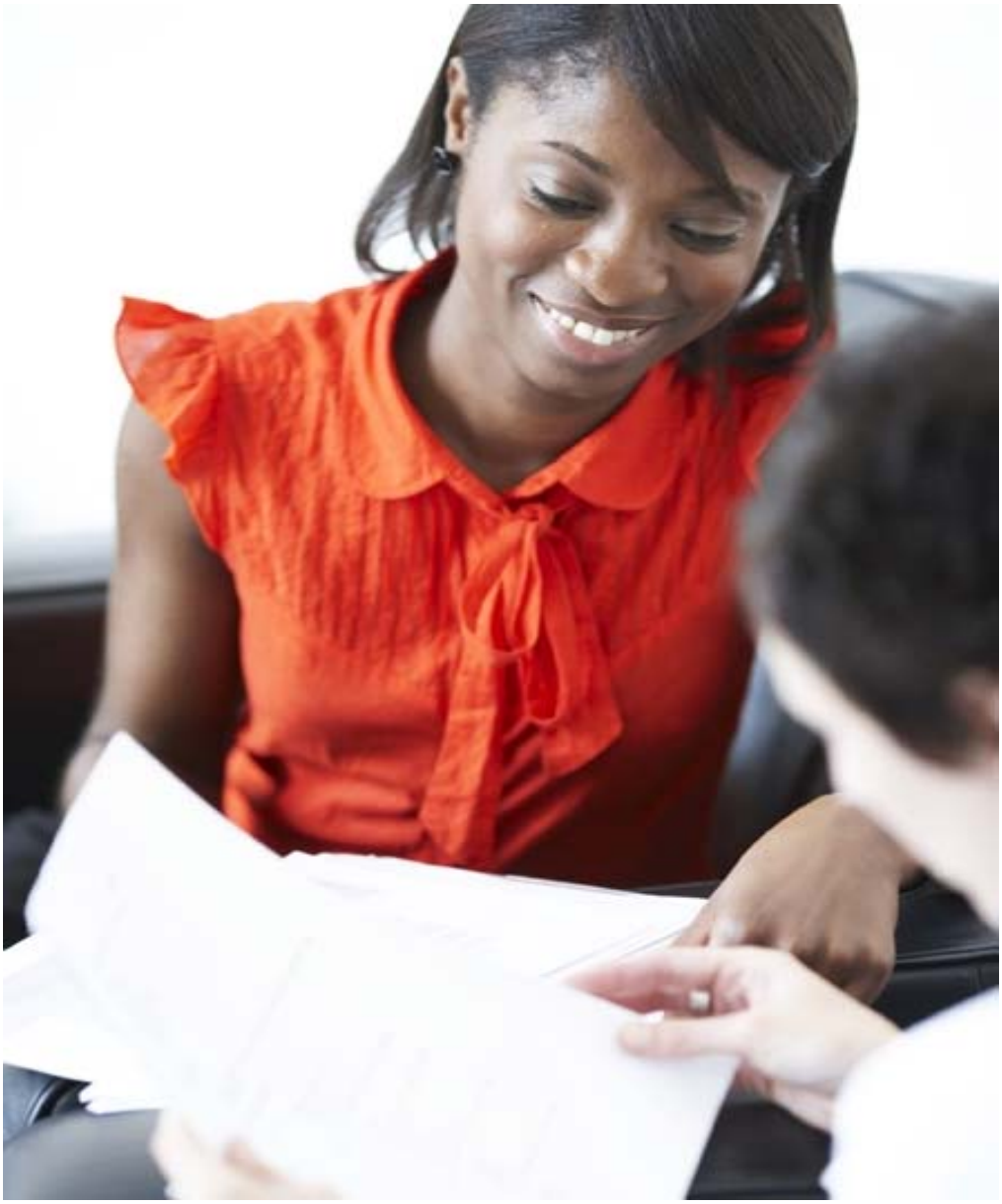
The future of narrative reporting – a consultation

IOSH response to the Department for Business, Innovation and Skills (BIS) consultation



Submission

19.10.10

1. Summary

In order to help motivate improvements in performance and corporate accountability, the Institution of Occupational Safety and Health (IOSH) would like to see increased levels of public reporting and improvement in the quality, consistency and relevance of information in such reports.

1.1 We would welcome the reinstatement of a statutory Operating and Financial Review (OFR), together with an auditors review, for quoted companies; and also, for large and medium sized non-quoted organisations.

1.2 We would support the introduction of a statutory reporting standard and guidance on health and safety key performance indicators (KPIs); and would agree that a shareholders 'advisory vote', taking appropriate account of health and safety performance, could be helpful.

1.3 And finally, as a supplement to the statutory requirements, we have suggested a challenge for organisations to commit to report on achievement of health and safety improvement targets.

- Increased levels of high-quality public reporting
- Reinstatement of a statutory Operating and Financial Review with an auditors review
- The introduction of a statutory reporting standard and guidance on health and safety key performance indicators (KPIs)
- Organisations to commit to report on achievement of health and safety improvement targets

2. General comments

2.1 IOSH advocates the inclusion of occupational safety and health data in internal and public annual reports as a driver to improved performance, and recommends that organisations adopt a holistic approach to the management of business risk. We therefore welcome the coalition government's commitment to reinstating an Operating and Financial Review (OFR) and exploring how to improve corporate accountability:

> *'We will reinstate an Operating and Financial Review to ensure that directors' social and environmental duties have to be covered in company reporting, and investigate further ways of improving corporate accountability and transparency'.*
> (The Coalition: our programme for government, May 2010 [1])

2.2 We support the government's aim to improve the quality of narrative reporting and thereby, to empower shareholders to exert positive influence on their organisations and to fulfil their responsibilities as 'active company owners'. We also see potential merit in its intention to examine the link between performance criteria for directors' payments and the company's objectives and performance. We note that in this consultation [2], the Department for Business, Innovation and Skills report on studies on narrative reporting finds that 'most companies comply with the legal requirements, but some [studies] question the quality and relevance of some reporting'.

2.3 Our interest is with the effective management of occupational safety and health risk in all organisations and the encouragement of this through corporate statements and reports covering any significant risk areas. We have produced free guidance on including health and safety in annual reports 'Reporting performance' [3], aimed at those responsible for internal and public reporting of health and safety performance of organisations. As an incentive for continual improvement, we recommend that all organisations include a summary of their health and safety performance results in their annual report. We also provide a guide 'Business risk management' [4] outlining the holistic approach and where health and safety sits within the overall risk framework.

2.4 We were pleased to respond to *The Operating and Financial Review Working Group on Materiality* consultation in 2003 [5]. In our submission we outlined how health and safety was 'material' to all organisations whose activities can impact people's wellbeing – workers, local communities and the wider public – and to business objectives and strategy. We also called for health and safety to be appropriately referred to throughout the document and were pleased to see our 'Reporting performance' guide referenced in Annex B of this consultation.

2.5 Following this, in 2004, we took the opportunity to comment on the *Draft Regulations on the Operating and Financial Review and Directors' Report* consultation [6]. In response to the Department of Trade and Industry's consultation question about any additional benefits other than those they had already listed in the regulatory impact assessment, we cited: helping to drive improvement in health, safety and environmental performance (with a reduction of costs associated with failure in these areas); attraction of ethical investment; improved ability to recruit and retain key personnel; and the possibility of being able to negotiate lower insurance premiums. While welcoming the statutory OFR and auditors review for quoted companies – we also felt that certain non-quoted companies (large and medium sized organisations, though with a longer transition period for the latter) should also be considered for inclusion.

2.6 We were very disappointed that OFR was repealed in 2005 and have since called for its reinstatement as part of our 'Get the best' campaign [7]. We are also keen for ethical investment and performance indices to have stronger requirements for health and safety performance reporting. Many organisations are now using corporate social responsibility and ethical investment criteria to help manage their economic, environmental and social performance – the so-called 'triple bottom line'. We

believe that statutory OFR would help to level the playing field and raise standards and could assist institutional investors with their responsibilities under *The UK Stewardship Code* (Financial Reporting Council, 2010) [8], for example, 'Principle 3 – Institutional investors should monitor their investee companies'.

2.7 Given the new health and safety challenges and opportunities that lie ahead, including globalisation, new technologies, climate change, economic recession and social and demographic changes, we think it is more essential than ever that stakeholders (including shareholders and local communities) are able to scrutinise and where necessary, hold organisations to account for their decisions.

3. IOSH response to consultation questions

Question 9 Looking at an Operating and Financial Review and the existing business review (see Annex D), do you see value in reinstating elements of an OFR and if so what would they be? In particular, would a statutory reporting standard help to improve the quality of reporting?

3.1 Yes, we agree that a suitable statutory reporting standard would help to improve reporting quality and consistency. We note that the Accounting Standards Board (ASB) provided narrative reporting guidance for UK companies, issued in May 2005, as its first 'Reporting Standard' (RS1) for the OFR. However, as a result of the removal of statutory requirements, RS1 was converted into a reporting statement of best practice on the OFR in January 2006, with persuasive, rather than mandatory force. ASB believe this statement includes all the Companies Act 2006 requirements and provide a table showing the link between the best practice guide and legislative requirements. The statement is also accompanied by the ASB implementation guidance that supported RS1 [9]. We also think that the enhanced audit requirement, in which auditors need to say whether anything identified during their audits are inconsistent with the OFR information, should be considered for re-establishment, as part of a quality control system.

Question 11 Would more guidance be helpful? If so, what form should this take? For example: best practice example, sample Key Performance Indicators, etc?

3.2 See answer above regarding the ASB guidance – in terms of health and safety key performance indicators; the Health and Safety Executive (HSE) offer a free on-line Corporate Health and Safety Performance Index (CHaSPI) [10], which encourages continual improvement and provides overall and sector-based results for comparison. They provide a similar tool for organisations with fewer than 250 employees, called the Health and Safety Performance Indicator (HSPI) [11]. We think it would be helpful if the government promoted these tools and also if CHaSPI was linked to directors health and safety duties [12, 13]. In addition, the HSE provide A guide to measuring health and safety performance [14] and there is guidance on 'measuring performance', including leading and lagging health and safety KPIs, from the British Standards Institution (BS18004:2008 [15]). For further guidance and information, please see the IOSH 'Reporting performance' guide [3].

Question 12: Should there be a shareholder's advisory vote on the Business Review?

3.3 As previously indicated, our interest is in health and safety performance; so, assuming a 'shareholders advisory vote' would give health and safety appropriate consideration and thereby encourage responsibilities to be fulfilled, would support this in principle.

Question 13: Are there non-regulatory solutions to increasing quality through better guidance or publicising excellence in business reports? If so, what?

3.4 We believe OFR should be statutory in order to improve reporting standards and performance and to help level the playing field. We advocate regulation here, because we think non-regulatory approaches are of limited effect. In addition to statutory requirements; we feel there could also be value in challenging organisations to report more fully on their health and safety performance. For example, challenging them to commit to achieving health and safety improvement targets and also to reporting on progress, as part of a behavioural economics ('nudge') approach to motivating improvement [16].

3.5 We would draw attention to a 2005 study [17] to evaluate the efficacy of action points 2 and 13 of Revitalising Health and Safety (2000) [18], challenging the UK's top companies and public bodies to publicly report on health and safety, from 2002 onwards, this concluded that: "In addition to improvements in the level of health and safety reporting, there is great scope for improvements in terms of the type and overall quality of health and safety issues reported, particularly performance and targets-related issues."

4. References

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5. Further reading

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- Eves D and Gummer J. *Questioning Performance: the director's essential guide to health, safety and the environment*. Wigston: IOSH, 2005. www.iosh.co.uk/information_and_resources/buy_our_books.aspx

- Financial Reporting Council. *Internal control: revised guidance for directors on the Combined Code (October 2005).* London: FRC, 2005. www.frc.org.uk/corporate/internalcontrol.cfm
- Hyde P and Reeve P. *Essentials of environmental management*. Wigston: IOSH, 2004. www.iosh.co.uk/information_and_resources/buy_our_books.aspx

About IOSH

Founded in 1945, the Institution of Occupational Safety and Health (IOSH) is the largest body for health and safety professionals in the world, with around 35,000 members in over 80 countries, including over 13,000 Chartered Safety and Health Practitioners. Incorporated by Royal Charter, IOSH is a registered charity, and an ILO international NGO and CIS collaborating centre. The IOSH vision is:

"A world of work which is safe, healthy and sustainable"

The Institution regulates and steers the profession, providing impartial, authoritative, free guidance. Regularly consulted by government and other bodies, IOSH is the founding member and secretariat to UK, European and International professional body networks. The Institution also has a research and development fund, which is developing the evidence-base for OSH policy and practice.

IOSH has 27 Branches in the UK and worldwide including the Caribbean, Hong Kong, Middle East and the Republic of Ireland, 16 special interest groups covering communications and media; construction; consultancy; education; environment; fire risk management; food, drink and hospitality; healthcare; international; major hazards; offshore; public services; railways; retail and distribution; rural industries; and safety sciences. IOSH members work at both strategic and operational levels across all employment sectors and our vision is:

For further information about IOSH, our members and our work please visit our website at www.iosh.co.uk

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