



# *Bitesize Briefing*

FINANCIAL REPORTING FACULTY

## *What makes up an annual report?*

SIMON KETTLEWELL

TECHNICAL DIRECTOR, HAT GROUP OF ACCOUNTANTS

8 MAY 2019

# *Introduction*

Sally Baker  
Technical Manager  
ICAEW



# *Today's presenter*

Simon Kettlewell  
Technical Director  
HAT Group of Accountants



## *Contents*

What is the Annual Report?

The 'Front end'

Responsibilities

Summary



# *What is the Annual Report?*

# *What is the Annual Report?*

- Not just the financial statements!
- Per the FRC's *Glossary of Terms - Ethics and Auditing*:
  - *“An annual report contains or accompanies the financial statements and the auditor's report thereon and usually includes information about the entity's developments, its future outlook and risks and uncertainties, a statement by the entity's governing body, and reports covering governance matters”*.
- The annual report is a combination of forward looking statements and historic financial information

# *What is the Annual Report?*

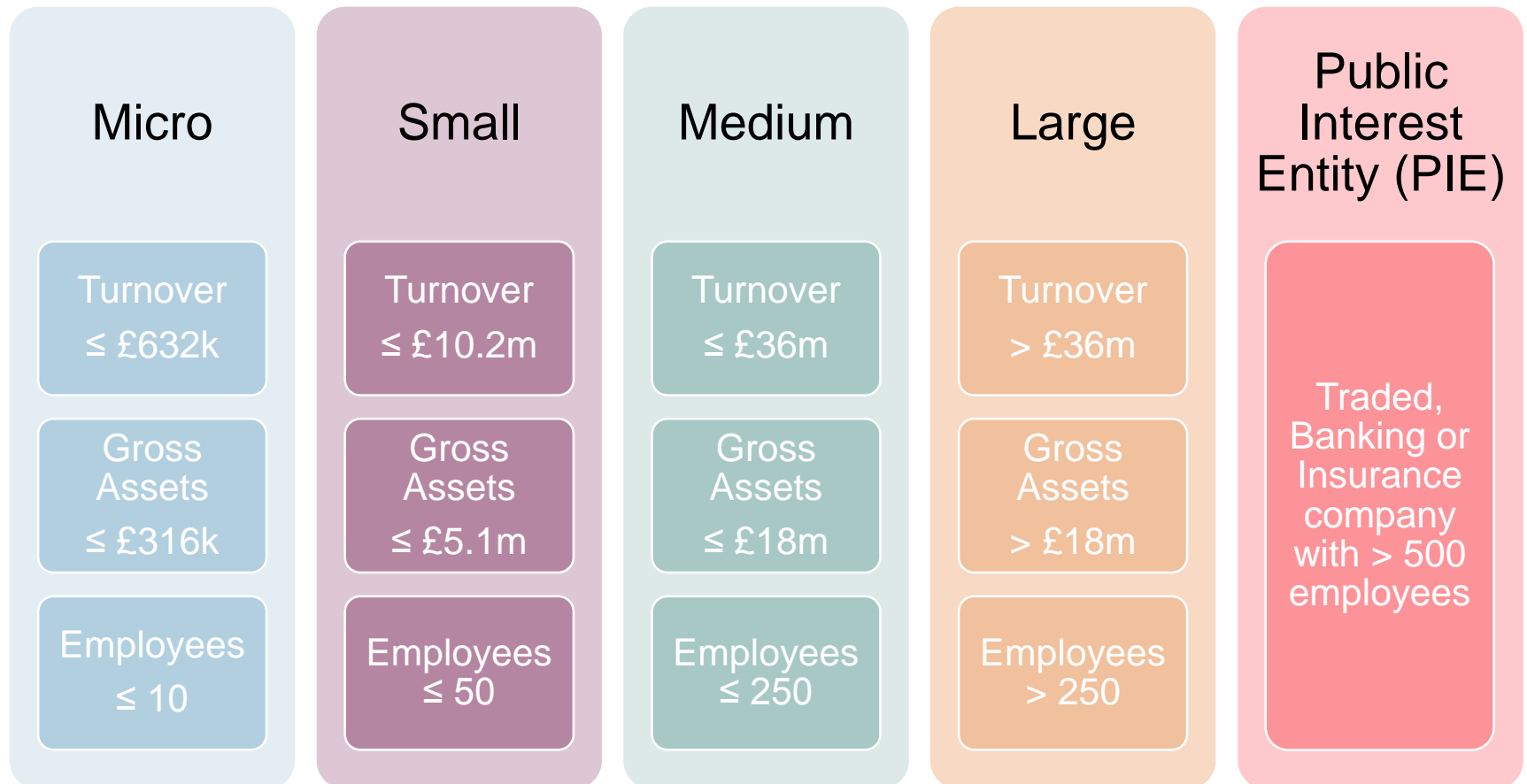
- This ultimately depends on the size of the entity, but typically comprises of a combination of the following:
  - Strategic Report (Medium-sized and upwards)
  - Directors' Report (All entities except micros)
  - Statement of Directors' Responsibilities (All audited entities except micros)
  - Corporate Governance Statement (Very large/ PIEs)
  - Directors' Remuneration Report (PIEs)
- Audit Report
- Financial Statements



***Other Information  
(the 'front end')***

# *Company size: a reminder*

(2 out of 3 criteria to be met for 2 years running)





# *What is the Annual Report?*

- The ‘other information’ assists users in making investment decisions
- The purpose of the Annual Report is “*to provide owners (or similar stakeholders) with information on the entity's operations and the entity's financial results and financial position as set out in the financial statements.*” (FRC’s *Glossary of Terms - Ethics and Auditing*)
- The ‘front end’ reporting is getting more attention due to high profile corporate failures/ scandals
- There is also an expectation gap in terms of what elements of the Annual Report are subject to audit



# *The 'Front end'*

# *Components of the 'Front end'*

Medium	Large	PIE
<ul style="list-style-type: none"><li>• Strategic Report</li><li>• Directors' Report</li></ul>	<ul style="list-style-type: none"><li>• Strategic Report includes Section 172 statement</li><li>• Directors' Report includes carbon and energy reporting</li><li>• Corporate governance statement (in limited circumstances)</li></ul>	<ul style="list-style-type: none"><li>• Strategic Report includes s172 statement and non-financial reporting</li><li>• Directors' Report includes carbon and energy reporting</li><li>• Corporate governance statement</li><li>• Directors' remuneration report</li></ul>

# *Strategic Report*

- All companies (other than small) are required to produce a Strategic Report
- This should tell the story of the entity and cover the following:
  - Fair review of the business
  - Principal risks and uncertainties
  - Statement of how the directors have complied with their statutory duties under section 172 of CA 2006
  - Key performance indicators (financial and non-financial)
  - If the entity is a PIE: a separate non-financial reporting statement about environmental matters, employees, social matters, respect for human rights, and anti-corruption and anti-bribery (see ICAEW's *Narrative Reporting* webinar for more detail)

# *Directors' Report*

- All companies (except micros) must produce a Directors' Report
- Specific disclosure requirements include:
  - Proposed dividends (not required if small)
  - Post balance sheet events and future developments (not required if small)
  - Financial risk management policies (not required if small)
  - Policies regarding employment, training, career development and promotion of disabled people, as well as how the directors have engaged with employees (if over 250 employees)
  - How the directors have had regard to the need to foster relationships with key customers and suppliers (large entities only)
  - Energy consumption and greenhouse gas emissions (large entities only)

# *Corporate Governance*

- Very large/ PIEs only
- Fair, balanced and understandable statement
  - should provide the information necessary for shareholders to assess the company's position and performance, business model and strategy
- Principal risks
  - there should be a description of the principal risks as well as an explanation of how these are managed/ mitigated
- Viability assessment
  - this is an assessment of the company's prospects over a specified period, which needs to be justified
  - there also needs to be a statement of going concern relating to that same period

# *Directors' Remuneration Report*

- Disclosure for quoted entities only
- Requirements set out in Schedule 8 of SI 2008/ 410 as amended
- Statement of company policy on directors' remuneration
- Performance chart showing shareholder return
- Directors' remuneration
  - Emoluments (salary, bonus etc)
  - Share options and long term incentive schemes
  - Pensions
  - Excess retirement benefits
  - Compensation for past directors
  - Sums paid to third parties

# *...And the rest of the annual report?*

- Financial statements
  - Statement of Profit or Loss
  - Statement of Comprehensive Income
  - Statement of Financial Position
  - Statement of Changes in Equity
  - Statement of Cash Flows
  - Accounting policies
  - Notes to the financial statements
- Historic, based on a fixed point in time
- Must adhere to a number of fundamental principles, such as:
  - Understandability
  - Prudence
  - Comparability



# *Financial Statements – Performance Statements*

## Profit or loss

Gains and losses that management are responsible for

For example:

- normal trading activity
- fair value movement on investment property

## Other Comprehensive Income

Other gains and losses that management can't control

For example:

- revaluation of PPE
- actuarial gains/losses on defined benefit pensions

## Statement of Changes in Equity

Transactions with members

For example:

- share issues
- dividends



# *Responsibilities*

# *Responsibilities*

- The preparation of the annual report (both the other information and the financial statements) is the responsibility of the directors
- Audit committees also have a role to play here
- The auditors have limited responsibilities in relation to the other information
- (NB: a discussion about the auditors responsibilities regarding the financial statements is outside the scope of this briefing)

# *What about audit?*

- There is a expectation gap here - not all aspects of an annual report are subject to audit
- Scope of audit: to obtain **reasonable** assurance that the **financial statements** are free from material misstatement, whether caused by fraud or error
  - this focusses solely on the financial statements, not the 'front end' reporting
  - the auditor is required to review any other information presented with the financial statements to identify material misstatements or inconsistencies with the audited financial statements or based on their understanding of the company
  - specific auditing standard sets out the auditors' responsibilities
- However, this is not giving an opinion that the entirety of the 'other information' is correct



# *Summary/ key messages*

## *Summary / key messages*

- Complexity varies significantly dependent on the size of the entity
- The 'front end' tends to be forward-looking, hence it is important for investor decision making
- The financial statements are backward-looking, representing a fixed point in time
- Remember it is the directors' responsibility to prepare the annual report
- The auditors are not required to audit all of it

# Join the faculty

To find out more, please visit [icaew.com/joinfrf](http://icaew.com/joinfrf)

Providing support and practical guidance through a broad range of resources

- Factsheets
- By All Accounts
- Standards Tracker
- eIFRS
- Events



ICAEW FINANCIAL REPORTING FACULTY

**2018 UK GAAP ACCOUNTS**  
UK GAAP Factsheet

*Practical help in a complex world*

Published 27 June 2018  
Last updated 27 June 2018

**2018 UK GAAP Accounts**  
This factsheet considers the Triennial review 2017 amendments which may be early adopted in 2018 accounts. There are no new or modified UK GAAP requirements that are mandatory for accounting periods beginning in 2018.

**Key regulations for this factsheet**  
This factsheet includes links and references to key regulations. There is a summary of the links, and guidance on how to use them, on page 2.

**Section 1**  
**Overview**

**2018 – mandatory changes**  
Preparers of FRS 102 and FRS 105 accounts might breathe a sigh of relief as there are no mandatory changes to UK accounting standards effective for accounting periods beginning in 2018. However, preparers of FRS 101 accounts should be aware that there are significant changes to IFRS coming into effect in 2018. More information on the changes to IFRS will be available in the faculty's 2018 IFRS Accounts factsheet.

**Impact of the Triennial review 2017**  
In December 2017 the FRC issued Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Triennial review 2017 – incorporating improvements and clarifications to the Triennial review 2017 amendments. These amendments are generally effective for accounting periods beginning on or after 1 January 2018. The transitional requirements are that early application is permitted provided that all of the amendments (with some limited, but important, exceptions) are applied at the same time.

Many of the amendments to FRS 102 are editorial or aim to clarify, rather than change, accounting treatments. However, there are some more significant amendments, for example to areas such as investment properties and intangible assets, which may prove popular and entities may wish to consider early adoption. The amendments in respect of certain loans from directors (or their close family members) to small entities and the tax effect of gift aid donations are available for separate early adoption.

There are also consequential amendments to the other UK accounting standards, including some significant changes to FRS 105.

**Other regulatory changes**  
This factsheet does not include details of other regulatory changes affecting UK entities. More information on such changes can be found in our UK Regulation for Company Accounts factsheet.

**Section 2**  
Overview 1

**Section 3**  
Links to regulations 2

**Section 4**  
Overview of regime and summary of changes 3

**Section 5**  
Overview of triennial review 2017 amendments to FRS 102 7

**Section 6**  
Triennial review 2017 amendments – small entities 10

**Section 7**  
Triennial review 2017 amendments – other key accounting changes 13

**Section 8**  
Triennial review 2017 amendments – financial instruments 16

**Section 9**  
Triennial review 2017 amendments – other key disclosures issues 20

**Section 10**  
Overview of triennial review 2017 amendments to FRS 105 21

**Further information**  
Faculty resources and contact details 24

FINANCIAL REPORTING FACULTY PUBLICATION | ICAEW.COM/FRF | JANUARY 2018

**By All Accounts**

10 YEAR ANNIVERSARY

THE SALIENT RESULTS PRODUCTION PRESENTATION OF 2018 FINANCIAL STATEMENTS | MORE TO THE STORY: A LOOK AT FINANCIAL REVIEW REQUIREMENTS TO FRS 102 | RELIABLE CONNECTION: UNDERSTANDING THE SUEBOND ACCOUNTS' SUEBOND TO ICAEW

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

## *Future events*

For details, please visit **[icaew.com/frfevents](https://www.icaew.com/frfevents)**



**Bitesize briefings**



**Webinars**



**Financial Reporting Conference**

**10 October 2019**



# *Thank you for listening*

Financial Reporting at your fingertips

 [icaew.com/frf](https://icaew.com/frf)

 [@ICAEW\\_FRF](https://twitter.com/ICAEW_FRF)

[icaew.com/frfcommunity](https://icaew.com/frfcommunity)



Contact the Financial Reporting Faculty

+44 (0)20 7920 8533

 [frfac@icaew.com](mailto:frfac@icaew.com)

