

# By All Accounts



## THE FALLOUT

BREXIT'S IMPACT ON  
PREPARATION OF 2018  
FINANCIAL STATEMENTS

## MORE TO THE STORY

A LOOK AT TRIENNIAL  
REVIEW AMENDMENTS  
TO FRS 102

## ATLANTIC CONNECTION

SUMMARISING SEC'S  
CHIEF ACCOUNTANT'S  
SPEECH TO ICAEW



## New targets

Examining what has changed  
in the FRC's revised Guidance  
on the Strategic Report and why

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# January 2019

## 06

### COVER STORY

Mala Shah-Coulon examines the FRC's revised Guidance on the Strategic Report



## 10

### PEAK PERFORMANCE

Investors' insights into performance metrics from Phil Fitz-Gerald



## 20

### INTERNATIONAL ROUNDUP

Stay up to date with financial reporting news from across the globe



## 09

### THE AGE OF UNCERTAINTY



Brexit's effect on preparing 2018 financial statements

#### 04 Editor's letter

#### 05 Faculty news

#### 08 Reporting requirements

Introducing new regulations

#### 12 IFRS financial statements

Reminders and tips for 2018

#### 13 UK GAAP accounts

Key considerations for 2018

#### 14 10 years of the faculty

The faculty head and committee chairs on the last decade and what lies ahead

#### 16 Triennial review

A deeper delve

#### 18 IFRS roundup

#### 19 Perfect practices

The new supplier payment reporting regulations

#### 22 IR35

Changes to off-payroll rules

#### 23 Question Corner

John Selwood gives answers

#### 24 Wes Bricker's speech

The main messages

#### 25 Adopting IFRS 16

The two differing approaches

#### 26 And finally...

# How time flies!



Not just because we are approaching the end of another busy year but because December 2018 also marks the Financial Reporting Faculty's 10th anniversary.

Although the faculty was set up in 2008, *By All Accounts* was first published in January 2010. Looking back to my letter in that edition, I referred to the "watershed in financial reporting" and "financial reporting being cast by some as the

villain of the piece". It's remarkable how valid those phrases still feel today, even though the context may be different. At the time, it was the financial crisis I was referring to, but today it's high-profile corporate failures, with financial reporting and audit in the crosshairs.

Recent changes to reporting regulations, particularly s172 on directors' duties and updated *Guidance on the Strategic Report*, aim to help companies better tell their stories to stakeholders. They are also trying to tackle, at least in part, some of the issues identified in recent corporate failings. Our cover story focuses on the strategic report guidance and two further articles discuss reporting regulations on supplier payment reporting and energy and carbon reporting. Performance metrics are another tool used by companies to communicate with investors. In his article on page 10 Phil Fitz-Gerald discusses what investors are looking for from these measures and how companies can improve their use.

Uncertainty is a word we are hearing a lot in the UK at the moment - Brexit being a main culprit. With companies having to report on principal risks and uncertainties, our article on page 9 considers the impact Brexit might have on the preparation of 2018 financial statements. Further reminders for both UK GAAP and IFRS reporters to remember when preparing 2018 accounts can be found on pages 12 and 13. UK GAAP reporters will also be getting ready for the Triennial review amendments to FRS 102 that become effective in 2019. Matt Howells delves deeper into the changes in his article on page 16.

I'd like to highlight what may become a regular feature in the magazine: *Question Corner*, with well-known presenter John Selwood. Focusing on smaller entities, John answers questions that have come up at the faculty roadshows.

Finally, to celebrate our 10th anniversary we asked our current committee chairs for their thoughts on how the faculty has supported members and what lies ahead. *And finally...* provides a snapshot of the work of the faculty over the past decade. A fairly impressive picture, I hope you'll agree. So, I'd like to take this opportunity to thank you for supporting the faculty for the past 10 years and hope that you will continue to value the resources we provide. With seasonal tidings of peace and goodwill.

**Dr Nigel Sleigh-Johnson FCA**  
Head of Financial Reporting, Audit and Assurance

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# FACULTY NEWS



## WEBINARS & CONFERENCES

### SAVE THE DATE

Provisional dates for our 2019 webinar programme are:

**24 January**  
**21 February**  
**21 March**  
**18 April**  
**23 May**  
**20 June**

Topics currently scheduled include narrative reporting, IFRS 16 Leases and hot topics in UK GAAP.

Our 2019 Financial Reporting conference will be held on 10 October 2019.

For all the latest information as it becomes available and to book your place, please visit [icaew.com/frfevents](http://icaew.com/frfevents)

### ALSO LAUNCHING IN 2019...

To further respond to the request for more bite-sized content, 2019 will see the faculty launch a series of short lunchtime webinars. At 15-20 minutes, these will be aimed at smaller topics and overviews of larger areas. They will also be used as an opportunity to look at some of the questions arising in the longer webinars where time wasn't available to answer them live.

All the latest information on this new addition to the programme will be available at [icaew.com/frfevents](http://icaew.com/frfevents)



## REMEMBER TO RENEW YOUR FACULTY MEMBERSHIP

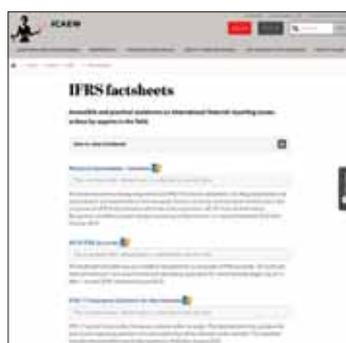
We'd like to thank you for your membership in 2018 and also remind you that the time to renew for 2019 is fast approaching. With annual subscriptions starting at just £128, faculty membership continues to offer great value for money. As a member, you receive exclusive access to a range of online tools, such as our factsheets and ever-popular standards trackers. You also have access to the IFRS Foundation's eIFRS service (normally £295/year).

Access to all of our monthly webinars is included, with recordings available if you can't attend the live event. In 2019, this programme will be extended to include our new, short, lunchtime webinars (see right). Membership also provides discounts to ICAEW events up and down the country.

With the world of financial reporting facing much uncertainty, faculty membership will continue to prove invaluable and we look forward to helping you navigate the challenges ahead.

## WHAT'S NEW?

The faculty has continued to add to its range of online factsheets, exclusively available to faculty members. New factsheets published since the summer include *FRS 102 Debt for equity swaps*, *IFRS 17 Insurance Contracts for Non-insurers* and *IFRS 9 Financial Instruments - overview*. Additionally, our annual factsheets set out the mandatory IFRS and UK GAAP changes for 2018 and beyond. For more, visit [icaew.com/frffactsheets](http://icaew.com/frffactsheets)



## IT WAS SO GOOD, WE'VE DONE ANOTHER ONE!

Earlier this year, we launched a trial podcast *FRS 102: Understanding the triennial review amendments* as a response to requests for shorter, technical content. With more than 300 downloads, it proved so popular that we've recorded another one. This time, the focus is on the changes to accounting for investment properties made in the triennial review. Both podcasts complement our FAQs on the amendments. The podcasts are available at [icaew.com/frs102podcasts](http://icaew.com/frs102podcasts) and the FAQs at [icaew.com/ukgaapfaqs](http://icaew.com/ukgaapfaqs)

In July 2018 the Financial Reporting Council (FRC) published revised *Guidance on the Strategic Report* (the 2018 Guidance), updating the 2014 edition. A greater consideration of wider stakeholders and non-financial matters forms the backdrop for this update. This article provides an understanding of the key changes to help preparers consider how to evolve their next strategic report.

As with the previous version, the 2018 Guidance is persuasive rather than mandatory and has immediate effect other than Section 8 (covered below).

### WHY HAS IT BEEN UPDATED?

The short answer is primarily to reflect recent legislative changes. It has also been refreshed for more general developments in narrative reporting.

The legislative changes are:

- The EU Non-Financial Reporting Directive (NFRD) - implemented in the UK through *The Companies, Partnerships and Groups (Accounts and Non-Financial Reporting) Regulations 2016* and a revision to the Disclosure Guidance and Transparency Rules 7; and
- *The Companies (Miscellaneous Reporting) Regulations 2018* which requires large companies to provide a s172 directors' duties statement. While the purpose of the strategic report has always been to inform members of the company and help them assess how the directors have performed their s172 duty, the 2018 Guidance seeks to strengthen the link.

### WHAT ARE THE KEY CHANGES?

Three objectives have been brought forward from the 2014 Guidance:

- provide insight into the entity's business model, strategy and objectives;
- describe the principal risks the entity faces and how they might affect future prospects; and
- provide analysis of the entity's past performance.

Two new objectives have been added in light of the legislative changes:

- provide information to enable shareholders to assess how directors have had regard to stakeholders and other matters when performing their duty under s172; and
- provide relevant non-financial information.

#### 1. S172 statement

While directors' s172 duties are not new, this new statement (covered in Section 8 of the 2018 Guidance and applicable for

# REVISED GUIDANCE ON THE STRATEGIC REPORT

Mala Shah-Coulon examines what's changed and why



financial periods commencing on or after 1 January 2019), is intended to show how company directors have discharged them.

The 2018 Guidance highlights that boards may wish to consider the following in making the statement:

- Long term - how the long-term success of the company has been considered in making strategic decisions and the consequences of those decisions.
- Stakeholders - boards should identify important stakeholder relationships and their significance to long-term value generation and preservation. Disclosure on how a company engages with these stakeholders and the outcomes should provide insight into the prioritisation of stakeholder relationships.
- Principal decisions - how boards considered the matters in s172 when making decisions and the outcome.
- Capital allocation and dividend policy - the statement could explain how directors have considered the long term and the interests of stakeholders in making capital allocation decisions (eg, to invest in research and development, funding pension schemes, dividends etc), which is a principal decision made by boards.

### SECTION 172 - COMPANIES ACT 2006

This section relates to a director's duty to promote the success of the company and states: a director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members, and in doing so have regard (amongst other matters) to -

- a. The likely consequences of any decision in the long term;
- b. The interests of the company's employees;
- c. The need to foster the company's business relationships with suppliers, customers and others;
- d. The impact of the company's operations on the community and the environment;
- e. The desirability of the company maintaining a reputation for high standards of business conduct; and
- f. The need to act fairly as between members of the company.



- Culture - disclosing information on the culture the board has set to help ensure that decisions are aligned to values and objectives, and the factors that are important to maintain the company's reputation.

## 2. Non-financial information statement

To comply with the NFRD, qualifying public interest entities (PIEs) need to include a non-financial information statement in their strategic report. This applies to years commencing on or after 1 January 2017.

While there are some new disclosure elements introduced by the NFRD, there is significant overlap with pre-existing quoted company reporting requirements in UK company law. The FRC has therefore split the content as follows:

- Section 7A covers entities that are not qualifying PIEs and therefore not subject to the NFRD. The content elements are therefore substantially unchanged from the 2014 Guidance;
- Section 7B covers entities that are qualifying PIEs and therefore within the scope of the NFRD.

Recognising the overlap noted above,

## The overall annual report must remain cohesive and provide information to help shareholders make capital allocation decisions

the key new elements are:

- information that enables an understanding of the impact of a company's activity;
- disclosure of anti-corruption and anti-bribery matters;
- description of due diligence processes implemented in pursuance, and outcomes, of those policies related to non-financial matters (environment, employees, social, human rights, anti-corruption and anti-bribery); and
- description of principal risks in relation to these non-financial matters, the likelihood and management of those risks.

A recent EY review of FTSE 350 annual reports, *Annual reporting in 2017/18: demonstrating purpose, creating value*, found that the NFRD had limited impact on the disclosures in the first year of implementation. Only 8% of companies included a statement referencing NFRD and where disclosures had been incorporated, they were at a high level.

It will be interesting to see whether these disclosures evolve as companies, alongside adopting the 2018 Guidance, improve their reporting by leveraging increased stakeholder engagement and wider changes to corporate governance.

### OTHER CHANGES

Not driven by legislative requirements per se, the 2018 Guidance places an emphasis on long-term value creation and encourages disclosure on the key drivers of this value in their business - whether recognised on the balance sheet (eg, physical assets) or not (eg, skills of their workforce, brands, etc). The concept of an entity's purpose (ie, why it exists) is also drawn out to help put the objectives, business model and strategy in context.

Long-term value is a topic that EY is deeply engaged in. Over the last two years we have developed a framework to help companies better measure and report the long-term value they create for their stakeholders, recognising that many sources of this value are intangible. Our framework has been tested by over 30 major global organisations as part of the

Embankment Project on Inclusive Capitalism. This project has taken a significant step forward, resulting in an open source framework and an initial set of metrics. The findings offer well researched yet practical ways to measure factors that participants agreed contribute to a company's long-term value.

There is also extended guidance on principal risk reporting, especially for non-financial matters including examples on the interaction with the viability statement, climate change risks, risks arising from business relationships, products and services.

### PRACTICALLY SPEAKING Familiarise yourself with the new legislative requirements

This is important as the scope and applicability criteria vary. While the flow chart in para 2.7 of Section 2 and the revised Section 7 of the 2018 Guidance (which provides an overview of the content elements applying to different types of entity) are useful, preparers should refer directly to the legislative sources.

### Tell your story

With yet more new disclosures, preparers need to ensure that these are framed in the context of the annual report as a whole, rather than as 'bolt ons'. The overall annual report must remain cohesive and provide information to help shareholders make capital allocation decisions and help them understand how the directors are discharging their s172 duty.

### Keep it relevant

Boards need to judge what information is material for shareholders in the context of the entity's specific business model, strategy and principal risks. Boards will need to decide who their most important stakeholders are, what issues really matter to them and then ensure the disclosures provide relevant information.

### See the wood from the trees

Companies must remember the overall backdrop, ie, a better articulation by boards of how the interests of wider stakeholders have been considered in making decisions for the long-term success of the company. ●



**Mala Shah-Coulon** is an associate partner and runs EY's corporate governance team