Financial Reporting Council

October 2013

Corporate Reporting Review

Annual Report 2013

The FRC is responsible for promoting high quality corporate governance and reporting to foster investment. We set the UK Corporate Governance and Stewardship Codes as well as UK standards for accounting, auditing and actuarial work. We represent UK interests in international standard-setting. We also monitor and take action to promote the quality of corporate reporting and auditing. We operate independent disciplinary arrangements for accountants and actuaries; and oversee the regulatory activities of the accountancy and actuarial professional bodies.

Under the Companies Act 2006, the Conduct Committee of the FRC reviews the reports and accounts of public and large private companies to determine whether they comply with the Act and other reporting requirements. Where it appears that those requirements have not been complied with, the Conduct Committee investigates the position and determines the action to be taken to address any non-compliance. In practice, and as agreed with BIS, the Committee normally exercises its authority only in connection with public limited companies and large private companies. When discharging these statutory responsibilities, the Conduct Committee aims to improve the quality of financial reporting in the UK.

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Contents

1 Introduction

This report of the corporate reporting review activity of the Financial Reporting Council ("FRC") for the year ended 31 March 2013 is an important element of the FRC's reporting framework. This report takes a different approach to that taken in the past. It:

- Provides our assessment of the current state of corporate reporting in the UK, based on the reviews we have undertaken of individual company reports and accounts selected from all categories of corporate activity;

- Contains information about the main issues we encountered during the past year – including case studies which illustrate the types of concerns we raised with companies and how they were resolved;

- Highlights those matters we have identified as potentially important in the next financial reporting period, including those the FRC intends to focus upon;

- Describes developments in the way we work which will increase our effectiveness – in particular, by expediting correspondence and by increasing transparency; and

- Sets out our expectations of how companies should approach financial reporting.

A more detailed presentation, setting out the outcomes from reviews undertaken in the past year and issues that we think are likely to arise in relation to future reporting, is available on our website.

We discuss the issues raised in this report and in the supporting presentation with the firms that audit companies whose accounts may be subject to CRR review, and with other interested third parties.

We also share our experiences with other parts of FRC to inform the positions that it takes in relation to the development of new financial reporting standards.

2 Key messages

Quality of corporate reporting

FTSE 350 companies

- We continue to see good quality corporate reporting by large public companies. The corporate reporting of FTSE 350 companies, in particular, remains at a good level.

- Those issues that have arisen have generally involved unusual or complex transactions where, in order to determine whether the accounting treatment applied was appropriate, it was often necessary to examine source documents to assure ourselves of the specific facts and circumstances.

Smaller listed and AIM quoted companies

- Our reviews of accounts produced by smaller listed and other entities often give rise to issues that are the result of the company not having sufficient or appropriate resource to recognise or address accounting questions. We tend to see straightforward areas of non-compliance, rather than management misjudgement of complex matters.

- We encourage the boards of the smaller listed and AIM quoted companies, in particular, to consider whether they have access to the level of technical resource and expertise needed to prepare corporate reports and accounts to an acceptable standard.

Making annual reports and accounts more concise and relevant

- The FRC discourages companies from including unnecessary disclosures in their accounts.[1] Few boards, however, appear to have followed the initiative shown by others last year who reviewed their accounts to highlight key messages and support them with relevant, concise disclosures such that they are not obscured by immaterial detail or repetition.

- It is important that boards consider whether their accounts display these reporting characteristics which would support the statement, required by the Corporate Governance Code[2], that their report and accounts are fair, balanced and understandable.

- This type of review can make significant differences to the length and complexity of reports and accounts and make them more readily understandable by investors and other users. The efficient management of such disclosures remains a key theme underlying the work of the FRC's Financial Reporting Lab.

[1] 'Cutting Clutter', 'Louder than Words' and 'Thinking about disclosures in a broader context'.

[2] The UK Corporate Governance Code, September 2012, provision C1.1

Looking forward

Compliance with standards

Management judgment

- IFRS is a principles-based set of accounting standards. We expect boards to identify carefully where there is scope for judgment in their application and where there are specific requirements with which they have to comply. We expect judgment to be exercised in good faith. We will challenge companies where the exercise of judgment appears to have resulted in aggressive accounting. We will also challenge companies which overlook a specific requirement, and we will not be swayed by arguments based on the overriding spirit of the standard.

- The overriding objective of financial statements is to provide a true and fair view. In the vast majority of cases, this will be achieved by compliance with accounting standards. Where compliance with an accounting standard would result in accounts that would be so misleading that they would conflict with the objective of financial statements, the standard should be overridden and full disclosures given. No other departures are permitted by law.

- Investors need to be able to understand the quality of profits reported by companies. We have recently observed a number of situations where exceptional provisions made in the economic downturn are now being released through the income statement as part of profit before exceptional items. We will continue to monitor the presentation, disclosures and explanations supporting such movements to ensure that they are sufficient to enable users to appreciate the components of the current year's profit and the status of the remaining provision.

New IFRS

- Companies will be required to comply with a number of new standards in 2013 and 2014. We will monitor the application of the new fair value standard, IFRS 13, as it becomes operative in 2013. We will keep a watchful eye on accounts which reflect early adoption of amendments to the reporting of joint arrangements and interests in other entities, and changes to the approach to consolidation.

Strategic report

- The Business Review has recently been replaced by a new statutory requirement for a Strategic Report which requires boards to discuss their strategy and business model. Although companies complying with the UK Corporate Governance Code already provide descriptions of their business model, directors will need to review the adequacy of those disclosures in the context of the Strategic Report.

- The Strategic Report also requires additional disclosures around human rights issues, boardroom diversity and greenhouse gases. These additional reporting responsibilities are offset by the removal of certain Directors' Report disclosures.

- The Conduct Committee will be responsible for enforcing compliance with these requirements and we will focus on the quality of significant disclosures in the Strategic Report.

Smaller listed and AIM quoted companies

- FRC reports have commented on the poorer quality of reports and accounts produced by some smaller listed and AIM quoted companies for a number of years. The FRC will be considering what needs to be done to improve financial reporting in this area and will incorporate this into its 2014/15 Plan and Budget.

3 The way we operate

Steps taken to enhance our effectiveness

a) *Prioritisation of FTSE 350 cyclical reviews*

The FRC's mission is to promote high quality corporate governance and reporting to foster investment. At its core, this means helping UK capital markets and, in particular, the market for risk capital to function well. Our corporate reporting review resource is, therefore, directed to companies of economic significance where a material error could have implications, not just for the individual company, but for the market as a whole.

As FTSE 100 companies represent an overwhelming proportion of total investment in UK companies, we aim to review their reports and accounts at least once every three years. FTSE 250 companies are reviewed at least once every four years.

b) *Improving our communication with companies*

We write to company chairmen when we need information or explanations to help us understand a set of report and accounts.

We have revised our standard opening letter to ensure that we set out our concerns in a clear and concise manner. Letters that clearly explain our concerns and why we have them are most likely to prompt a full and timely response.

We expect the Board and the Audit Committee to be well briefed on the key technical issues in their accounts and to be closely involved in reviewing our correspondence in consultation with the external auditor. To facilitate this, our letters are copied to the Audit Committee Chair and to the Finance Director.

This will be relevant to Audit Committees, whose reports are increasingly likely to cover dealings a company may have had with the FRC. Following changes to the UK Corporate Governance Code that apply to reporting periods beginning on or after 1 October 2012, audit committees are required to disclose significant issues that the committee considered in relation to the financial statements and, importantly, how they were addressed.

The Financial Reporting Lab is expecting to publish a report on its project on the reporting of Audit Committees shortly.

c) *Completion of enquiries within companies' annual reporting cycles*

Markets work best when they operate on the basis of timely, relevant information. Timeliness of enforcement action is also a mark of effective regulation.

We aim to complete our enquiries into companies' accounts within their annual reporting cycle.

This enables any agreed corrections or improvements to a company's reporting to be reflected in its next set of accounts. Significant corrections which need early communication to the market are announced when agreed.

To facilitate the achievement of this objective, we expect boards to respond to our letters within 28 days, particularly where the questions we raise are likely to have been discussed by the company and its auditors. Similarly, we aim to address responses to our informal enquiries within 28 days of receipt.

d) *Effective use of our powers*

Our powers are few but robust:

i. We have the power to apply to the court for an order requiring directors to revise their defective accounts.
ii. We have the power to require companies and their officers, including the auditor, to provide us with information and explanations.

Generally, companies respond constructively to our enquiries and provide the material we ask for. Increasingly, as our enquiries progress, we ask for sight of primary documents to ensure we understand the factual basis for a company's response or to complete our understanding of a matter at issue.

When faced with unreasonable delay, or where we believe that a company is not acting in good faith, we apply to the court for the information. This year, the threat of court action has been sufficient to prompt responses from the two companies which had not provided the material we had asked for, including one based overseas.

e) *Use of Review Groups*

Our enquiries become formal when we set up a Review Group to consider a matter. We establish Review Groups when addressing a particularly complex or controversial item or where we believe our work would benefit from consideration by representatives of the broader reporting community. A Review Group includes three members of the Financial Reporting Review Panel in addition to the Chairman and a deputy Chair.

In future, we will establish Review Groups at an early stage in our exchanges with companies where this will support speedier resolution.

An enquiry involving the establishment of a Review Group is less likely to be completed within that company's annual reporting cycle where the matter at issue is likely to be significant and complex *f)* *Liaison with Audit Quality Review*

FRC Reform removed the barrier to our sharing company information within the FRC with the Audit Quality Review Team (previously, Audit Inspection Unit).

The opportunity to discuss issues with the AQR Team increases the effectiveness of both functions, in particular, where additional knowledge and information is available or additional industry experience or other specialist skills are required. As we move forward, we will be looking for further opportunities to take advantage of the expertise across the FRC generally, where to do so would be consistent with our operating procedures.

g) *Transparency*

Our engagement with companies is evidenced by FRC Press Notices and, increasingly, by references in financial statements to the intervention of the Conduct Committee (known as 'Committee References'). Committee References are required where we consider that a company should disclose the fact that the changes it is making to its reporting were prompted by our review. Even though they are in the public domain, Committee References are generally known only to those who read the specific set of accounts in which they appear as CRR practice is not to seek any further publicity.

FRC Press Notices are appropriate where our intervention results in immediate changes to a company's report and accounts or in commitments to make significant changes or improvements in the future which need to be brought to the attention of the market.

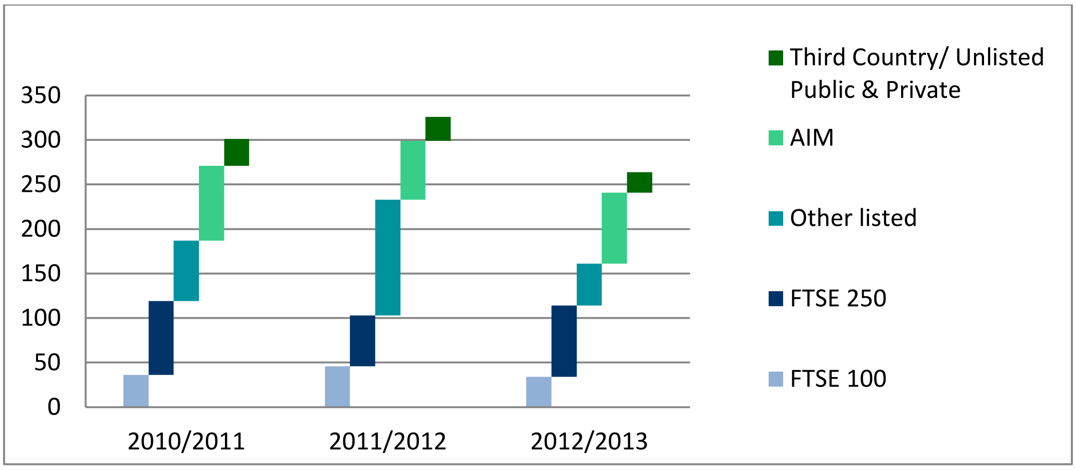
We now operate in a regulatory environment where reputation is enhanced by transparency and openness supports integrity. We believe that investors would benefit if we were clearer about our regulatory outcomes. We will, therefore, consult on changes to our operating procedures, introducing reference to Committee References and our intention to disclose the names of companies who have published such References in our annual report.

It is important that Press Notices and Committee References reflect a common understanding of an issue and its resolution. To avoid conflicting and potentially misleading messages, we expect companies, before publishing a reference to the Committee, to discuss the matter, and the proposed text, with us. In particular, it is important that any such statement is clear as to whether or not the Committee has closed its enquiries.

4 Summary of activities

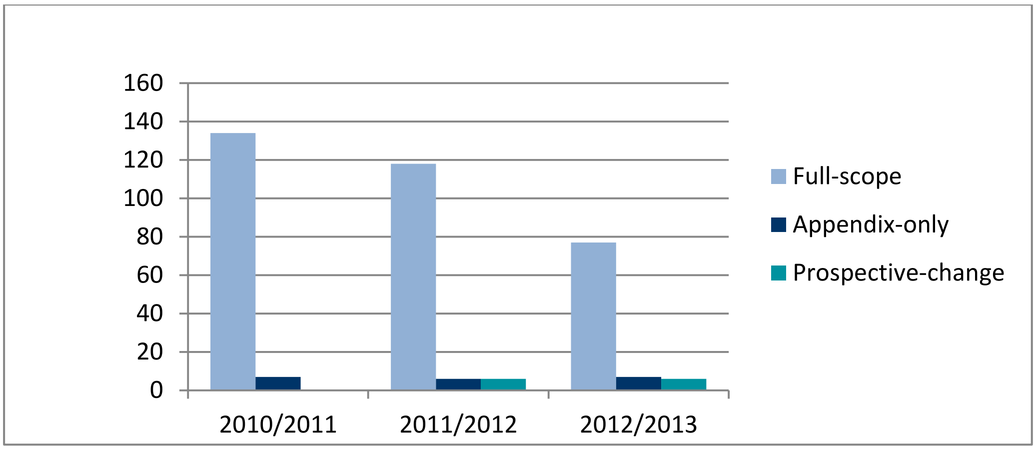
In 2012/2013, we reviewed 264 sets of reports and accounts (2011/12: 326; 2010/11: 301) split between the different categories of market as follows.

Table A: Reviews by market



Following our initial review of the accounts, we decide whether to ask companies for additional information or explanation. Our letters take different approaches, depending on the nature of the issue(s) raised. The various approaches are described in more detail in Appendix B. Full-scope and prospective change letters require substantive responses from companies, the latter once the company has published its next report and accounts. We do not require boards to provide a substantive response to appendix-only letters.

Table B: Approaches to Companies



This year, we wrote to 91 companies (2011/12 130: 2010/11: 141).

We reviewed fewer reports and wrote to fewer companies than last year. This reflects the number and complexity of the cases brought forward as work in progress and the detailed investigation and analysis necessary to resolve these and the current year's issues.

In addition to writing to companies, during 2012/2013, we set up Review Groups in respect of four sets of reports and accounts which had been reviewed in the prior period but remained unresolved. Three cases involve questions around the interest held by a company's pension fund in a Scottish limited partnership controlled by the company. The fourth has a focus on revenue recognition.

In addition to our proactive reviews, we respond to complaints about company reports and accounts and to referrals from fellow regulators. The most helpful complaints set out the matter at issue clearly and identify the accounting or reporting requirement about which there is concern. In 2012/13, 8 reviews were prompted by complaints (2011/12: 9, 2010/11: 13).[3]

Outcomes

Virtually all of our enquiries result in companies agreeing to make some change in their next reports and accounts. These range from the less significant, for example, changing the language used to describe an accounting policy or explanation in the business review, to amending figures in the primary statements or correcting other significant data, like earnings per share. The improvements may include commitments to enhance disclosures either by including additional explanation or reducing unnecessary information to focus on what really matters to investors.

Most of our enquiries result in companies giving undertakings to adopt a particular approach in their next report and accounts. Of the 56 listed company cases that were closed in the period following exchange of correspondence, we accepted 140 undertakings to make specific improvements or changes to their future reporting.

We follow up all undertakings and, where the promised improvements are not evidenced, we pursue the matter with the company. This year, a rare failure by one company to comply with an undertaking given the previous year led to further detailed enquiry and the conclusion that the original accounts had included a substantive error. The company was asked to correct and explain the matter, supported by a reference to the Committee's regulatory intervention, in its next report and accounts.

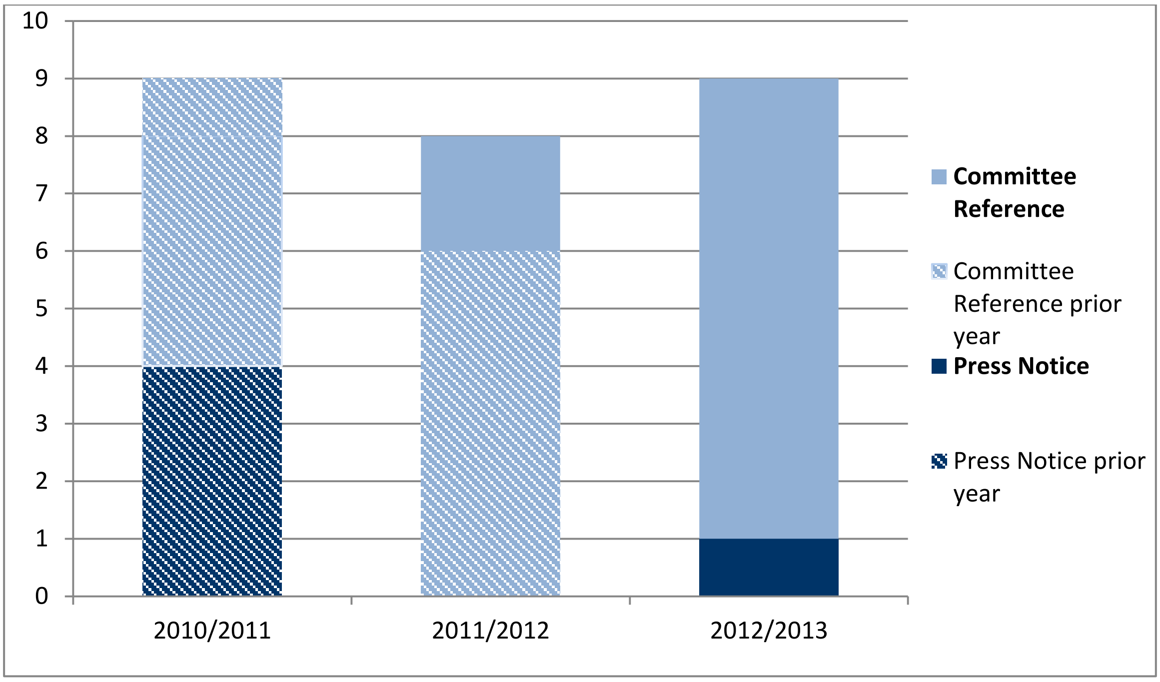
We have issued one FRC Press Notice since our last annual report. The Committee may also make an announcement where, prompted by our intervention, a company makes a significant change to its reporting. The Committee did not make any such announcement during the year.

Since our last annual report, ten companies have included Committee References in their reports and accounts. In one case, changes were made by the company to its reporting after it had published an audited preliminary announcement. As the change was more than editorial, the company and auditor reapproved the amended accounts before their publication.

[3] Our complaints process is described in more detail on our website. This includes an explanation of the protection available to employees who have concerns about wrongdoing at their employer. The FRC has a dedicated whistle-blower email address at whistleblowing@frc.org.uk.

Table C shows the number of FRC Press Notices and Committee References that have been published between 2010 and 2013. Appendix C contains a synopsis of the matters giving rise to the Press Notice and Committee References in the period covered by this Report.

Table C: Press Notices and Committee References



Note: The above data records Committee References and Press Notices reported in CRR Annual Reports by reference to the year in which the review of the report and accounts commenced (and not when the Committee Reference or Press Notice was agreed or published)

When the number or significance of corrections required to a company's accounts is exceptional, the FRC may send to the senior partner or chairman of the company's audit firm a copy of its letter to the company closing a case. The FRC writes such letters sparingly and issued one letter in the year under review.

Co-operation with other regulators

Our activities are not limited to reviewing company reports and accounts:

- We share the detailed outcomes of our listed company enquiries with the Financial Conduct Authority (FCA). Other companies who operate under licence by the FCA are also referred to the authority where we have a concern about their corporate reporting.

- We liaise with other regulators where we consider that the matters that have come to our attention could be of significance to them in the discharge of their responsibilities

We work closely with other European Enforcers under the auspices of the European Securities and Markets Authority (‘ESMA’). We meet regularly during the year with our European peers to discuss enforcement decisions and common reporting issues relevant to the coordination and consistency of IFRS reporting across the EEA. All of our decisions submitted for discussion during the year were published by ESMA.

- We participated in three ESMA Working Groups, all of which have now reported:

  - Guidelines on enforcement of financial information

  - Review of impairment of goodwill and other intangible assets in IFRS financial statements

  - Considerations of materiality in financial reporting

- We are members of two new Groups under ESMA considering the reporting of business combinations and the comparability of banks’ reports and accounts

5 Common areas of challenge

We have identified seven areas of corporate reporting that are commonly raised with companies

- Business reviews
- Revenue
- Cash flow statements
- Alternative performance measures/ Financial KPIs
- Investment property valuations
- Business combinations
- Impairment

Business review

The business review gives management the opportunity to provide shareholders with broader context and helpful analysis from which to better understand the reported results. Our letters included questions on the business review where the narrative appeared inconsistent with what was reported in the accounts.

The business review must be "balanced and comprehensive". We challenged companies if their business review focused only on "good news".

We continued to note improvements in the disclosure of companies' principal risks and uncertainties, following our earlier focus on this area of narrative reporting. We are pleased that an increasing number of companies now explain how they manage or mitigate the risks identified.

Revenue

We challenged a number of companies where there was:

- A lack of tailored, company-specific information.
- A generic description which did not reflect the description of revenue streams in the business review.
- Inconsistency between the revenue recognition policy and changes in the company's business model, such as increased use of internet-based trading.
- Bland repetition of extracts from IFRS.

The Financial Reporting Lab has initiated a project on accounting policy disclosures more generally, which will consider their content and placement.

CASE STUDY - REVENUE

- Background: An expanding manufacturing company generated business from a number of workstreams. Its business review explained that it sold:

  – its own products wholesale to retail outlets and directly to individual customers,

  – both its own and related products from other manufacturers direct to customers through a website. This part of the business had increased significantly in recent years, and

  – design services related to integrating its own products with customer's existing systems.

The company's revenue recognition accounting policy stated that it recognised revenue:

  – net of VAT and discounts,

  – when the risks and rewards of the goods had been transferred, and

  – when it was probable that economic benefits associated with the transaction would flow to the entity.

- **FRC's view:** The disclosures provided were consistent with IAS 18 but were 'boiler plate' disclosures that did not provide users with an insight into how the company recognised and measured the revenues described in its business review. We asked the company to clarify:

  – when it believed that risks and rewards of ownership had transferred,

  – how it measured bulk discounts recognised from wholesalers and how this impacted the timing of revenue recognition,

  – how it judged whether it was acting as a principal or an agent when selling other manufacturers' products through its website

  – its accounting policy for recognising services, and

  – whether it had contracts to deliver both goods and services and, if so, how it allocated revenues to each part of the contract.

- **Company's response:** Whilst the company believed that its disclosed accounting policy was consistent with the accounting for the sale of goods required by IAS 18, 'Revenue' and the requirement in IAS 1 to disclose significant policies, it readily accepted the FRC's view in its first response. The company agreed to enhance its revenue accounting policy in the following year's accounts to explain:

- when it believed that risks and rewards of ownership had transferred; e.g. when a retail or wholesale customer had signed for delivery,

- how it estimated bulk discounts and that it believed that this was a major source of estimation uncertainty,

- why it believed it acted as a principal when selling other manufacturers' goods on its website.

The company also explained that its revenues from services were not material. We would not expect an accounting policy to be disclosed if it was not considered material or relevant.

- **FRC focus point: There is no information value to users in copying phrases from accounting standards, for example 'risks and rewards', without explaining how these apply specifically to a company. Boards should ensure that descriptions of principal accounting policies on material items are informative: for example, do they convey how specific transactions are recognised and measured in plain language.**

Cash flow statements

Cash flow statements are key in helping users assess a company's ability to generate the cash needed to support its activities, including the timing and certainty of cash flows. Investors have told us that clear cash flow information is important to them.

Our questions often arose as a result of apparent inconsistencies between matters reported in the statement of cash flows and elsewhere in the reports or accounts.

This year, as last, we identified a number of companies that either:

- Misclassified or misstated certain cash flows, or

- Reported non-cash movements as cash flows

This year, three of our Committee References related to cash flow statement misclassifications.

CASE STUDY – CASH FLOW STATEMENTS

- **Background:** A company had a forward contract to purchase a raw material it required to make certain of its products. It did not account for the contract as a derivative but recognised inventory at the forward contract price when purchases were made. Following a divestment, it made a one-off payment to reduce its purchase commitments under the forward contract. The payment was presented in the income statement after profit from operations but before financing items. It presented, however, the one-off payment in its cash flow statement as an outflow from financing activities.

- **Company's initial view:** It believed that presentation of the cash flows as financing best represented the underlying transaction. It argued that:

  – it did not consider the payment to be part of its core activities, so should not be deducted from its operating cash flows.

  – the divestment was part of a capital restructuring and refinancing of the company and the company believed that the cash flow was, in substance, similar to other re-financing costs incurred as part of the project.

- **FRC's view:** We believed there was an inconsistency between presenting the payment as a financing cash flow but not as a finance item in the income statement. The relevant accounting standard, IAS 7, 'Statement of Cash Flows' states that only cash flows that change the size and composition of a company's contributed equity or borrowing are financing cash flows and the FRC challenged the company's cash flow presentation on that basis.

- **Company's amended view:** Following discussions, the company concluded that the cash outflow was not a financing cash flow because the payment did not change the size and composition of its contributed equity or borrowings. It would, however, affect the gross profit recognised in future and this impact would be recognised as an operating cash flow. As the payment did not meet the definition of an investing cash flow because it did not relate to the acquisition or disposal of assets, the company concluded that it was an *operating* cash flow

FRC focus points: The case study illustrates that we will challenge a company's judgement where it does not appear to be consistent with the requirements of the relevant accounting standards.

We encourage boards to be consistent in highlighting exceptional items in the cash flow statement and the income statement.

Alternative performance measures/ Financial KPIs

Investors welcome alternative performance measures where they supplement companies' IFRS disclosures and provide additional information about the business.

We support the inclusion of alternative performance measures when they provide users with additional useful, relevant information. When management use such measures – for example, financial KPIs - in their own management reporting, their inclusion in the business review or accounts, together with appropriate explanation of trends and variances, can help users understand the business through management's eyes.

We do, however, challenge boards where we think the use of alternative performance measures is unclear or detracts from the IFRS information provided, for example, where:

- Alternative performance measures are not clearly defined or explained, could be confused with similar IFRS measures, or cannot be reconciled to similar IFRS measures; and/or

- Reconciling items are either not treated consistently or are not explained; for example, a measure of adjusted operating profit that adjusts for large or unusual charges but not for credits of a similar nature.

Investment property valuations

In our 2011/12 Annual Report we noted that, in our view, a statement in the accounts that property valuations were carried out under the standards issued by the Royal Institute of Chartered Surveyors is not sufficient to meet the reporting requirement to disclose the methods and significant assumptions applied.

During 2012/13 we challenged boards that had provided minimal disclosures supporting their investment properties and were pleased to see some evidence of expanded information in others.

Although we appreciate the additional challenge faced by boards when overseas land and property valuations are conducted by valuers working in accordance with local practice, the IFRS requirements still have to be complied with in the accounts of UK listed companies.

Business combinations

We identified fewer business combination issues than in previous years, as boards become more familiar with the requirements of IFRS 3 (revised).

We did, however, write to companies on certain issues:

- In relation to the valuation of shares issued as consideration for business combinations

- Where it was unclear whether the board had identified all separately acquired intangible assets

- In relation to transactions involving contingent payments to vendors. The IFRS-IC has now issued a decision observing that, where such contingent payments are subject to continued employment of the vendor, they should be accounted for as an employment expense, unless the continued employment is not substantive.

Impairment

Asset impairment calculations and disclosures have been a common area of challenge since the onset of the economic crisis. While we believe there has been improvement in companies' disclosures, we continued to raise questions in the following areas:

- The description of key assumptions. We challenged companies which disclosed discount and growth rates, but not the key assumptions to which they were applied

- The approach taken to determining the values assigned to each key assumption

- Failure to provide sensitivity disclosures

- The heroic nature of assumptions supporting a significant short term turn-around in a loss-making business

Further information

As explained in the Introduction, previous annual reports have included commentary on a range of more detailed reporting matters where we believe there to be room for improvement in quality and transparency.

We encourage those with responsibility for preparing reports and accounts to consider the points made in the presentation on our website which, if followed, will help to ensure that reports and accounts are not only compliant but demonstrate good practice.

Appendix A: Members of the Financial Reporting Review Panel

Chairman

Richard Fleck CBE	Chairman, Conduct Committee; Director, FRC; and consultant, Herbert Smith Freehills LLP

Deputy Chairs

Joanna Osborne	Formerly Partner, KPMG, specialising in financial reporting
Ian Wright	Formerly Director Corporate Reporting, FRC

Members

Daniel Abrams	Chief Financial Officer, Volex plc
David Cairns	IFRS Consultant and Visiting professor, University of Edinburgh Business School
James Coyle	Group Financial Controller, Lloyds Banking Group
Jimmy Daboo	Partner, KPMG. Vice Chairman of KPMG's Global Energy and Natural Resources Practice
Graeme Dacomb	Partner, Ernst & Young LLP
Mary Dolson	Member of PricewaterhouseCoopers Accounting Consulting Services IFRS Central Team, located in London
Stephen Edlmann	Consultant, Ashurst LLP
Margaret Ewing	Non-Executive Director and member of the Audit and Remuneration Committees, Standard Chartered plc and external member of the John Lewis Partnership Audit and Risk Committee.
Eric Hutchinson	Chief Executive, Spirent Communications plc
Vanessa Knapp, OBE	Former Partner, Freshfields Bruckhaus Deringer LLP
Iain Lowson	Head of Risk and Quality, BDO LLP
David Mabb QC	Member of Erskine Chambers
Andrew McIntyre	Partner, Ernst & Young LLP
Richard Meddings	Group Finance Director, Standard Chartered plc
Chris Moulder	Director of General Insurance, Prudential Regulation Authority

Brendan Nelson	Non-Executive Director and Audit Committee Chairman, Royal Bank of Scotland and BP plc.
John Nicholas	Non-Executive Director and Audit Committee Chairman, Rotork plc, Hunting Plc and Mondi Group. Non-Executive Director of Diploma PLC
Andrew Palmer	Non-Executive Director and Audit Committee Chairman, Direct Line Group and Royal London Group. Formerly Group Finance Director, Legal and General Group.
Richard Pinckard	Partner, KPMG
Richard Piper	Partner at Restoration Partners Limited and Chairman and NED of a number of main listed and AIM businesses
Alan Trotter	Chief Financial Officer, Alliance Trust PLC, a FTSE 250 company. Member, Technical Committee of the Association of Investment Companies, the Hundred Group of Finance Directors and the FCA Practitioner Panel
Colin Walklin	Chief Operating Officer, Standard Life Investments
Richard Wilson	Partner, Ernst & Young LLP
John Worby	Non-Executive Director, Cranswick plc and Smiths News Group PLC

Appendix B: Our review and correspondence process

Our initial review

When reviewing reports and accounts we take into account the needs of users. In addition to compliance with the law, we look to understand a company's business model and how it is explained and reflected through the company's accounting. We read the directors' report to consider whether it gives a comprehensive review of the company's results and financial position and the company's principal risks. We consider whether the most relevant information is given due prominence and, conversely, discourage the disclosure of information that is immaterial and irrelevant. We consider all these factors before deciding to write to a company.

Correspondence with the FRC

Most of our letters are '**full scope'** letters. These set out matters of substance where we would like additional explanation or information to understand better the accounting treatment adopted. We often identify more minor disclosure matters that companies may have overlooked in their preparation or which may not have been considered material or relevant to the company's reporting. We present these matters in an appendix to our letter and ask for confirmation that the company will consider them in preparing the following year's accounts. We do not, however, ask for additional explanation or information in respect of these matters and actively discourage companies from including them in their accounts if they are not material or relevant. We do not follow up these issues when we review any substantive undertakings given by the company. Whether or not they are included remains a matter for the directors' judgment which we do not second-guess.

Occasionally, our reviews do not identify matters requiring additional explanation or information but do identify a number of disclosure issues that, in full scope letters, would merit mention in the appendix. In these circumstances we send companies an '**appendix-only'** letter. We expect companies to acknowledge receipt of the letter on the basis of which we then close the case.

It may be that matters come to our attention shortly before the filing of the company's next annual financial statements. In these situations, it may not be practical or proportionate to enter into correspondence with the directors while the company is performing its year-end processes. Instead, we may write a '**prospective change'** letter to the company, asking the directors to consider the points raised when preparing their forthcoming financial statements and asking for a response once the accounts have been issued, setting out how our concerns have been addressed. However, if we had identified an issue of potential substance, we would still request an explanation or further information before the next annual financial statements are issued.

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Appendix C: FRC Press Notices and Committee References

As this Annual Report is published some months after the FRC's 31 March year end, the Press Notice and most of the Committee References referred to below related to accounts reviewed in the 2012/13 FRC year. Where a Press Notice or Committee Reference related to a review commenced in an earlier reporting period, this is indicated on the schedule and highlighted in table C; this year two references related to reviews commenced in 2011/12. The Identification of companies who published References during 2012/13 in this Appendix is with the agreement of the companies concerned.

Company	Listing	Issues	Publicity
Pendragon PLC	FTSE small cap	Net cash outflows from contract hire operations reported as investing, rather than operating activity	Press Notice
IMI plc	FTSE 100	Re-assessment of valuation of interest in Scottish Limited Partnership within the net defined benefit obligation.	Reference
Perform Group Plc	FTSE 250	Misclassification of line items in the cash flow statement Failure to recognise a liability for contingent payments to vendor on acquisition of a non-controlling interest	Reference
Avocet Mining plc	FTSE 250	Payment to renegotiate an 'own use' forward contract to sell production reported as financing, rather than operating cash flow	Reference
Company A	FTSE 250	Reassessment of aspects of asset impairment testing leading to redefinition of cash generating units, recalculation of pre-tax discount rate and extended sensitivity disclosures	Reference
Paypoint plc	FTSE 250	The company had not recognised financial assets and corresponding liabilities, in respect of amounts receivable from, and payable to, retail agents and clients respectively, which were formerly treated on an agency basis. No changes were made to the consolidated income or cash flow statements.	Reference

Company	Listing	Issues	Publicity
LondonMetric Property Plc	FTSE 250	An investment property was valued at directors' valuation of £10.4m, which was not in accordance with its IFRS valuation of £7.7m in the context of total valuations of £663m. The reported revaluation surplus for the year of £5.9m was overstated by £2.7m in the context of a profit before tax of £7.7m.	Reference
R.E.A. Holdings PLC 31/12/2010	FTSE small cap	Cross currency interest rate swaps incorrectly accounted for as cash flow hedges where the swaps represented a hedge of the group's presentational currency and where IFRS does not permit cash flow hedging	Reference
Anglo-Eastern Plantations plc 31/12/2010	FTSE small cap	Continuing discussions relating to restated valuation of biological assets and land, including measurement of notional rent Further reference to continuing discussions in the next half yearly report and accounts	Reference
Strategic Minerals plc	AIM	Shares issued in consideration for an acquisition were not valued in accordance with IFRS	Reference
Cupid Plc	AIM	Classification of common control transaction as a business combination	Reference

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