

Directors struggle with corporate governance reporting despite some disclosure improvements

Small and mid-size quoted companies continue to struggle with three major corporate governance disclosures, says a report published today by the Quoted Companies Alliance, the independent membership organisation that champions the interests of small to mid-size quoted companies, and the top 20 UK accountancy firm UHY Hacker Young.

Directors have difficulty with linking the application of corporate governance to corporate strategy, making board evaluation disclosures and describing the role of external advisers in the boardroom, according to the second QCA/UHY Hacker Young Corporate Governance Behaviour Review.

For instance, only one company in the sample reviewed disclosed the link between governance arrangements and their long-term success and strategy for growth. While this can be hard to achieve, it is something institutional investors look for, say the authors.

The review benchmarks 100 small and mid-size quoted companies' corporate governance disclosures in annual reports and accounts and on corporate websites against the minimum disclosures of the QCA Corporate Governance Code for Small and Mid-Size Quoted Companies.

Company disclosure improved slightly this year in areas, such as audit committee reporting and risk management disclosures, and regressed in others, noticeably the posting of voting decisions at general meetings on corporate websites.

Disclosure of board evaluation procedures has almost doubled, from 14% of companies disclosing them in 2013 to 27% in 2014. However, the amount of companies disclosing details of directors and their relevant skills and experience has fallen. 79% of companies reviewed identify the directors, their roles and committee memberships (compared to 93% in 2013). 73% of companies reviewed describe the relevant skills and experience of those directors (compared to 91% in 2013). Such information helps investors understand board evaluation procedures and why certain directors are on the board, so that any skills gaps can be addressed.

The reporting of audit issues has improved this year, but the majority of companies are still not making disclosures in this area. 36% of companies (up from 20% in 2013) include details of the significant issues considered by the audit committee and 28% of companies (up from 17% in 2013) disclose how the audit committee also focused on risk. The Quoted Companies Alliance's recently published Audit Committee Guide for Small and Mid-Size Quoted Companies includes a section on the audit committee report and provides best practice guidance on what companies should focus on in this report.

The majority of companies reviewed disclose information on risks and risk management. 89% of companies include a summary of risks and risk management and internal control systems, and just over half (51%) explain how risks align with the company's strategy.

The report also found only 33% of companies post annual meeting voting decisions on corporate websites – down from 65% in 2013, leaving companies exposed to an unnecessary risk of criticism and manipulation.



Colin Jones, Head of London Audit at UHY Hacker Young and Deputy Chairman of the Quoted Companies Alliance Corporate Governance Expert Group, said: "Good governance should be part of the fundamental identity of any company that espouses it – something inherently linked into its growth strategy. Good corporate governance can be a foundation upon which sustainable progress in the post-financial crisis market will be delivered."

Tim Ward, Chief Executive of the Quoted Companies Alliance, said: "Effective governance is essential considering its importance to professional investors. In general, they appreciate that directors have other things to do as well and must seek the right balance. Good practice requires insight and occasionally courage – but is invariably worth the effort. This report adds to our efforts to promote good governance throughout the small to mid-size quoted company sector."

Research for the report included conversations with institutional investors in which they urged companies to tell their story confidently, without hiding things, and to avoid boilerplate and immaterial disclosures.

Looking forward, the report encourages companies to focus on five targets in 2015:

- Link strategy and corporate governance;
- Understand your risks and explain how they link to strategy;
- Focus on the audit committee report;
- Describe board evaluation procedures; and
- Explain why each director is on the board.

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Notes to editors:

1. The second QCA/UHY Hacker Young Corporate Governance Behaviour Review 2014 is available at: www.theqca.com/ccgreview2014
2. The analysis was conducted by UHY Hacker Young in July and August 2014 on 100 small and mid-size companies with equity securities admitted to trading on a London market (the Main Market of the London Stock Exchange, AIM and the ISDX Growth Market) across all sectors. The sample of companies analysed in 2014 is different to those analysed in 2013. UHY Hacker Young assessed these companies' corporate governance disclosures in their annual reports and accounts and

corporate websites against the minimum disclosures of the Quoted Companies Alliance Corporate Governance Code for Small and Mid-Size Quoted Companies 2013 (QCA Code). The assessment was completed on a straightforward binary measure: did the company disclose the minimum disclosures of the QCA Code or not. UHY Hacker Young and the Quoted Companies Alliance did not seek to judge the qualitative nature of the disclosures. The conclusions of this exercise were then presented to a roundtable discussion in October 2014 with institutional investors who provided feedback on the aspects they consider to be significant.

3. The Quoted Companies Alliance is the independent membership organisation that champions the interests of small to mid-size quoted companies. We campaign, we inform and we interact to help our members keep their businesses ahead. Through our activities, we ensure that our influence always creates impact for our members. For more information please visit www.theqca.com.
4. UHY Hacker Young is one of the UK's Top 20 accountancy networks with more than 100 partners and 490 professional staff working from 24 locations around the country. The offices within the Group provide a wide range of accounting, tax and business advisory services, with a reputation for integrity and reliability within the financial community, and particularly with London's Stock Markets. UHY Hacker Young are ranked 9th in the ARL Corporate Advisers Rankings Guide amongst other UK audit firms for advising London Stock Exchange listed companies. UHY Hacker Young is a founder member of the UHY International network with offices in every major financial centre in the world. Further information can be found at www.uhy-uk.com.