



Governance *in brief*

FRC sets out key matters for 2022/23 reporting season

Headlines

- The FRC has issued its annual bulletin of observations on key developments and areas of focus for 2022/23 annual reports, aimed at CEOs, CFOs and audit committee chairs.
- The FRC has also published its Annual Review of Corporate Reporting along with a highlights publication for those who do not require the full detail, and this should also be considered in preparing for year end reporting.
- At a time of geopolitical uncertainty and of economic challenge, the FRC highlights that some areas of narrative and financial reporting pose particular challenges and that companies should focus on “high quality decision-useful information for investors and other stakeholders,” with risks articulated clearly in annual report and accounts.
- Other areas highlighted for attention include:
 - risks and uncertainty relating to climate change and increasing the maturity of climate-related reporting;
 - cash flow and liquidity disclosures, where there continue to be errors which could be avoided by robust pre-issuance review;
 - clearer accounting policies and disclosures around financial instruments;
 - the recommendations arising from the FRC’s thematic reviews covering discount rates, TCFD disclosures and climate in the financial statements, deferred tax assets, business combinations, earnings per share and judgements and estimates; and
 - enhancing governance reporting by avoiding boilerplate and including detail of actions and their impact.

- The FRC's Corporate Governance and Stewardship team's report on their review of reporting under the UK Corporate Governance Code is expected shortly.
- The FRC has also indicated that it will publish "What Makes a Good Annual Report and Accounts" before the end of the year, which will identify features that the FRC associates with good quality reporting.

The suite of corporate reporting publications for the 2022/23 reporting season

In October 2022 the FRC issued three linked publications setting out corporate reporting expectations and areas of focus for the 2022/23 reporting season:

- [Key matters for 2022/23 reports and accounts](#) (Bulletin) – this includes a summary of the most important findings and expectations from the various FRC reports, thematic reviews and Financial Reporting Lab reports published during the past year.
- [Annual Review of Corporate Reporting 2021/22: Corporate Reporting Highlights](#) (Corporate Reporting Highlights) – a short summary covering the key findings from the Annual Review and the FRC's expectations for reporting over the year ahead.
- [The FRC's Annual Review of Corporate Reporting 2021/22](#) (Annual Review) – this is the detailed publication and describes the FRC's corporate reporting monitoring activity and findings over the year, case studies and example disclosures.

Key disclosure expectations for 2022/23

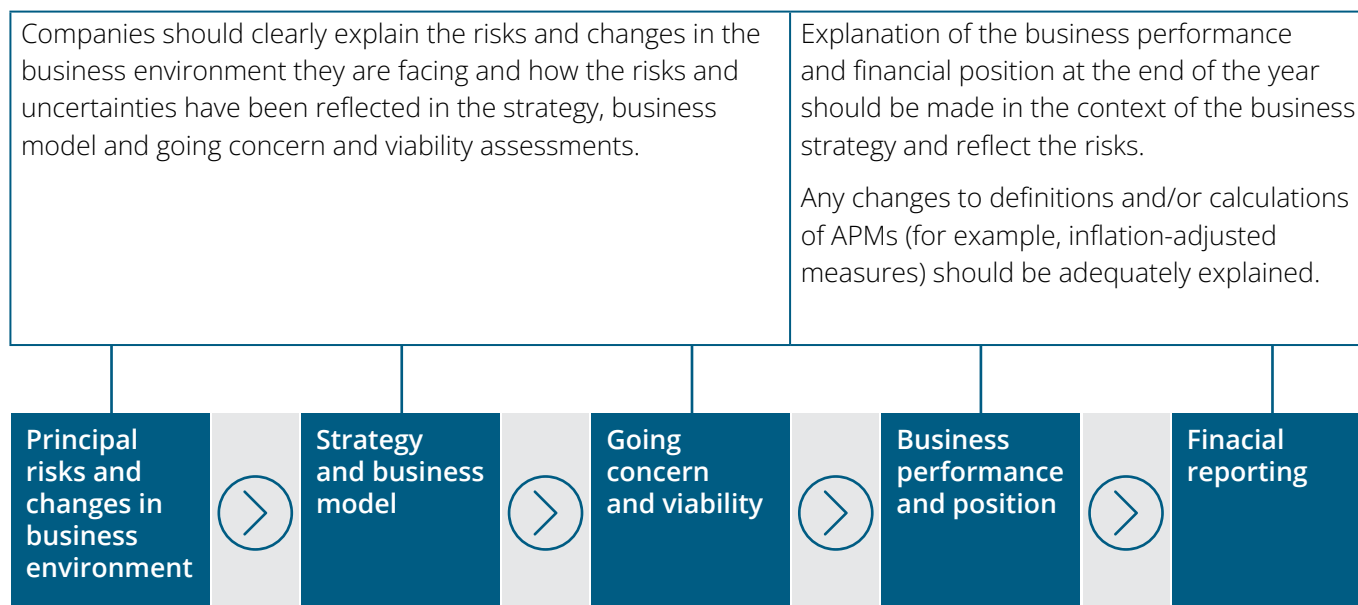
The FRC observes that the quality of FTSE 350 reporting has been maintained and there have been improvements in some areas of reporting, including judgements and estimation uncertainty and revenue reporting which have been long-standing areas of concern. However, there is scope for improvement in cash flow statements and in complex areas such as financial instruments and deferred tax.

Out of 252 reviews conducted, 27 companies were required to restate parts of their annual reports, almost double the number of restatements in the previous year, with a high proportion relating to cash flow statements.

Risks and uncertainty in the economic environment

The first area mentioned by the FRC in its Bulletin is political and economic uncertainty leading to financial and narrative reporting challenges. Companies are encouraged to reassess risks regularly and reflect this in their strategy and their reporting.

The Corporate Reporting Highlights report includes an illustration of where attention should be focused in times of uncertainty:



Climate-related reporting

The FRC highlights the CRR’s thematic review of climate-related reporting under the new Listing Rules requirements in collaboration with the Financial Conduct Authority. Deloitte’s Governance in brief covering the findings of both the FRC and FCA reviews is here.

Five main areas from the thematic review for companies to consider when enhancing the maturity of their disclosures were:

- **Granularity and specificity:** more granular and specific information about the effect of climate change on different businesses, sectors and geographies.
- **Balance:** ensuring the discussion of climate-related risks and opportunities is balanced and linking climate-related opportunities to technological dependencies.
- **Interlink with other narrative disclosures:** linking climate-related disclosures to other elements of narrative reporting, for example information about the business model and strategy, or the risk management and governance processes.
- **Materiality:** how has the company decided which climate-related information should be disclosed? The FRC expects companies to articulate clearly how they have considered materiality in the context of their TCFD disclosures when preparing the TCFD ‘statement of compliance’ and how they have taken into account the TCFD all-sector guidance and, where appropriate, the supplemental guidance for the financial sector and for non-financial groups.
- **Connectivity between TCFD and financial statements disclosures:** better clarity regarding the relationship between climate-related risks and amounts in the financial statements.

Financial reporting

The FRC highlights three areas for particular focus based on their findings this year:

- **Cash flow statements** – almost half of restatements required by the FRC this year related to cash flow statements, where the FRC considers a series of simple consistency checks and robust pre-issuance review by both preparers and auditors would identify these in advance of publication. Cash flow statements will be a focus for audit quality inspections in the 2022/23 cycle.
- **Financial instruments** – in some cases queries could be avoided by clearer accounting policies and disclosures. Areas of focus include non-banking companies' disclosures of expected credit loss provisions, financing arrangements and covenants.
- **Deferred tax assets (also a thematic review)** – the FRC noted that in some cases there was again limited evidence disclosed regarding the recognition of deferred tax assets by entities with recent losses and that disclosure in this area must go beyond boilerplate and be entity-specific. The thematic review also identified an area for improvement for companies to explain the specific nature of key judgements and estimation uncertainty relating to deferred tax assets.

Thematic reviews and other guidance

Thematic reviews and Financial Reporting Lab reports

Annual report area	Findings to consider when reviewing the annual report
Discount rates (CRR thematic review)	<ul style="list-style-type: none"> • Can be an area of significant estimation uncertainty, requiring enhanced disclosures. • Companies can improve disclosure by explaining how discount rates are determined. • Companies should clearly explain what factors have been incorporated into the discount rate and whether elements such as risk and inflation have been incorporated into cash flow or discount rate.
Business combinations (CRR thematic review)	<ul style="list-style-type: none"> • Good disclosures included how strategy had evolved to incorporate acquisitions where those were transformational. • Explanations for how goodwill has arisen should be specific to the company's circumstances. • The thematic review identified various "basic errors" in accounting and reporting, so care needs to be taken in this area.
Earnings per share (CRR thematic review)	<ul style="list-style-type: none"> • Some of the main requirements do not appear to be well-understood, including elements of EPS calculations and disclosures. • Companies are encouraged to include disclosure to make it clear how the weighted average number of shares relates to the number of shares in issue and potential ordinary shares and to highlight where judgements have been made about the substance of transactions such as share reorganisations.
Judgements and estimates (CRR thematic review)	<ul style="list-style-type: none"> • Companies are encouraged to make a clear distinction between disclosures of estimates where there is a significant risk of a material adjustment in the following year, and other estimation uncertainty disclosures with associated sensitivity analysis. • Examples of good practice included detailed, granular explanations of judgements and uncertainties and sensitivity analysis.

Digital security risk disclosures
(Financial Reporting Lab [report](#))

- Digital security is fundamental to assessing a company's ability to remain viable and resilient, however disclosures are overly static and not meeting investor needs.
- The report provides recommendations for audit committees to help drive disclosure that meets investor needs, together with a set of reporting examples that investors found useful.

Net zero disclosures
(Financial Reporting Lab [report](#))

- Investors want to understand three main areas of company net zero disclosures:
 - the level of ambition, scope, nature and timing of the commitment and what is included, what excluded;
 - how the commitment impacts strategy and business model, including information on transition plans, assumptions, uncertainties, and risks and opportunities; and
 - how performance and accountability are being measured in the short, medium, and long term;

ESG data production
(Financial Reporting Lab [report](#))

The report explores the processes and systems used to generate and collect ESG data, some of the challenges companies face and actions for better practice.

ESEF reporting
(Financial Reporting Lab [report](#))

A review of the implementation of the European Single Electronic Format (ESEF) in the UK, the report highlights issues of consistency and data quality. The FRC notes that it has written to companies jointly with the FCA to encourage boards to give "due care and attention" to the digital report.

Review of corporate governance

The FRC highlights the work the CRR team has done in conjunction with the Corporate Governance and Stewardship team in reviewing company corporate governance disclosures; it believes that this has led to an improvement in reporting and has extended the pilot project into a third year

The FRC intends to write to companies that fail to provide specific details relevant to the company, including information about actions and outcomes during the year. It reiterates the importance of reporting any departures from Code provisions clearly, supported by effective explanations.

Reviews and upcoming projects indicate that there are particular Code provisions that will receive attention in the coming year:

- Provision 29 – companies are encouraged to include a sufficiently detailed explanation regarding how boards have reviewed the **effectiveness of their risk management and internal control systems**. This has been raised for attention in letters to companies in the past year and will also be an area of focus for the Corporate Governance and Stewardship team this coming year. It will also feed into the formulation of potential policy options to be included in the upcoming 2023 consultation on the update to the Code.
- Provision 4 – the FRC is assessing the level of engagement with shareholders and the **quality and timeliness of reporting following a significant vote against** a board-recommended resolution at a general/annual meeting. This will go beyond the annual report to consider announcements of voting results and update statements.

The FRC also reminds readers of the various publications regarding corporate governance matters that it has published during the past year:

- [Review of corporate governance reporting](#) – November 2021 – Deloitte newsflash is [here](#);
- [The Wates Corporate Governance Principles for Large Private Companies: The Extent, Coverage and Quality of Corporate Governance Reporting](#)

Contemplating the upcoming findings of this year’s review, the FRC advises companies to move away from “boilerplate statements of intent” to draw out the impact of actions they have taken.

The FRC’s review of corporate governance reporting is expected in November.

Deloitte view

- We welcome publication of the bulletin aimed at Audit Committee Chairs, CEOs and CFOs. In times of uncertainty there is much to consider when preparing the annual report and accounts and the bulletin helps to focus attention on some of the key areas that will be subject to regulatory focus.
- Whilst none of the areas raised in the bulletin are surprising, this advice provides a timely reminder for audit committee agendas for the coming reporting season.

For further information

- [Bulletin: Key matters for 2022/23 reports and accounts](#)
- [The FRC’s Annual Review of Corporate Reporting 2021/22](#)
- [Annual Review of Corporate Reporting 2021/22: Corporate Reporting Highlights](#)

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Members receive copies of our regular publications on Corporate Governance and a newsletter highlighting upcoming briefings and recently published insights. A dedicated members’ website www.deloitteacademy.co.uk is made available so members can register for briefings and access additional relevant resources.

For further details about the Deloitte Academy, including referring colleagues for membership, please email enquiries@deloitteacademy.co.uk.

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