ICAEW KNOW-HOW
FINANCIAL REPORTING FACULTY

PLANNING FOR THE 2022/23 REPORTING SEASON

GUIDE

8 December 2022

This guide looks at what is different about the current reporting season and where to focus your efforts. The guide is aimed primarily at preparers of IFRS and FRS 102 accounts, although the relevance of points will also depend on the size and nature of the business.

As we approach the 2022/23 reporting season, businesses are dealing with ever-increasing levels of uncertainty. High interest rates, rising inflation, the ongoing impact from the COVID-19 pandemic and the UK’s exit from the EU all contribute to a challenging economic environment. Added to that is a climate emergency, which continues to impact businesses across the world.

The resulting financial reporting considerations are likely to be far reaching and need careful consideration. Below we identify areas which may require more attention than in previous years. It is not a comprehensive list and the issues that companies face will depend on the individual facts and circumstances of the entity.

NEW REPORTING REQUIREMENTS FOR 2022 AND BEYOND

Accounting standards

There are no new major standards or amendments applicable for 31 December 2022 year ends.

IFRS preparers, however, should be aware that there are several narrow scope amendments to IFRS Accounting Standards effective for accounting periods beginning on or after 1 January 2022. These amendments will also be relevant to FRS 101 preparers who apply the requirements of UK-endorsed IFRS within a reduced disclosure framework – see our FRS 101 hub page for further information on this standard.

The table below summarises the amendments to IFRS Accounting Standards that are new for 2022.

IFRS amendments applicable for annual periods beginning in 2022		
Amendment	**Summary**	**Mandatory application date**
Annual Improvements to IFRS Standards 2018-2020 Cycle	Minor amendments to IFRS 1 *First-time Adoption of Financial Reporting Standards*, IFRS 9 *Financial Instruments* and IAS 41 *Agriculture*. Amendment to Illustrative Examples accompanying IFRS 16.	Annual periods beginning on or after 1 January 2022
Amendments to IFRS 3 – *Reference to the Conceptual Framework*	Updates certain references to the *Conceptual Framework for Financial Reporting* without changing the accounting requirements for business combinations.	Annual periods beginning on or after 1 January 2022
Amendments to IAS 16 – *Property, Plant and Equipment: Proceeds before intended use*	Requires amounts received from selling items produced while the company is preparing the asset for its intended use to be recognised in profit or loss, and not as an adjustment to the cost of the asset.	Annual periods beginning on or after 1 January 2022
Amendment to IAS 37 – *Onerous Contracts: Cost of Fulfilling a Contract*	Specifies which costs to include when assessing whether a contract will be loss-making.	Annual periods beginning on or after 1 January 2022

Further detail on these amendments as well as other amendments issued by the IASB with a 2023 mandatory application date, can be found in the faculty's 2022 IFRS Accounts factsheet.

In regard to UK GAAP, the FRC issued amendments to FRS 100 in November 2022 to reflect changes in UK company law following the UK's exit from the European Union. However, these amendments do not change the existing underlying principles of the standard. Further guidance on reporting issues specific to UK GAAP preparers in 2022 can be found in the faculty's 2022 UK GAAP Accounts factsheet.

- The 2022 Annual Accounts factsheets contain sections on pervasive issues that go beyond the scope of this guide and can be accessed from the Financial reporting factsheets page.

Climate-related reporting requirements

Certain UK large and listed companies will be complying with climate-related financial disclosure requirements for the first time in the 2022/23 reporting season.

Climate-related reporting requirements		
Requirement	**Scope**	**Mandatory application date**
Listing Rule – TCFD recommendations on a comply or explain basis	Companies with a standard listing to disclose on a comply or explain basis against the recommendations of the TCFD. (Premium listed companies have been subject to these requirements from 1 January 2021.)	Annual periods beginning on or after 1 January 2022
Climate-related Financial Disclosure Regulations	PIEs > 500 employees, AIM listed and high turnover companies with > 500 employees. High turnover and traded LLPs with > 500 employees.	Annual periods beginning on or after 6 April 2022

Our online guide Reporting on climate change explains the current reporting requirements in more detail and includes links to additional resources.

FINANCIAL REPORTING

There are some areas of financial reporting that are in particularly sharp focus.

Going concern

In uncertain and rapidly changing environments, performing going concern assessments becomes more challenging. Forecasts prepared for the purposes of the assessment need to reflect the current economic outlook and it will therefore be important to review and update assumptions regularly up until the financial statements are authorised for issue.

An entity severely impacted by the current economic environment will need to carefully consider its long-term viability and going concern status. Where material uncertainties exist that cast significant doubt over the entity's ability to continue as a going concern, these uncertainties must be disclosed. Significant judgement applied by management in this process should be disclosed in accordance with the requirements of IAS 1.122 and FRS 102.8.6 irrespective of the conclusion.

Further guidance on going concern considerations and the relevant financial reporting implications is available in:

- Going concern considerations – a guide for IFRS reporters
- Going concern considerations – a guide for FRS 102 reporters
- Going concern considerations – a guide for FRS 105 reporters

Impairment of non-financial assets

Impairment tests may be triggered by a range of factors arising from an uncertain economic outlook, including declining growth forecasts, changing consumer habits, rising interest rates and unfavourable exchange rates.

Value in use calculations will require careful attention to ensure that assumptions and inputs used to estimate future cash flows are supportable and consistent with data used in other areas of reporting. Whereas the assessment of going concern takes account of events and conditions that existed after the end of the reporting period, when assessing the recoverability of non-financial assets, this assessment must be based on conditions and impairment indicators that existed at the balance sheet date.

Preparers must also ensure that they apply a consistent approach to inflation when estimating future cash flows and determining an appropriate discount rate – a point emphasised by the FRC in its thematic review on Discount rates.

Further guidance on accounting for impairment is available in the faculty's factsheets:

- FRS 102: Impairment of Assets
- Applying IAS 36 Impairment of Assets

The impact of inflation on financial reporting is explored further in the faculty guide How high inflation impacts accounting.

Impairment of financial assets

Economic uncertainty also increases the risk that trade receivables and other financial assets are not recoverable. Entities applying IFRS 9 Financial Instruments and making expected credit loss (ECL) assessments may find that high inflation and rising interest rates have significantly increased the assets' credit risk since initial recognition. Even entities applying the simplified model to trade receivables will need to consider carefully whether the probability of default has increased. Incorporating forward-looking information into this assessment is likely to be more challenging in an uncertain economic climate.

Macroeconomic conditions may also provide evidence of impairment for FRS 102 preparers who must assess whether there is objective evidence of impairment of any financial assets held at cost or amortised cost at the end of each reporting period.

View the faculty's financial instruments factsheets for an in-depth look at IFRS 9 and FRS 102 requirements:

- IFRS 9 Financial Instruments - Overview
- FRS 102 Financial Instruments - Overview

Cash flow statements

The cash flow statement provides key insights about a company's liquidity and solvency and is therefore subject to increased scrutiny from stakeholders during times of uncertainty. The UK's Financial Reporting Council (FRC) has also focused its attention on this statement due to the high number of errors it identified during recent routine monitoring reviews. The regulator found that companies are frequently making classification errors or failing to ensure that reported cash flows are consistent with amounts reported elsewhere in the annual report. Cash flow statements tend to be prepared towards the end of the financial reporting process and preparers are reminded to allow sufficient time for thorough review.

Post-balance sheet events

With economic and geopolitical events having moved at speed throughout 2022, preparers must keep in mind the fundamental principle that the financial statements should reflect conditions that existed at the balance sheet date. In an evolving situation it can be challenging to assess whether or not information that comes to light after the balance sheet date provides evidence of conditions that existed at the balance sheet date.

Read more in:

- How to distinguish adjusting from non-adjusting post balance sheet events under UK GAAP
- How to distinguish adjusting from non-adjusting post balance sheet events under IAS 10

Defined benefit pension schemes

Defined benefit pension schemes are particularly exposed to the effects of rising inflation and interest rates. Reporting entities should monitor carefully the appropriateness of the actuarial assumptions used to estimate the scheme's assets and liabilities. In periods of high inflation, a much larger liability may be calculated, resulting in a net liability position in both the scheme and the reporting entity's balance sheet. However, inflation will also impact the yield curves used to calculate the discount factor for pension liabilities. Higher discount rates will reduce the present value, potentially counteracting other increases in the obligation.

Leases

Certain leases may also be exposed to the effects of inflation. The accounting of leases that contain variable lease payments contingent on an index such as CPI or market interest rates will require particular attention. Lessees reporting under IFRS 16 Leases, are required to remeasure the lease liability and the corresponding asset to reflect the change in rate or index used. The faculty's IFRS 16 factsheet contains practical tips and worked examples to help with the accounting for leases with variable lease payments.

When there has been a change to the terms and conditions of the lease, IFRS preparers should refer to IFRS 16's detailed guidance on lease modifications. Specific guidance on lease modifications does not exist for FRS 102 preparers who will need to determine an appropriate accounting policy that faithfully reflects any changes in the terms.

Income taxes

Careful attention should be paid to the entity's deferred tax positions at the reporting date as uncertainty over future profitability may mean deferred tax assets are no longer recoverable. The FRC, in its Annual Review of Corporate Reporting 21/22 (published October 2022), emphasised the importance of high-quality disclosure in this area. Loss making entities that recognise material deferred tax assets should clearly explain the nature of evidence to support their recognition.

Climate-related matters

Although the development of new sustainability disclosure frameworks has increased focus on the front-half of the accounts, the impact of climate-related matters on the financial statements should not be forgotten. All companies, regardless of size, should consider how the general requirements of the standards should be applied in this context. This FRC staff factsheet and IASB education sheet offer guidance in this area.

Government grants

The government has recently introduced an Energy Bill Relief Scheme to help businesses with the cost of high energy prices. Where this has a material impact on the accounts, entities taking advantage of this scheme will need to disclose an accounting policy for government grants. The grant should be recognised on a straight-line basis over the period in which the entity recognises the related energy costs.

NARRATIVE REPORTING

In recent years, we have seen an increased interest in the 'front-half' of the annual report as investors and other stakeholders seek meaningful and transparent disclosure on current important topics.

Narrative reporting requirements should not be prepared in isolation. To communicate a holistic story to investors and other users, there should be connectivity between the 'front-half' of the annual report and the financial statements.

Risks and uncertainties

In times of uncertainty, users of accounts want to understand the entity's resilience to current threats and challenges.

Any changes to the principal risks and uncertainties of the business as a result of the current economic environment should be clearly explained. Investors will also want to understand the extent to which managements' actions may mitigate the risks.

Three types of risk that may warrant enhanced disclosure this year include:

- Climate risks: investors continue to demand better disclosure on climate risk to business.
- Macroeconomic risks: this includes the impact of high energy prices, inflation, rising interest rates and political uncertainty.

- Cyber risks, IT security: with instances of fraud on the rise, digital security is fundamental to business security. A 2022 report by the FRC Lab found that many disclosures on digital security risk are not meeting investors' needs.

Climate-related reporting

As the effects of climate change are being felt around the world, the UK has introduced climate-related reporting requirements to help support informed investor decisions as the country progresses towards a low-carbon economy.

The government's new regulations, effective from 6 April 2022, are based on TCFD recommendations and require in-scope entities, ie, certain publicly quoted companies, large private companies and LLPs, to disclose information about their governance, risk management, strategy, and metrics and targets in relation to climate-related matters.

The regulations require an entity to describe their principal climate-related risks and opportunities. The entity must also perform a climate scenario analysis, whereby it explores and develops an understanding of how resilient the business model and strategy is to the risks of climate change over time. For those yet to perform a climate scenario analysis, taking time to research and understand existing guidance and practice is key.

An overview of these regulations as well as practical tips and signposts to other useful guidance is available from the faculty's Non-financial reporting hub.

UK REGULATOR EXPECTATIONS

The FRC confirmed in its Key matters for 2022/23 reports and accounts, that its future monitoring work will take into account the risks and uncertainty in the current economic environment, including those related to climate-change. We can therefore expect a continued focus on risk reporting, going concern assessments, judgements and estimates, and climate-related disclosures.

The FRC issued six thematic reviews throughout 2022 covering:

- Discount rates.
- TCFD disclosures and climate in the financial statements.
- Deferred tax assets.
- Business combinations.
- Earnings per share.
- Judgements and estimates.

These reports are particularly helpful for companies wanting to get a better understanding of expectations, common errors, and good practice. Links to all of these reports as well as the FRC's *Key matters for 2022/2023 reports and accounts* can be found here.

The FRC's report on What Makes a Good Annual Report and Accounts helps preparers identify the attributes of high-quality corporate reporting and is also a useful read.

HELP AND SUPPORT

ICAEW members, affiliates or members of staff in an eligible firm with member firm access may also discuss their specific situation with the Technical Advisory Service (TAS). TAS can be contacted via telephone or webchat, for more information visit Technical Advisory Services.

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We promote inclusivity, diversity and fairness and we give talented professionals the skills and values they need to build resilient businesses, economies and societies, while ensuring our planet's resources are managed sustainably.

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We believe that chartered accountancy can be a force for positive change. By sharing our insight, expertise and understanding we can help to create sustainable economies and a better future for all.

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