

# Shareholders' Questions 2010



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## About the Audit Committee Institute

Are you an audit committee member or non executive director of a global or multinational company looking to keep abreast of issues and overcome the challenges which you face in today's ever-changing turbulent economic climate?

The KPMG sponsored Audit Committee Institute (ACI) is a growing international network which provides complimentary guidance and a variety of resources designed to assist audit committees to update and refresh the skills and knowledge which are essential for each member to fulfil their role effectively.

For more information regarding the UK Audit Committee Institute and the global network of ACIs please visit our web site [www.kpmg.co.uk/acj](http://www.kpmg.co.uk/acj); send us an e-mail at [auditcommittee@kpmg.co.uk](mailto:auditcommittee@kpmg.co.uk); or call 0207 694 8855.

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# 1 Introduction

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The Annual General Meeting (AGM) provides a platform on which shareholders can engage in active dialogue with the board of directors.

Shareholders' Questions 2010 has been prepared in order to assist directors in their preparation for their company's Annual General Meeting. This publication suggests questions that shareholders are likely to ask with a view to helping directors and management plan and develop informed responses.

The current economic uncertainty is still very much at the front of everyone's mind as we start the new decade and shareholders are particularly concerned about the valuation and sustainability of their investments. Topics you should expect to be raised during the AGM will include (amongst many others): new business models in the light of the financial crisis; securing financing; counter party and supply chain risk; going concern; asset valuations; cost control; off-balance sheet arrangements; emerging risks; and the economic recovery ...if and when it occurs.

In addition, standard topics such as financial reporting issues and the impact of IFRS – particularly IFRS 8 Segmental Reporting – are still likely to attract comment.

The questions in this publication aim to give broad pointers to possible areas of shareholders' concern. However, the industry or environment in which your company operates will also greatly influence the nature of questions raised by shareholders. Consequently, this booklet is not exhaustive and should be seen only as a guide.

If you would like to discuss any of the issues raised in Shareholders' Questions 2010, please call your usual KPMG contact.

## 2 Hot topics

## 2.1 Tough economic conditions

- Are there signs of recovery emerging? Is the company's business plan changing as the company emerges from recession?
- Have cost cutting and workforce reductions exacerbated the pressure on management to achieve operating results? How has the company treated its employees and how do they think they've been treated? Is it time for a comprehensive review of the company's anti-fraud and compliance programs (including the impact of the new anti-bribery legislation)?
- Has the company's delivery model changed permanently? Can a 'cost-reduced' business model be sustained?
- Did we cut too deeply? How quickly can we restore critical infrastructure such as IT and sales force? How far have we extended the organisation through outsourcing and off-shoring?
- How will a change of government affect the company?
- Has the company experienced difficulties obtaining finance?
- Has the credit/overdraft facility with the bank been restricted in the last year?
- Have the expansion and growth plans of the company been affected by the credit crunch and the restricted availability of credit?
- How strong is the relationship with the company's bankers?
- Has the company reviewed the credit arrangements it makes available to its customers?
- Are changing credit terms affecting the company's cash flow/working capital?
- Has management put into effect procedures to cut costs? What kind of cost cutting is occurring?
- Is the company looking for opportunities for acquisitions and/or acquiring under-valued assets in this depressed market?
- Has the current state of the domestic/global economy affected the company's earnings?
- Do the directors anticipate any significant changes in operations or market conditions that will affect the company's profitability?
- What is the company's strategy going forward, given current market conditions?
- Have currency fluctuations affected the company's ability to compete in foreign markets? How does the company manage this risk?
- What impact have currency fluctuations had on exports/imports?
- What is the current trading position in UK/Europe/US/Asia etc?
- Is the company exposed to volatility in commodity prices? How is the company hedging any exposure?

Have cost cutting and workforce reductions exacerbated the pressure on management to achieve operating results?

## 2.2 Risk management and emerging risks

- Has the board reassessed the oversight role of the audit committee, the full board and the other standing committees such as the risk committee? Does the board have the expertise and time to deal with strategic, operational, and other risks?
- What is the risk of the company being unable to renew its banking facilities?
- To what extent is the company dependent on short-term financing to operate?
- What are the company's plans with respect to raising debt and/or equity capital in the short- and medium-term, and how do current market events affect those plans?
- Have the company's sources of financing been disrupted by recent market events?
- Has management determined the impact of current market conditions on its ability to dispose of its financial assets when necessary, at an acceptable price, to meet the planned repayment of liabilities?
- Is the company in default or at risk of defaulting on any of its debt covenants?
- Has management considered the potential exposures to other entities that are experiencing severe financial difficulties, or whose parents are experiencing severe financial difficulties?
- Has management considered the legal treatment of contracts or other arrangements involving an entity falling into administration or liquidation?
- Has management decided whether to terminate (or substitute) swaps or other derivative contracts with entities that are experiencing financial difficulties?
- Were any such derivatives or other contracts automatically terminated as a result of counterparty default?
- Will there be disruptions to securitisations or similar vehicles sponsored by an entity that now finds itself in severe financial difficulties?
- How does the current market affect the company's liquidity, leverage, and risk profile?
- How does the company assess risk, and should risk assessment methodologies change as a result of recent events?
- Is the audit committee alert to the increased risk of inappropriate earnings management, as well as the risk that budget cutbacks may be 'excessive' and adversely affect the long term performance of the business and the quality of the finance function?
- Have recent market events highlighted unexpected risks that management was not previously aware of?
- Have recent events confirmed or highlighted any weaknesses in established trading strategies?
- Has management put in place necessary arrangements to cover any unexpected funding needs and avoid any breaches of covenants or regulatory requirements?

Has management given appropriate consideration to those triggering events that may warrant impairment assessments in the current period?

- Have recent market events increased the likelihood of litigation?
- What is the board's process/strategy for reviewing and updating the risk register?
- Does the board have a process for looking at emerging risks in the industry/economy?
- Does the company perform stress tests for key sensitivities? And does the company have KPIs which help to detect these situations and plans to avoid such potential problems occurring?

### 2.3 Fair value

- Has the company/auditors conducted any impairment reviews on the company's assets? What was the outcome from these reviews?
- Has management given appropriate consideration as to whether, any significant or prolonged decline in the fair value of investments in equity instruments below cost, represents objective evidence of impairment that should be recognised in the income statement?
- Has management given appropriate consideration to those triggering events that may warrant impairment assessments in the current period?
- Are the fair values of financial instruments determined by the company (by models) realistically based on current market conditions or were they based on historical assumptions that may no longer be consistent with valuations that potential buyers would ascribe currently?

### 2.4 Corporate failures and going concern

- How can the group ensure its finances are secure?
- Have the company's plans and forecasts been stress tested? Are the company's forecasts and projections usually accurate?
- How much certainty can the shareholders have in the reserves estimates or provisions?
- Is the board confident that its income recognition policy is appropriate?
- What controls are in place to ensure that management fees paid to connected parties are made at commercial rates and are commensurate to services or products provided?
- Has the company ever waived the provisions of its codes of business and ethics? What was the nature of the transaction that required the code(s) to be waived?
- Have there been any 'unusual' transactions during the period? If so, what was the underlying business purpose for entering into these transactions and has the impact of such transactions been adequately reflected and disclosed in the annual report and accounts? Were such transactions subject to effective internal controls, or have normal procedures been overridden?

- Is there a process in place to identify related parties and related party transactions? Do the accounts disclose sufficient information for the reader to understand thoroughly and evaluate the substance of related party transactions?
- In the light of recent corporate failures, is the board confident that they have set the proper tone at the top of the company and set an expectation that only the highest-quality financial reporting is acceptable?
- Has the board reviewed all significant elements of the company's system of internal control including the control environment, risk assessment, control activities, information and communication, and monitoring? Is the board satisfied that the company is not susceptible to the events surrounding recent high profile corporate failures?
- Does the company have an internal audit department? If it does not, is the company considering the establishment of such a department?
- Is the audit committee satisfied that internal audit is sufficiently independent that it would report significant issues to the audit committee that could reflect negatively on senior management?

## Why did directors' remuneration increase while dividends remain unchanged/ the workforce is being reduced?

### 2.5 Executive remuneration

- There has been a significant reduction in dividends and a significant overall increase in executive pay. Can the board explain how the current pay structure aligns the interests of executives and shareholders?
- Why have directors' emoluments not fallen in line with share prices?
- Should directors' bonuses be capped?
- Why are bonuses being paid when the company had to be bailed out by the Government during the period. Has performance really improved that much?
- Has the 50 percent tax bracket (and other tax measures) had an impact on retaining and recruiting top executives? Will it in the future?
- Why did directors' remuneration increase while dividends remain unchanged/ the workforce is being reduced?
- How does the company's financial performance and senior management salary levels compare with those of its competitors/other FTSE 100 companies?
- How can bonuses be paid for achieving performance targets this year that were lower than last year's targets?
- How are bonuses decided by the remuneration committee?
- What criteria are used for bonus schemes? How much discretion is allowed?
- Why has a bonus been paid when the company does not make a profit?

- What was the highest bonus paid to a company director this year? Why? Why were share options issued to directors at a much lower price than to employees? Are the prices too low for directors' share options?
- The long-term incentive plan requires certain targets to be met. What was the performance in the year with regard to these targets? Shouldn't the targets be based on share price or shareholder value and not earnings per share?
- Several non-executive directors have shares/share options/bonuses. What is the reason for this? Is their independent status valid?
- Compensation for loss of office appears excessive. Why has there been such a large payout when company performance has fallen during the director's tenure?

## 2.6 Pensions

- How will changes in financial markets impact the valuation of pension plan assets and mandatory or desired funding requirements?
- Why are you closing the defined benefit scheme to staff?
- Why are you closing the defined benefit scheme to staff but still admitting directors?
- How can you justify the huge amounts paid into the directors pensions when there is a deficit on the employee scheme?
- There is a large deficit on the [name of the scheme]. What is the company doing about it? And what does it mean for members of the scheme?
- Will the company be able to fund the pension gap over the short and long term?
- How will the company fund the pension's liabilities over the short and long term?
- Was the company's pension plan changed during the year? Why was the plan changed? Has there been any effect on the company's pension cash flow?

## 2.7 Government intervention

- Has the company considered seeking Government assistance in the form of a loan or issue of capital?
- How did the VAT changes affect the results?
- How can the company satisfy the Government and shareholders simultaneously?
- How much business does the company receive from government grants or contracts? Has the Government challenged any costs?
- If the Government reduces its budget for contracts to the private sector, how will this impact the company in future years?

# 3 Finance



## What effect have foreign currency exchange rate fluctuations had on trading results?

### 3.1 Results

- How do the company's results compare with industry averages?
- I am highly concerned about the huge losses reported – why are the board congratulating themselves? Who is ultimately responsible for the huge losses?
- How much more loss can we expect?
- How did this year's results compare with budgets or forecasts?
- Which divisions/subsidiaries/products contributed the most and the least to this year's earnings? Which divisions/subsidiaries/products are expected to be stronger/weaker next year?
- What is the difference between 'headline profit/earnings' and simply 'profit/earnings'?
- Why have gross/operating margins increased/decreased from the prior year?
- Why has earnings per share increased/decreased from the prior year? What factors have affected earnings per share compared to the prior year? What is earnings per share before the effects of exceptional items, goodwill, amortisation and depreciation?
- Were there any significant year end adjustments to income? What were they?
- How much of the company's sales growth was attributable to acquisitions?
- How does the company justify the price paid for the acquisition given the level of net assets acquired?
- What was the cost of the abortive bid for the target company?
- Why have the results of joint ventures/associates increased/decreased from the prior year?
- What events have led to the company's impairment charges?
- What effect have foreign currency exchange rate fluctuations had on trading results?
- How much was paid in fees to outside consultants during the year? Who were they and what was the nature of services provided?
- Why has the pension charge increased so much in the year?
- What is the nature of the exceptional items? How much of the company's income is attributable to exceptional items? What do these items consist of? What impact do the exceptional items have on key ratios?
- What is the directors' current evaluation of actual and potential litigation against the company? What is the status of the contingency disclosed in the financial statements? Is the expected loss covered by insurance or recoverable from third parties?
- Is there any significant pending litigation against the company that is not mentioned in the annual report?

- What were the total legal fees for this year compared to the prior year? Why have these increased/decreased?
- What action is the company taking to control stock levels and debtor levels? Stock/debtors have increased by X percent but cost of sales/sales have only increased by Y percent - why is this? What are the directors doing to address this?
- Has the company changed any of its accounting policies during the year that significantly affected the financial results compared to the prior year?
- Why did the company restate its financial statements last year? What is being done to avoid the necessity for restatements in the future?
- What does the prior year adjustment relate to? How did it arise? If it is an error, have the people to blame been reprimanded? What has been done to ensure it will not recur?
- Is the company a going concern at this point?

### 3.2 Revenue recognition

- What are the significant judgement areas and estimates underlying the way in which the company recognises revenue?
- Have any 'special' or 'side' arrangements been appropriately considered in determining reportable revenues? Has the company entered into any hollow swap arrangements to artificially inflate revenue?
- Are the company's revenue recognition policies in line with the rest of the industry? Are they more aggressive or more prudent than the norm?
- Are the company's revenue recognition policies adequately disclosed in the financial statements?
- Has the company considered changing its recognition of revenue on software sales to more stringent US accounting policies?
- Does the company have any dormant investor accounts? If so, how does the company account for them?

### 3.3 Liquidity

- Did the company have a net inflow/outflow of cash in the year? What specific plans does the company have for increasing cash flow?
- Why is operating cash flow significantly below the operating profit?
- The group acquired a subsidiary during the year and the acquisition was funded by debt which has resulted in the debt levels increasing dramatically. Why didn't the company use equity to fund the purchase?
- How will the company satisfy the large amount of debt falling due this year? Does the company expect adequate cash flows? Does the company have a liquidity problem?

Are the company's revenue recognition policies in line with the rest of the industry?  
Are they more aggressive or more prudent than the norm?

- Have there been any breaches of loan covenants? If yes, how did this occur and what has been the impact?
- What is the current headroom on banking facilities? What is the closest the borrowings have been to the facility level during the year?
- Why has the company's credit rating been lowered/raised?
- Has the company considered sale and leaseback, debt factoring or any other debt arrangement as a means of improving its cash position?
- Why is the excess cash not being utilised more effectively? Why is excess cash not being returned to shareholders?
- Are there any reasons to anticipate a significant increase in current levels of borrowing?
- Has the company refinanced or does the company plan to refinance debt as a result of interest rate changes?
- The company has £Xmillion of medium term loans repayable within a year. What steps is the company taking to manage this debt?
- Does the company have adequate resources to manage threats and take advantage of opportunities as they arise?
- Does the company have, or can it obtain, sufficient capital to expand?
- What does the company think about the strength of the balance sheet after analysing high debt levels?
- Is the company too highly geared? What steps are the directors taking to reduce gearing? What do the directors consider to be the maximum permissible gearing?

### 3.4 Loan covenants

- Is the board confident that the company will continue operating within its loan covenants?
- Has the company breached its loan covenants at any point during the period?
- Has the board approached the bank over the potential/impact on financing of breaching loan covenants?
- What is the risk that the company's existing lenders will negotiate additional borrowing covenants? How will that affect the company?

Have there been any political or economic developments in foreign countries in which the company trades that may have a significant effect on the company's overall tax position?

### 3.5 Tax

- What is your tax strategy? What do you consider to be your risks in relation to tax?
- What is the company's effective tax rate this year? Why is it so low/high? What is the estimated effective tax rate for next year? How does it compare with the effective tax rate of other companies in the same industry?
- What is the total amount of tax paid by the company? Do you consider this to be at an acceptable level?
- Who advises the board on tax issues?
- Given the company has made significant losses in the past why is there a tax charge?
- Have there been any political or economic developments in foreign countries in which the company trades that may have a significant effect on the company's overall tax position?
- Why has there been a large adjustment to the tax charge relating to previous years? Does this mean the previous years' tax computations have been wrong?
- What is the status of the previous years' tax computations? Are there any significant problems or disputes?
- What actions have the company had to take under the Government's Disclosure of tax avoidance schemes regime?
- Is the company currently under investigation by the Inland Revenue? If so, why and what is the status of these investigations? What is the likely impact of this on the company's reputation?
- How does the company handle internet transactions with respect to sales and taxes?
- To what extent does the company undertake tax planning activities?

### 3.6 Derivatives

- To what extent does the company use derivative instruments? What types of instruments are used? Has the company assessed the risks of using/not using derivatives? How does the company measure its exposures/monitor these risks?
- Does the company use instruments such as options, futures or forwards to manage business risk?
- How does the company account for derivatives?
- Does the company have adequate systems and controls to implement and monitor compliance with policies? How does the company monitor compliance?

- What percentage of the company's investment portfolio comprises derivative instruments? How much of the company's revenues/losses arise from derivatives?
- From the accounts it appears the cost of hedging is quite expensive - was it worth it and why should we continue to hedge?
- Does the company hedge its exposure to foreign currency risk? What types of exposures are hedged? What types of derivatives are used to hedge?
- Is the company exposed to recent changes in oil prices? How is the company hedging its exposure?
- Does the company hedge its exposure to losses from changes in interest rates? What types of exposures are hedged? What types of derivatives are used to hedge?
- Does the company hedge any commodity price exposures? What types of commodities are hedged? What types of instruments are used? Does the company use derivatives to manage liquidity?
- What is the notional value of the company's derivative holdings?
- If the company had to settle all of its derivative contracts today, what gains/losses would be recognised? Did the company recognise any gains/losses in the prior year due to derivatives?
- How will IAS 39 (Financial Instruments) impact the company's results?



# 4 Reporting

Has the introduction  
of new accounting  
standards changed how  
we run our business?  
Or is it just  
about accounting?

#### 4.1 Accounting standards

- Has the Financial Services Authority (FSA) or the Financial Reporting Review Panel (FRRP) commented on the company's financial reports? Are any enquiries or other actions pending?
- How does the company propose to resolve issues that resulted in a qualified audit opinion or a going concern 'emphasis of matter' paragraph in the audit report this year?
- Why doesn't the company expand the information disclosed in the annual report to include more meaningful analytical and forward looking information about the company?

#### 4.2 International Accounting Standards and IFRS

- What comments have analysts/institutional shareholders made about our financial reports and results?
- How do our results compare to our international competitors/peers who are also reporting under IAS?
- How much of our profit this year is due to underlying business performance and how much to accounting changes?
- Have changes to the accounting standards affected the company's loan covenants/pension obligations/treatment of financial instruments/bonus schemes?
- Has the board considered the impact of new accounting standards on its risk management policies?
- Why has the segmental analysis changed? Is this the impact of accounting standards (IFRS 8)? Has the new standard changed the way we run our business? Should we be giving away this sort of information to competitors?
- To what extent have new accounting standards affected the company's ability to pay dividends?
- What will the accounts look like next year? Are there more changes to come?
- Has the introduction of new accounting standards changed how we run our business? Or is it just about accounting?
- Is there more or less judgement involved in preparing accounts under IAS, compared to UK GAAP or US GAAP?
- What is the board's biggest concern about its financial reporting?
- There is an increased amount of information in the audited financial statements; why is this?

### 4.3 Narrative reporting and business review

- The front end of the accounts is confusing. What is the company's business model? How does it make its profits?
- How did the company decide which key performance indicators (KPI's) to disclose?
- How did the company calculate the KPI's?
- How do these KPI's compare to the company's competitors?
- Why are the disclosed KPIs different to those identified in previous years? Shouldn't they be consistent from year to year?
- Why doesn't the company have any non-financial KPIs. Do the directors not believe people/environmental/social and community issues to be important?
- Are there any risks and uncertainties that the company face which have not been disclosed?
- How did you arrive at the principal risks for the business?
- Are the disclosed risks and uncertainties really the principal risks and uncertainties? What about [ ]?
- Does the business review give too much information away to our competitors?
- Has the company addressed all the areas of the enhanced business review and Companies Act 2006? What about [ ]?
- What is the Transparency Directive? How is it affecting the company?

Does the business  
review give too  
much information away  
to our competitors?



# 5 Operating/business

## 5.1 Customers

- What is the company's share of the market? How does this compare to the prior year? How does the company plan to increase its market share?
- Who are the company's major customers? Does the company rely heavily on any particular customer? What would be the effect if this customer were lost? Does the company plan to enhance its customer base and reduce reliance?
- Have any major customers discontinued purchasing products/services? If so, why?
- How much money is due from a particular troubled company? What portion of the debt does the company anticipate to be collectible?
- Are new customers being sought from overseas?

## 5.2 Supply chain

- Has the board considered all risks to the supply chain?
- Are there business continuity plans in place in case a major supplier ceases business?
- Does the company monitor its supply chain for ethical conduct/continuity/production standards?
- Has the company carried out any scenario planning to anticipate the effects of losing one, two or more major customers/suppliers

## 5.3 Competition

- What organisations does the company consider to be its most significant competition? Why? What are the company's key advantages/disadvantages over its competitors?
- Has the company benchmarked itself against other companies in its industry? How often is this done? What areas of the company are benchmarked? What were the areas for which the company was identified as being a leader? What are the areas which the company has identified as needing improvement? What have been the company's actions or what are its plans to improve in these areas?
- What initiatives has the company taken to maintain/strengthen its competitive position in the wake of increasing global competition?
- Does the company anticipate any new competitors entering the industry or competition from new sources? Are there any barriers to entry?
- Has the company's marketing strategy changed in the past year? If so, how?
- How effective do you think your current marketing strategy is? Could the marketing budget have been better spent?
- What is being done to prevent transfer of key personnel/technology to competitors?

**What initiatives has the company taken to maintain/strengthen its competitive position in the wake of increasing global competition?**

Have any major suppliers discontinued production of resources critical to the company? If so, what alternative arrangements have been made?

#### 5.4 Products/processes/operations

- How does the company develop new products?
- Is the company following good practice in labeling its food products?
- Does the company use raw materials from an organic or fair trade source?
- Is the company looking at cost effective ways of buying materials to be used in production? How often and to what extent does the company evaluate its production/service capabilities, inventory levels, warehousing and logistical activities, staffing levels, etc., for the purposes of optimisation?
- At what capacity did the company operate this year? Are operating levels expected to be higher next year?
- Have any major suppliers discontinued production of resources critical to the company? If so, what alternative arrangements have been made?
- Is the company heavily reliant on a small number of suppliers? Has the company sourced and tested alternative suppliers?
- Does the company source from the UK? If not, why not? Is the quality equal/better/worse than in the UK?
- Who participates in the long term planning process?
- What is the nature of the company's research and development for new and improved products/services and for production and service delivery? How far away is the company from bringing its new/next generation product/service to market?
- Is the company considering outsourcing any of its non-core processes?
- How many jobs did the company transfer overseas last year? What were the economic and competitive benefits?
- How much was spent on advertising and promotion last year? How much have you budgeted to spend this year?
- What measures does the company take to prevent a major product/service failure or a product recall? Has the company had to recall any products in the year or discontinue any services?
- Whilst on holiday I found pirate copies of [product name]. Is the company aware that this is happening? And what are you doing about it?
- What processes are in place to protect the company's patents?
- When does the patent on [product name] expire? What will you do with this product then?
- Why does the company not own any of its buildings?
- Has the company found it difficult to get insurance cover? Does the company have adequate cover, including terrorism cover?

## 5.5 Changes in corporate and business structure

- Has the group received any informal or unpublished take-over bids?
- How much did it cost the company to defend itself from the unsolicited takeover bid it received during the year?
- Does the company face antitrust issues with regards to potential mergers and acquisitions?
- What will be the impact of acquisitions on next year's profits? Can you give annualised figures for this year?
- Does the company integrate acquired companies?
- Are there any specific plans for acquisitions/sales in the near future?
- What are they? How does the company intend to finance such acquisitions? Does the company often consider an earn-out as part of the acquisition price?
- Are specific performance criteria established for monitoring the long term effectiveness of acquisitions and their impact on shareholder value? To what extent does the company perform a post-acquisition review to investigate performance of an acquired company?
- What is the status of negotiations to purchase/merge with another company? How will the proposed acquisitions affect the financial position of the company?
- Has the company considered entering into joint ventures or some form of strategic alliance? What is the status? What factors were considered in evaluating suitability/compatibility of these partners/alliances?
- What resource requirements have been identified? Does the company have sufficient resources to carry out it's plans?
- How does the company decide which divisions are candidates for sale or closure? Has the company considered spinning off any divisions as separate entities?
- Are there any flotations/spin off plans for subsidiaries? What potential benefits will this have?
- Are there any demerger plans? If so, why? What potential benefits will this have? How much will this cost?
- What are the company's plans and intentions regarding its non core businesses? Why?
- Is the company a target for takeover? Under what circumstances is the company willing to be acquired? Does the company favour independence?
- What is the company doing to identify takeover attempts? What strategic anti-takeover provisions are there? What other plans does the company have to prevent unfriendly takeovers?

**What is the company doing to identify takeover attempts? What strategic anti-takeover provisions are there? What other plans does the company have to prevent unfriendly takeovers?**

## 5.6 Future plans/strategy

- What are the expectations for the company's future growth? Is growth expected from acquisitions? New products? New markets? Other sources?
- Describe the company's global development growth strategies.
- What have the directors decided is the company's future strategy? How do the directors intend to maximise shareholder value?
- What does the board see as the key risks facing the business going forward? What actions are being taken to manage/mitigate those risks?
- What, in management's opinion, are the three to five most significant financial reporting or other risks facing the company? Are they adequately disclosed? What should shareholders know about additional market or other forces that may affect the company's financial or operational outlook?
- It has been announced that the company has won a major contract with [name of company]. What are the risks to the company in meeting the demands of such a significant contract?
- What plans does the new Chairman/Chief Executive/other Director have for the company? What will be done differently?
- What do budgets/targets indicate for the company's future performance? What are the key budget assumptions?
- At what capacity did the company operate this year? Are operating levels expected to be higher next year?
- What actions and strategies has the company identified to obtain market share?
- What new products/services is the company planning to introduce next year? What effect are these products/services expected to have on the company's future operations? What products/services are to be discontinued?
- The company appears to be now focusing on reducing prices. Is this at the cost of quality?
- Does the company plan to maintain current levels of spending on research and development? Has the company considered entering into a research and development alliance/partnership to develop new products/services?
- What are the plans for capital expenditure? Is this necessary, especially given the downturn in trade? Can the company cancel plans?
- What is being done to raise service levels?
- What steps are the directors taking to avoid future profit warnings?
- What will be the impact of acquisitions on next year's profits? Can you give annualised figures for this year?
- What is the company's policy on expansion/diversification?

- Does the company anticipate any reductions in the workforce in the near future? If so, why? What will the repercussions be?
- Does the company have a disaster recovery plan? Has it been tested? Does the company have a business continuity plan?

## 5.7 Information technology/e-commerce

- How would the directors characterise their view of information technology? Are systems up to date? How does the IT plan support corporate business strategy?
- Has the company reviewed internal controls over IT systems? What is the assessment of controls? How is data protected? How is data exchanged? Has the company taken any security measures to protect confidential/important information from manipulation/theft/disclosure within systems?
- Have 'hackers' succeeded in breaking into the company's computer systems during the year? What is the likelihood of another attack?
- How does the company regulate use of the Internet by employees?
- How vulnerable is the company to computer viruses? What procedures are in place to combat threats?
- Does the company outsource any of its operations? If so, what controls exist to safeguard company information?
- Does the company have an on-line trading strategy? If so, what is it?
- How is the company using the Internet to market and sell its products/services?
- What's the company's policy on the use of Twitter and other social media networks? Can such media be used to communicate with customers and suppliers?
- Are transactions (with both suppliers and customers) made over the Internet site? What proportion of sales/purchases are these? How has the company ensured that the site is secure and that adequate firewalls are in place?
- How is the company using the Internet to communicate, share data and be closer to stakeholders?
- Has any review been performed on the Internet site in terms of content, user accessibility and security?
- How does the company hope to rein in internet piracy on electronic products?

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# 6 Shareholders

## 6.1 Share price

- How does the company view the current share price – low/high? Why?
- Why has there been significant volatility in the share price recently?
- Why has the company's share price exceeded/lagged behind others in the same industry? How has the company's share price performed in comparison to competitors?
- Why are the company's shares selling at such a high/low PE ratio? Why did the market price increase/decrease recently?
- Why has the company's share price not moved in line with changes in the stock market?
- How have current economic conditions and world events affected the company's share price? What are the company's plans for reversing negative trends?
- What steps are being taken to increase the share price and what is the company's target share price in two years time?
- What attempts have been made to increase the marketability or price of the company's shares? How do the directors plan to remedy the current underperformance of the share price?
- Is the company's PR adequate given it looks like the share price is underperforming?
- Are brokers known to be advising customers to sell/buy the company's shares? Are any mutual funds known to be selling/buying significant blocks of the company's shares?
- What percentage of the company's shares do officers, directors and employees hold? Does the company have a system for monitoring shares traded by these groups? Have any officers or directors or associates recently disposed of large blocks of the company's shares?
- Is any debt or equity financing contemplated in the near future? If so, what will the funds be used for? What will be the dilutive effect on the company's shares?
- Does the company plan to repurchase any of its debt or equity? How will the repurchase be accomplished? Is this the best use of funds?
- Option prices of shares are greater than the share price. Does the company plan to re-price options?
- Why has the company increased the authorised share capital? The company is capitalised at less than the value of several rights issues and is not likely to improve. What actions are being taken to address this problem?
- How many shareholders does the company have? Has this increased from last year? Why?
- I have bought rights issues at £x which are now worth one third of the original amount – will the share price rise in the near future?

**How have current economic conditions and world events affected the company's share price? What are the company's plans for reversing negative trends?**

## 6.2 Dividends

- What is the company's dividend policy?
- How is the quantum of dividend paid by the company determined? Why have dividends not been increased/decreased in light of the company's recent earnings?
- When will the payment of preference dividends restart? When are ordinary shareholders going to receive a dividend?
- How does the company justify a final dividend which is significantly greater than profits for the year?
- Why was the current dividend paid in shares rather than cash? Are there any future plans to pay dividends in the form of shares? Has the company considered making share alternatives more attractive to shareholders, e.g., enhanced scrip dividends?
- Are there any restrictions on the payment of dividends? What reserves are available to pay dividends?
- What was done with funds received from disposals? Why were funds not used to pay dividends?
- Does the company have a dividend reinvestment plan, share election plan or bonus share plan? How many shareholders participate in the plan?
- How does the company use the funds received from its dividend reinvestment plan?

**How does the company justify a final dividend which is significantly greater than profits for the year?**

## 6.3 Annual General Meeting and voting issues

- Why is the AGM held in this location? Has the company considered enabling shareholder participation in AGMs via the Internet?
- Why doesn't the company hold its annual meeting in a company facility?
- Has the company considered having simultaneous meetings in other major cities linked by video so that more shareholders can attend?
- Does the company consider potential conflicts with shareholder meetings of other major companies when scheduling its AGM?
- What is the total cost of holding the AGM?
- Will a post-meeting report be sent to shareholders? Will this include a summary of the question and answer session?
- Why isn't the question and answer session longer?
- How do the directors encourage shareholders to attend and vote at AGM?

What is the policy on briefing analysts?  
What information do analysts receive which other shareholders do not receive?

- Why is voting at the AGM undertaken by a show of hands when the proxy votes mean that the result has already been decided upon? How many shareholders have voted by proxy?
- How are shares held in a trust/pension plan voted?
- Why does the company not permit confidential shareholder voting by using a third party to collate results?
- Can a shareholder propose a resolution? What is the time period for shareholders to lodge resolutions with the company so that they can be put before the AGM?
- Were any shareholder proposals omitted that were presented to the directors for inclusion in the proxy statement? If so, what were they and why were they omitted?
- Does the company 'bundle' shareholder proposals, combining favourable and unfavourable issues, in order to force shareholders into supporting unpopular provisions?

#### 6.4 Reports/communications to shareholders

- What is the company doing to improve shareholder communications?
- To whom is the annual report distributed? How much does it cost to print and distribute the annual report?
- Are the company's reports to shareholders available on the Internet? Are the financial statements available on the company's website?
- Can the company use plain English in its annual report?
- Why does the company not issue more frequent statements such as quarterly financial statements to shareholders?
- What is the policy on briefing analysts? What information do analysts receive which other shareholders do not receive?
- Has management met separately with institutional investors who hold significant amounts of the company's stock? Has management met separately with analysts? If so, what is the nature of the meetings and what information is shared in the meeting?
- What's the company's policy on the use of Twitter and other social media networks? Can such media be used to communicate with shareholders?
- Can the company make available communications adapted for the visually impaired?

# 7 Audit

**Have any of the directors previously worked for the external auditors? When? If so, do they have any continuing connections with the external auditors?**

### 7.1 External auditors

- What were the audit fees for this year and the prior year? Why has there been such a large increase/decrease in audit fees compared with those of last year?
- How long has the external auditor been the company's auditor? Does the company have a rotation policy? If not, why not? How many years has the current audit engagement partner been on the external audit team? What is the auditor's rotation policy for the audit partner?
- Do the directors consider the external auditors to be independent?
- Did non-audit services go out to competitive tender?
- Can the audit fee be reduced?
- Has the company considered putting the audit out to competitive tender rather than just re-appointing the current auditors?
- Does the board believe that it is getting 'value for money' from its auditors? Would the company be better off using the services of a smaller firm?
- How has the effectiveness of the auditor been assessed?
- What assessments has the company made regarding the litigation record of the external auditors?
- What was the company's reason for changing external auditors? Was that decision approved by the board of directors or the audit committee? How many firms were asked to tender?
- Have any of the directors previously worked for the external auditors? When? If so, do they have any continuing connections with the external auditors?
- Is a representative of the external auditors present at the AGM?
- Why is the audit report very long and why are there so many caveats?
- Did the external auditor issue a 'management letter' or in any other way raise concerns about the company or its financial reporting during the year? If yes, what were those concerns? Have there been any changes in audit scope in the year?
- Did the external auditors identify significant accounting adjustments at the end of the year? If so, why did the directors not identify these?
- Did the auditors have unrestricted access to the audit committee - i.e., without the presence of executive directors? How often did the audit committee and external auditors meet?
- Did the external auditor discuss any preferred generally accepted accounting principles (GAAP) alternatives that are different from those used by the company?
- Are there any uncorrected audit differences? What is the total value? Why are they uncorrected?
- Did the auditors' review of internal control, in connection with planning and performing the annual audit, disclose any reportable conditions or material weaknesses? If so, what steps have been taken to resolve them?
- What responsibilities do the external auditors assume for detecting material misstatement due to fraud? Was any situation involving fraud reported this year?

## 7.2 Auditor rotation

- Why has the board recommended the re-appointment of our current auditors? How have they satisfied themselves that the auditors provide a high quality service?
- Has the board considered putting our audit to tender? Is it wise if the current auditors are providing a good service?
- How did our auditors perform during this period? Did they meet all their KPIs/ service level agreements?
- What are the risks/costs/benefits involved in appointing a new auditor to the company?
- Is the board happy with the current auditors? Why?
- Is it good practice to rotate auditors every few years? Is it a large drain on company resources? What are the benefits?

## 7.3 Auditor liability agreements

- Has the auditor discussed proportional liability agreements with the company?
- Have our auditors approached the board seeking agreement to limit liability during the period?
- Has the company considered entering into a proportional liability agreement with the auditor? What does proportional liability mean?
- Should our auditors have limited liability? What's in it for the company?
- Does the board feel that limiting the liability with auditors will lead to complacency and a risk-taking culture within the audit profession?
- What is the rationale for proportional liability agreements?

Does the board feel that limiting the liability with auditors will lead to complacency and a risk-taking culture within the audit profession?

## 7.4 Auditor Inspection Unit reports

- Has the board considered the recently released AIU report on the company's auditors?
- Can the board confirm that our audit was not one of those reviewed by the AIU?
- I am concerned about some of the findings in the AIU's report on our auditors – what does the board or audit committee do to ensure the quality of our audit?

## 7.5 Internal audit

- Is there an internal audit function? If not, why not?
- If there is no internal audit department, how does the board/audit committee gain the level of independent assurance it requires?
- Has the company outsourced its internal audit function? Why/why not?
- How many people are in the internal audit department? What is the staff turnover rate? What qualifications do our internal auditors have?
- What was the nature of the main activities undertaken by the internal audit function in the last year? Did these activities reveal any significant weaknesses? Have suggestions for improvement been acted upon?
- Who reviews the work performed by the internal auditors? Are recommendations made by the internal auditors followed up to ensure that they are being acted upon by management and that they are effective?
- What are the main activities/plans for the internal audit department next year?
- Has any review been performed regarding overlap between internal audit and external audit? Is there any scope for reducing fees? Are there any conflicts of interest with the external auditors or others providing assurance services?
- What feedback did the audit committee receive from the independent auditor concerning the responsibilities, budget, and staffing of internal audit?
- Is the internal audit function based on a risk-focused methodology?
- Does the internal audit department have direct access to the board of directors, the audit committee and external auditors? How often does internal audit meet these parties?
- Are members of the internal audit department restricted from access to any of the company's records or personnel? If so, which ones?
- Has internal audit reviewed any third party service providers?
- Do members of the internal audit department attend shareholders' meetings? Are they available to answer shareholders' questions?
- How often do the internal auditors visit each operating location, including foreign operations?

## 7.6 Audit committee

- Does the company have an audit committee? If not, why not?
- How often did the audit committee meet in the last year? How many members are on the committee? How long were most meetings? What was the remit of the committee? Are all audit committee members non-executive directors?
- Did all members attend all meetings?
- What steps are taken to ensure that the audit committee is independent of management?
- Do the audit committee members have accounting or finance backgrounds?
- What is a financial expert?
- Why does the annual report state that the company does not have an audit committee member with 'significant recent and relevant experience'? How can the committee operate effectively if it doesn't have the necessary skills?
- How have the recommendations in the Combined Code impacted the audit committee?
- How often does the audit committee report to the board of directors?
- How do audit committee members keep up to date with changes in legislation and accounting standards? Can someone tell the shareholders what the audit committee actually does? The statement shown in the annual report is the same as in dozens of other companies' annual reports.
- Does the audit committee review/approve:
  - performance/effectiveness of the internal audit function
  - annual internal audit plan and budget
  - external audit fees
  - non-audit services provided by external auditors prior to performance
  - re-appointment, selection and dismissal of external auditors?
- Does the audit committee have routine discussions with the management and external auditors about significant accounting issues in the financial statements? What was discussed? Were there any meetings without management present?
- Has the audit committee reviewed the independence of the external auditors?
- Have you looked at the litigation record of the external auditors? If so, have you evaluated the effect of any litigation the auditors are involved in?
- Do you know what the external auditor's and the company's document retention policy is? Is the committee happy with this policy?
- How does the audit committee obtain a satisfactory understanding of the company's system of internal control? Does the audit committee review and follow up on internal control recommendations made by the internal audit department and external auditors?

**What steps are taken to ensure that the audit committee is independent of management?**

- As there is no internal audit function, how does the audit committee gain the level of assurance it requires?
- Is the audit committee satisfied that the internal audit department/external auditors have a full understanding of all internal and external factors affecting the business, and that these factors have been taken into account when designing the audit approach?
- Does the audit committee review the scope of the audit – both internal and external?
- Does the audit committee review accounting policies?
- Does the audit committee review the accounting treatment of unusual or material transactions? How does it do this?
- Does the audit committee review all financial information and press releases prior to publication?
- How does the audit committee evaluate the external auditors' qualifications, performance and independence from management? Does the audit committee review the company's code of conduct and procedures designed to ensure compliance with laws and regulations?
- If the audit committee were preparing the financial statements would they have been prepared differently to the manner selected by management? And if yes, in what way?
- If the audit committee were an investor, would it have received the information essential to a proper understanding of the company's financial performance?
- Is the company following the same internal audit procedure that would be followed if the audit committee were executive management?
- Did the audit committee hire any outside advisers to assist it during the most recent year? If yes, what was the nature of the issue that prompted engaging an outside adviser?



## 8 Corporate governance

How do the directors feel that the changes they have made to the company's corporate governance practices have helped to improve the company's results?

## 8.1 Corporate governance

- What fees for non audit services were charged by the external auditors in this year and last year? What did they relate to? Why have they increased? Do the directors consider the external auditors to be independent?
- Is the disclosure of non-audit fees paid to the auditor a fair reflection of payments in respect of non-audit services? Does this figure include the audit fee in respect of group subsidiaries? What else does it include?
- Does the audit committee provide meaningful protection for investors? Is the audit committee in a position to challenge the executive management and draw sufficient attention to dubious practices – even though the company is apparently successful?
- Is the audit committee proactive in seeking to ensure the quality and integrity of financial statements and accompanying reports? Are audit committee members dedicated, independent, financially literate and able to challenge the views of executive management?
- Does the Board operate Directors' and Officers' (D&O) liability insurance cover for directors? How much does it cost? Why isn't D&O cover shown as a benefit in kind?
- Has the company ever monitored the calls of its directors or staff without their knowledge?
- How do the directors feel that the changes they have made to the company's corporate governance practices have helped to improve the company's results?
- The company's corporate governance statement states that it has not fully complied with the Combined Code. Why hasn't the company complied? What are the ramifications of this statement?
- As a result of the increased burden of corporate governance guidelines, and other regulatory matters, will the company be going private?
- Does the Senior Independent Director meet with institutional shareholders? What does he discuss? Why don't private shareholders get the same access to information?

## 8.2 Directors

- How often does the board of directors meet? Where are the board meetings held? How long do meetings last? What was the average attendance of directors?
- Why do so many directors not attend board meetings/audit committee meetings?
- Why have some directors failed to attend all the board and appropriate committee meetings? Aren't they paid to do this?
- Why does the board of directors not contain more independent, outside directors?
- What do non-executive directors add to the company?
- Are the non-executive directors financially independent of the company?

- Are the non-executive directors independent? How does the board define independence in this context – does it follow the ABI/NAPF/the Combined Code guidelines?
- [Name of non-executive director] has been an independent non-executive director for many years. Why do you still consider him to be independent?
- A number of the NEDs have a number of other directorships. Don't you think that more than [state number of directorships] is excessive?
- How many of our directors serve on multiple corporate boards? Do directors require company approval to sit on other boards? Does the company limit the number of boards on which a director sits? How much time do the directors spend on this company?
- The Chairman appears to hold a directorship which conflicts with the activities of the group. How is his position tenable?
- Why is the chairman also the chief executive of the company? Is this still allowed? Has the company considered separating these roles?
- Why are there no disabled/ethnic minorities/women on the board of directors?
- The majority of our customers are women. How are their views represented on the board?
- How are candidates for the board of directors identified and selected? What experience is required? Does the company use an external recruitment advisor to help select directors?
- What experience does [name of director] have of this industry?
- [Name of director] was on the board of [another company] when it lost £Xm. How will this director's experience benefit this board?
- Does the company have a formal process for planning the succession of each director/key personnel?
- In view of the company's recent expansion into a new area, was consideration given to appointing new directors with experience in this area?
- In view of increased globalisation, what has the company done to increase the international breadth of knowledge and experience on the board?
- Why did [name of former director] leave the company? Why was [former director] made redundant? Have there been disagreements between directors? How were these resolved?
- Does the company have nomination and remuneration committees?
- Who is on these committees? How often do these committees meet?
- Do all members attend all meetings?
- Does the board of directors have a formal mission statement? Does the company have a code of conduct for directors?

- Do the board, the board's committees, and individual directors undergo an annual evaluation exercise? If not, why not? If yes, how was this conducted?
- Was the board evaluation facilitated by an external third party? Who was the facilitator? What other relationships did they have with the company?
- Does the board of directors establish performance objectives for each director? How often does the board of directors evaluate performance? How does the company evaluate directors? What criteria are used?
- What is the average length of service of the current board? Are there specific terms of appointment for directors?
- [Name of director] is beyond the normal retirement age. What is your retirement policy?
- Explain the nature of directors' contracts. Why are they rolling and what benefits do they get?
- Why does the entire board of directors not stand for re-election each year?
- Would directors seeking re-election say something about themselves and their role?
- Before re-electing directors, please state what their salaries and total remuneration will be if they are re-elected.
- How does the company ensure that directors are aware of all their legal duties and responsibilities?
- What training do directors receive each year to enable them to keep abreast of professional, commercial and corporate governance developments?
- Do new directors attend an induction programme?
- Are there procedures to allow the directors, in the furtherance of their duties, to seek independent professional advice at the company's expense?
- Has the company entered into liability insurance arrangements for directors?
- To what extent has the company engaged in transactions with related parties, including directors, in the last year? What was the nature of such transactions? How does the company satisfy itself that these are in the best interests of the company?
- Some directors do not own shares in the company. This does not show signs of confidence in the company. What is the reason for this?

What training do directors receive each year to enable them to keep abreast of professional, commercial and corporate governance developments?

How does the company make each employee aware of their individual responsibility regarding risk and internal control? How has the company established a 'tone at the top'?

### 8.3 Internal controls and review process

- What methods does the company use to identify, assess and mitigate risk to the company?
- Who is responsible for risk management?
- How does the company make each employee aware of their individual responsibility regarding risk and internal control? How has the company established a 'tone at the top'?
- Has the company reviewed the effectiveness of all controls (financial and operating)? What weaknesses were discovered? What does the company intend to do with regard to weaknesses? Does this review include foreign operations/joint ventures/associates/outsourced functions?
- We used to be a United Kingdom based business and now we operate all over the world. How does the board ensure that the necessary balances and checks are operating throughout the whole of the business?
- How do the directors assess the adequacy of internal controls?
- How do the directors monitor performance of significant business processes? Do the directors monitor key performance indicators? What are they?
- Are the directors satisfied that significant business processes are operating effectively and efficiently?
- Are the company's internal controls adequate for preventing or detecting material misstatements due to errors, fraud or illegal acts?
- Were any frauds discovered during the year? If so, who perpetrated them and what are the chances of recovery? What new procedures have been adopted to prevent a recurrence?
- Does the company have a system of internal control that ensures compliance with laws and regulations?
- Does the company have a system that will detect insider trading?
- How does the company assess the risk of being associated with money laundering?
- Does the company have a whistle blowing policy? If yes, then what is it, and were any issues reported in the year? And what were they?
- Has the board ever given after-the-fact approval of a major transaction initiated by management? If so, how did this happen?

Does the company have a board level risk committee - distinct from the audit committee and the executive risk committee?

#### 8.4 Risk committees and the CRO

- Does the company have a board level risk committee – distinct from the audit committee and the executive risk committee?
- Does the risk committee hold the independence, objectivity and effectiveness of the risk control function to account (both in design and operation).
- Does the board risk committee seek external views and advice in relation to products, external market/financial developments, proposed strategic transactions and other critical risk issues.
- Do the terms of reference allow for robust challenge to the board to be exercised?
- Do the terms of reference codify its interactions with the audit committee and the remuneration committee?
- What powers does the board risk committee have? Do they include any powers of veto?
- Who chairs the board risk committee? What is the current membership of the board risk committee? Does the membership demonstrate sufficient independence? Is it predominantly composed of NEDs?
- Does the company have a Chief Risk Officer (CRO)?
- Is the CRO independent of the business units? Does his or her mandate cover all material risks?
- What does the CRO do? Does he or she advise the board or board risk committee on risk appetite, tolerances and a forward looking view of the risk profile?
- What is the CRO's reporting line? Do they report to the chief executive officer and/or chief financial officer? Is the CRO accountable to the board risk committee?
- Is the tenure and remuneration of the CRO subject to board and remuneration committee approval?

#### 8.5 Remuneration

- What is the company's remuneration policy?
- How many employees earned more than £xxxx?
- Should bonuses be awarded in the current environment?
- What effect has the higher tax bracket and other changes had on recruiting and retaining our best people?
- How does the company account for share options? Has the company ever back-dated any share options?
- The company has a policy of making severance payments where termination was due to poor performance. Why is this at the discretion of the remuneration committee rather than being automatic? And who monitors whether the departing executive has found work within 12 months of termination?

- Exit payment paid to former directors represents total board salaries for seven years. How can the effects of this on the company share price and dividends be justified?
- What assurances can the board give shareholders that further excessive payments will not be made in the future?
- Who determines the remuneration of the non-executive directors?
- What is the relationship between performance and remuneration? Why are full details of performance conditions not given?
- What group of companies does the company benchmark its performance against and why?
- How does the company's remuneration of directors compare with the industry norm, and with its major competitors?
- How much is each director paid? Does the company provide directors with pension benefits and life insurance? Has consideration been given to compensating directors by issuing shares rather than cash?
- Do the directors participate in the same pension scheme as employees? The percentage of pension contributions as a proportion of salaries for directors is much higher than for employees – why? Pension contributions for directors have increased significantly in the year – why?
- Has the company made any loans to directors/employees? If so, why, and what terms and conditions are in place? Were any loans waived in the year?
- Does the company have a remuneration committee? If not, why not?
- Is the remuneration committee made up of independent non-executive directors?
- How does the board define independence? Does it apply the ABI/NAPF/the Combined Code guidelines?
- What steps are taken to ensure that the remuneration committee is independent of management?
- How often did the remuneration committee meet in the last year? How many members are on the committee? How long were most meetings? What was the remit of the committee? Are all remuneration committee members non-executive directors?
- Did all members attend all meetings?
- Does any member of the remuneration committee receive any remuneration from the company other than directors' fees?
- What are the backgrounds of the remuneration committee members?
- Do members of the remuneration committee participate in continuing professional education to ensure they remain up-to-date with issues that affect the company?

- How often does the remuneration committee report to the board of directors?
- Does the remuneration committee review the remuneration disclosures, including pensions, in the annual report to ensure that they are in accordance with the Directors' Remuneration Report Regulations 2002, the UK Listing Authority's Listing Rules and the Combined Code?
- Did the remuneration committee hire any outside advisers to assist it during the most recent year? If yes, what was the nature of the issue that prompted engaging an outside adviser?
- Isn't the use of Earnings Per Share (EPS) as a sole performance target for the Executive Incentive Plan missing true alignment to share price?
- What is the anticipated effect of long-term incentive plans on earnings per share?

## 8.6 Ethics and conduct

- How is the company's code of conduct communicated to all staff?
- Does the company issue and monitor a code of conduct to its suppliers?
- Does the company have a disciplinary process for staff? Have any staff been disciplined during the period?
- Does the company have a formal mission, strategy, operating policies, and performance objectives?
- How does the company ensure effective oversight of its code of conduct?
- Does the company review its code of conduct regularly?
- Does the company report compliance issues and their resolution to the board of directors?
- Are staff entertaining and other hospitality arrangements appropriate in the current economic climate?

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and other hospitality  
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current economic  
climate?

# 9 Social and environmental

## 9.1 Employees

- What is the company doing to ensure that it has an adequate supply of capable workers for the future? Does the company offer assistance to employees who wish to further their education or improve their skills?
- How do you keep the skills of your workforce up to date? Have you had to employ staff from overseas in order to plug a skills shortage?
- What sort of ongoing training do you provide to employees?
- What staff retention policies does the company have?
- What steps are being taken to reduce overall turnover rates and to retain valuable talent? What is the turnover rate?
- Why are the employees' average salaries much higher/lower than the company's major rival?
- The average earnings of employees was very low, not least compared with the substantial rewards of directors. Why?
- What is the status of the company pension scheme for employees? Has this changed for the new stakeholder pension legislation?
- Who manages the pension fund investments? How are investment decisions monitored? What are the investment policies?
- What is the company's policy on severance pay and non-monetary severance benefits?
- How many of the current employees are shareholders?
- What is the company's policy for hiring women, minority groups, older people and the disabled? What statistics are available to support this policy?
- Does the company comply with The Employment Equality (Age) Regulations 2006? What difference has this regulation had on the workforce?
- How does the company promote diversity in its workforce?
- Has the company evaluated its employment policies to ensure that they would not be considered discriminatory?
- How does the company avoid discriminating against older employees or disabled employees? How many ethnic minorities/women are officers of the company? What procedures are in place to ensure that the directors are aware of the company's progress in eliminating barriers?
- What is the proportion of ethnic minorities in each division of the company? Does this match the local population?
- How does the company ensure that it does not employ illegal immigrants?
- Does the company have a policy on sexual harassment in the workplace? Has the company or have employees been subject to litigation?

The average earnings of employees was very low, not least compared with the substantial rewards of directors. Why?

- The annual report now includes a comment about working with trade unions. Does this mean that the company will now be working more closely with unions? And how will this affect the running of the business?
- What are the major issues that unions have at present? Are there plans for any action?
- Why was strike action taken during the year? What impact have strikes (either of employees of the company or elsewhere) had on the company's results?
- Does the company encourage flexible working arrangements, such as working from home?
- Does the company provide childcare?
- Does the company provide healthcare benefits to its employees?
- What is the company's smoking policy?
- What is the company's policy on electronic monitoring of employees? Drug usage monitoring?
- What is your general retirement policy?

## 9.2 Community

- Does the company act responsibly in the societies/communities in which it operates? What are the company's plans for investment in the community?
- Does the company understand the impact of HIV/AIDs, tuberculosis, malaria or similar pandemics on its activities and employees operating overseas?
- Does the company participate in community activities? If so, what are they and what were the costs to the company?
- What is the company doing to create jobs and help the unemployment situation?
- How does the company ensure that nothing it imports from less developed countries is manufactured with prison or child labour? Does the company do business, either directly or indirectly through its foreign operations, with regimes that support terrorists?
- Did the company pay any incentives/introduction fees to customer agents (mainly foreign)?
- How much did the company contribute to charity during the year? Who were the largest recipients? Has the company set up a charitable pool?
- Were there any political donations during the year? Who were the recipients? Why were these recipients chosen?

### 9.3 Environmental

- Does the company act responsibly in relation to the environment? What is the company's policy with regard to the environment?
- What is the most controversial and pressing environmental issue that the company faces and how is the company dealing with it?
- What is the company's record on environmental performance and compliance with appropriate laws?
- What has the company done to reduce the possibility of environmental pollution or other incidents?
- Are there any significant pending/contemplated legal proceedings against the company relating to environmental matters?
- Are there any potential past environmental issues that might lead to compensation/clean up costs?
- Does the company measure its environmental performance? How does the company calculate its environmental liabilities? How accurate have these calculations been in the past?
- Has the company carried out an environmental audit of its activities? Can the company produce an audited environmental report?
- How is the company doing in the eyes of non-governmental organisations such as Greenpeace?
- How does the company transport its goods? Has the company considered using a method of transport with a low level of carbon emissions?
- How does the company dispose of nuclear or chemical waste?
- Does the company produce or use any products that are considered to deplete the ozone layer or contribute to global warming?
- To what extent are the company's products made from recycled materials? Are the company's products recyclable? To what extent has the company instituted recycling programmes at its offices/plants to meet EU targets/directives?
- What emissions does the company give out during processes? Is there a liability attached to this? How much?

What is the most controversial and pressing environmental issue that the company faces and how is the company dealing with it?

Why does the annual report not include information on social, ethical and environmental risks that may significantly affect the company's short- and long-term value?

#### 9.4 Health and safety

- What measures has the company taken to ensure that its plants are safe and will not be the cause of accidents? What is the company doing to promote plant safety and accident prevention?
- What has been the company's record in the past year on health and safety injuries/deaths owing to dangerous operations that were being carried out?
- Are there any claims currently against the company for breach of health and safety regulations or significant workplace injury claims?
- With whom are health and safety audits shared? How are employees involved in promoting and monitoring safety?
- Has the company got a full picture of the risks it is facing in the jurisdictions in which it operates?
- Has the company sought expert advice on potentially hazardous operations? What recommendations were made and were they implemented?
- What is the company's review procedure for monitoring potentially dangerous activities?
- What training do the key individuals responsible for dangerous operations have and how often is the training procedure reviewed?

#### 9.5 Reporting

- How has the board responded to the ABI's guidelines regarding social, ethical and environmental risks?
- Why does the annual report not include information on social, ethical and environmental risks that may significantly affect the company's short- and long-term value?
- Has the board considered independent verification in relation to its statements regarding environmental issues?
- Has the board of directors formed an ethics committee or social responsibility committee?
- Is there a committee/department to study major public policy issues and provide guidance to management?

## 9.6 Political

- Are lobbyists used by the company? How much does the company spend on lobbying? Please explain what the lobbyists have achieved.
- How do you think a change in Government will effect the company?
- Why is the company seeking authority to pay political donations?
- What is the boards view of the government's policy on [tax, pensions, etc]?

## 9.7 Customers

- What has been the nature of any complaints received from customers during the year?
- Have consumer groups criticised the company's activities or services?



## ACI events in 2010

The ACI is running a number of industry and sector specific events in 2010, in addition to our technical update series and FTSE 350 breakfast programme.

If you require further information about the ACI's 2010 events programme please contact:

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