

# Annual reporting in 2016/17:

broad perspective,  
clear focus

Aide mémoire



Building a better  
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# Aide mémoire

This aide mémoire will help you address key considerations and challenges as you start planning and drafting your next annual report and accounts (ARA). It contains the hallmarks of leading practice from our previous publications on narrative reporting, updated for new recommendations added this year, as part of our analysis of FTSE 350

annual reports in 2016/17. It is not a compliance or regulatory checklist but considers key aspects of leading practice reporting.

Our full report, Annual reporting in 2016/17: broad perspective, clear focus, can be found at [www.ey.com/corporategovernance](http://www.ey.com/corporategovernance)



# Fair, Balanced and Understandable

ARA content	Notes and actions
<ul style="list-style-type: none"><li>▶ Structure your ARA to aid effective communication of key messages, reduce repetition and tell a story</li><li>▶ Create meaningful links between the business model, strategy, KPIs, principal risks and remuneration</li><li>▶ Ensure consistency and balance between narrative reporting and financial statements, as well as across different sections of the narrative report</li><li>▶ Move 'standing' information in the narrative to the back of the ARA or to the website (regulation and law permitting)</li><li>▶ Consider whether the Directors' Report could be placed at the back of the ARA to maintain the narrative flow</li><li>▶ Ensure that alternative performance/non-GAAP measures are clearly defined and reconciled to GAAP measures, and there is balance in how performance is described</li></ul>	

# Strategic Report

ARA content	Notes and actions
<b>Purpose and Strategy</b> <ul style="list-style-type: none"><li>▶ Define the purpose of the company and provide an explanation of how it drives strategy</li><li>▶ Clearly explain how strategy will be implemented and measured, with both short and long term objectives and a focus on outcomes</li><li>▶ Ensure strategic objectives are linked to KPIs, principal risks and remuneration</li><li>▶ Describe how any risks or opportunities arising from the global environment, market trends, industry context or disruption, impact the strategy and the strategic objectives</li></ul>	
<b>Business Model</b> <ul style="list-style-type: none"><li>▶ Explain in simple and clear language how the company makes money (check for alignment with the revenue note in the financial statements)</li><li>▶ Clearly explain the key inputs, processes and outputs of the company</li><li>▶ Articulate how the company has created value for its stakeholders and wider society</li><li>▶ Explain the competitive advantage of the business and how the business model sustains this over time</li><li>▶ Give an indication of how key assets (including physical assets, IP, people, culture, technology, etc.) are engaged in the value chain</li><li>▶ Provide insight into investment and revenue streams in relation to different parts of the business or different phases of development</li><li>▶ Set out how capital is allocated across various long-term and short-term priorities (for example R&amp;D activities, shareholder payments, tax, pensions, employee salaries and bonuses)</li><li>▶ Provide a comparison between the company's business model and those typically used in the sector</li></ul>	

# Strategic Report

ARA content	Notes and actions
<p><b>Key performance indicators (KPIs)</b></p> <ul style="list-style-type: none"><li>▶ Explain how the KPIs truly measure progress against the strategic objectives</li><li>▶ Ensure KPIs are company specific and based on a broad set of relevant financial and non-financial measures</li><li>▶ Show which KPIs are linked to executive variable remuneration and how</li><li>▶ Disclose targets for each KPI and report performance against those targets in a balanced and transparent manner</li><li>▶ Disclose KPI performance data over a number of years (e.g., three to five years) in order to show trends</li><li>▶ Explain changes to KPIs or their calculation if relevant</li><li>▶ Ensure that the performance review section and overall narrative provides context for actual performance in respect of KPIs</li><li>▶ Clearly indicate which KPIs (if any) are considered to be alternative performance measures/non-GAAP measures and ensure these are reconciled to and presented in a balanced manner with statutory/GAAP measures</li></ul>	
<p><b>Principal risks</b></p> <ul style="list-style-type: none"><li>▶ Give an indication of the levels of risk the board are willing to take in pursuit of the strategy (risk appetite) and how this is monitored by the board</li><li>▶ Ensure that the principal risks disclosed are specific to the company (e.g., by providing detail on which specific areas of the business are most affected or how the risk can specifically manifest itself given the company's operations/nature of business)</li><li>▶ Indicate whether risks have changed from prior year (e.g., increased or decreased) or whether any are new or have been removed</li><li>▶ Indicate which principal risks are most likely to affect the solvency and liquidity (viability) of the company and how they are being mitigated</li></ul>	

# Strategic Report

ARA content	Notes and actions
<p><b>Risk management and internal controls systems</b></p> <ul style="list-style-type: none"><li>▶ Explain what the robust assessment of principal risks consisted of, not simply that an assessment was carried out</li><li>▶ Explain how the principal risks are mitigated and controlled by the company's systems of internal controls and risk management</li><li>▶ Explain how the board monitors these systems, and what the board's review of the effectiveness of these systems encompassed and what was found</li><li>▶ Disclose whether the board identified any significant failings or weaknesses and, if so, the actions that have been or will be taken to address significant failings or weaknesses</li><li>▶ Define the basis used for determining what is 'significant'</li></ul>	

# Strategic Report

ARA content	Notes and actions
<p><b>Viability statement</b></p> <ul style="list-style-type: none"><li>▶ Keep the statement fresh each year and avoid boilerplate</li><li>▶ Explain the timeframe that the board considered the viability of the company over and why (rationale should be specific to the company's circumstances and business model). Where, or if, other sections in the narrative report reference different periods or time cycles (e.g., an investment life cycle), explain the reason for the difference with the time period considered in the viability statement</li><li>▶ Provide detail on the process that the board used to assess viability including disclosures of scenarios used to test solvency and liquidity with quantification on those scenarios if relevant</li><li>▶ Explain the assurance the board obtained over relevant elements (e.g., stress testing)</li><li>▶ Disclose the assumptions the statement is based on with quantification if applicable</li><li>▶ Clearly highlight which specific principal risks were considered in the viability assessment and why</li><li>▶ Consider positioning and flow of linked disclosures (i.e., those relating to principal risks, going concern and the viability statement)</li><li>▶ Cross-reference disclosures which are related (e.g., financial statement disclosures on capital management required under IFRS)</li></ul>	

# Strategic Report

ARA content	Notes and actions
<p><b>Culture</b></p> <ul style="list-style-type: none"><li>▶ Ensure the ARA accurately reflects the existing culture of the company, and the desired culture, if relevant</li><li>▶ Demonstrate how culture is embedded and how it is measured and assessed</li><li>▶ Explain how the culture supports business model and strategy</li><li>▶ Describe the governance processes in place to monitor culture</li></ul>	
<p><b>Dividend policy</b></p> <ul style="list-style-type: none"><li>▶ Consider the Financial Reporting Lab's recommendations for dividend policy disclosures, which include disclosure of the dividend policy itself and:<ul style="list-style-type: none"><li>- Why this policy?</li><li>- What does this policy mean in practice?</li><li>- What are the risks and constraints associated with this policy?</li><li>- What was done in practice to deliver under the policy?</li></ul></li></ul>	

# Governance report

ARA content	Notes and actions
<ul style="list-style-type: none"><li>▶ Avoid excessively process-oriented disclosures. Focus on action-based information, decisions and outcomes, rather than roles or general process descriptions</li><li>▶ Consider disclosing information that remains constant or explains governance process in an appendix or towards the back of the governance report</li></ul>	
<b>Explanations for non-compliance</b> <ul style="list-style-type: none"><li>▶ Ensure explanations for non-compliance with the Code are specific as to which element of the Code has not been complied with</li><li>▶ Illustrate how actual practice is consistent with the underlying spirit of the relevant Code Principle and contributes to good governance and the delivery of business objectives</li><li>▶ Describe mitigating actions taken to address any additional risks that may have arisen as a result of non-compliance</li><li>▶ Be clear on when the company expects to be in compliance with the Code Provision (where non-compliance is intended to be time limited)</li></ul>	
<b>Board evaluations</b> <ul style="list-style-type: none"><li>▶ Describe the board evaluation strategy spanning the three-year evaluation cycle, including external evaluations</li><li>▶ Explain the performance evaluation process, any significant recommendations or actions taken following prior year evaluations and changes or improvements that the board has committed to following the most recent evaluation</li><li>▶ Provide transparent and balanced disclosure on areas for improvement identified in an evaluation</li></ul>	

# Governance report

ARA content	Notes and actions
<p data-bbox="114 331 801 368"><b>Shareholder and wider stakeholder engagement</b></p> <ul data-bbox="114 403 1025 970" style="list-style-type: none"><li>▶ Clearly describe how the company has engaged with stakeholders and shareholders</li><li>▶ Specificity on who the key stakeholders are, and for shareholders distribution in terms of size and geography or the voting record from the last AGM</li><li>▶ Describe methods of stakeholder and shareholder engagement (particularly in addition to meetings and presentations), such as surveys or written feedback, and the outcomes from these</li><li>▶ Explain what matters were discussed with stakeholders and shareholders and the feedback received</li><li>▶ Detail the actions, if any, that have been taken as a result of engagement</li><li>▶ Specify who (e.g., which board members) met with stakeholders and shareholders during the year</li><li>▶ Clearly describe the actions the company intends to take to understand the views of shareholders when there have been a significant percentage of votes against a given resolution at a general meeting</li></ul>	

# Nomination committee report

ARA content	Notes and actions
<ul style="list-style-type: none"><li>▶ Provide sufficient disclosure on board composition and board succession planning to provide assurance that they are being managed to deliver the long term strategy</li><li>▶ Consider providing an overview of when directors are due to leave the board, and the resultant skills gaps that will need to be filled</li><li>▶ Provide insight on the robustness of the board level recruitment and selection processes during the year including whether a search firm was used, the skills and experience that were sought and why the successful candidate met the criteria set</li><li>▶ Explain how the committee creates and supports both board and employee workforce diversity in practice</li><li>▶ Articulate the skills and experience of each board member and how they will help the company/board, as opposed to a list of previous roles held</li><li>▶ Describe the initiatives that are in place to develop the next cadre of senior management and an indication of whether emergency succession plans are also in hand</li></ul>	

# Audit committee report

ARA content	Notes and actions
<ul style="list-style-type: none"> <li>▶ Clearly highlight how the skills of members contribute towards the committee, as a whole, having relevant sector experience</li> <li>▶ In relation to significant issues considered by the committee:               <ul style="list-style-type: none"> <li>- Clearly explain what the issue is and how it is relevant to the company and its circumstances (including an amount where relevant)</li> <li>- Articulate the audit committee’s specific actions (as opposed to management’s) in addressing the issues including, for example, specific concepts that were challenged and debated, resources or points of reference that were used and/or areas in which further information was requested</li> <li>- Provide insight as to whether any third-party evidence or assurance was received by the audit committee to address a significant issue</li> <li>- Be prepared to explain why the significant issues considered by the committee may not align with the risk areas identified in the auditor’s report</li> <li>- Consider separating issues which are recurring in nature from those that are specific to the year in question</li> </ul> </li> <li>▶ Clearly explain how the committee reviews and monitors the external auditor’s independence and objectivity</li> <li>▶ In relation to describing how the committee assessed the effectiveness of the audit (including both internal and external) process:               <ul style="list-style-type: none"> <li>- Disclose both how the assessment was undertaken (i.e., the process) as well as the criteria and evidence considered in making the assessment</li> <li>- Ensure disclosure describes how the effectiveness of the audit process was assessed holistically and not just in relation to the auditor</li> <li>- Explain any changes in the assessment compared to prior years (e.g., new areas of focus)</li> </ul> </li> <li>▶ Explain the committee’s evaluation process for their own performance and the outcomes and actions taken/to be taken</li> <li>▶ Where the company has had an audit tender process during the year:               <ul style="list-style-type: none"> <li>- Clearly describe the process initiated by the committee, including the purpose of any meetings held with tendering firms</li> <li>- Disclose the criteria set for selecting the new auditor, and how the final first and second choice recommendations compared against this criteria</li> </ul> </li> </ul>	

# Remuneration committee report

ARA content	Notes and actions
<ul style="list-style-type: none"><li>▶ Ensure that the remuneration committee chairman’s introduction is impactful, insightful and linked to the narrative on performance throughout the rest of report</li><li>▶ Ensure that there is a clear link (e.g., by use of graphics) between the KPIs that drive variable executive pay and those that are used to measure the delivery of the strategic objectives</li><li>▶ Clearly articulate how the remuneration policy is designed to drive execution of business strategy and long-term performance</li><li>▶ Provide context for the variable remuneration rewards in the year and clearly describe whether targets were met and what was paid</li><li>▶ Highlight key information clearly to minimise excessive cross-referencing to various tables and notes</li><li>▶ Ensure any changes to remuneration arrangements are clearly described</li><li>▶ For the ease of shareholder understanding, best practice guidelines recommend that the remuneration policy table should be disclosed in the remuneration report annually, even when not subject to vote at the AGM</li></ul>	

# Financial Statements

ARA content	Notes and actions
<ul style="list-style-type: none"><li>▶ Highlight any changes in significant accounting policies</li><li>▶ Ensure consistency of judgements and estimates and segmental analysis notes within the financial statements with the Strategic Report</li><li>▶ Ensure consistency and balance between the financial statements and the narrative of the rest of the report</li><li>▶ Consider re-ordering and/or grouping of disclosure notes</li><li>▶ Consider presenting the CFO's review or performance summaries within the financial statements</li><li>▶ Review the financial statements for opportunities to enhance clarity and conciseness, for example, by removing unnecessary policies, or conducting an assessment of materiality</li><li>▶ Where judgement is exercised to remove immaterial disclosure items briefly explain the basis for doing so (unless rationale is clear)</li></ul>	

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