Items to consider ahead of preparing the next annual report

For many the 31 December not only marks New Years Eve but also the last day of their company's financial year. Whilst it may seem far away at present, as with Christmas, we all know it will quickly appear on our doorstop sooner than we imagined.

The FRC has issued various guidance preparers of annual reports should focus on in the upcoming reporting cycle. Last year it published "What make a good Annual Report and Accounts" and earlier in the month it issued "Annual Review of Corporate Reporting 2022/2023". This will be augmented by its Annual Review of Corporate Governance Reporting which is due in November.

Here are some of the current key takeaways:

Declutter

In acknowledgement of the consequences of the ever-growing plethora of information that regulation requires companies to include their annual report, the FRC has stated it expects companies to ensure the annual report is clear, concise, understandable and omits immaterial information.

No-one redesigns their annual report from scratch every year, it is understandable the previous year's report is rolled forward to act as the template for the upcoming coming year. Invariably this may mean an increasing amount of superfluous and unnecessary information is also carried forward each year. Now is the time to thoroughly and critically review the previous year's annual report to assess if everything included was required either due to regulation or to assist in the reader's understanding. If it does not fit into either of these categories' it should go.

Is specialist third party advice needed?

The FRC noted that companies should consider the need for specialist third party advice with respect to Level 3 fair value measurements where no internal expertise exists. Ahead of year end Audit Committee's should formally assess whether sufficient internal expertise is available and if not start the search for appropriate specialists.

Timetable considerations

The FRC has highlighted that financial statements should be carefully reviewed ahead of being issued. This may sound blatantly obvious, however those who have gone through the process know the finalisation of the annual accounts can on occasion be frantic, turning around last minute amendments whilst juggling auditor and director availability, along with the drop dead deadline to release the results to the market.

It can be invaluable taking the time now to draft the timetable so that it allows sufficient time between the key milestones such as the provision of information, the different reviews by the auditors, the review by directors and the audit committee and then enough time for a full through review ahead of board approval and sign off.

Consideration of disclosures

The FRC has emphasised it expects the following disclosures to be reassessed to ensure immaterial items are not rolled forward and they contain full information as to the current circumstances of the company.

Audit Committee or Board consideration of each of these disclosures should be scheduled either before or early into the account preparation process, to ensure there is sufficient time for them to be thoroughly discussed and assessed.

- Key inputs and assumptions that have been applied in impairment testing.
- All significant judgements, including those applied in the performing the going concern assessment have been described.
- Estimates to include values and sensitivities, with significant changes explained. Estimates that could be subject to material adjustment within one year should be clearly distinguished from other estimates.
- Material risks arising from financial instruments.
- Information about banking covenants.
- Accounting policies for all significant revenue streams.
- Clear and specific descriptions of the relevant exposure when describing provisions and contingencies.

Finally....

Is your auditor an FRC-registered third country auditor?

In Primary Market Bulletin 45, the FRC highlighted that under DTR4.1.7R (4) non UK issuers, which would capture Guernsey and Jersey incorporated LSE listed companies, must ensure their auditor is on the FRC third country register.

Ahead of the audit committee meeting to appoint the auditor and plan the audit, the register should be checked - Register of Third Country Audit Entities (frc.org.uk). If the audit report is not signed by a registered third country auditor the FRC has stated it will deem that DTR4.1.7 (auditing of financial statements) has not been met.