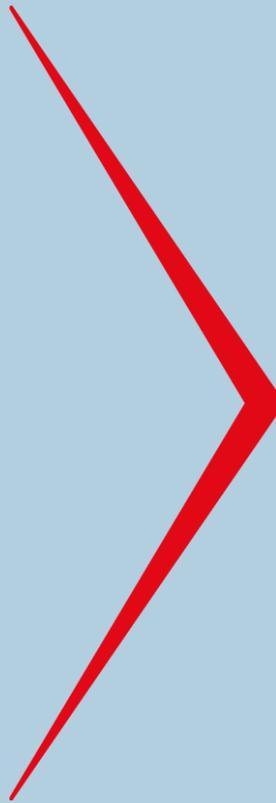


ICAEW KNOW-HOW
FINANCIAL REPORTING FACULTY



Preparing for the 2020/21 reporting season

7 DECEMBER 2020

This webinar will commence shortly



Introduction

Sally Baker
Technical manager
ICAEW



Today's presenters



Julia Loveland
Senior Manager
Grant Thornton



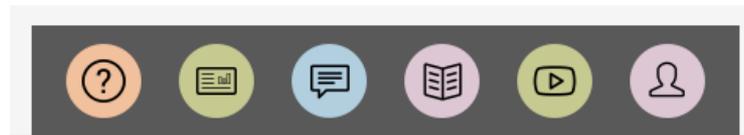
Malcom Millar
Case Director
FRC

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Q&A

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- Resources
- [Financial Reporting Faculty](#)
 - [The New UK GAAP](#)
 - [The New UK GAAP factsheets](#)



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Ask a question

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Download resources

Access related resources, including the presentation slides

Contents

Key FRC messages and publications

Common areas of challenge

Thematic review findings

Other priority areas for 2020/21 reporting

Practical tips on how to achieve high quality reporting

Poll Question 1

Which area of the report and accounts you are most involved with will require most additional focus this year?

- a) Going concern/ viability
- b) Impairment
- c) Narrative reporting
- d) Something else

FRC CRR monitoring activities

- What are CRR's findings based on?

	2019/20	2018/19
Full reviews	111	92
Thematic reviews	105	115
Total	216	207
Substantive letters issued	96	80
Substantive letters issued – %	44%	39%
<i>Substantive letters issued – % of 'full scope' reviews</i>	71%	70%

FRC publications – 2020

- Key documents:
 - Open Letter to CFOs, CEOs and Audit Committee Chairs
 - Annual Review of Corporate Reporting 2019/20
 - Thematic review findings:
 - Covid-19 disclosures
 - Revenue
 - Leases
 - Climate Change (FRC-wide)
 - Cash and Liquidity
- <https://www.frc.org.uk/>



Key messages: Annual Review of Corporate Reporting

- Overall quality of corporate reporting is consistent year-on-year
- Seen some areas of improvement in recent years – room for improvement in others
- Focus on overall objective of disclosures
- Effect of Covid-19 is particularly relevant

Findings: most common issues

- Annual Review covers the top 10 most frequently raised topics (see table opposite).

- ‘Corporate Reporting Highlights’ provides a short summary of disclosure improvements we expect to see next year.

- Case studies on other significant topics:
 - a) Unlawful payment of dividends
 - b) EPS calculations.

	2019 /20	2018 /19	2017 /18
Judgements and Estimates	1	1	1
Impairment of Assets	2	4	6=
Revenue	3	10	5
Financial Instruments	4	8=	
Alternative Performance Measures	5	3	2
Strategic Report	6	2	3
Statement of Cash Flows	7=	5	9
Provisions and Contingencies	7=	7	10
Fair Value Measurement	9=	8=	
Business Combinations	9=		

Most common issues - judgements and estimates



Apparent omission of judgements and estimates



Lack of quantification of estimation uncertainties



Lack of detailed or precise explanation of critical judgements

Most common issues - Impairment of Assets

- Impairment indicators not adequately addressed
- Definition of CGU or CGU group not clearly explained or applied
- Incomplete disclosures for key assumptions
- Incomplete or confusing sensitivity analysis
- Omission of impairment loss disclosures

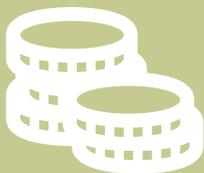
Most common issues - Financial Instruments



Estimation and disclosure of ECL provisions and credit risk



Supply chain financing and factoring arrangements



Liquidity risk disclosures, e.g. undrawn credit facilities

Most common issues - APMs and Strategic Report

- Rationale and consistency of APM adjustments
- Level of prominence given to APMs
- Reconciliations not provided for APMs
- Comprehensiveness of strategic report
- Whether the strategic report gave a fair review
- Non-financial Information Statement
- Principal risks and uncertainties

FRC Thematic Reviews 2020

Thematic review reports cover:

- Covid-19 disclosures
- IFRS 15 – ‘Revenue’
- IFRS 16 – ‘Leases’
- Climate Change disclosures
- Cash flows and liquidity

<https://www.frc.org.uk/accountants/corporate-reporting-review/corporate-reporting-thematic-reviews>

Covid-19 Thematic Review: Key Findings



Judgements taken in determining going concern status not adequately disclosed.



Use of compatible assumptions throughout the financial statements required.



Sensitivity analysis or range of possible outcomes required for areas of estimation uncertainty.



Splitting of items between Covid and non-Covid financial statement items discouraged.

IFRS 15 Thematic Review: Key Findings



Unclear descriptions of **performance obligations** and when these were satisfied. For 'over time' performance obligations, the specific method used to measure progress was often not provided.



Disclosures about the nature of **variable consideration** and how it was measured and constrained sparse, if provided at all.



Information about **significant judgements** relating to revenue lacked clarity. Quantitative disclosure, such as sensitivities and ranges of potential outcomes, often not provided for judgements involving estimation uncertainty.



Concern that some companies had overlooked the accounting requirements for **costs to obtain or fulfil a contract** when these appeared relevant. Only a few companies provided any qualitative or quantitative information in this area.



Scope to improve disclosures about material **contract balances**, particularly how they arise and vary year-on-year. Better disclosures explained the relationship between the fulfilment of performance obligations and the timing of cash flows.

Climate Thematic: Background and scope



A **cross-FRC project** examining corporate reporting, governance, audit, professional oversight, and investor perspectives.



Published as a **suite of reports** – a summary report and detailed findings in each area.



Assessed the quality of compliance with reporting requirements in relation to climate change – in both **narrative reporting and the financial statements**.

Poll Question 2

How significant an effect do you expect climate change to have on your next report and accounts?

- a) Significant effect on narrative reporting and accounts
- b) Significant effect on narrative reporting only
- c) Some effect, but not significant
- d) No effect

Climate Thematic: Key Findings



An increasing number of companies are providing **narrative reporting** on climate-related issues. While minimum legal requirements are often being met, users are calling for additional disclosure to inform their decision-making.



Some companies have set **strategic goals such as 'net zero'**, but it is unclear from their reporting how progress towards these goals will be achieved, monitored or assured.



Consideration and disclosure of **climate change in the financial statements** lags behind narrative reporting. We identified areas of potential non-compliance with IFRS requirements.

IFRS 16 Thematic Review: Key Findings



Areas for improvement and better disclosure examples



Progress since last report



Accounting policies



Disclosure of significant judgements



Adequacy of additional disclosures

Cash flow and liquidity thematic: Key Findings



Material inconsistencies between items in the cash flow statement and the notes to the accounts.



Missing or incorrectly classified cash flows.



Accounting policies, key judgements and treatment of significant one-off transactions not adequately explained.

Cash flow and liquidity thematic: Key Findings (cont'd)



Improvement in going concern, viability and liquidity disclosures for companies publishing annual reports after March.



Most companies provided details of debt covenants, but unclear how such covenants had been tested or met.



Linkage between cash flow and liquidity disclosures and going concern and viability could be improved.



Judgements applied in determining viability and going concern not adequately disclosed.

Other priority areas: 2020 year-end reporting environment



Covid-19 and its impact on corporate reporting



Impact of UK Exit from the European Union



Selected developments in IFRS effective in 2020 and 2021

Practical tips on how to achieve high quality reporting

- Prepare early for IFRS amendments that will be adopted in 2020/21
 - Disclosures
 - Accounting policies and key judgements
- Look at recent FRC output and act on key recommendations
- Narrative reporting:
 - don't leave it too late
 - Remember: fair, balanced and comprehensive
 - Consider impact of Covid-19 and Brexit
- Challenge whether the annual report and accounts are cohesive and consistent overall

Ask a question



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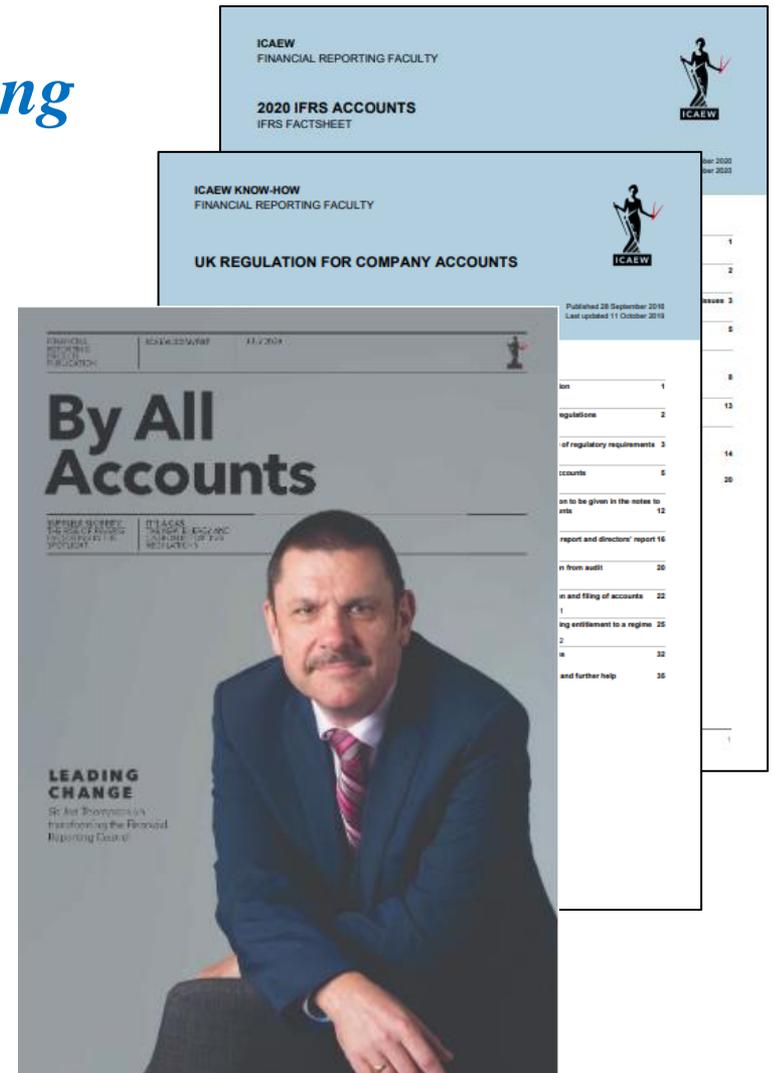
Ask a question

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Faculty resources

[icaew.com/financialreporting](https://www.icaew.com/financialreporting)

- Factsheet [icaew.com/frffactsheets](https://www.icaew.com/frffactsheets)
 - 2020 IFRS Accounts
 - 2020 UK GAAP Accounts
 - UK Regulation for Company Accounts
- Insights campaign [icaew.com/insights](https://www.icaew.com/insights)
 - Interviews
 - Articles
- By All Accounts [icaew.com/byallaccounts](https://www.icaew.com/byallaccounts)
 - More than just numbers (Jan 2021 edition)



Future events

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



Bitesize Briefings
COVID-19 series

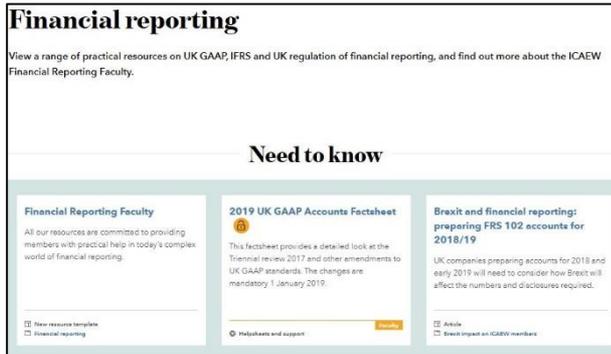


Webinars
17 December: Contract Modifications under IFRS



2020 Members' event – recordings available
Going concern and resilience: lessons learned from COVID-19 [icaew.com/goingconcernevent](https://www.icaew.com/goingconcernevent)

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Questions



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Grant Thornton



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Case Director
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Thank you for attending



Please take the time to fill out our short survey:
[Survey link](#)



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