

# AccountancyAge

## Annual reports serving too many masters

by Richard Crump

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1	451	368	80	46	83	74	29	15
39	164	94	45	73	38	99	25	73
35	166	172	54	91	85	40	75	46
			10	30	82	49	30	31
433	896	2,132	2,390	3,880	2,175	1,399	2,950	1,608
870	2,845	1,001	1,920	1,748	2,997	2,930	1,396	1,225
1,427	1,133	1,308	3,928	3,176	2,514	2,859	2,709	1,225
2,424	2,697	1,710	1,287	1,272	2,933	2,28	1,724	1,08
1,692	1,844	1,725	2,110	1,928	1,952	1,907	1,724	1,08
1,199	1,903	1,442	3,222	3,260	2,166	1,128	1,128	1,08
2,032	1,198	2,453	1,272	1,906	1,907	1,128	1,128	1,08
5	290	92	15	66	72	15	66	72
74	243	430	159	159	159	159	159	159
94	249	271	524	524	524	524	524	524
	301	175	304	3,809	2,452	1,998	1,998	1,998
			17	3,809	2,452	1,998	1,998	1,998

**ANNUAL ACCOUNTS** have become filled with "obfuscation" and a "lack of insight" by trying to serve too many stakeholders, a leading investor has claimed.

Speaking at an ICAEW debate on audit quality this week, Robert Talbut, chief investment officer at Royal London Asset Management, criticised the lack of information in annual reports that has resulted from a lack of clarity around which set of users annual reports are aimed at.

"We have to own up and admit that the primary users of accounts are the longer-term providers of capital...we need accounts

that serve them," Talbut said at the Audit Quality Forum debate, and added that "trying to serve everybody...has led to obfuscation and lack of information and insight."

Talbut, who also chairs the Association of British Insurers' investment committee, suggested that the front end of accounts were viewed as "marketing documents" and preparers of accounts had become too focused on compliance.

"A mentality developed that blindly applying standards was a sufficient bar to test against," Talbut said.

"We need to rein in management's propensity for optimism in accounts...and make sure the back-end genuinely portrays a realistic picture of what is going on in the business," he added.

According to Talbut, the quality of annual reports should be improved by the introduction of a new type of audit committee report. Echoing the findings of a recent [FRC Financial Reporting Lab report](#), Talbut said he was "looking for some idea of the three or four key judgments and issues" that took up the most time and effort between the committee and auditor and provide "hooks on what to talk to management about".

In terms of accounting standards, Talbut said it was important to make sure people understood the concept of true and fair is "an override for accounts and it needs to be used". He also called on the global accounting standard setter IASB to reintroduce the concept of prudence "at the highest level".

A specific reference to the concept of prudence was controversially dropped by the IASB from its conceptual framework in 2010 in favour of the concept of neutrality. [The decision has drawn criticism from a number of quarters](#), with Talbut the latest to call for its reinstatement.

"Prudent accounts are essential for the confidence of investors," he said. "I don't believe prudence can be equated with neutrality."

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