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Examining risk reporting in UK public companies

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Abstract

Purpose – This paper examines risk information disclosed by UK public companies within their annual reports. The types of risk information disclosed are analyzed and the authors examine whether a relationship exists between company size or level of risk and risk disclosure totals.

Design/methodology/approach – No prior empirical studies of the risk information content of annual reports have been undertaken. To analyze the risk disclosures, a sentence-based approach was used.

Findings – Overall the results indicate that the companies sampled are not providing a complete picture of the risks they face. There is minimal disclosure of quantified risk information and a significant proportion of risk disclosures consist of generalized statements of risk policy. More usefully directors are releasing forward-looking risk information. The principal driver affecting levels of risk disclosure is company size and not company risk level.

Research limitations/implications – Further risk disclosure research is possible in many different areas. Cross-country studies could be undertaken as could risk disclosure studies within specific industry sectors. A limitation of the sentence-based methodology is that it does not measure the quality of the risk disclosures and therefore different methods may be adopted in future studies.

Practical implications – Professional bodies attempting to improve risk reporting have not convinced directors of the benefits associated with greater voluntary risk disclosure. In the UK this has led to a mandatory requirement to provide better risk information being forced upon companies through legislation enacted by the UK government.

Originality/value – The area this paper researches is of particular importance given recent accounting scandals that have occurred. No previous risk disclosure studies have been published, therefore this exploration is also valuable in linking risk management and transparency.

Keywords Risk management, Financial reporting, Disclosure, Corporate governance, United Kingdom

Paper type Research paper

Introduction

Accounting irregularities involving companies such as Enron, Parmalat, and WorldCom have received substantial publicity in recent years and as a consequence shareholders and other stakeholders have questioned the reliability of companies' annual reports. The adverse impact of these events upon investor confidence has confirmed that the annual report remains a key information source even though companies now release into the public domain more information than ever before via press releases, corporate web sites, and other forms of communication.

Vigorous debates have followed these accounting irregularities, with one outcome being calls for greater disclosure, as this would result in improved transparency enabling the reader to make appropriate judgments about a company's performance. As shareholders and other interested parties currently receive little information about

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company risks or how the directors of a company are managing those risks, a significant aspect of the debate has centered on whether companies should disclose more risk and risk-management information within their annual reports. Those in favor of greater risk related disclosures argue that good corporate governance requires directors to be accountable to shareholders for the risks the company faces and improved risk disclosure facilitates greater understanding of the company risk profile.

This paper initially sets out the current state of the risk-reporting debate and discusses the issues that arise out of the debate. A significant difficulty with these risk-reporting discussions is that no empirical research has been undertaken to examine company risk disclosure practices and hence any evidence tends to be anecdotal. Therefore, this paper then reports upon the results of a study of risk disclosures within a sample of UK companies before conclusions are discussed and suggestions for further research noted.

Annual report disclosure studies and the risk-reporting debate

Previous annual report research

The annual report is a public document prepared by the directors to comply with mandatory legal requirements that primarily ensure the fulfillment of a stewardship and accountability function. Academics such as Hopwood (1996) have discussed how companies are very conscious of the opportunity to manage their image through the annual report and therefore directors go beyond the minimum mandatory reporting requirements and voluntarily incorporate additional financial and non-financial information. Consequently annual reports now contain narratives, photographs and graphs in addition to the quantitative financial data, and are predominantly designed by external agencies (Valentine, 1999) to communicate particular meanings and messages to the reader and to affect the perception of the company (Lee, 1994; Courtis, 1995).

Researchers have expended considerable effort in the last 20-30 years examining the voluntary content of annual reports from a variety of perspectives. Stanton and Stanton (2002) identify 70 such disclosure studies published since 1990; however none examine the risk and risk-management information disclosed within the annual report.

Risk-reporting debates in the United Kingdom

An appropriate point at which to commence a review of the risk-reporting debate in the United Kingdom is 1997. In December of that year the Institute of Chartered Accountants in England and Wales (ICAEW) published a discussion document, "Financial Reporting of Risk – Proposals for a Statement of Business Risk". The ICAEW stated there was a need for directors to provide improved risk and risk-management information that would be useful to the marketplace for decision-making and their proposal was that companies publish a statement of business risk within the annual report. To encourage directors to voluntarily prepare such a statement, the ICAEW suggested a number of benefits would arise from its publication. One argument was that the cost of capital for the company would fall as the providers of capital would now be better able to judge the riskiness of the business consequently eliminating the need for them to incorporate a risk premium within any financing charge. In addition to this positive financial impact, other subsidiary benefits could include directors being able to signal their risk management abilities to

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the outside world and an overall improvement in accountability would result. (For a full discussion of these benefits, see Linsley and Shrives (2000).) The ICAEW recognized that companies were already providing some risk information, as a number of accounting standards require mandatory disclosure of, for example, information about the use of derivative instruments. This risk information is ad hoc however in the sense that it provides risk information only in a limited number of very specific areas. Therefore what was needed was a coherent risk statement discussing material risks that the company was confronted with and how those risks are being managed. The combined code of best practice in corporate governance was already requiring directors of listed companies to disclose that they had reviewed internal control systems and the Internal Control Working Party chaired by Nigel Turnbull produced guidance on the disclosures needed to adequately describe the risk management and internal control monitoring systems in place (Blackburn, 1999). Importantly however under the Turnbull Report, there is no requirement to explain specific risks and therefore the Turnbull disclosures do not allow readers to properly assess the risk position of the company.

Within the responses to ICAEW's (1997) discussion document, two principal concerns were raised; the first of these related to the release of commercially sensitive information into the marketplace. There are two potential costs that can be incurred when information is disclosed. Non-proprietary costs are those costs associated with the costs of information retrieval, whereas proprietary costs are those costs that arise when commercially sensitive information is released with the outcome that the company has provided information of potential value to competitors. These latter costs, which are related to competitive disadvantage, caused disquiet among finance directors. In 1999 and 2002, the ICAEW released two subsequent discussion papers, "No Surprises: The Case for Better Risk Reporting" and "No Surprises: Working for Better Risk Reporting", and while these re-iterated the call for enhanced risk reporting it was also recommended that to overcome the issue of proprietary costs commercially sensitive information be omitted from any risk disclosures. The difficulty with this opt-out clause is that the reader of the annual report will be unaware of omitted risk information and this may mislead. Additionally some companies may choose not to disclose any risk or risk-management information on the grounds that it is all considered commercially sensitive.

The second issue was related to the nature of the risk information. The ICAEW envisaged companies providing not only historical risk information but also forward-looking risk information. Forward-looking information is much more useful for decision-making and therefore has greater relevance. Directors can be reluctant to provide such information, however, as it is inherently unreliable and if safe-harbor protection does not exist, it can leave them vulnerable to potential claims from investors who have acted upon such information.

Although directors in the UK only need provide risk and risk-management information voluntarily at present this is to alter. As a part of the extensive company law review commenced by the UK government in 1998, the Department of Trade and Industry (DTI)[1] issued a consultative document in May 2004, "Draft Regulations on the Operating and Financial Review and Directors' Report". The government plans to implement a new operating and financial review (OFR)[2] in company annual reports

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that will improve "qualitative, non-financial and forward-looking reporting on the performance of the company" (Department of Trade and Industry, 2004, p. 13).

Mandatory disclosures under the legislation include the disclosure of relevant risk information. Hence the DTI consultative document explains that paragraph 2(c) of Schedule 7ZA, "is intended to capture the second aspect of business dynamics in the description of the principal risks and uncertainties that the company faces" (Department of Trade and Industry, 2004, p. 25). The potential difficulties associated with forward-looking information were considered and the company law review initially recommended that safe-harbor provisions be provided to excuse directors from liability where reliance has been placed on such statements. The government view differed however and it decided that it would ignore this recommendation for, although they want the OFR to be a transparent document, it was not considered necessary for safe-harbor protection to form a part of the regulations.

Therefore, the current status of the risk-reporting debate in the United Kingdom is that while companies may have resisted voluntary disclosure of risk-related information within their annual reports, it is now to be imposed through legislation that will affect annual reports commencing after 1 April 2005. It can also be noted that financial firms will have an even more prescriptive set of risk-reporting requirements to comply with when the new Basel II capital adequacy accord comes into existence in 2006. Pillar 3 of Basel II is focused upon market discipline and expects banks to employ a standard disclosure template to detail their risk exposures and achieve transparency. Consequently the risk-reporting debate has been vigorous, but as explained above, it has not been informed by any research into current reporting practice. Therefore, the following section of this paper presents the results of research into company risk disclosures.

Methodology

Sample selection

This study examined the risk disclosures within the annual reports for a sample of UK companies. The sample comprised the 79 non-financial companies listed in the FTSE 100 as on 1 January 2001. Financial firms were omitted from the sample as the nature of these firms is significantly different from non-financial companies and this will have a considerable impact upon the types of risk disclosures they make. Therefore, the examination of risk disclosures by financial firms could more usefully be performed as another study. The FTSE 100 consists of the largest listed companies, based upon market capitalization, and these companies were selected for the study based on the assumption that these firms will be more advanced in their risk disclosures than smaller firms. The 79 sample firms are listed in Table I. To ensure comparability the annual reports that formed the basis for the study were those with a year-end date closest to 1 January 2001.

Method of analysis

There are a number of methods available for analyzing the risk and risk-management information within the annual reports. This study adopted a sentence analysis approach that has been widely used in previous disclosure studies (Hackston and Milne, 1996). Milne and Adler (1999) deem sentence analysis to be more reliable than other methods and this provided the rationale for its selection. This method required

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Table I.
Sample companies

Allied Domecq	Electrocomponents	Reckitt Benckiser
Amersham	Dixons Group	Reed International
Anglo American	EMI Group	Reuters Group
Arm Holdings	Enterprise Oil	Rentokil Initial
Associated British Foods	GKN	Rolls-Royce
Astrazeneca	Gallaher Group	Rio Tinto
BAA	Glaxosmithkline	Safeway
BAE Systems	Granada	Sage Group
BG Group	GUS	Sainsbury
BHP Billiton	Hanson	Scottish & Newcastle
BOC Group	Hilton Group	Scottish & Southern Energy
Boots	Imperial Chemicals Industries	Scottish Power
BP	Imperial Tobacco Group	Severn Trent
Brambles Industries	Innogy Holdings	Shell Transport & Trading
British Airways	International Power	Shire Pharmaceutical
BAT	Invensys	Six Continents
British Sky Broadcasting	Kingfisher	Smith & Nephew
British Land	Land Securities	Smiths Group
BT Group	Lattice Group	South African Breweries
Cable & Wireless	Logica	Telewest Communications
Cadbury Schweppes	Marks & Spencer	Tesco
Canary Wharf Group	Morrison	Unilever
Capita Group	National Grid	United Business Media
Celltech Group	Next	Wolseley
Centrica	P & O Princess	WPP Group
Daily Mail	Pearson	
Diageo	Powergen	

the authors to read each annual report identifying all sentences providing risk or risk-management information. Sentences were coded as risk disclosures if it was considered that the reader was better informed about risks that have already had an impact upon the company, or may in the future have an impact upon the company, or if the reader is better informed about risk management within the company. The word "risk" did not have to appear within any given sentence for it to be identified as a risk disclosure sentence. Each individual risk-related sentence was then coded using the grid in Table II.

Thus the risk information was placed into one of six risk categories: financial risk, operations risk, empowerment risk, information processing and technology risk, integrity risk, and strategic risk. This categorization was based upon the risk categorization model used by a large accountancy firm and Table III provides further details. The individual sentence characteristics were also coded according to the following attributes:

(1) whether the risk sentence provided monetary or non-monetary information

(2) whether good news, bad news or neutral news was being communicated; and

(3) whether the information related to the future or the past.

Monetary disclosures comprised disclosures that quantified the impact of a risk either directly in monetary terms or if the reader was able to quantify the past or potential future monetary impact of a risk albeit indirectly because of the risk disclosure.

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Text disclosures sentence characteristics		Financial risks 1	Operations risks 2	Empowerment risks 3	Information processing and technology risks 4	Integrity risks 5	Strategic risks 6
Monetary/good news/future	A						
Monetary/bad news/future	B						
Monetary/neutral/future	C						
Non-monetary/good news/future	D						
Non-monetary/bad news/future	E						
Non-monetary/neutral/future	F						
Monetary/good news/past	G						
Monetary/bad news/past	H						
Monetary/neutral/past	I						
Non-monetary/good news/past	J						
Non-monetary/bad news/past	K						
Non-monetary/neutral/past	L						

Table II.
Disclosure coding grid

If a sentence had more than one possible classification, the information was classified into the category most emphasized within the sentence.

To improve the reliability of the study the authors independently coded the first seven annual reports and then discussed the sentence coding. Once agreement had been achieved, and after extensive discussion had taken place, a single coder performed the coding. This coder had taken part in a prior study and therefore had significant experience in coding risk disclosures.

As there have been no previous studies published examining risk-reporting practices, this study is exploratory in nature and therefore it needs to be recognized that alternative methods to the one utilized within this paper are possible. The authors are undertaking further related research that builds upon insights gained from this piece of work but based upon other approaches.

Analysis of results and discussion

Risk categorization

A total of 6,168 risk sentences were identified and as the essence of the annual report is that it is a financial document there is consequently a strong expectation that of the six categories of risk information the "financial risks" category would be dominant. It can be seen from Figure 1 (Table IV for a complete table of results) however that there are a greater number of risk disclosures within the "strategic risk" category and that the number of "integrity risk" disclosures is reasonably similar to the number of "financial risk" disclosures.

A substantial number of these "integrity risk" disclosures arise through the companies' adherence to the Turnbull disclosure requirements. That is, they are disclosing that they have a process for identifying risks and that they are responsible

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Financial risk	Interest rate Exchange rate Commodity Liquidity Credit
Operations risk	Customer satisfaction Product development Efficiency and performance Sourcing Stock obsolescence and shrinkage Product and service failure Environmental Health and safety Brand name erosion
Empowerment risk	Leadership and management Outsourcing Performance incentives Change readiness Communications
Information processing and technology risk	Integrity Access Availability Infrastructure
Integrity risk	Risk-management policy Management and employee fraud Illegal acts Reputation
Strategic risk	Environmental scan Industry Business portfolio Competitors Pricing Valuation Planning Life cycle Performance measurement Regulatory Sovereign and political

Table III.
Risk disclosure categories

for the system of internal control and its effectiveness. These Turnbull-related disclosures are mandatory and have been coded as "F5", namely as "integrity risk" and with the sentence characteristic "non-monetary/neutral/future". Such disclosures are useful but only to a limited degree in that they do reassure the reader that risk-management systems are in place, but they do not provide any further information about specific risks or their management. Hence they lack the property of decision-usefulness. In total they amount to 1,437 of the "integrity risk" disclosures.

This blandness also applies to a significant proportion of the "financial risk" category disclosures as many sentences explain that the company has in place methods for managing financial risk but they do not provide any explicit detail of the relevant risks. An example of such a financial risk disclosure would be, "The hedges are

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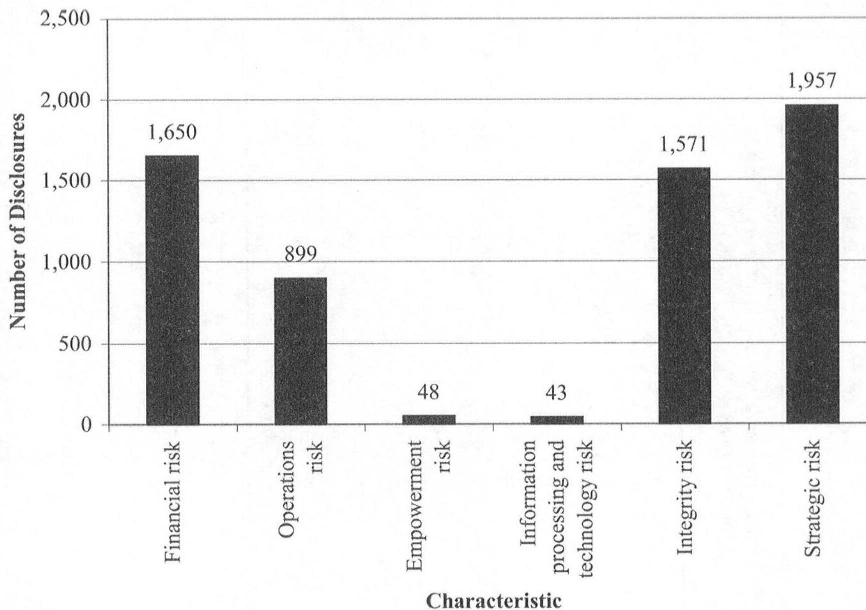

Figure 1. Summary of types of risk disclosures

effected through forward currency contracts entered into by Group Treasury" (Electrocomponents plc, 2001, p. 26).

The potential significance associated with the finding that the greatest number of disclosures falls within the "strategic risk" category relates to the predominantly exogenous nature of these risks. That directors appear to be willing to discuss external risks, but are more reluctant to discuss internal risks, may be caused by a belief that higher proprietary costs of disclosure are attached to these internal risks. The authors also noted that it was not uncommon to find that a "strategic risk" disclosure was followed by an "operations risk" disclosure. That is, if directors chose to describe or explain an external (strategic) risk that the company has been exposed to then this would often be immediately followed by a discussion of the internal (operational) action they had taken to successfully manage the risk. This suggests support for attribution theory whereby bad things are attributed to factors beyond the directors' control and good things attributed to their personal achievements in controlling the risk.

The information processing and technology and empowerment risk categories both display extremely low levels of disclosure. Greater discussion of risks associated with these categories may have been expected as information technology risks and reputation-related risks could be expected to appear on many company risk registers. This may suggest that there is some mimicking behavior occurring within annual reports with directors being reluctant to voluntarily disclose information that other companies are also unwilling to make public. If this is the case then this may again be allied to directors' concerns about proprietary costs.

Risk information characteristics

The ICAEW and the DTI have both stated that there is a need for greater disclosure of forward-looking risk information to facilitate decision-making by stakeholders.

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Table IV.
Number of risk sentence disclosures recorded for the sample of companies

Text disclosures Sentence characteristics		Financial risks 1	Operations risks 2	Empowerment risks 3	Information processing and technology risks 4	Integrity risks 5	Strategic risks 6	Totals
Monetary/good news/future	A	24	1	0	0	1	15	41
Monetary/bad news/future	B	5	2	0	0	2	2	11
Monetary/neutral/future	C	34	1	0	0	1	10	46
Non-monetary/good news/future	D	217	207	7	2	23	415	871
Non-monetary/bad news/future	E	53	87	1	0	39	261	441
Non-monetary/neutral/future	F	1,021	260	14	24	1,437	399	3,155
Monetary/good news/past	G	41	2	3	0	0	18	64
Monetary/bad news/past	H	71	18	2	0	6	36	133
Monetary/neutral/past	I	23	2	3	0	2	3	33
Non-monetary/good news/past	J	81	174	12	11	17	256	551
Non-monetary/bad news/past	K	61	122	6	5	36	481	711
Non-monetary/neutral/past	L	19	23	0	1	7	61	111

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This implies that they believe that there is only limited disclosure of this type of risk information at present. The result of coding the risk sentences into past and future information does not support this view as a statistically significantly higher proportion of future information has been noted (Table V). A caveat is necessary however for, as explained above, the Turnbull linked disclosures have been coded as possessing the "future" characteristic on the basis that they discuss internal control and risk-management systems that will be remaining in place. Hence some of this future-related risk information has the limitations described above. However, even if these Turnbull disclosures are omitted, the number of past disclosures is still less than the forward-looking disclosures, with the implication that the DTI and ICAEW have incorrectly assumed that there is relatively little forward-looking risk information. These results also suggest that safe-harbor legislation may not be required to encourage disclosure of forward-looking information and therefore it should not be to the detriment of the OFR legislation that the government has omitted it.

Quantifying the size of a risk's impact would be constructive and enhance the value of such information, but a comparison of monetary and non-monetary risk disclosures (Table V) indicates that the relative level of monetary disclosures is small. Additionally two-thirds of the monetary disclosures are quantifications of past risks and one-third quantifications of future risks. It is, of course, difficult to assess the size of a future risk and it is understandable that directors may be reluctant to do so in certain situations. For example, disclosing the potential magnitude of an adverse judgment in a litigation case that is being brought against the company could prejudice the eventual outcome. Even when disclosing less contentious risk issues, directors may not want to release quantified future information if they feel that subsequently they will be required to justify their prior estimates.

Table V also reveals that the number of neutral risk disclosures is significantly greater than the number of good or bad risk disclosures. It may be expected that directors will prefer to present positive information and therefore there will be more good news risk disclosures. That neutral disclosures are dominant is, again, symptomatic of companies relaying to the marketplace significant amounts of rather insipid general policy statements concerned with internal controls and risk-management systems. The level of good and bad news disclosures are comparable indicating that directors cannot just choose to withhold bad news. For example, poor financial results may require them to explain where risks have arisen with adverse impacts. Directors may also engage in image management when communicating bad risk news. As stated above they can commence a risk discussion with bad news attributed to an uncontrollable outside factor and then go on to explain

Characteristic	Total number of disclosures	Proportion (%)
Monetary disclosures	328	5.3
Non-monetary disclosures	5,840	94.7
Past disclosures	1,603	26.0
Future disclosures	4,565	74.0
Good news disclosures	1,527	24.8
Bad news disclosures	1,296	21.0
Neutral news disclosures	3,345	54.2

Table V. Summary of characteristics of risk disclosures

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the good news that is how they have managed the risk. Therefore, testing for attribution theory in risk reporting is another potential research project.

What may be driving risk reporting?

To gain some further insight into prospective drivers of risk reporting, tests were performed to ascertain whether a relationship existed between the number of risk disclosures within an annual report and the level of risk within the company or the size of the company.

In testing for an association between the number of risk disclosures and the level of company risk, a major difficulty is deciding what measure best indicates a company's risk level. Consequently five risk measures were used within this study although all have limitations and no one measure can be justified as superior to any other measure. These measures were: asset cover, gearing ratio, beta factor, ratio of book value of equity to market value of equity and quiscore. Regardless of the risk measure used, the Pearson correlation coefficients calculated signify that there was no significant association found to exist between the number of risk disclosures and the level of company risk (Table VI for the risk measures and association levels). Therefore higher risk companies are not always disclosing more information in an effort to better explain the causes of their risks or how they are being managed, and nor are directors in low risk companies always choosing to disclose less risk information. One explanation for this may be that some higher risk companies believe extensive risk disclosures will highlight their risk level whereas some companies with lower risk levels may be seeking to signal that they are less risky through voluntarily disclosing more risk information.

Studies examining general disclosure patterns have found a positive relationship between company size and the number of disclosures (Adams *et al.*, 1998). This relationship is thought to hold because larger companies have greater numbers of stakeholders to whom they are accountable and as a consequence they must provide more information. Company size can be measured in a number of ways and the two measures selected in this study were market value and turnover. From Table VI, it can be seen that for both measures there was a statistically significant correlation existing between the number of risk disclosures and the size variables. Overall this positive size-risk disclosure correlation tends to imply that the ICAEW have not been successful in persuading companies to increase their risk reporting, but rather that risk-reporting patterns merely reflect established general disclosure patterns.

Table VI.
Pearson correlation coefficients for variables

Variable	Pearson correlation	Sig. (two-tailed) for Pearson
Nat log of market capitalization	0.467*	0.000
Nat log of turnover	0.364*	0.001
Gearing ratio	0.139	0.241
Asset cover	−0.058	0.621
Quiscore	0.029	0.797
Book to market value of equity	0.078	0.494
Beta factor	0.053	0.644

Note: *Correlation is significant at the 0.05 level

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Further research

It already has been noted that there has been no prior research into risk disclosure and this study adopts a particular methodology to examine risk reporting by UK public companies. Therefore there is considerable scope for further research. Risk reporting by companies in other countries could be examined and cross-country studies may be particularly informative. When examining the countries researchers would need to consider factors such as existing legislation or accounting standards that may be impacting upon the disclosures and cultural attitudes towards risk within that country. In addition to international studies, papers that examine risk disclosures within specific industries may be valuable. It already has been suggested that financial firms are significantly different from non-financial firms and hence they were excluded from the sample companies in this paper. It could also be argued that, for example, chemical companies will differ in their risk outlook from retail companies and this could influence risk disclosures.

The sentence-based method has limitations; in particular, it does not measure the quality of the risk disclosures. An alternative approach would be to question significant stakeholders about their perceptions of the risk disclosures for a group of companies. Company directors could also be interviewed to ascertain whether particular motives underlie their voluntary risk disclosures and to better understand the role image management plays in influencing the manner in which the risks are disclosed. Another opportunity for research exists to examine possible links between risk disclosures and factors such as cost of capital, access to finance and credit ratings.

If a coherent body of risk-reporting research were to exist, then one outcome may be a framework against which regulators and other stakeholders can benchmark a company's risk disclosures to better understand the nature and magnitude of the risks the firm is facing and the ability of the directors to manage those risks.

Conclusions

It is important that shareholders and other stakeholders receive relevant risk and risk-management information to be able to assess the risk profile of a company. The public disclosure of appropriate information creates transparency and, *inter alia*, the marketplace is then in a position to discipline companies with unacceptable risk profiles. Transparency therefore aids in achieving better corporate governance.

It can be argued that risk information does not need to be provided through the annual report and it could be more appropriate to locate risk information within, for example corporate web sites. This would have the potential advantage that more timely risk information could be provided. One argument for using the annual report as the setting for risk disclosures is that it is still considered a fundamentally important public document. If the annual report does continue to be the dominant place of disclosure then improvements in risk reporting are needed. Currently risk information within annual reports is dominated by bland descriptions of internal control systems. Some decision-useful narrative is provided but this needs to be supplemented by yet more information of this type.

The UK government clearly states that it is "determined to avoid a 'box-ticking' approach where reports are compiled using 'boiler-plate' language and contain no useful information" (Department of Trade and Industry, 2004, p. 21) and therefore this

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is certainly the direction in which it wants risk reporting to move. Directors have had the opportunity to voluntarily improve upon this situation but appear reluctant to have done so, possibly because of concerns about making sensitive information public. The ICAEW suggested an opt-out clause allowing information to be excluded on the grounds of confidentiality or commercial sensitivity would overcome this difficulty. The DTI legislation contains no such provision as the government is unconvinced that there is information that can truly be deemed so sensitive and it has also expressed concerns that any opt-out provision could be opened to exploitation. Directors may therefore be feeling that if they had previously demonstrated a greater willingness to incorporate more risk information in the annual report then mandatory legislation could have been avoided and a less onerous voluntary framework could have been put in place.

Further research into risk-reporting would be beneficial particularly in certain areas. For example, examining risk disclosures in other countries and under differing reporting regimes could help influence legislation to ensure it has the best chance of achieving the desired outcomes. Investigations into what risk information would be of greatest use to the readers of the annual report and how this should be presented would also enhance the legislation. Risk will always exist within the corporate world and therefore insights that can create sound risk-reporting legislation will ultimately be helpful in creating transparency and avoiding corporate governance scandals such as Enron or Xerox.

Notes

1. The DTI is the UK government department responsible for supporting and promoting UK businesses in addition to ensuring UK businesses are appropriately regulated.
2. The OFR is the UK equivalent of the Management's Discussion and Analysis within the annual report. For further discussions relating to the OFR and the DTI, see Linsley and Shrives (2005).

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Institute of Chartered Accountants in England and Wales (1999), No Surprises: The Case for Better Risk Reporting, ICAEW, London.

Institute of Chartered Accountants in England and Wales (2002), No Surprises: Working for Better Risk Reporting, ICAEW, London.

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