

Audit Committee Seminar 2017

4 October 2017



Financial Reporting Council

Introduction

Stephen Haddrill

Chief Executive

Financial Reporting Council



Financial Reporting Council

Current Audit Committee Engagement

- Annual event for audit committee members
- Annual survey of audit committee chairs
- Audit Quality Review team process
- Corporate Reporting Review team correspondence
- Audit Committee Chair advisory group
- Ad hoc engagement



Forthcoming Audit Committee Engagement

- Joint events with Audit Committee Chair Advisory Group
- Greater inclusion in Financial Reporting Lab and Audit and Assurance Lab projects
- International work



**The FRC's mission:
To promote
transparency and
integrity in business**



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Corporate Reporting update

Paul George

Executive Director, Corporate
Reporting and Governance
Financial Reporting Council



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Corporate Reporting Update

- Findings from 2016/17 reviews
- Changing requirements and expectations
- Other forward looking matters



Findings from 2016/17 reviews

- Based on 203 reviews including 3 significant thematic reviews
- Reporting generally good
- Pre-informing companies as part of thematic reviews has had a positive impact on quality
- One review group
- One press notice
- Three references required
- High number of voluntary references

Most Common Issues

Topic	Ranking	
	2017	2016
Judgements & Estimates	1	1
Strategic Report	2	3
Accounting Policies	3	6
Business Combinations	4	-
Alternative Performance Measures (APMs)	5	-
Revenue	6	2
Impairment of Assets	7	4
Financial Instruments: Disclosures	8	8
Fair Value Measurement	9	9
Statement of Cash Flows	10	-



Key Findings

- Judgements and Estimates
- Accounting policy disclosures
- Pensions
- Business combinations



Changing Requirements & Expectations

- New Accounting Standards
 - IFRS 9 Financial Instruments – Effective: 1 January 2018
 - IFRS 15 Revenue – Effective: 1 January 2018
 - IFRS 16 Leases – Effective: 1 January 2019
- Strategic Report Guidance consultation
 - Non Financial Reporting Directive
 - Impact of activities
 - Trust in Business
 - S172
 - Value creation
 - Purpose and culture



Other forward looking matters

- Year end letter
 - Key issues from 2016/17 reviews
 - Updated Strategic Report Guidance
 - Risk and viability reporting
 - Impact of new accounting standards
 - Statement of cash flows
 - Dividends
- Possible changes to Strategic Report Regulations
- Corporate Governance Code Consultation
 - Shorter and sharper
 - Structure
 - Greater focus on reporting on the application of the Principles
 - Content



Q&A

Please wait for the microphone
and state your name and your
organisation



Audit update

Melanie McLaren
Executive Director, Audit and
Actuarial Regulation
Financial Reporting Council



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Promoting justifiable confidence in audit

- Audit Quality Monitoring
- Thematic Reviews
- Enforcement of Standards
- Audit Firm Governance
- Audit Committees



What do we see?

- Investment in a culture of continuous improvement
- Fragile confidence
- Sufficient scepticism?
- Putting firm interests above investors?



Audit committees

- Practice Aid
- Reporting
- Materiality
- Audit Firm Culture
- Firm and Network Risk



Q&A

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The Financial Reporting Lab

Helping companies and investors improve
corporate reporting

Phil Fitz-Gerald
Lab Director





Current Lab initiatives

- Risk and viability
- Dividend reporting – implementation study
- Digital Future



Risk and viability reporting – emerging themes

- Risk reporting has evolved and improved significantly since the financial crisis – investors recognise this but see potential for further improvement
- Balance to be struck between risk reporting that is specific to the company and commercial sensitivity – investors have identified good examples of where this balance has been struck
- Introduction of viability statement has created more focus on risk management at Board level – investors are positive about the greater level of engagement on risk management with companies
- However, viability statements themselves could be made more helpful – report will highlight the ‘two stage’ process

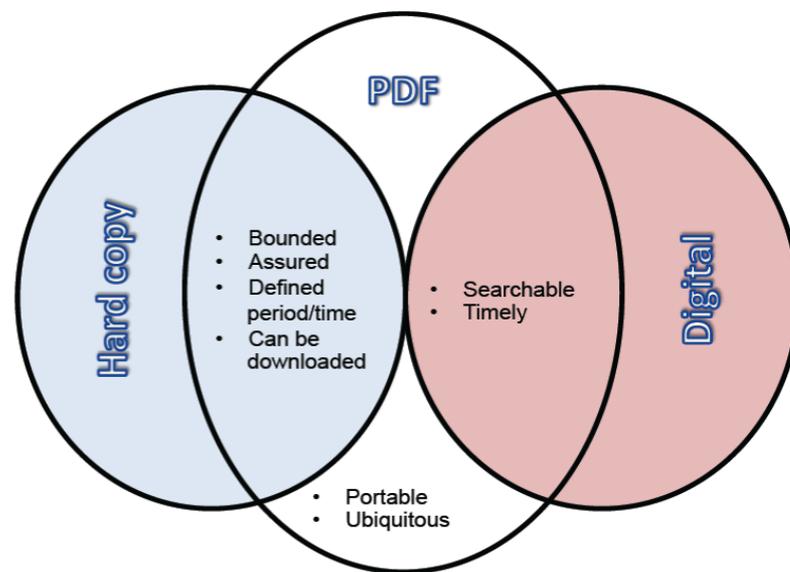


Dividend reporting – implementation study

- 132 companies (of the FTSE 350) have now implemented some of the disclosure recommendations in the Lab's dividends report, published in November 2015.
- A key area of improvement has been companies making reference to distributable profit or distributable reserves with 58% of the FTSE 100 making some level of disclosure (up from 40% in 2015),
- Some companies have improved disclosure of the risks to dividend or the factors that were considered in setting the dividend policy.
- Some companies have enhanced descriptions of what the stated dividend policy means in practice, although further improvements could be made in this area.

Where are we now – Digital Present

- Many mediums designed to communicate with investors do not have a high take up.
- PDF annual report the most popular as it mixes paper and digital.
- Digital inertia is strong for both companies and investors.



Investors desired attributes represented by PDF annual reports

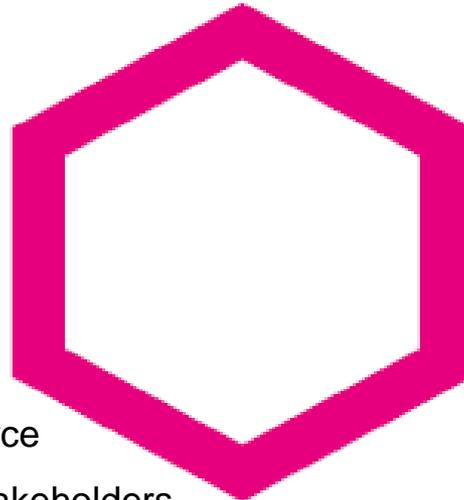
Digital reporting - Drivers of change

Regulation

- European Single Electronic Format
- SEC extension of XBRL to IFRS filers
- Non financial reporting directive drives other users

Users

- The rise of the millennial in the workforce
- The increasing demands from other stakeholders.
- The changing balance of investment



Technology

- The rise of the robot in investment market
- The investors' desk is becoming more capable with VR and AR
- And companies are starting to experiment

Characteristics of Digital Reporting



Production – This stage is focused on the collation, amalgamation, packaging, and presentation of underlying financial and non-financial information from within a company or organisation with the express intention that it will be released externally. Production characteristics were of most interest to companies and those supporting them.



Distribution – This stage is focused on the dissemination of the packaged information, both to meet regulatory requirements (e.g. National Storage Mechanism) and to communicate with external stakeholders. Distribution characteristics are of interest to both companies and those consuming the information.



Consumption – This stage is focused on the analysis and use of the distributed, packaged information. Consumption characteristics are of most interest to those utilising the information. These characteristics might attach equally to any individual piece of data, disclosure or document being used.

- | | | | |
|--|--------------------------------------|--|--|
| <input type="checkbox"/> Boundary | <input type="checkbox"/> Up loadable | <input type="checkbox"/> Immutable | <input type="checkbox"/> Relatively standardised |
| <input type="checkbox"/> Period covered | <input type="checkbox"/> Universal | <input type="checkbox"/> Secure | <input type="checkbox"/> Customisable |
| <input type="checkbox"/> Accounting or other Framework | <input type="checkbox"/> Searchable | <input type="checkbox"/> Clear assurance | <input type="checkbox"/> Designable |
| <input type="checkbox"/> Accounting policy or other internal framework | <input type="checkbox"/> Intuitive | <input type="checkbox"/> Authentic | |
| <input type="checkbox"/> Level of assurance | | | |
| <input type="checkbox"/> Link to other info | | | |

What are we doing now

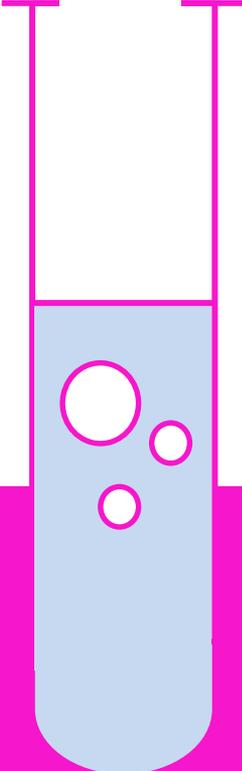
- We are now holding roundtables which are undertaking deep dives on each technology



- We are mapping each technology through to the characteristics to build up an understanding of benefits they offer
- We plan to study how technologies work together

We have learned:

- That the current system needs to change as demands are evolving
- That investors and companies do have needs that technologies (like XBRL) can and do deliver, they just don't articulate it in that way
- That individual technologies and initiatives need to work together to create the optimised digital future
- That a globally consistent approach is the most effective for users

A stylized illustration of a test tube with a blue liquid inside and three white bubbles. The test tube is outlined in pink and has a pink cap at the top.

Find all the Lab's reports and updates on current activities through our web page:

<https://frc.org.uk/lab>

Q&A

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and state your name and your
organisation



Investors' perspective

Paul Lee

Standard Life Aberdeen



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Q&A

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organisation



Closing Remarks

Stephen Haddrill

Chief Executive

Financial Reporting Council



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