

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

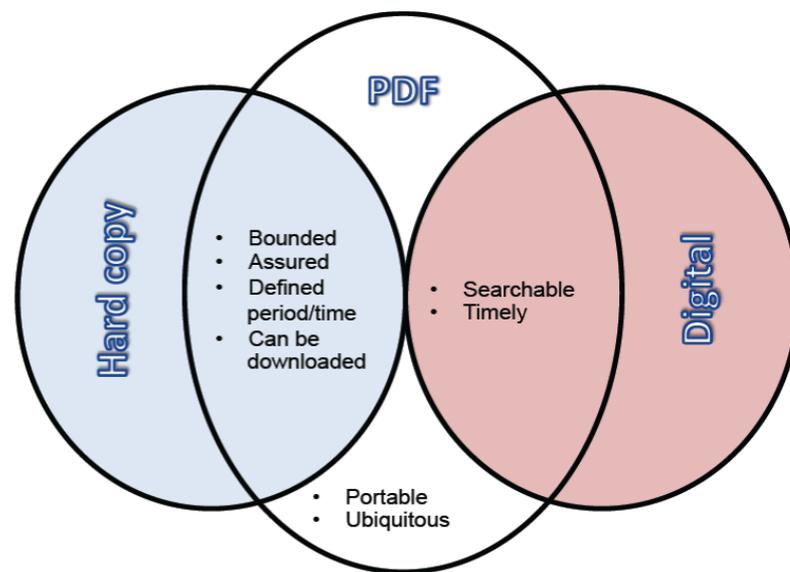


Dividend reporting – implementation study

- 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

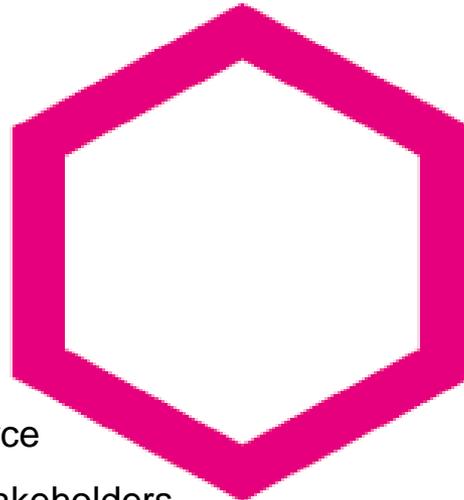
Digital reporting - Drivers of change

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



- | | | | |
|--|--------------------------------------|--|--|
| <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

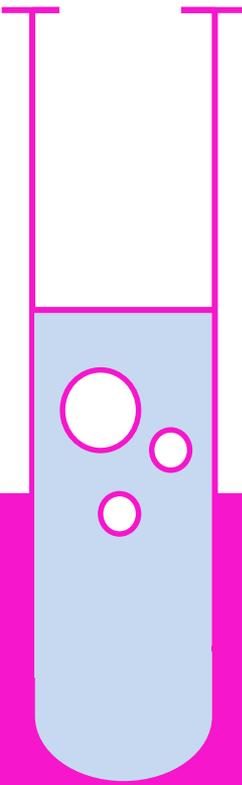
- We are now holding roundtables which are undertaking deep dives on each technology



- 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

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



Investors' perspective

Paul Lee

Standard Life Aberdeen



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Q&A

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



Closing Remarks

Stephen Haddrill

Chief Executive

Financial Reporting Council



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