If we want better accounting data your help is needed

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As I noted a few days ago, in December the government announced a consultation on the future accounts filing arrangements with Companies House. The consultation document is here.

As I also noted then, what was really surprising about the consultation was that it suggested that the content of the accounts to be filed on public record by UK companies should be substantially enhanced by the inclusion of a profit and loss account (or income statement) in each and every case. In addition, it proposes that much-enhanced checks are proposed on the data filed so that for the first time Companies House will be responsible for seeking out fraudulent filings by UK companies.

In itself this was enough to support the consultation. I have submitted a comment to the Department for Business, Energy and Industrial Strategy that is responsible for company regulation in the UK and which submitted the consultation document. That is, I admit, fairly long, and is available here. what I also suggested was it would be fantastic if others could also submit to say why they want full accounts on the public record. To make that easier I also prepared a much shorter form letter that might be adapted for this purpose with a pile of reasons why you might have an interest in this issue listed to choose from, or add to or amend, plus a suggested submission. That is available here, as a Word document. The email to submit to is in the document. The deadline is 3 February, so action is required soon.

In this post, I pull out the argument at the core of my submission as to why reform is now needed. The argument is a simple one, in essence, and is that despite what the government claims accounts are still not being designed to meet the needs of all the stakeholders of companies. The Department for Business claims that this is the case, but it is not possible to do so, using current data. So, I suggest more information is required to meet that need in this part of the submission. made, which I reproduce here:

We do not think that UK corporate reporting should be reduced to its lowest common *denominator, or that either statute or financial reporting standards should define the limits of disclosure required when the reality is that the requirement to deliver financial statements reflecting a true and fair view of the affairs of the reporting entity might, in very many cases, require that additional information be disclosed either necessarily, or voluntarily, to meet the needs of stakeholders. The challenge that will then arise is in differentiating this additional information from that de minimis data that is required to populate a Companies House database used for corporate comparison purposes.*

We should emphasis when saying this that we do, already, have many concerns with current UK financial reporting standards, as well as with International Financial Reporting Standards, which do not at present embrace country-by-country reporting, which we think they should.

Your own consultation document has revealed significant concern with regard to the extent of information currently disclosed by many UK limited liability entities. It also notes the fact that many companies produce information over, above and beyond the abbreviated data that they might choose to file with Companies House, and that this does not accord with the spirit of the law on such issues. What this evidence does provide is clear indication that the current disclosure required by financial reporting standards is insufficient to meet stakeholder needs. In that case whilst we welcome i-XBRL tagging of financial information we suggest that it is very important that BEIS does first of all review what is the required minimum content of accounts for UK limited liability entities.

In this context we note that you say in your consultation document that the stakeholders for this data include 'businesses, financial institutions, civil society groups, academics, journalists and the public at large' (Para 9). We also note that you say that 'Improving the quality and integrity of the information will bring widespread benefits.' (Para 9). We agree.

We also note that FRS 102 says that:

General purpose financial statements are intended to focus on the common information needs of a wide range of users: shareholders, lenders, other creditors, employees and members of the public, for example.' (Para v)[1].

We would also suggest that the list should include regulators and all tax authorities that might have reason to engage with the company, or with the UK more generally when seeking to secure data on how the UK tax system works in practice. We might also elaborate the term 'public' to explicitly include local authorities as well as concerned individuals. We would rather hope you agree.

There is, however, in that case a fundamental problem in assuming that FRS 102 meets this stated goal. As the Financial Reporting Council (FRC) notes in its overview of the UK financial reporting framework[2] there is a hierarchy within that framework that *inexorably develops, in their explanation, from the micro-entity regime, to the small entity regime within FRS 102, to FRS 102 itself, and then on to International Financial Reporting Standards (IFRS). However, that is not the progression that exists in practice. What actually exists was created in the reverse order to that implied by the FRC. In reality FRS 102 was derived from, and is a subset of, IFRS, and the smaller-entities regime is then a subset of that, and so on, with requirements being relaxed or eliminated at each stage of the process. Even the micro-entities disclosure requirements regime has its roots in IFRS in that case.*

This then results in a currently irresolvable conflict within the UK financial reporting system. The FRC might see that financial statements prepared using its standards are intended to meet the needs of all users of accounts (or general-purpose financial statements as they wish to call them) but the IFRS explicitly deny that. In their Conceptual Framework[3] the IFRS Foundation says this:

1.2 The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the entity. Those decisions involve decisions about:

(a) buying, selling or holding equity and debt instruments;

(b) providing or settling loans and other forms of credit; or

(c) exercising rights to vote on, or otherwise influence, management's actions that affect the use of the entity's economic resources.

1.3 The decisions described in paragraph 1.2 depend on the returns that existing and potential investors, lenders and other creditors expect, for example, dividends, principal and interest payments or market price increases. Investors', lenders' and other creditors' expectations about returns depend on their assessment of the amount, timing and uncertainty of (the prospects for) future net cash inflows to the entity and on their assessment of management's stewardship of the entity's economic resources. Existing and potential investors, lenders and other creditors need information to help them make those assessments.

They then add:

1.5 Many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose financial reports for much of the financial information they need. Consequently, they are the primary users to whom general purpose financial reports are directed.

1.6 However, general purpose financial reports do not and cannot provide all of the information that existing and potential investors, lenders and other creditors need.

Those users need to consider pertinent information from other sources, for example, general economic conditions and expectations, political events and political climate, and industry and company outlooks.

If FRS 102 is derived from IFRS, as it undoubtedly is, it is not possible for the FRC to claim that it meets the needs of the stakeholders of financial statements, as it suggests that it does, when, as a matter of fact, the IFRS Foundation says that the financial statements that it produces are not intended to do so. Nothing has been added by the FRC to achieve that goal: instead it is fair to say that only extraction has taken place. That makes the achievement of this goal in FRS 102 even more unlikely than it is in IFRS, which now requires modification for this reason for UK use now EU standards no longer apply in this country.

Examples of items that are omitted from FRS 102 that should be included if the standard is to meet the needs of users of accounts prepared in accordance with its prescriptions include:

* *Country-by-country reporting;*

* *A reconciliation of the current tax charge of a company for each year, for each jurisdiction in which it operates;*

* *A further reconciliation of that current tax charge to the overall tax charge of the company for the year in question including deferred taxation;*

* *A cash flow statement including identification of corporation tax paid in each year, or, in the case of smaller entities, a statement of source and application of funds which would in their case approximate to a cash flow statement but be easier to prepare and provide equivalent information for the benefit of all stakeholders, including the management of the entity itself;*

* *A statement of the directors' remuneration for all companies, and disclosure of the sum paid to the highest paid director, without exception;*

* *Disclosure of the average number of employees during the course of a period, split by gender;*

* *Disclosure of the aggregate remuneration during a period (separating social security contributions and pension contributions), split by gender;*

* *A statement on the average number of days taken to settle third party creditor liabilities;*

* *A statement on the aggregate value added tax, PAYE taxation, council tax liabilities and other material taxes paid due by period, with disclosure in the cash flow statement of the sums paid and in the balance sheet the aggregate liabilities owing, each on a country-by-country reporting if appropriate;*

* *For medium and large entities, a statement of the estimated carbon footprint of the*

company in the year and the of the plans that the directors have to eliminate it[4].

There are clearly other issues that might be discussed: we have focussed on that that we know to be of particular concern. Our focus is heavily influenced by our discussions with the following groups:

* *local authorities seeking to pursue ethical procurement;*
* *pension funds wishing to allocate capital ethically;*
* *sustainability campaigners;*
* *international trade justice campaigners;*
* *tax justice campaigners;*
* *business owners.*

We suggest that these issues need to be resolved before the issues concerning computer tagging of data are addressed.

[1] https://www.frc.org.uk/document-library/accounting-and-reporting-policy/2018/frs-102-frs-applicable-in-the-uk-and-republic-of-i

[2] https://www.frc.org.uk/document-library/accounting-and-reporting/2015/overview-of-the-financial-reporting-framework

[3] https://www.ifrs.org/issued-standards/list-of-standards/conceptual-framework/

[4] We would refer you to our work on sustainable cost accounting http://www.corporateaccountabilitynet.work/wp-content/uploads/2019/12/SCANov2019.pdf