MAKING CORPORATE REPORTS RELEVANT
The ICAS vision of corporate reporting is simple: a readable and concise report that tells the story of the business – summarising the key aspects of performance and prospects – with the detailed disclosures easily available from the company’s website.

There is a growing dissatisfaction with a corporate reporting process viewed by many as an exercise in regulatory compliance. Often stakeholders consider the preliminary results announcement and related presentations to be more relevant and useful than the full annual report. The reform of corporate reporting is now a global priority.
MAKING CORPORATE REPORTS READABLE

With a large number of consultations and debates on the topic of corporate reporting in recent years, it could be difficult to add anything new. The ICAS contribution to the debate was contained in our 2010 publication Making Corporate Reports Readable (MCRR).

We believe our Short Form Report offered something different – albeit the concept is very simple: delivering a clear, concise and consistent message about a company’s past, present and future through a short form report of around 30 pages or less.

The report would describe the business model; the company’s strategy; its key risks and how those risks are mitigated; and includes summary financial information, Key Performance Indicators (KPIs) and the significant judgements made by management in preparing the report – while remaining consistent with the full financial statements. The full financial statements and the other detailed information – such as governance statements and sustainability information – would remain available to the user and easily searchable on the company’s website.

We proposed that the Short Form Report could form the centrepiece of a company’s results announcement as the key communication document – thus aligning the results announcement and the company’s annual reporting.

THE CONSULTATION

The feedback on our Short Form Report was positive. We held a launch event, jointly hosted by Ernst and Young, in London. We invited formal written responses and we held a number of discussions with key stakeholders. There was a general acceptance that the current state of corporate reporting is unacceptable and there is a definite momentum for change.
SO WHAT DID OUR RESPONDENTS SAY?

“a breath of fresh air”

“a framework for companies to tell their “story” is important to the future of corporate reporting and... concise, yet frank reporting of the business model and significant risks is valuable”

“corporate reports have become unwieldy even for the most sophisticated stakeholders”

“injects a fresh perspective into the corporate reporting debate at a time when the relevance, understandability and complexity of one-size-fits-all general purpose financial reporting is under the spotlight more than ever before”

“a shorter, easier and better read that users may even be encouraged to open”
HOWEVER

One of the strongest messages from our respondents and the guests at the launch event was that there is a general dissatisfaction with the financial reporting framework of International Financial Reporting Standards (IFRS). The general consensus of opinion was that corporate reporting could not be fundamentally reformed without considering the issues associated with IFRS and in particular the volumes of disclosures.

“given the time and effort involved in preparing the Annual Report, the requirement to continue to prepare both this and a different short-form report is neither cost nor time efficient”

Directors... “are unlikely to provide opinions on the future and frank discussion on risks unless they are encouraged to do so and protected through safe harbour provisions”

“would such a framework put UK Plc at a competitive advantage to an overseas company or would the level of disclosure be a burden putting them at a competitive disadvantage?”
CURRENT DEVELOPMENTS IN NARRATIVE REPORTING

INTEGRATED REPORTING
The International Integrated Reporting Council (IIRC) represents an international stakeholder base, with an ambitious goal to develop a report integrating the business model, strategy and performance of a business with its economic, social and environmental context. A discussion paper was published in September 2011. The driver behind the IIRC was a desire to integrate social, environmental and economic sustainability issues into the mainstream reporting of a business, and much of the momentum behind the project has come from the Prince of Wales Accounting for Sustainability project.

The IIRC draft framework is based on five guiding principles – strategic focus; connectivity of information; future orientation; responsiveness and stakeholder inclusiveness; and conciseness, reliability and materiality - which are consistent with our own principles contained within MCRR.

UK GOVERNMENT
On a more incremental scale, the UK Department for Business, Innovation and Skills (BIS) has consulted on a new framework for narrative reporting and how it could be made less complex and more streamlined. The BIS proposals are broadly similar to our own MCRR proposals and offer a methodology for implementation within the existing company law regime.

EUROPE
The European Commission has also consulted on the issue of narrative reporting and intends to propose legislation on the transparency of social and environmental reporting during 2012.

UTILISING TECHNOLOGY
The future format of corporate reports is also looking very different with the introduction of XBRL, which allows the electronic tagging of information and can facilitate corporate reports being filed and viewed online. Any debate around the future of corporate reporting must take account of the developments in technology.

The IIRC discussion paper is available from the IIRC website at www.theiirc.org/the-integrated-reporting-discussion-paper/ (Comments closed on 14 December 2011.)

See www.accountingforsustainability.org/home/ for more details of the Accounting For Sustainability project.

ICAS is a member of the Accounting for Sustainability Accounting Bodies Network.

The BIS consultation can be accessed at www.bis.gov.uk/Consultations/future-of-narrative-reporting-further-consultation (Comments closed on 25 November 2011.)

ICAS’ responses to these consultations can be downloaded at www.icas.org.uk
OUR WIDER VISION OF CORPORATE REPORTING

In addition to MCRR, ICAS has published the following reports which also make substantive contributions to the corporate reporting debate.

THE FUTURE OF ASSURANCE
In December 2010 we published The Future of Assurance, which considered three key themes: the corporate reporting model, the audit committee and the external assurance process. Our working group recommended an improved corporate report on which the directors would sign off to confirm that they believed that the narrative was “balanced and reasonable”.

In particular the narrative would include the rationale on which the directors based their conclusion that the company is a going concern. The auditors would then provide a separate assurance opinion on the narrative – in addition to the “true and fair” opinion on the financial statements - as to whether the narrative is “balanced and reasonable”.

Although The Future of Assurance focused on the existing annual report, the principles and recommendations relating to the narrative are not inconsistent with MCRR and could be implemented either with or without the short-form report.

LOSING THE EXCESS BAGGAGE – REDUCING DISCLOSURES IN FINANCIAL STATEMENTS TO WHAT’S IMPORTANT
In July 2011 ICAS published a report following a joint project with the New Zealand Institute of Chartered Accountants (NZICA). The project considered how financial statement disclosures required by IFRS could focus better on information which is important to users, whilst reducing the amount of unnecessary detail. Based on a rough application to a set of model accounts, it concluded that it was possible to reduce disclosures by around 30% whilst enhancing the accessibility and quality of information. This report is now with the International Accounting Standards Board (IASB) for their consideration.

A HOLISTIC VIEW
Pulling together the work we have performed through our three recent publications, we believe we have a strong platform on which to take forward the reform of corporate reporting. In the short term we need to trial the short form report – as a substitute for the Annual Review and Summary Financial Statements and for possible use for the company’s results announcement.

We could envisage a short-form integrated report replacing the current annual report as the key communication document for the majority of users, with the necessary detail such as the full financial statements, governance information and sustainability reports available on the company’s website and easily searchable.
THE PRINCIPLES FOR A SHORT FORM REPORT  
(UPDATED FROM THOSE IN MAKING CORPORATE REPORTS READABLE)

1. Provide information which is balanced and reasonable and consistent with the full annual report.

2. Be consistent with the full financial statements which present a true and fair view.

3. Explain the company’s business model and strategy and its performance against these.

4. Explain the most significant risks to the company’s business model and strategy and how those risks are being mitigated.

5. Deliver a clear message about management’s stewardship of the company’s assets – the past.

6. Deliver a clear message about the company’s current asset-liability mix and liquidity position – the present.

7. Deliver a clear message about where the company is headed – the future.

8. Provide key statistics indicating performance and prospects, drawing from financial, non-financial and regulatory information where appropriate.

9. Use alternative reporting technologies to allow readers to access more detailed information on the company’s website.

10. Report historic cash flow and liquidity information in a way that is meaningful to management and is consistent with the tools used internally to measure performance.

11. Avoid repetition but provide all important information, including information on environmental and social impact in the context in which these are important to the company.

12. Make clear the significant judgements that have been made in the preparation of the Short Form Report and full annual report and financial statements.
A CALL TO ACTION

The time for debate and discussion is running out. Quality corporate reporting is fundamental to the operation of effective global capital markets, yet financial statements are increasingly being regarded as inaccessible, incomprehensible and inconsistent with the way in which companies are operated and managed. Our Short Form Report represents a significant improvement in communication with users and offers a next step which could be implemented quickly and with relative ease.

We believe that the process of producing a Short Form Report following the above principles is a useful one, giving the directors an opportunity to tell their own story. Where this could replace an Annual Review and Summary Financial Statements and ultimately form the basis of a company’s results announcement, we believe it would not be an additional burden but a significant improvement in the delivery of quality corporate reporting.

ICAS will now take forward these proposals in the context of the various consultations and the development of integrated reporting, and we will continue to exert our global influence in this critical debate.
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