

# Financial Reporting Bulletin

The FRRP publishes its approach to the review and investigation of directors' reports

## Background

As noted in FRB Issue 05/2007, the Financial Reporting Review Panel (FRRP) has been authorised to review and investigate directors' reports (including business reviews) in accounts for periods commencing on/after 1 April 2006. The FRRP has recently published a paper summarising the changes in the law that expand their remit to directors' reports discussing the approach which, for the time being, they intend to take to their extended scope.

The paper makes clear that:

- There is no change to the FRRP's process for selecting accounts for review. Accounts will continue to be drawn from the full range of companies within their remit with a focus at present on the priority sectors announced last year – travel and leisure, retail, utility, telecommunications and media (see FRB Issue 03/2007). Accounts will also continue to be selected on the basis of company specific factors and in response to complaints and referrals.
- A directors' report will be examined by the Panel in the context of a review of the whole report and accounts, so this is an extension of the scope of the Panel's review rather than a change in its role.
- The Panel may approach a company's directors where there is, or may be, a question whether the report or accounts comply with the requirements of the law.

The paper lists the requirements of the Companies Act regarding the directors' report. It also lists the following factors that the FRRP will take account of in its consideration of a business review.

- Does the directors' report contain an explicit cross-reference where a company seeks to satisfy the requirements of the review by incorporating disclosures that are numerical or narrative elsewhere in the report and accounts?
- Is the information in the business review consistent with that disclosed in the accounts, the related notes and with other material included in the Annual Report and, where appropriate, does it refer to and expand upon, figures reported in the accounts?
- Is the information in the business review consistent with that disclosed in the company's other announcements?
- Is the business review balanced and comprehensive? (ie does it deal even-handedly with the positive and negative aspects of the development, performance and position of the business?)



- Does the discussion of the risks and uncertainties facing the company identify and describe the principal ones?
- Does the business review include appropriate analysis using those key performance indicators necessary to provide an understanding of the development, performance and position of the business?

The FRRP's role does not extend to the consideration of whether the business review complies with the non-mandatory 'Reporting Statement: Operating and Financial Review' published by the Accounting Standards Board. However, where a company states that it has complied with the Statement, the Panel will take this into account in its examination of the review.

## Implications for preparers of accounts

The factors that the FRRP will take account of in their review of directors' reports (including the business review) should be considered carefully when preparing financial statements for periods beginning on or after 1 April 2006 (which will mainly be financial years ending 31 March 2007 onwards). The fact that the FRRP has issued a list of **some** of the factors that they will take account of indicates those which should be given particular attention, although it is important to note that this list is not exhaustive.

Earlier this year the ASB published its first review of narrative reporting by UK listed companies, the content of which should also be considered in the context of the FRRP's extended remit (see FRB Issue 05/2007).

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