Council meeting 15 November 2012

Public business

Reporting standard for annual report and accounts

Purpose
To agree a reporting standard for the GPhC’s annual report and accounts.

Recommendation

The Council is asked to agree the draft reporting standard for the annual report and accounts at appendix 5, as recommended by the Audit & Risk Committee.

1.0 Introduction

1.1 At its meeting in October 2012, the Audit and Risk Committee recommended a draft reporting standard for the GPhC’s annual report and accounts to go to Council for agreement.

1.2 The GPhC is subject to certain requirements relating to its annual report and accounts, as summarised in section 2.0 below. Beyond these, it is open to the Council to determine the structure of the annual report and accounts. The content may vary to some extent, reflecting the issues which have arisen during the year, but there are likely to be some financial and governance matters which the Council would expect to see included each year, in the interests of transparency.

1.3 Now that the GPhC has published its first report covering a full year of operation, it seems appropriate to consider the structure of future reports and to propose a draft reporting standard to the Council. This paper: sets out the GPhC’s existing reporting requirements; outlines reporting standards or practice for other bodies, and proposes a draft reporting standard for the GPhC.
2.0 **Key considerations**

2.1 **Existing requirements - external**

The Pharmacy Order imposes reporting requirements on the GPhC as part of demonstrating our accountability to parliament. The Order obliges us to publish annual reports and accounts and to provide them to the Privy Council Office (PCO) for laying in the UK and Scottish Parliaments. The relevant provisions from the Order are at appendix 1.

2.2 In summary, we need to supply to the PCO each year for laying:
- Annual accounts, with the external auditors’ report;
- An annual report, including how we adhere to good practice on equality and diversity;
- An annual statistical fitness to practise report, with the Council’s observations; and
- A strategic plan.

These documents may be combined.

2.3 The PCO has confirmed that it is content for the Council to approve:
- the annual report, fitness to practise report and accounts at its June meeting; and
- the strategic plan at its September meeting.

2.4 The GPhC is required to prepare annual accounts in a form determined by the Privy Council (PC). This means that we must prepare accounts for each year in compliance with UK accounting principles and disclosure requirements prescribed in the Generally Accepted Accounting Practice (GAAP). The accounts must be prepared so as to give a true and fair view of the state of affairs of the organisation and of its income and expenditure, recognised gains and losses and cash flows for the financial year. The GPhC is also required to publish the PC’s accounts determination as an appendix to the accounts.

2.5 The letter accompanying our PC accounts determination refers to the Chief Executive having ‘a duty to ensure there is a high standard of financial management within the GPhC, including a sound system of internal control; that financial systems and procedures promote the efficient and economical conduct of business and safeguard financial propriety and regularity; that financial considerations are fully taken into account in decisions on policy proposals, and risk is considered in relation to assessing value for money’.

2.6 The letter also mentions that ‘HM Treasury have issued a handbook on *Regularity, Propriety and Value for Money* which contains many learning
examples for regulators and can be viewed on the HM Treasury website’ but says nothing further on this point. *Regularity, Propriety and Value for Money* focuses mainly on learning from mistakes rather than reporting requirements, using case studies drawn from Public Accounts Committee reports to illustrate how things can go wrong due to eg. failure to follow decision-making procedures, keep proper records or resolve conflicts of interest. HM Treasury states that *Regularity, Propriety and Value for Money* is designed primarily for Accounting Officers in government departments, Executive Agencies and NDPBs, together with their equivalents in the NHS.

2.7 CHRE no longer includes governance standards in its performance reviews and does not set requirements for the content of regulators’ annual reports & accounts.

2.8 **Existing requirements – set by GPhC**
The GPhC’s Welsh Language Scheme states that we will include details of the standards of service in relation to the Welsh Language Scheme in our annual report.

2.9 The governance arrangements for associates agreed by the Council state that the Appeals Committee’s work will be covered in the GPhC’s annual report.

2.10 **Reporting requirements for bodies funded by public monies**
The reporting requirements for government departments and other bodies funded by public monies are set out in HM Treasury guidance: *Managing Public Money* and the *Financial Reporting Manual (FReM)*. An outline summary of requirements is at appendix 2.

2.11 The Audit and Risk Committee noted at its May 2012 meeting that the Treasury had changed its requirements applying to annual reports of bodies funded by public monies, so as to substitute a governance statement on specified matters for the statement on internal control and review of effectiveness. The GPhC is not subject to these requirements as we are independent of government and funded by fee income.

2.12 The Executive advised that the GPhC should not follow the Treasury guidance. If we did so voluntarily, there is a risk that this could be misinterpreted by officials as evidence of the GPhC being some form of non-departmental public body, notwithstanding that it has been clarified previously that we do not fall into this category. In addition, while the Treasury guidance supports transparency, it does not facilitate clear and simple drafting, with the minimum amount of duplication. As such, it does not represent best practice in communicating with members of the public who are our primary stakeholders.
The GPhC annual report has, to date, nevertheless included a statement on internal control as a matter of good practice.

2.13 Reporting requirements in the private sector
Reporting requirements for Public Limited Companies (PLCs) are covered in the UK Corporate Governance Code and Financial Services Authority Rules. An outline summary of requirements is at appendix 3.

2.14 Reporting requirements for charities
The reporting requirements for charities in England and Wales are set out on the Charity Commission website. An outline summary of requirements is at appendix 4. Charities in Scotland are subject to similar requirements, set by the Office of the Scottish Charity Regulator.

2.15 Other health professions regulators
Three of the eight other health professions regulators included a statement on internal control in their most recent annual reports (GDC, HCPC, NMC); all these refer to the Chief Executive as the Accounting Officer, which is not a title we have within the GPhC.

2.16 The statements on internal control vary in length and detail but cover risk management, internal audit, effectiveness of controls and data protection.

2.17 Proposed GPhC reporting standard
A GPhC reporting standard, as recommended by the Audit & Risk Committee, is set out at appendix 5. This draws on: GPhC practice; the practice of other health professions regulators, and aspects of requirements for other bodies which seem appropriate for the GPhC.

3.0 Equality, diversity and inclusion implications

3.1 The annual report sets out the actions we have taken to ensure we are compliant with legislative requirements on equality diversity. This is incorporated in the proposed reporting standard.

3.2 The GPhC also produces the report in English and in Welsh in accordance with the requirements of the Welsh Language Act 1993.

4.0 Communications implications

4.1 The annual report and accounts, once laid before Parliament and the Scottish Parliament, serve a formal communication purpose as one of the core documents by reference to which the Council will be held accountable. GPhC
annual reports, as well as accounting for progress in terms of the annual plan to which the report relates, should include an interim update on progress within each year towards the achievement of these longer term strategic objectives.

5.0 Resources implications

5.1 The production of the annual report and accounts requires a number of resources from across the organisation. These are incorporated in planned activities and budgets. The GPhC has an ‘Annual Report Procedure’ available to all staff through the policy and procedure library, which sets out the timetable to produce the annual report, including the accounts and fitness to practise report.

6.0 Risk implications

6.1 The GPhC is required by statute to submit the required reports to the Privy Council Office for laying before each House of Parliament and the Scottish Parliament. Failure to do so would mean that the GPhC was in breach of its statutory duties. The adoption of an appropriate reporting standard should help to mitigate reputational risks by supporting a transparent and user-friendly approach.

Recommendation

The Council is asked to agree the draft reporting standard for the annual report and accounts at appendix 5, as recommended by the Audit & Risk Committee

John Flook, Chair, Audit & Risk Committee

Duncan Rudkin, Chief Executive & Registrar
General Pharmaceutical Council
duncan.rudkin@pharmacyregulation.org , tel 020 3365 3501

24 October 2012
Appendix 1

Extract from the Pharmacy Order 2010, Schedule 1

Accounts

7.—(1) The Council must—
(a) keep accounts, which must be in such form as the Privy Council may determine; and
(b) prepare annual accounts in respect of each financial year, which must be in such form and must be prepared by such date as the Privy Council determines.

(2) In sub-paragraph (1), “financial year” means—
(a) the period beginning with the day on which the Council is established and ending with the next 31 March following that day, and
(b) each successive period of 12 months ending with 31 March.

(3) The Council must ensure that a person eligible for appointment as a statutory auditor under Part 42 of the Companies Act 2006 (statutory auditors) audits the Council’s annual accounts.

(4) As soon as is reasonably practicable after those accounts have been audited, the Council must—
(a) cause them to be published together with any report made on them by the auditors appointed under sub-paragraph (3); and
(b) send a copy of those annual accounts and of any such report to the Privy Council, and the Privy Council must lay before each House of Parliament and before the Scottish Parliament a copy of those annual accounts and of any report on the accounts made by the auditors appointed under sub-paragraph (3).

Annual reports, statistical information and strategic plans

8.—(1) The Council must publish, by such date in each calendar year as the Privy Council may determine—
(a) a report on the exercise of its functions which includes a description of the arrangements that the Council has put in place to ensure that it adheres to good practice in relation to equality and diversity (and for these purposes “equality” and “diversity” have the meanings given in section 8(2) of the Equality Act 2006 (equality and diversity));
(b) a statistical report which indicates the efficiency and effectiveness of, and which includes a description of, the arrangements which the Council has put in place to protect members of the public from registrants whose fitness to practise is impaired, together with the Council’s observations on the report; and
(c) a strategic plan for the Council in respect of such number of years as the Council determines.

(2) The Council must submit copies of the reports and the plan published under sub-paragraph (1) to the Privy Council and the Privy Council must lay copies of the reports and the plan before each House of Parliament and before the Scottish Parliament.
Outline summary of annual reporting requirements for bodies funded by public monies

Bodies funded by public monies are subject to HM Treasury guidance: Managing Public Money and the Financial Reporting Manual (FReM).

Managing Public Money states that the Accounting Officer (AO) of an organisation must personally sign the accounts, the annual report, and the governance statement. The AO is a person appointed by the Treasury or designated by a government department to be accountable for the operations of an organisation and the preparation of its accounts. The AO is usually the head of a department or the Chief Executive of a non-departmental public body (NDPB).

Managing Public Money includes further guidance on the governance statement for inclusion in the annual report:

- Each AO delegates responsibilities within his or her organisation so as to control its business and meet the required standards. The systems used to do this should give adequate insight into the business of the organisation and its use of resources to allow the AO to make informed decisions about progress against business plans and if necessary steer performance back on track. In doing this the AO is usually supported by a board.

- These responsibilities are central to the AO’s duties. To carry them out the AO needs to develop a keen sense of the risks and opportunities the organisation faces. In the light of the board’s assessment of the organisation’s appetite for risk, the AO needs to decide how to respond to the evolving perceived risks.

- The governance statement, for which the AO takes personal responsibility, brings together all these judgements about use of public resources as part of the annual report and accounts. It should give the reader a clear understanding of the dynamics and control structure of the business. Essentially, it records the stewardship of the organisation. Supplementing the accounts, it should provide a sense of the organisation’s vulnerabilities and resilience to challenges.

- The governance statement is published in each organisation’s annual report and accounts. It should be assembled from work through the year to gain assurance about performance and insight into the organisation’s risk profile, its responses to the identified and emerging risks and its success in tackling them.

The Financial Reporting Manual (FReM) sets the standards to which departments, NDPBs and other bodies funded by public monies publish annual reports and accounts. The FReM adapts generally accepted accounting practice (GAAP) to take account of the public sector context. Bodies may also be subject to requirements set out in accounts directions. The accounts of spending bodies accountable to the Scottish Parliament follow a format agreed between
Scottish Ministers and the Public Accounts Committee of the Scottish Parliament but will be based on principles similar to those in the Treasury guidance.

The annual report and accounts includes:
- the annual report
- a statement of the Accounting Officer’s responsibilities
- a governance statement
- primary financial statements and notes
- audit opinion and report.

All bodies covered by the FReM must prepare an annual report for inclusion as part of the accounts containing the matters to be dealt with:
- in a Directors’ Report as set out in Ch. 5 of Pt. 15 of the Companies Act 2006, as interpreted in the FReM for the public sector context; and
- in a Remuneration Report as set out in Ch. 6 of the Companies Act 2006, as interpreted in the FReM for the public sector context.

This annual report will be presented to Parliament with the accounts as a combined document described as the “Annual Report and Accounts”.

Auditors will review the annual report for consistency with other information in the financial statements. They are required to express an opinion on the consistency of the Directors’ Report elements of the annual report as interpreted for the public sector context. These elements will include:
- details of the directors;
- the management commentary;
- the preparation of a sustainability report; and
- progress against agreed key performance indicators.

In order that readers can identify those paragraphs that are subject to the auditors’ opinion on consistency, the contents outlined above should be clearly identified by way of headings. Where there are cross references to information in other sections of the report, the consistency opinion will be extended to cover this other information.

The FReM runs to 127 pages of technical guidance. The summary below relates to reporting entities other than government departments eg. executive agencies and NDPBs.

**Directors’ report: interpretation of the Companies Act requirements for the public sector context**

The term ‘directors’ and the information required is interpreted as:
- the names of the chair and chief executive; and
- the composition of the management board (including advisory and non-executive members) having authority or responsibility for directing or controlling the major activities of the entity as a whole during the year.

The annual report shall contain a Management Commentary, disclosing the matters required to be disclosed in the business review under s417 of the Companies Act 2006, as interpreted below.
• The Management Commentary should be self-standing and comprehensive in its scope. However, some information might be given in other documents in the cycle of accountability to Parliament. In such cases, the Management Commentary should provide summarised information with adequate cross-references to the other documents.

• Sections 417(5)(b)(i) & (iii) require information on environmental matters and social and community issues respectively.

• Entities falling within the scope of reporting under the Greening Government commitments and which are not exempted, must include a sustainability report, reporting performance against sustainability targets for greenhouse gas emissions, waste minimisation and management and the use of finite resources and their related expenditure.

• Entities should report performance against their key performance indicators.

Entities shall also disclose the following information:

• a note that the accounts have been prepared under a direction issued by [relevant authority] under [reference to appropriate legislation];

• a brief history of the entity and its statutory (or equivalent) background;

• an explanation of the adoption of the going concern basis where this might be called into doubt, for example where there are significant net liabilities that will be financed from resources voted by Parliament in the future;

• an indication of how pension liabilities are treated in the accounts and a reference to the statements of the relevant pension scheme. A cross-reference to the accounting policy note in the accounts and the remuneration report will normally be sufficient;

• details of company directorships and other significant interests held by board members which may conflict with their management responsibilities. Where a Register of Interests that is open to the public is maintained, disclosure may be limited to how access to the information in that Register may be obtained;

• information regarding the disclosure of the remuneration paid to the auditors for any non-audit work undertaken by the auditors as required by Regulations made under Section 494 of the Companies Act 2006;

• sickness absence data; and

• reporting of personal data related incidents.

Remuneration report: interpretation of the Companies Act requirements for the public sector context

A Remuneration Report containing certain information about the directors’ remuneration is required. Certain of the information is subject to audit and will be referred to in the audit opinion.

There is a presumption that information about named individuals will be given in all circumstances and all disclosures in the remuneration report will be consistent with identifiable information of those individuals in the financial statements. Non-disclosure is acceptable only where publication would:

• be in breach of any confidentiality agreement;

• prejudice the rights, freedom or legitimate interest of the individual; or

• cause or be likely to cause substantial damage or substantial distress to the individual or another, and that damage or distress would be unwarranted,
which for entities covered by the FReM include grounds of national security or where an individual may be at risk if his/her name is disclosed. In other cases, it would be for the staff member to make a case for non-disclosure, which should be considered by the employer on a case-by-case basis. Where non-disclosure is agreed, the fact that a certain disclosure has been omitted should be disclosed.

The following interpretations apply:

- in most cases it will be sufficient to refer to the work and recommendations of the Senior Salaries Review Body in the statement of policy on the remuneration of directors for current and future years
- salaries should be disclosed in bands of £5,000 for officials and actual amounts for ministers. Salary and allowances covers both pensionable and non-pensionable amounts. Performance pay or bonuses payable should be reported separately, in bands of £5,000
- if a payment for compensation on early retirement or for loss of office has been made under the terms of an approved Compensation Scheme, the fact that such a payment has been made should be disclosed, including a description of the compensation payment and details of the total amounts paid
- the estimated value of non-cash benefits (benefits in kind) should be disclosed to the nearest £100
- the median remuneration of the reporting entity’s staff and the ratio between this and the mid-point of the banded remuneration of the highest paid director, whether or not this is the Accounting Officer or Chief Executive. The calculation is based on the full-time equivalent staff of the reporting entity at the reporting period end date on an annualised basis. Entities shall disclose information explaining the calculation, including the causes of significant variances where applicable; and
- information on pensions should be disclosed as follows: the real increase during the reporting year in the pension and (if applicable) related lump sum at age 60 in bands of £2,500; the value at the end of the reporting year of the accrued pension and (if applicable) related lump sum at age 60 in bands of £5,000; the value of the cash equivalent transfer value at the beginning of the reporting year to the nearest £1,000; the real increase in the cash equivalent transfer value during the reporting year, to the nearest £1,000; the value of the cash equivalent transfer value at the end of the reporting year to the nearest £1,000; and in the case of a partnership pension account, the employer’s contribution. (In these circumstances, the four preceding disclosures will not apply.)

Statement of Accounting Officer’s responsibilities

The Accounting Officer or Chief Executive of all reporting entities should explain his/her responsibility for preparing the financial statements in a statement that should be positioned after the annual report and before the governance statement.

Where the financial statements in respect of a reportable activity are published separately from the accounts of the reporting entity, accounts preparers should prepare a governance statement in respect of the reportable activity.

The Accounting Officer (or Chief Executive) shall sign and date the governance statement. Where a reporting entity includes in its published annual report and accounts financial
statements relating to several reportable activities, the reporting entity need include only a single governance statement.

Annual Accounts
The detailed requirements for the format and content of the financial statements of reportable activities are set out in the accounts directions for those activities. In addition to the requirements of the Companies Act, this section considers the following accounting standards that include material dealing with formats of, and disclosures in, financial statements:
IAS 1 *Presentation of Financial Statements*;
IAS 7 *Statement of Cash Flows*;
IAS 10 *Events after the Reporting Period*;
IAS 24 *Related Party Disclosures*; and
IFRS 8 *Operating Segments*.

Other accounting standards, which are dealt with elsewhere in the *FReM*, might include disclosure requirements. Unless indicated otherwise, those disclosure requirements apply in full.

Requirements of the Companies Act 2006
Reporting entities are required to prepare individual or group accounts using IAS 1. The *FReM* sets out various interpretations of the Companies Act 2006 which entities should apply. Entities must state in the notes to the accounts that the financial statements have been prepared in accordance with the *FReM*.

Entities are required to prepare a statement of comprehensive income. NDPBs shall prepare a Statement of Comprehensive Net Expenditure as appropriate.

NDPBs and trading funds should provide in their financial statements an analysis of the services for which a fee is charged, with a statement that the information is provided for fees and charges purposes. The analysis should include the following information for each service where the full cost is over £1 million or more or is otherwise material in the context of the financial statements:
- the financial objective
- full cost
- income
- surplus or deficit; and
- performance against the financial objective.

Entities should present a summary of accounting policies which will disclose the measurement basis used in preparing financial statements and all other accounting policies that are significant to the understanding of the financial statements. Entities should disclose key sources of estimation uncertainty and judgements made in applying accounting policies. Entities shall analyse the total of other administration costs and programme costs, as recorded in the Statement of Comprehensive Net Expenditure, in separate notes to the financial statements. Entities shall also disclose expenditure in respect of the individual components of non-cash items, and an analysis of other significant expenditure items.
Entities should provide an analysis of operating income, together with commentary where appropriate, that enables users of the financial statements to understand the nature of the entity’s operating income.

As a minimum, entities should analyse their property, plant and equipment under the following headings, distinguishing between owned and leased assets.

- information technology
- land
- buildings excluding dwellings
- dwellings
- networked assets
- transport equipment
- plant and machinery
- furniture and fittings
- antiques and works of art
- payments on account and assets under construction
- cultivated assets.

Entities should analyse their intangible assets under the following headings:

- information technology
- software licences
- websites
- development expenditure
- licences, trademarks and artistic originals
- patents
- goodwill.

Entities shall analyse other current assets by type as appropriate:

- deposits and advances
- other debtors
- prepayments and accrued income.

Entities shall disclose the opening position, the net change in balances and the closing position separately for cash and cash equivalents.

Entities shall analyse other creditors by type as appropriate. For amounts falling due within one year:

- overdraft
- VAT
- other taxation and social security
- accruals and deferred income
- current part of finance leases
- other headings as appropriate; and,

for amounts disclosed as non-current liabilities:

- finance leases.
In providing particulars of each provision for liabilities and charges, entities shall state:

- the nature of the provision
- how the provision is calculated
- the period over which expenditure is likely to be incurred; and
- the discount rate where the time value of money is significant.

NDPBs and trading funds should account for accumulated surpluses in an appropriately named reserve. Suitable descriptions include Income and Expenditure account, Accumulated Surpluses or General Reserve. The note should give a detailed analysis of movements in the reserve.

The revaluation reserve should reflect the unrealised balance of the cumulative indexation and revaluation adjustments to assets.

Entities should provide a detailed analysis of the movements in any other reserves.

An entity’s financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

In the interests of general disclosure and transparency, any third party assets for which an entity acts as custodian or trustee should be reported by way of note. Where significant the note should differentiate between:

- third party monies and listed securities
- third party physical assets and unlisted securities; and
- in the event that third party monies are found to have been in a public bank account at the end of an accounting year, commentary should be included in the note on cash at bank and in hand and in the disclosures above on the amount of third party monies held in the bank account.

Entities shall provide summary data on their use of exit packages agreed in year.

All entities are required to have their financial statements audited by the auditor named in the relevant legislation or other legislation or governing statute.

Where the relevant legislation requires the auditor to report on the examination of the financial statements, the auditor will provide such a report. The form and content of the report is the responsibility of the auditor. Where the auditor has no substantive comment to make, the report will generally be in the form of a single sentence appended to the audit opinion in the form: ‘I have no observations to make on these financial statements’. Where there is a substantive report, it will be referred to in the audit opinion, but will be quite separate from it.
Appendix 3

Outline summary of annual reporting requirements for UK Public Limited Companies (PLCs)

The Corporate Governance Code adopts an approach of ‘comply or explain’ ie. companies are not bound to follow all the Code’s provisions but, if they choose not to do so, they should explain why they have adopted a different approach.

The Code suggests that smaller listed companies, in particular those new to listing, may judge that some of the provisions are disproportionate or less relevant in their case. Some provisions do not apply to companies below the FTSE 350.

Corporate governance disclosure requirements are set out in three places:
- Financial Services Authority (FSA) Disclosure and Transparency Rules sub-chapters 7.1 and 7.2 (which set out certain mandatory disclosures);
- FSA Listing Rules 9.8.6 R, 9.8.7 R, and 9.8.7A R (which include the ‘comply or explain’ requirement); and
- The UK Corporate Governance Code (in addition to providing an explanation where they choose not to comply with a provision, companies must disclose specified information in order to comply with certain provisions).

These requirements are summarised below.

Corporate Governance Code

According to the UK Corporate Governance Code, the annual report should include:
- a statement of how the board operates, including a high level statement of which types of decisions are to be taken by the board and which are to be delegated to management
- the names of the chair, the deputy chair (where there is one), the chief executive, the senior independent director and the chairs and members of the board committees
- the number of meetings of the board and those committees and individual attendance by directors
- where a chief executive is appointed chairman, the reasons for their appointment (in the annual report following the appointment)
- the names of the non-executive directors whom the board determines to be independent, with reasons where necessary
- a separate section describing the work of the nomination committee, including the process it has used in relation to board appointments and an explanation if neither external search consultancy nor open advertising has been used in the appointment of a chairman or a non-executive director
- The chair’s other significant commitments (when appointed) then any changes to these during the year
- a statement of how performance evaluation of the board, its committees and its directors has been conducted
- an explanation from the directors of their responsibility for preparing the accounts and a statement by the auditors about their reporting responsibilities
• an explanation from the directors of the basis on which the company generates or preserves value over the longer term (the business model) and the strategy for delivering the objectives of the company
• a statement from the directors that the business is a going concern, with supporting assumptions or qualifications as necessary
• a report that the board has conducted a review of the effectiveness of the company’s risk management and internal controls systems
• a separate section describing the work of the audit committee in discharging its responsibilities
• where there is no internal audit function, the reasons for the absence of such a function
• where the board does not accept the audit committee’s recommendation on the appointment, reappointment or removal of an external auditor, a statement from the audit committee explaining the recommendation and the reasons why the board has taken a different position
• an explanation of how, if the auditor provides non-audit services, auditor objectivity and independence is safeguarded
• a description of the work of the remuneration committee as required under the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 including, where an executive director serves as a non-executive director elsewhere, whether or not the director will retain such earnings and, if so, what the remuneration is
• the steps the board has taken to ensure that members of the board, in particular the non-executive directors, develop an understanding of the views of major shareholders about their company.

The following information should be made available (which may be met by placing the information on a website that is maintained by or on behalf of the company):
• the terms of reference of the nomination, audit and remuneration committees, explaining their role and the authority delegated to them by the board
• the terms and conditions of appointment of non-executive directors
• where performance evaluation has been externally facilitated, a statement of whether the facilitator has any other connection with the company
• where remuneration consultants are appointed, a statement of whether they have any other connection with the company.

Disclosure and Transparency Rules

There is some overlap between the mandatory disclosures required under the Disclosure and Transparency Rules and those expected under the UK Corporate Governance Code. In respect of disclosures relating to the audit committee and the composition and operation of the board and its committees, compliance with the Code will result in compliance with the Rules.

The Disclosure and Transparency Rules sub-chapters 7.1 and 7.2 apply to issuers whose securities are admitted to trading on a regulated market; this includes all issuers with a Premium or Standard listing. The Rules concern audit committees or bodies carrying out equivalent functions, covering:
• requirements relating to the composition and functions of the audit committee or equivalent body

• that an issuer must have a body which is responsible for performing these functions and
that at least one member of that body must be independent and at least one member must
have competence in accounting and/or auditing
• that the requirements for independence and competence in accounting and/or auditing may
be satisfied by the same member or by different members of the relevant body
• that an issuer must ensure that, as a minimum, the relevant body must:
  (1) monitor the financial reporting process;
  (2) monitor the effectiveness of the issuer’s internal control, internal audit where applicable,
and risk management systems;
  (3) monitor the statutory audit of the annual and consolidated accounts;
  (4) review and monitor the independence of the statutory auditor, and in particular the
provision of additional services to the issuer
• that the issuer must make a statement available to the public disclosing which body carries
out the functions of the audit committee or equivalent body and how it is composed.

The Rules also require issuers to:
• produce a corporate governance statement that must be either included in the directors’
report, or in a separate report published together with the annual report, or on the issuer’s
website, in which case there must be a cross-reference in the directors’ report
• include a reference to the corporate governance code to which the company is subject (for
companies with a Premium listing this is the UK Corporate Governance Code)
• to the extent that the company departs from that code, explain which parts it departs from
and the reasons for so doing
• provide a description of the main features of the company’s internal control and risk
management systems in relation to the financial reporting process
• prepare a group directors’ report within the meaning of s415(2) of the Companies Act 2006,
including a description of the main features of the group’s internal control and risk
management systems in relation to the process for preparing consolidated accounts
• provide the information required by Sch 7, paras 13(2)(c), (d), (f), (h) & (i) of the Large and
Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 where
relevant
• provide a description of the composition and operation of the issuer’s administrative,
management and supervisory bodies and their committees.

Listing Rules

The Listing Rules state that a company that has a Premium listing of equity shares must include
the following items in its annual report and accounts:
• a statement of how the listed company has applied the main principles of the UK Corporate
Governance Code, in a manner that would enable shareholders to evaluate how the
principles have been applied
• a statement as to whether the listed company has:
  • complied throughout the accounting period with all relevant provisions of the UK
  Corporate Governance Code; or
  • not complied throughout the accounting period with all relevant provisions of the UK
  Corporate Governance Code, and if so, setting out:
    (i) those provisions, if any, it has not complied with;
(ii) in the case of provisions whose requirements are of a continuing nature, the period within which, if any, it did not comply with some or all of those provisions; and (iii) the company’s reasons for non-compliance.
Outline summary of the Charity Commission's annual reporting requirements for charities in England and Wales

All charities must prepare accounts; most also have to prepare an annual report. While some basic requirements apply to all charities, exactly what is needed will depend on factors such as the income, gross assets or constitution of the charity - broadly speaking, the larger the charity, the greater the requirements. In addition, there are special requirements for certain types of charity, especially:

- non-company charities required to register with the Commission
- registered charitable companies
- excepted charities; and
- exempt charities.

The Commission states that the annual report need not be lengthy. A good annual report explains the charity's aims and how it is going about achieving them. It meets all the legal requirements and provides a balanced view of the charity's structure, aims, objectives, activities and performance. Importantly, it brings the charity to life and provides donors with the opportunity to understand how their money was spent and the difference it has made.

Requirements for all charities

The detailed legal requirements for the trustees' annual report are set out in The Charities (Accounts and Reports) Regulations 2008. Trustees may choose how they lay out their annual report, provided all the legal requirements are met. The regulations require that the annual report is dated and signed by one or more trustees, each of whom is authorised to do so.

All charities must

- prepare annual accounts and make them available to the public on request
- make their annual report available to the public on request, where one is required to be prepared.

All charities unless exempt or excepted from registration must prepare an annual report and make it available to the public on request. All registered charities are required, depending on their income, to complete either an Annual Update form or an Annual Return for the Charity Commission.

Charity accounts may be prepared on the receipts and payments basis or the accruals basis, depending on the income of the charity and whether or not the charity is a company. Non-company charities with an annual gross income of over £250,000 and all charitable companies must prepare their accounts on the accruals basis in accordance with the Statement of Recommended Practice (SORP). They must contain a balance sheet showing the charity's financial position at the end of the year, a statement of financial activities (SoFA) and explanatory notes. The SoFA should show all incoming resources, and resources expended during the year (and for company charities only, an income and expenditure account, except where the SoFA incorporates the income and expenditure account). These accounts are required to show a 'true and fair view'.

There are some mandatory contents of the annual report. Otherwise, what is required will depend on the size of the charity but, to aid transparency and accountability, trustees are encouraged to adopt a spirit of full disclosure.

**Matters that all charities must report**

**Reference and administrative details of the charity, its trustees and advisers:**
- the charity’s registered name and any other name it uses
- the charity registration number and, if applicable, the company registration number
- the address of the charity’s principal/registered office
- the names of the trustees. Where the trustee is a body corporate, the names of the directors.

**Structure, governance and management:**
- the annual report should provide the reader with an understanding of how the charity is constituted, its organisational structure and how its trustees are appointed and trained, and assist the reader to understand how its decision-making processes work. The level of detail may well depend on the size and complexity of the charity and be proportionate to the needs of the report’s readers
- particulars of the governing document (eg. trust deed) and how the charity is constituted (eg. limited company, unincorporated association)
- the methods adopted for recruitment and appointment of new trustees, including any constitutional provisions relating to appointments.

**A financial review containing:**
- policy on reserves stating level of reserves held and why they are held. Where material funds have been designated, the statement should quantify and explain the purposes of these designations and, where set aside for future expenditure, the likely timing of the expenditure. Where no reserves policy is in place, this should be stated
- where any fund is materially in deficit, the circumstances giving rise to the deficit and steps being taken to eliminate the deficit.

**Where a charity is, or its trustees are, acting as custodian trustee on behalf of others:**
- a description of the assets held in this capacity
- the name and objects of the charity (or charities) on whose behalf the assets are held and how this activity falls within their own objects
- the arrangements for safe custody and segregation of such assets.

**Public benefit statement:**
- a statement confirming whether the trustees have complied with their duty to have due regard to the guidance on public benefit published by the Commission in exercising their powers or duties.

**Matters that smaller charities, not subject to statutory audit, must also report**

Objectives and activities -smaller charities may limit this section to a summary of the purposes of the charity and its main activities to further its charitable purposes for the public benefit.
Achievements and performance - smaller charities may limit this section to a summary of their achievements during the year in relation to their objects.

Matters that charities subject to statutory audit must also report

Additional reference and administrative information:
- name of the chief executive or other senior staff to whom day to day management is delegated by the trustees
- names and addresses of other relevant persons or organisations including bankers, solicitors, auditor and investment or other principal advisers.

Additional structure, governance and management information:
- policies/procedures for induction and training of trustees. If no such policies/procedures have been adopted, this should be stated
- organisational structure of the charity and how decisions are made eg. types of decisions taken by the trustees and types delegated to staff
- where the charity is part of a wider network (eg. an umbrella group), any impact this has on the charity’s operating policies
- the relationships between the charity and related parties, including its subsidiaries, and with any charities or organisations with which it cooperates in pursuit of its charitable objectives
- a statement that the major risks to which the charity is exposed, as identified by the trustees, have been reviewed and systems or procedures established to manage those risks.

The report should help the reader understand the aims and objectives set by the charity, and the strategies and activities undertaken to achieve them. The report may also, where relevant, explain how the objectives set for the year relate to the charity’s longer term strategies and objectives. Where significant activities take place through subsidiary undertakings, this should be explained. In particular, the report should provide:
- a summary of the charity’s objects, as set out in its governing document
- an explanation of the charity’s aims, including the changes or differences it seeks to make through its activities
- an explanation of the charity’s main objectives for the year
- an explanation of the charity’s strategies for achieving its objectives
- a review of significant activities (including main programmes, projects or services provided) undertaken by the charity to further its charitable purposes for the public benefit
- where the charity conducts a significant amount of its activities through grantmaking, a statement of its grantmaking policies
- where social or programme-related investment activities are material in the context of the charitable activities undertaken, an explanation of the investment policies
- where a charity uses volunteers to a significant extent in its charitable or income-generating activities, this should be noted.

The report is likely to contain both quantitative and qualitative information. In particular, it should contain:
- a review of charitable activities undertaken that explains the performance achieved against the objectives set. Where qualitative or quantitative information is used to assess the
outcome of activities, a summary of the measures or indicators used to assess achievement should be included

- where significant fundraising activities are undertaken, details of performance achieved against fundraising objectives set, commenting on any material expenditure which might enhance future income generation and explaining the effect on the current period’s fundraising return
- where significant investments are held, details of the investment performance achieved against investment objectives set
- commentary on factors within and outside the charity’s control which are relevant to its achievement of its objectives eg. relationships with employees, users, beneficiaries, funders, position within the wider community.

Additional financial review information:

- a review of the financial position of the charity and its subsidiaries
- a statement of the principal financial management policies in force during the year
- principal funding sources and how expenditure in the year has supported the charity’s key objectives
- where material investments are held, the investment policy and objectives, including the extent to which social, ethical or environmental considerations are taken into account.

The report should explain the charity’s plans for the future including the aims and key objectives it has set for future periods together with details of any activities planned to achieve them.

*Charities where group accounts are prepared*

For the minority of charities preparing group accounts there are some additional reporting requirements.
Appendix 5

**DRAFT**

**Reporting standard for the GPhC’s annual report and accounts**

1.0 This standard covers the content of the combined annual report, fitness to practise report and accounts, to be approved by the Council at its June** meeting. This combined document is referred to here as the annual report.

2.0 The annual report should:

   (i) Provide an explanation of the GPhC’s statutory purpose and how it is going about fulfilling this. As well as accounting for progress in terms of the relevant corporate plan, the report should include an update on progress within each year towards the achievement of longer term strategic objectives. The level of detail included should be proportionate to the needs of the report’s users

   (ii) Report on the exercise of the GPhC’s functions, including a description of the arrangements that the Council has put in place to ensure that it adheres to good practice in relation to equality and diversity*

   (iii) Include a statistical report which indicates the efficiency and effectiveness of, and includes a description of, the arrangements which the Council has put in place to protect members of the public from registrants whose fitness to practise is impaired, together with the Council’s observations on the report*

   (iv) Include the annual accounts, with the external auditors’ report*.

3.0 The annual report should also include:

   (i) The address of the GPhC’s principal office

   (ii) Names and addresses of other relevant persons or organisations including bankers, solicitors, auditors and investment or other principal advisers

   (iii) Council structure and summary of functions

   (iv) An outline of the structure, functions and activities of the Audit & Risk, Remuneration and Appointments Committees

   (v) A summary of the functions of each of the GPhC’s statutory committees

   (vi) A statement of the Council’s commitment to annual appraisal of individual Council members and annual review of the Council’s performance as a governing body

   (vii) The names of:

     • Council members
• Council and external members of Audit & Risk and Remuneration Committees
• Chief Executive & Registrar and directors
(viii) Remuneration and expenses of Council members
(ix) Number of formal meetings of Council, Audit & Risk Committee and Remuneration Committee, with attendance figures for individual Council members
(x) Salary bands for Chief Executive & Registrar and directors
(xi) A brief statement of the process used to recruit and select any Council members appointed that year, including the members of any selection panel. An explanation should be given if neither an external search consultancy nor open advertising has been used in the process
(xii) Where the Council does not accept the Audit & Risk Committee’s recommendation on the appointment, reappointment or removal of an external auditor, a statement from the Audit & Risk Committee explaining the recommendation, together with the Council’s reasons why it has taken a different position
(xiii) If the internal or external auditor provides non-audit services, an explanation of how auditor objectivity and independence is safeguarded.

4.0 The annual report should include a statement on internal control by the Chief Executive & Registrar covering:
(i) a description of the organisation’s internal control and risk management systems and of the additional assurance provided by internal audit
(ii) how we act on complaints and feedback about the organisation
(iii) how we comply with freedom of information and data protection legislation, including reporting of any significant personal data-related incidents
(iv) a review of the effectiveness of the organisation’s internal control and risk management systems.

5.0 The GPhC is required to prepare annual accounts in respect of each financial year, in a form determined by the Privy Council (PC)*. This means that we must prepare accounts for each year in compliance with UK accounting principles and disclosure requirements prescribed in the Generally Accepted Accounting Practice (GAAP). The accounts must be prepared so as to give a true and fair view of the state of affairs of the organisation and of its income and expenditure, recognised gains and losses and cash flows for the financial year.

6.0 ‘Financial year’ means each successive period of 12 months ending with 31 March*.

7.0 The GPhC is also required to publish the PC’s accounts determination as an appendix to the accounts**.
8.0 The accounts must be audited by a person eligible for appointment as a statutory auditor under Part 42 of the Companies Act 2006 (statutory auditors) *.

9.0 The financial statements should include:
   (i) a statement of the Council’s responsibility for the preparation of the financial statements
   (ii) the external auditors’ report to the Council on the financial statements, including a statement by the external auditors about their reporting responsibilities.

10.0 The following information should be made available; this may be met by placing the information on the GPhC’s website:
   (i) register of interests of members of Council and non-statutory Council committees
   (ii) register of interests of members of statutory committees***
   (iii) terms of reference of non-statutory Council committees
   (iv) policies/procedures for induction and training of Council members
   (v) corporate plan
   (vi) membership of Appointments Committee
   (vii) membership of statutory committees
   (viii) framework for delegation of authority for decision-making within the organisation
   (ix) standards of service in relation to the Welsh Language Scheme.

11.0 The format of the annual report must meet the requirements for documents to be laid in Parliament, as confirmed by the PCO**.

*Statutory requirement, Pharmacy Order 2010 (S.I. 2010/231)
**Privy Council requirement
***Statutory requirement, GPhC Statutory Committees and their Advisers Rules (S.I. 2010/1616)