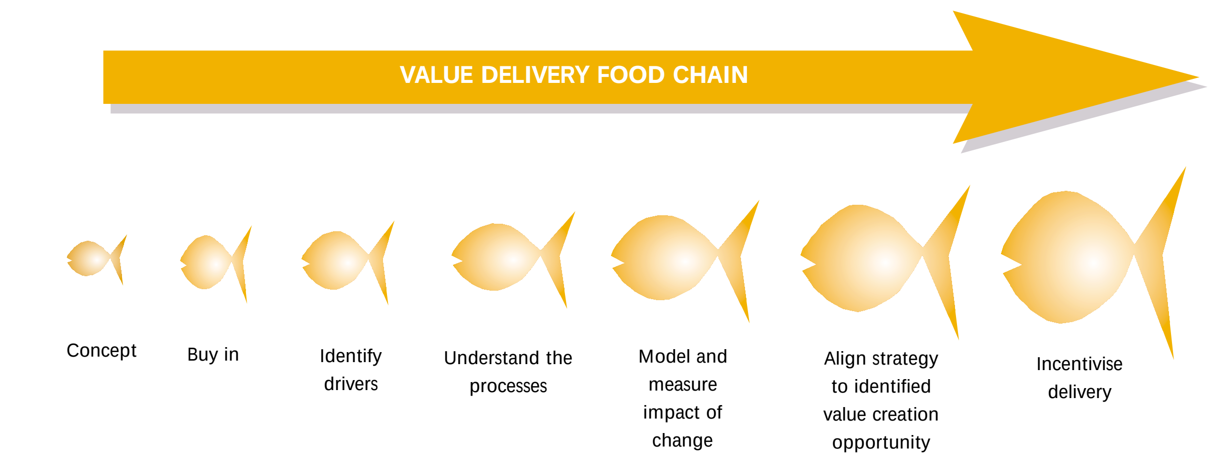
Over a number of months we published a series of papers on each of the key value drivers that we had identified. Each document was compiled in full collaboration with all areas of the business coming into direct contact with that particular driver. We avoided financial jargon, assumed a low level of general understanding and as a consequence produced a content capable of providing even the most narrowly focused specialist with enough understanding to participate in informed discussion on the topic. These papers came in three sections:

1 *Value driver facts*

'Value driver facts' brought together everything we knew about the driver in traditional terms. We sought to include a robust overview of the processes within the organisation that related to each value driver which was in sufficient detail that the reader could derive a good understanding of the key aspects of each process. The factual education element of the paper was completed with an analysis of the trends we had seen for each value driver, highlighting the links to the movement of the key performance indicators (KPIs) we had associated with it. We looked beyond the key financial measures and performance indicators to understand any other metrics that the business appeared to find useful for the operational management of that driver.

Interestingly we had already begun to realise an intrinsic benefit from this introductory segment of our work alone. Increased education as to how our existing processes worked in practice, combined with a range of historical financial and operational analysis had never been pulled together into a single document before and immediately stimulated more informed discussion. Long-standing assumptions as to the

Figure 1



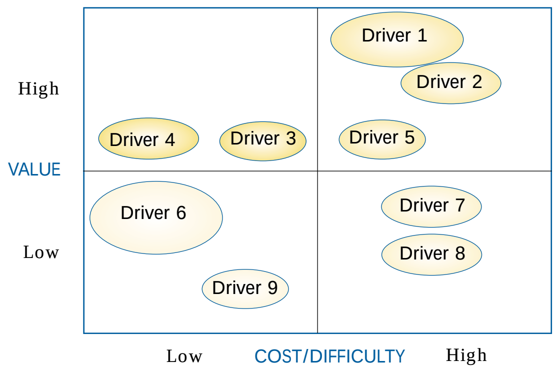
way some aspects of our business worked were suddenly brought into sharp focus and we achieved far greater alignment in the understanding of our key business processes amongst the senior management team.

2 *Opportunity for value creation*
The second section of each report sought to build on the new-found understanding of the driver by highlighting the opportunity for value creation. The sensitivity of the embedded value to each driver was merely a measurement of effect. A true value based management approach needed to link the value opportunity with the operational 'levers' that needed to be pulled to cause the desired impact. We looked closely at activities that appeared to be contributing to the delivery of value creation and tried to establish evidence of their effectiveness.

In addition, just as had been promised, the sensitivity work undertaken within the value based management framework offered significant benefit justification for a range of potential development projects.

3 *Managing for value*
The final section of each report concentrated on how we could influence the delivery of value. In essence, this was the beginning of our 'to do' list for creating greater

Figure 2



value from this driver. We recognised that in reality we would be unlikely to achieve an impact on a single value driver in isolation and sought to identify the linkages between each of the value drivers to quantify the net impact that might be achieved. We also recognised that some drivers would prove more difficult to influence (see Figure 2, above).

Having completed individual papers on each of the nine key value drivers, we took some time to reflect on our learnings and to reach some initial conclusions. We mapped the value creating opportunity for each driver with the cost/difficulty of delivery in order to assess the relative attractiveness of each. From this exercise (Figure 2) we concluded that the greatest long term yield should come from investing in Drivers 1,2 and 5 (these have been areas of strategic focus). In the short term, improving the effectiveness of drivers 3 and 4 can also create value (these have become areas of operational focus).

Conclusion

The reports that we issued were well received. It was clear to the business that we had listened to what they had to say and the reports were both pragmatic and practical.

Most significantly, however, the reports we had issued carried the gravitas and credibility to ensure that the value based management approach has become embedded within the company. The work we had performed was discussed at the senior management strategy conference to ensure that our strategy was aligned to the major value creating opportunities identified and our future development programme is now considered through 'VBM spectacles'.

We have therefore already made significant progress down our value food chain and we now have the validation required to begin to drive forward with increased confidence. F&M

Useful web sites

Managing for Shareholder Value – an interactive guide to research in shareholder value and the four guiding principles of MSV, including a self-test and an on-line library of press articles on shareholder value.
www.paconsulting.com/msv/

Self-Assessment Guide for Shareholder Value Creation – guide taken from a Canadian Performance Reporting Initiative publication by Julie Desjardins. The guide is part of the Shareholder Value Creation pages of the CPRI.
cpri.matrixlinks.ca/svc/guide.html

Shareholder Value Resource Library – a useful resource library from the Institute of Business Travel Managment, including articles on shareholder value and presentations from experts and accounting firms.
www.ibtm.org/research/shareholder.htm

Understanding VBM Implementations – a collection of information from the resources of PricewaterhouseCoopers in Switzerland.
www.pwcglobal.com/ch/eng/inssol/issues/management/2001/vbm_understanding.html

More links are available from the ICAEW web sites links pages at: www.icaew.co.uk/library.htm

What 'modernising company law' will mean

Louise Maslen is a technical manager in the Institute's Technical Strategy Directive. The Institute has been involved throughout the company law review process and the task force established to help respond to the white paper included a member of the Faculty. Its response to the paper is available on the web site. Web site: www.icaew.co.uk

The government's white paper 'Modernising company law', published in July 2002, was a response to the recommendations made a year previously in the Company Law Review Steering Group's final report. Here **Louise Maslen** explains the paper's salient points for finance directors.

In 1998, the government announced its intention for the UK to have an up-to-date framework for company law, and an Independent Company Law Review Steering Group (the Review) was established. In July 2001 the Review published its Final Report.

One year later, the government published the white paper, 'Modernising company law' in response to the recommendations in the final report.

The white paper (which can be viewed at www.dti.gov.uk/companiesbill) sets out the government's policy on most of the key issues considered during the review process and also incorporates a series of draft clauses to be included in a Companies Bill.

In its approach to company law reform, the government has sought to apply the principle of 'think small first', with additional provisions for larger/public interest companies where necessary.

There are, however, a number of other issues and clauses that are still being considered which is likely to result in further consultation papers in the coming months. Some of the key proposals in the white paper are outlined here.

Reporting and audit

Preparation of the annual financial statements and reports

The government proposes to abolish the directors' report for all companies. In its place will be a simple supplementary statement. For major companies an operating and financial review (OFR) will be introduced.

The government intends to designate a single body, referred to as the Standards Board, to make detailed rules on the form and content of financial statements. At present there is a mixture of statutory rules, contained in schedules to the Companies Act 1985, and accounting standards that determine the form and content of financial statements. The objective is a single coherent set of rules.

The ability to file abbreviated accounts will be abolished and the small companies thresholds for accounting purposes will be increased to the EU permitted maximum (£4.8 million turnover, £2.4 million balance sheet total, 50 employees).

The audit exemption thresholds will remain at the current level until the government has had chance to assess the impact of the increase in the turnover threshold to £1million. An independent professional review will not be introduced.

Operating and financial review (OFR)

A mandatory OFR will be introduced for major companies that meet any two of the three criteria set out below.

The government believes that companies should provide more forward-looking, qualitative information, alongside the more traditional quantitative and historical types of information for the benefit of members as well as wider stakeholders.

The directors will be required to provide information that, in their opinion, will achieve the review objective. The review objective is to provide such information as will permit members of the company to make an informed assessment of the company's operations, its financial position; and its future business strategies and prospects.

In order to achieve the review objective, the OFR must provide information on the core elements, as set out in the draft clauses. These are:

- a statement of the company's business in the financial year;
- a fair review of performance during the year and of the position at the end of the year; and

	Public companies	Private companies
1) Turnover more than	£50 million	£500 million
2) Balance sheet total more than	£25 million	£250 million
3) No of employees more than	500	5,000

- a fair projection of the prospects for the company's business and of events which will, or are likely to, substantially affect that business.

However, directors must also consider whether to include information on a number of other matters including the company's management structure, its policies on employment, environmental, social and community issues and its performance against these policies.

The government intends devolving the task of drawing up detailed rules for the compilation of the OFR to the Standards Board.

The auditor's role would be to report on the 'adequacy' of the procedure adopted by the directors in preparing the OFR.

The directors' remuneration report
Statutory Instrument 2002 No 1986 came into force on 1 August 2002 and introduces new regulations for disclosure of directors' remuneration in financial statements.

These regulations are not, strictly speaking, part of the white paper proposals but they are mentioned in passing in the white paper and are extremely important as they take effect for financial years ending on or after 31 December 2002.

The regulations impose a requirement on quoted companies to prepare, for each financial year, a directors' remuneration report. The key requirements include:

- details of the directors' consideration of directors' remuneration, including membership of the remuneration committee and details of any remuneration consultants used;
- a forward looking statement of the company's policy on directors' remuneration;
- a performance graph which sets out information on the company's performance in comparison with an appropriate share market index;
- information on each director's contract of service or contract for services; and
- detailed information on emoluments, share options, long term incentives plans, pensions, compensation and excess retirement benefits of each director and in some cases of past directors.

The report will need to be approved by the board of directors and a copy sent to the Registrar. It will also be subject to a shareholders' vote. The company's auditor needs to report to the company as to whether that part of the directors' remuneration report which contains the information required by Part 3 of Schedule 7A has been properly prepared in accordance with the Companies Act 1985 (the Statutory Instrument can be viewed at: www.legislation.hmso.gov.uk/si/si2002/20021986.htm).

Filing and publication of annual financial statements and reports
The government proposes to shorten the filing deadlines for accounts. Private companies will need to file accounts within seven months of the year-end and public companies within six months of the year-end. Quoted companies will also need to publish their annual reporting documents on the internet as soon as possible after being approved and the audit report issued – and in any event within four months of the year-end.

> The government intends to codify directors' duties

Directors' duties
The Companies Act 1985 has numerous provisions on directors' responsibilities but historically general rules about directors' conduct and standards of skill and care have been laid down in complex case law. The government intends to codify directors' general duties in statute.

The criminal sanctions for the offence of knowingly or recklessly deceiving, misleading or providing a false statement to an auditor are to be extended and the government proposes to oblige directors, who have reasonable cause to believe that they have material information, to bring it to the attention of the auditor.

Company administration
Company decision making
Significant reforms are proposed for general meetings and resolutions. These include the removal of the requirement for private companies to hold annual general meetings (AGMs), to lay accounts, and to reappoint auditors annually at a general meeting. There will, however, be a process by which private companies may opt to apply the 'mandatory' regime of requiring AGMs. The requirement to hold an AGM for public companies will be maintained, though members will be able to unanimously decide to dispense with them. The AGM should be held within 10 months of the year-end for private companies and within six months for public companies.

The government intends to reduce the minimum notice period for all meetings of limited companies and for special resolutions to 14 days. The use of an extraordinary resolution will be abolished and private companies will be able to pass both written ordinary and special resolutions based on the number of eligible votes. Written resolutions will need to be received in legible form or a form capable of being converted.

Capital maintenance rules
The government has made proposals to simplify the current capital maintenance rules. These include abolishing the requirement for an authorised share capital, the removal of the prohibition on the giving by private companies of financial assistance and the removal of the special procedure by which private companies may redeem or purchase their own shares out of capital. Instead of the current requirement for court approval for a capital reduction, a solvency statement will be introduced. A right to challenge the reduction before the court will apply to public companies only.

Company formation
The government believes that the separate Memorandum and Articles of Association no longer serve any practical purpose and intends to introduce a single constitutional document, capable of amendment by special resolution. The members of a company could make it more difficult to change the constitution by laying down a higher majority or unanimity.

Company secretaries
The government intends to abolish the requirement for private companies to have a company secretary. F&M

Financial PR – pointless exercise or necessary evil?

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Is engaging a financial public relations company a worthwhile exercise? Or is it just a waste of money and management time in diverting attention to the superficial? **Alex Benady** explains when financial PR is a necessity, and how to get the best out of it.

Summer 2000 was not the best time for entrepreneur Stelios Haji-Ioannou to launch his budget airline easyJet on the stock exchange. The dot com bubble had just burst and easyJet relied heavily on the internet for bookings. Other companies in the sector were struggling to make a profit and markets were jittery. More damaging still, no one really believed that the company had any credible management - other than its founder.

Undeterred, four months before the float, easyJet hired a PR company, with the brief to play down the negatives in the press, accentuate the positives and build the profile of the senior management team.

In June 2000 easyJet made one of the most successful stock exchange debuts of the year. It was over-subscribed tenfold and 29 million additional shares had to be issued to meet demand. The initial price of 310p rose more than 10% within seconds of trading, and remained well above the issue price - until the shocking events of 11 September 2001.

Progress

Subsequently easyJet, which does not pay dividends, has successfully used PR as a key tool to maintain on-going interest in its shares. The company says financial PR has played a key role in its progress from a small privately owned operation to Europe's largest budget carrier. "We knew the financial markets would be scrutinising us, Having a financial PR company was absolutely invaluable in helping us through a very challenging time in the company's development," says easyJet finance director Chris Walton.

Many finance directors remain instinctively sceptical of PR. Its critics rightly point out that it can be vague, unaccountable and something of an unguided missile. Even those with positive experiences find it hard to be too favourable. "It's not as bad as having a lawyer or an accountant. I suppose it's a necessary evil because it helps air your case and put the right spin on things," says David Prue FD of Ofex listed smoke alarm manufacturer Sprue Aegis, epitomising the typically grudging nature of support for the service.

> When used wisely, it can be a powerful and versatile tool

However easyJet's experience suggests that, when used wisely, it can also be a powerful and versatile tool capable of supporting a wide range of precise financial objectives. It's a view endorsed by the Investor Relations Society (IRS). "A good PR firm gives you access to journalists and analysts that you are unlikely to ever get on your own. They can also provide a very useful reality check," says Andrew Hawkins, director general of the IRS.

At its most basic, financial PR is about keeping investors – potential and existing, retail and institutional – informed about what the company is up to. The first time most FDs encounter the need for it is when their company goes public. It's a stress-laden moment, key to any company's development, and it requires many new skills and much new knowledge.

Preparing the market is vital, say experts. "With dozens of new companies that no one has heard of coming to market every year, it is important to get your story out in good time," advises Sue Scott, head of the financial division at PR company Buffalo.

EasyJet could leave it relatively late because it had a high profile, but for most companies Scott suggests that planning should start 18 months in advance. "This gives you time to raise the profile of senior executives, establish their credibility which is a key consideration for new investors, get your products talked about and raise awareness of your firm in the press. It also gives you time to give public-facing executives media training, so they know what to expect from journalists, and can get the company story across effectively," she says.

Public

Of course some firms use financial PR even if they have no intention of going public. Companies such as The John Lewis Partnership are treated by the press as public concerns and use the financial media to communicate with their employees and consumers.

But once listed, financial PR can play a wide variety of roles – again all derived from the basic idea of keeping both retail and institutional shareholders informed. Some are very specific tasks such as supporting rights issues which obviously need signalling to the world at large.

But PR can also help with shareholder liquidity and share price maintenance.

"By telling your story in a compelling way, PR can be invaluable in reducing shareholder 'churn', and it can also help maintain a healthy active market in your company shares," says Scott.

It is also a must when considering an acquisition and in moments of crisis. If there is any chance of a hostile bid for your company, you need to have standing PR arrangements because time is then of the essence say the professionals. "Often the first two weeks are crucial in fending off an unwanted suitor. You do not have time to get your ducks in a row, so you need to be ready in advance," warns Steffan Williams, managing director of PR firm Capital Communications.

Crisis plan

In the current climate of heightened press awareness of even the most minor regulatory infractions, the same arguments apply to the need for a well rehearsed crisis plan to minimise the effect of mistakes that can occur within even the best run companies.

Most larger listed firms also use PR to fulfil statutory reporting requirements. While the PR industry claims this is a must, some smaller companies prefer to communicate with primary and even secondary information providers themselves. "With the advent of electronic communications, keeping the relevant people informed is really not much more complicated than sending an e-mail. You can save significant sums by doing it yourself," advises Nigel Burton FD of listed investor relations firm WI Link.

This begs the tricky question of how

> Most larger firms use PR for statutory reporting

much you should spend on financial PR. Obviously the cost varies, depending on how much work you have, the campaign objectives, the techniques used, and the consultancy itself. But a recent survey by the Public Relations Consultants Association (PRCA) found that the average fee is around £3,500 a month.

PR firms are usually appointed on retainers – contracts of at least 12 months' duration which provide an agreed number of days for specified tasks. You pay extra for project work or crisis management. According to PRCA guidelines, fees do not include disbursements and expenses, which PR agencies try to charge at cost plus 17.65%. However some will negotiate a flat charge for expenses. "It makes the client spending more predictable and makes the agency more careful about how it spends money," advises Alex Glover managing director at PR firm WMC Communications.

More important than getting a good deal however is getting the right agency. PR agencies' core skills, the things really worth paying for, are their creativity and their contacts with the media. But whether you get the best from your PR company is often determined by the quality of your relationship. "The added value of PR lies in creativity, but the key to unlocking that is whether you have confidence and can work with them," says WI's Nigel Burton.

Shopping

So top of your shopping list should be personal fit with the individuals you will be working with and cultural fit between your organisations. As in any relationship it is best to chose a partner with roughly the same status and outlook as yourself. Small firms may hanker after the clout of a PR giant, but the truth is that they are likely to be edged out by the demands of larger clients. Conversely, big firms often lust for the hands-on creativity of a smaller boutique, but are too ponderous to take full advantage of it.

The PRCA recommends compiling a shortlist of prospective agencies following a round of 'chemistry meetings'. But beyond trusting your gut instincts there are a number of steps you can take at the pitch stage and during the partnership to ensure you get the results you want. Briefing is key, says Steffan Williams, "You should prepare a comprehensive brief with clearly-stated, measurable objectives and desired outcomes. The more guidance and information you put into the brief, the more productive and creative the consultancy will be."

He suggests you should give consultancies at least two weeks to respond to a brief, and you should make any relevant research available to consultancies at the pitch stage. Increasingly companies are using procurement specialists to help with the purchase of marketing services – they are particularly effective at obtaining full transparency (which is not always forthcoming) and negotiating fees.

But be warned – PR is an art not a science and brutal buyers who approach PR as a commodity like buying widgets can cut costs but also destroy any value that might be obtained from it. It is fair to say that PR firms are no

> PR is an art, not a science

more – or less – honest than those in any other industry. This means that you need to have your wits about you when striking a deal. Not only should objectives and outcomes be clear, as many other details as possible should be nailed down. In particular, you need to specify who will be working on your account. Meeting and employing the chairman and managing director is no use, if the reality is that your business is serviced by a teenaged trainee.

Promised

Similarly, when you are promised a day a week of the MD's time, try to establish how many other clients he/she has made the same promise to. A surprising number of senior people work nine-day weeks. And it is worth remembering that the intellectual property of creative ideas presented in a pitch belongs to the consultancy. If you want to use their ideas but not them, you have to pay.

But once the contract is signed, the client must get the best out of the relationship. Like a clingy girlfriend, most PR agencies say this involves deep levels of trust and mutual commitment. "We need to really get inside a business to understand it. Our ideal relationship would be where one of our people has a desk in the client's office," says Alex Glover.

It's an intensity that many clients find intimidating or irksome. And it inevitably means more work in managing the relationship. On the other hand it also means far better returns on your PR investment. F&M

Pensions deficits – avoiding conflicts of interest

Caron Bradshaw is the head of ethics advisory services at the Institute. E-mail: ethics@icaew.co.uk

Finance directors who are also trustees of their employer's pension fund may feel concern over the adequacy of its provisions, while also being duty bound to minimise the employer's liability. **Caron Bradshaw** examines the dilemma....

There has recently been an upsurge in the number of calls to the ethics advisory services from finance directors who are also trustees of the employer's pension fund. With the continuing fall in world stock markets, the future considerations regarding FRS17, longer life spans and other factors, pension plan funding is subject to extreme uncertainty.
I would be surprised if many of you reading this item are not personally affected by the current climate.
Final salary and other defined benefits schemes are closing to new members left, right and centre.
Some schemes in the news are being closed in their entirety. Many more are struggling with deficits. It is the latter problem which has given rise to a number of enquiries.

As the FD of a company you are keen to ensure that the liability to the employer is minimised. This might include looking at the contributions, lump sum payments into the scheme or even the very future viability of the fund. As trustee to the pension scheme it is your responsibility to ensure that the interests of the members are safeguarded, which will include ensuring the employer pays the proper contributions into the scheme.

The role of trustee is a personal appointment. This means that if you fail in your duties as a trustee you can, in some cases, be personally liable. So taking a view such as, "there are lots of people in the same boat and no one else seems to be changing the status quo..." just might come back to haunt you.

This is where the question of a conflict of interest arises. What advice would I give?

In my view you have to address the conflict but you shouldn't take any of these decisions on your own. You essentially have three options:

1) give up one of the roles causing the conflict;
2) exclude yourself from conversations on such issues either as the FD or as the trustee; or
3) get the informed consent of the interested parties to continue to act.

> As the FD, you are keen to ensure that liability to the employer is minimised

Resign one of the roles
Taking the resignation of a role first. This is rarely a simple, and sometimes it's an unrealistic, option. On the smaller end of the scale it may be that you are, as FD, the one that deals with all the financial matters for the pension fund. Therefore if you resign as trustee there may be no one to fill your shoes. The scheme may also have to consider employing a paid trustee to fill your position. That might not be what they want or be in the best interests of all concerned. It is highly unlikely that you will want to resign your position as FD!

Exclude yourself from relevant discussions
Can you take the second option and exclude yourself from relevant discussions within the employer and the fund? Again in reality this is unlikely to be a real option for many as to do so would effectively render you impotent as FD or trustee.

However for larger entities and bigger funds there may be a number of players who could make these decisions without your involvement. If so, the conflict is manageable using this option.

Obtain informed consent
Finally and possibly most practically effective would be managing the conflict by obtaining the informed consent of the interested parties. In my view an open letter addressed to the trustees, but sent to all scheme members (be careful to consider whether the members are aware of the deficit first), should set out the considerations and options.

It should cover the fact that you will act to the best of your abilities in an objective manner in the execution of both roles and, possibly most importantly, should seek to obtain the indemnity of the interested parties from claims that you acted unprofessionally or with a lack of objectivity and from any loss arising from the execution of the dual role.

If you have any concerns about the role you undertake, conflicts you may be facing or any other ethical dilemmas please contact the Ethics Advisory Services (the combined ethical service for all members following the merger of CAASE and IMACE). Tel: 01908 248258; or e-mail: ethics@icaew.co.uk. F&M

How the Faculty measures up

Last year this Faculty, along with the Institute's four other faculties, underwent a major research programme. This research was carried out by the Institute's Research Centre using telephone interviews among 150 members in each faculty conducted by NFO Worldgroup. The survey was undertaken in June and July 2002. The Faculty is very grateful to the members who gave up their time to be interviewed. The survey, commissioned by the Faculty's head Chris Jackson provided a valuable insight into members' priorities, and their views of the products and services the Faculty provides. The findings are summarised below.

Who benefits from Faculty membership and what do they get?

The Faculty has a membership in excess of 10,000, 74% of those being from business but the total also including practitioners advising businesses. These members receive a monthly newsletter and a further 12 technical publications per year. The Faculty also runs a monthly events programme with video options, provides web-site delivery of all published material, and offers a directory of expertise enabling easy identification of fellow members with a particular area of specialisation.

70% rate the Faculty at least 'good' on meeting needs

Looking at the overall 'customer satisfaction' rating, the findings were encouraging. Measuring the percentage of respondents rating each category 'good', 'very good' or 'excellent', 70% thought that the Faculty does at least a good job in satisfying their needs, with 28% rating it 'very good' or 'excellent'. Looking at other contributory factors to that satisfaction level, 'value for money' was a factor for a very high percentage – 88% – of the respondents.

Overall, the following 'fairly good' or 'very good' ratings emerged:

- keeping members up-to-date with finance and management matters – 96%;
- overall value for money – 88%;
- providing members with authoritative output – 82%;
- providing technical leadership in the field – 78%;
- responding quickly to changing issues – 77%;
- helping members provide a better service (to their clients or company) – 73%;
- representing members' needs and issues – 69%;
- adding value to the member's role within the organisation – 68%; and
- giving member support – 63%.

Use of the Faculty's services

Publications – the Faculty currently has four publications – the monthly newsletter *Finance & Management* (F&M), and the quarterly publications *Management Quarterly* (MQ), *Manager Update* (MU) and *Good Practice Guideline* (GPG). On the individual publications' usefulness, 77% thought F&M 'very' or 'fairly' useful, 76% gave that rating to MQ and 84% to MU, while 72% categorised the GPGs in that way. Some two thirds of those asked felt that the information received was the right amount to meet their needs, while the rest felt they received too much information. A narrow majority felt that there was, as intended, distinct coverage and value attached to each of the four publications. However, 39% did not see that distinction, and the rest were undecided.

Events – the organised monthly events – lectures, workshops and conferences – seemed to suffer from members' time pressures or location preferences, with only 7% having attended an event in the previous 12 months. However, 24% had attended a lecture at some time in the past, while 38% anticipated attending a lecture in the future

The web site – almost a third of members had visited the web site in the previous year (most of them business members rather than practitioners), with 69% of those finding it useful.

The right focus

In general 38% of members questioned felt that the current focus – giving equal weighting to marketing, people management, strategy and financial management – was the right balance of emphasis overall. Some members would prefer to see slightly less marketing (34% said this) and slightly more on strategy and financial management (23% to 25% wanted this). The balance for people management issues was about right.

Further research among Faculty members, however, indicated a range of subjects which members are particularly keen to see covered – or revisited – in the near future. The most frequently mentioned of these were benchmarking and budgeting.

In the interests of balance, the Faculty intends to include more coverage of budgeting and benchmarking as a priority, whilst also including material on other subjects – eg supply chain integration, cycle time reduction, XBRL, professional image management – to meet the more specialist requirements of some members. F&M

LAW

Why poach now?

Eleanor Freeman is an assistant solicitor for the employment, pensions and benefits department at Stephenson Harwood. E-mail: eleanor.freeman@shlegal.com

In the current climate, buying human assets might seem like a good way to enhance the bottom line. But there are certain pitfalls attached to such a strategy, as **Eleanor Freeman** explains.

Many businesses are currently examining their bottom lines and trying to work out how these can be improved. The strategic decisions being considered may well include jettisoning unprofitable or non-core parts of the business.

But rather than simply running down a business or closing it with immediate effect – with all the financial, administrative and legal costs this will entail – management may decide a return can be made by a sale. This may be prefaced by a period of investment in the business activity to be sold.

A less obvious but equally valid alternative to closure may be to bolster weak areas of the business, hoping that this will act as a springboard for other, thriving areas.

Whatever the reason for the investment in the business, a company may consider poaching employees – from rivals. And in that case, it should be aware of potential pitfalls.

The pitfalls

Simply approaching and interviewing an individual could entail that employee breaching an express or implied duty of confidentiality to their (ex-) employer, and the poaching company being liable for inducing that breach.

Breach of confidentiality includes misuse of property belonging to the (ex-) employer, such as client lists. Careful thought should therefore be given to the creation of any documents such as a business plan which will almost inevitably involve a breach of confidence.

Further down the line, when personal terms are being discussed, it is important to remember that liability for inducing any number of other breaches of contract – such as breach of the notice period – may arise.

As well as contractual duties, where a senior employee – particularly a Companies Act director or shadow director – is involved, fiduciary duties such as acting in the best interests of the company will be relevant.

> Companies should be aware of the pitfalls

Where a team is approached, additional opportunities for breach and inducement to breach arise. These include misuse of confidential information relating to the team's individual remuneration packages where employees are under a duty not to disclose these to each other or to breach (or induce to breach) a non-solicitation of employee's covenant.

This may be the first indication that the individual interests of team members actually conflict, an issue which any professional adviser will need to bear in mind throughout the process.

When can the new employee(s) start?

This will be determined largely by the length of any 'garden leave' clauses, notice periods and restrictive covenants. The enforceability of 'garden leave' clauses and post-termination restrictions should be checked – restrictive covenants will only be enforceable if their terms are no more onerous than necessary to protect the (ex-) employer's legitimate business interests. In the case of 'garden leave' clauses, this must be balanced against the employee's right to work.

A prospective employer must also consider the dynamics of any team and their individual contractual terms. Frequently, the restrictions on junior team members will be less onerous enabling those individuals to be more flexible. But does the employer want all of the juniors on the payroll before the team leader arrives if the business of the team is wholly dependent on that leader?

Remedies

Damages for breach of contract and inducing breach – during the employment or after termination – will normally be assessed on the basis of loss of profits on contracts or opportunities diverted by the (ex-) employee.

However, the more usual remedy is injunctive relief to avoid losses arising in the first place. Injunctive relief normally takes the form of injunctions to perform, or more usually, not to perform certain specified acts on pain of being committed to prison for contempt of court. Injunctions can be interim or permanent and can relate to, for example, the use of confidential information, restraint of breaches of specific restrictive covenants and enforcement of 'garden leave' provisions.

And the moral is ...

If the poaching process is not to prove more expensive than the value added to the business, the issues discussed above must be considered and a plan of campaign drawn up before the first move is made. F&M

HUMAN FACTORS

Dealing with information overload in the office

Dr Sharm Manwani is a member of the Information Management Faculty at Henley Management College.
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We may be more technology-savvy, used to quick-fire communications and instant access to information. But in the workplace, speed and convenience equals increased pressure, overexposure and confusion. Based on a survey he co-authored, **Dr Sharm Manwani** explains how to cope.

The average worker's desk is the centre of multiple channels of communication: the internet, corporate intranet, external and internal e-mail, telephone calls and voice mail, post mail, as well as actual face-to-face interaction. For many people, this very multiplicity of channels of communication has resulted in a situation where their ability to access and process information efficiently and effectively at the right time and in the right order is both enhanced and constrained. Sharing information via e-mail can be inefficient – particularly e-mails circulated to large distribution groups, often with files attached.

A new survey among IT directors by the British Computer Society and Henley Management College has shown that less than half had technology in their organisation to help filter and organise electronic communications. Only one in five of the organisations involved had provided training for dealing with e-mail. At the same time, 75% of respondents admitted that e-mail had a negative impact on work, while 90% considered e-mail a direct cause of stress.

Although employees complain of 'information overload', on closer inspection it is found to be 'message overload' and 'information underload'.

Tailored strategies

Companies should adopt tailored strategies for the different stakeholders involved: sender, receiver and organisation. In general terms, they need to:

- train individual senders of messages and create a culture that supports effective communication;
- ensure technology is used to support receivers of messages; and
- have the right policies and processes in place at an organisational level.

There are simple ways to bring some order and sense to the existing state of communications 'free-for-all' both at the organisational and the personal levels, as described below.

Use the KISS principle

Organisation

- Undertake a quick exercise on a typical user's in-box (you may select more than one person to obtain a representative sample) to categorise their e-mails over a period of time to see where business process/policy is contributing to overload.
- Review the processes that are contributing most to overload. Are they justified, or were they simply converted from an out-of-date paper system?
- Consider e-mail free days to encourage other forms of communication to be used by staff.
- Ask staff to send 'junk mail' to a central source so it can be dealt with on a corporate level.
- Make sure that your e-mail distribution groups are up-to-date and centrally managed. In this way mail gets to the appropriate person first time and the groups can be kept under control to prevent multiple distribution groups.
- Create distribution groups that are aligned to your business structure. By making them meaningful and logical you will ensure that people will actually use them.
- Encourage more opportunities for 'pull' information rather than 'pushed' information, for example, giving staff access to a central company diary for organising meetings.
- Limit the size of attachments and offer web links and shared file servers.
- Limit the size of mailboxes and use shared folders/public folders.
- Provide compulsory training on e-mail as part of induction processes.
- Create a company 'netiquette' statement to encourages appropriate e-mail usage, and ensure staff understand the legal implications of e-mail.
- Perhaps most importantly of all, e-mail overload can be symptomatic of a particular organisational culture. Encouraging a 'no-blame' culture to avoid e-mails being sent so people can 'cover their backs'.

Personal

- Colour-code your e-mails to show which are important, for example those which you have only been 'cc'd' on, or those from specific people or about specific topics. This means you can prioritise the e-mails you read first.
- Set up sub-folders in your in-box. You can then manually file e-mails in your own sub-folders or these can be used to 'organise' your in-box, in the same way as colours can be used above.
- Use the KISS principle – keep it short and simple. Think about the key message. Is the mail for information or action by the reader? Think about the title of the mail – the topic should be obvious to the recipient before they have even opened the message or perhaps it can become the message. F&M

FORTHCOMING FACULTY EVENTS

To attend any Faculty event, please fill out the form which adjoins this page, remove it by tearing along the perforation, and mail it or fax it to the services manager at the Faculty's address given on the bottom of the form. If you have any queries relating to these or other events, please contact the services manager on 020 7920 8486.

27 March
EVENING LECTURE (Chartered Accountants' Hall, London)

'THE CHANGING ATTITUDE TOWARDS RISK MANAGEMENT' – RICHARD SHARMAN, KPMG
Richard Sharman, head of risk management at KPMG, explores ways to assess the real value delivered by your risk management framework and the return on your investment in the risk management process. Registration is at 5.45pm; the lecture is at 6.00pm; wine, buffet and networking start at 7.00pm.

27 March
EVENING LECTURE (Hibernian FC, Easter Road Edinburgh)

'FINANCIAL REPORTING AND STANDARD SETTING' – SIR DAVID TWEEDIE, IASB
Sir David Tweedie, chairman of the International Accounting Standards Board (IASB) will outline his views on standards. This event has been organised by the members' services directorate of the Institute of Chartered Accountants in Scotland. To attend, e-mail Fiona Ormiston (IMS Administrator) – fiona.ormiston@icaew.co.uk – to pre-register an interest; 5.30pm for 6.30pm.

28 April
EVENING LECTURE (Golden Tulip Hotel, Trafford Park, Manchester)

'THE PROCESS OF IMPLEMENTING IAS' – NICK SCOTT, MANCHESTER METROPOLITAN UNIVERSITY
Nick Scott, a chartered accountant and a senior lecturer at Manchester Metropolitan University, examines the processes that companies need for reporting of international accounting standards (IAS). Registration is at 5.45pm; the lecture is at 6.00pm; buffet and networking start at 7.00pm.

7 May
EVENING LECTURE (Motor Cycle Museum, Solihull, West Midlands)

'LINKING VALUE WITH VALUES – THE BEHAVIOURAL ASPECTS OF FINANCE' – MALCOLM LEWIS, STRATEGIC VALUE PARTNERS
Consultant Malcolm Lewis will argue that linking value with values is the key to creating long term corporate, financial and personal success, ie having a vision that is based on 'what should be' rather than 'what is'. Registration 5.45pm; lecture 6.00pm; buffet and networking 7.00pm.

21 May
EVENING LECTURE (Chartered Accountants' Hall, London)

'NEW ROLES FOR FINANCE – MAKING AN EFFECTIVE CONTRIBUTION IN YOUR EXECUTIVE TEAM' – SIMON COURT, VALUE PARTNERSHIP
Capital investment is in steep decline and business opportunities are limited. Simon Court, founding director of Value Partnership, says that focusing on good management and organisation is the imperative. Registration 5.45pm; lecture 6.00pm; buffet and networking 7.00pm.

12 June
LUNCHTIME AGM & LECTURE (Chartered Accountants' Hall, London)

FACULTY ANNUAL GENERAL MEETING plus 'BUSINESS VALUATION' LECTURE – MAGGIE MULLEN
The lecture by Maggie Mullen will begin at 12.30pm and will last until 1.15pm. The AGM will take place over the next 15 minutes, followed by a buffet luncheon until 2.00pm. All Faculty members are welcome and the event is free to them, though it is not open to non-members.

RECORDINGS OF FACULTY LECTURES IN 2002

The following lectures and conferences held by the Faculty in 2002 are available, in both **audio** and **video** format.

To obtain a recording, please tick the audio and/or video box on the tear-off response form opposite.

There is a charge of £5.00 for audio recordings and £10.00 for video.

15 APR — STRATEGIC ENTERPRISE MANAGEMENT
Martin Fahy of the National University of Ireland, Galway, discusses strategic management accounting decisions aimed at increasing shareholder value.

28 MAY — PAY FOR PERFORMANCE – DIRECTORS' REMUNERATION
Ruth Bender of Cranfield School of Management discusses the structure of directors' remuneration in the context of creating value for shareholders.

18 SEP — HUMAN CAPITAL – MEASURING PEOPLE AS ASSETS
Andrew Mayo, a consultant on international human resource management, discusses how to balance people's cost with a quantitative measure of their value.

8 OCT — ENTERPRISE PLANNING (ERP) SYSTEMS – DO THEY MEASURE UP?
Dennis Keeling of BASDA, the international software standards body, explores the pros and cons of these systems and looks at software industry trends.

The OFR – and the Higgs and Smith reports

Already 2003 has produced a slew of recommendations about non-executive directors, audit committees, and the operating and financial review (OFR). How do these affect your business? The Faculty offers a brief guide.

How to prepare for OFR

The concept behind the operating and financial review (OFR) is to present a balanced and understandable assessment of a company's position and prospects. Not only is the OFR fast becoming one of the key elements of corporate reporting but is also due to become a statutory requirement for 'major companies', under proposals in the July 2002 white paper 'Modernising company law'.

For all those directors contemplating how best to compile an OFR (and external auditors reporting on its compilation), an Institute working party chaired by Andrew Ratcliffe has produced concise best practice interim guidance on preparing the OFR. This sets out six principles to follow:

1) the OFR is the responsibility of the full board of directors;
2) there should be a formal process for preparing the OFR;
3) the OFR should be relevant, and meet the existing recommendations on content;
4) the OFR should be an integral part of the corporate reporting process;
5) the process should involve specific consideration of whether the OFR content is reliable, balanced and understandable; and
6) there should be continual evaluation and improvement.

Electronic copies of this interim guidance can be obtained from: www.icaew.co.uk/fmfac. For hard copies contact Lucille Good. Tel: 020 7920 8493.
See also Louise Maslen's article on page 7.

The Higgs and Smith reports

Now that the two latest sets of corporate governance recommendations have emerged – from former investment banker Derek Higgs on non-executive directors, and from Weir Group chairman Sir Robert Smith on audit committees – what impact will they have on those actually running companies?

There is no change to the 'comply or explain' requirements of the UK corporate governance framework.

The Institute's president Peter Wyman has cautiously welcomed the Higgs and Smith reports. Some of the main Higgs and Smith proposals are set out here.

Smith

- Audit committee remains a committee of the board within the unitary board system.
- Audit committees should have at least three members, all independent non-executive.
- At least one member of the audit committee should have significant, recent and relevant financial experience.
- Need for training (induction and ongoing).
- Minimum of three meetings per annum.

Higgs

- At least half the board to comprise independent non-executives, excluding the chairman, but with strong executive representation on the board.
- Affirmed the continuation of the separation of the roles of chairman and chief executive officer (CEO).
- A meeting of non-executive directors at least once a year.
- The availability of the senior independent non-executive director (NED) to listen to shareholders if their concerns have not been resolved through normal contact with chairman or CEO.
- Proposals to broaden the pool of candidates for non-executive appointments. F&M

IN FUTURE ISSUES...

Finance & Management

- XBRL – a revolution in reporting
- How to deliver bad news
- Inculcating an innovative culture
- When your shareholders know more than you

IN APRIL'S MAILING...

Manager Update

- Accounting and finance
- Marketing
- Human resources management
- Strategy and organisation

Finance & Management

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