

Executive Summary

A high quality narrative financial reporting is imperative in enabling relevant and reliable information to be derived. This report evaluates Menzies Company and assesses how current narrative reporting reflects challenges for accounts users. The core focus of the report mainly lies in assessing the quality of voluntary narrative disclosure based on the management commentary section of annual reports, and further analysing the entire report. Furthermore, it evaluates possible impact of IIRC agenda upon the quality of financial information and the role of the accounting profession in safeguarding the quality of the information. Findings from the report indicate that the management commentary section, as well as overall report presentation has relatively quality information for annual report users such as financial analysts or investors. Furthermore, IIRC agenda has played a critical role in enhancing the quality of the financial report by placing a higher emphasis on value creation. In addition, accounting profession plays a critical role in enabling auditing, strong internal controls, and adherence to laws.

Introduction

Over the last few years, narrative reporting of financial information has undergone some evolution in the UK, and has been a focus of much debate. This has especially been so because of several factors such as the recent financial crisis and concerns regarding the quality of reporting to ensure that shareholders and investors have the right information they need. This report evaluates Menzies Company to assess how current narrative reporting reflects challenges for accounts users

Section A

Quality of Voluntary Narrative Disclosure: Management Commentary Aspect

The management commentary section is one of the critical voluntary narrative sections in an annual report. Chatterjee et al. (2011) argues that this section should discuss an organization's performance and achievements, indicate the implication of present and past performance in the future, and provide a future outlook for the company. Qualitative requirements based on IASB (2005) for any section of an annual report are that they should be relevant, understandable, comparable, balanced, and supported. Evaluating John Menzies PLC management commentary section based on these factors, a clear picture of the quality of narrative reporting can be assessed. This mainly include the overview and operating review section of the 2011 and 2010 annual reports, the latest reports.

Evaluating the relevance of management commentary, it can be noted that for the years 2010 and 2011, the management commentary concentrated on evaluation of past performance and events to a higher degree followed by an evaluation of the future outlook of the company, then evaluation of present company events and performance. However, any information correction or confirming past events and reporting were not present. In terms of relevance, a

bigger part of the information presented focused mainly on corporate social responsibility, the company's performance, and its products and services (John Menzies Plc, 2011).

Evaluating supportability of the management commentary based on both cautionary statements on the future outlook and supporting data for various statements, it can be noted that the reports have supporting data and figures for various statements, especially with regard to the current and past performance of the company. However, only a small degree regarding its cautionary statement can be noted. With regard to comparability, the management comments compared effectively the present performance and business position with past positioning (John Menzies Plc, 2011). However, it did not provide comparability statements between the company and other rival and entities in its industry. IASB (2005) argues that comparability entails both between companies and over time.

In terms of balance, there was a good balance between good and bad news in the management commentary. While evaluating understandability of the management commentary subjective to the person using the statement, the researcher found the statements to be easily explicable due to the plain language used and graphs and diagrams used to effectively compare performance over time (John Menzies Plc, 2010). The various statements with regard to qualitative characteristics are as shown in table 1 below. In overall, the management commentary section of the annual reports for John Menzies PLC, contain to a large extent, good quality narrative disclosure, and to a small degree, they included factors such as correction or confirmation of past performance and event.

Qualitative Characteristics	Example Statements from the Reports	Degree of quality
Relevance	<p>Present events: “Ian Harley became our senior Independent director from the conclusion of the 2011 AGM” (John Menzies Plc, 2011).</p> <p>Past events and performance: “CO₂e data for 2009 and 2010 was compared against the base year of 2008 to confirm that the division had achieved an absolute reduction of 2.4% over this period” (John Menzies Plc, 2011).</p> <p>Future outlook: “our relationship with Vivaaerobus has been deepened with the signing of a 5 year contract” (John Menzies Plc, 2011).</p> <p>Correction or confirmation of past performance and event: “the Group is proud that at the start of 2009 Menzies distribution achieved the carbon trust standard for the energy efficiency” (John Menzies Plc, 2011).</p>	Medium
Supportability	<p>Graphs were used in the reports.</p> <p>Cautionary statement on the report: “this is an expansion into 2 new countries for the division and it is <i>hoped</i> that customer relationships can be leveraged to grow the business” (John Menzies Plc, 2011).</p>	High
Comparability	<p>“Underlying profit before taxation was up 25% to £56.4m on turnover of £2,013.8m (2010: £1,964.2m)” (John Menzies Plc, 2011).</p>	High
Balance	<p>“In the newspaper market, the volume decline was offset by strong cover price growth which resulted in retail sales value declining by only 2.2% during the year” (John Menzies Plc, 2011).</p>	High
Understandability	<p>Simple language in both reports and use of graphs to simplify presentation</p>	High
	Overall performance	High

Table 1: Statements from Management Commentary Showing Various Aspects of Qualitative Features

Source: John Menzies Plc, 2011; John Menzies Plc, 2010

Section B

Overall Presentation of the Report

Evaluating the overall presentation of the 2011 annual report, it can be noted that the overall structure of the annual report is effectively presented starting from the company overview, operating review that covers the organization's operations, its corporate governance, financial statements and finally shareholder information. On the left margin of the operation review section, key significant metrics and information, which may be crucial for an investor or shareholder, are highlighted. Moreover, the report uses sufficient graphical representation for easy presentation of performance. It is legible and written in a simple language. Furthermore, the information in the report gives equal prominence in terms of page numbers to both the mandatory statutory sections containing the financial statements, as well as the voluntary narrative sections of the paper and prominence on both the bad and good news, which is excellent for users as reiterated in Ljutic, Jankovic and Vlastic (2012). The valuation method adopted in the report was based on fair value of accounting with most assets valued using the technique (John Menzies Plc, 2011). Broadley (2007) argues that fair values provide relatively better and relevant information to various market players. This is especially in cases where market prices can be observed and liquidity can be determined for the valued assets.

This presentation may reflect positive messages to users of the financial statements. Essentially, the use of fair value in measuring some items such as financial derivatives and intangible assets reflect a higher relevance of the value of company assets, which are critical in making investment decisions. Furthermore, the language in the report is simple and plain for the user and uses simple graphs. This promotes the understandability of the report, which enhances usability. The balance between positive and negative news in the company as well cautioning

statements in the positive outlook of the statement as a whole gives a message of effective reporting and thorough evaluation of possible risks for the business (Chatterjee et al, 2011). This is preferred by investors and found to be useful in decision making (Yeoh, 2010).

Section C

Possible Impact of IIRC Agenda upon Quality of Financial Information

The international Integrated Reporting Council (IIRC) agenda is focused on ensuring that financial reporting is more focused on communicating how the business is creating value and sustaining it both in the long, medium, and short term. They thus, emphasize an integrated reporting that takes into account governance, sustainability, as well as financial reporting, within a single report (Deloitte, 2011).

Evaluating John Menzies 2011 annual report, it can be noted that the company has combined governance, sustainability (Corporate social responsibility), and financial reporting in one document. The impact of this integrated reporting is that it gives the information in the reports an overall view of how the company performs in various aspects and how these interlink. Eccles and Armbrester (2011) argue that these links play a role in determining the quality of information presented in annual reports.

From John Menzies Plc, which employees integrate reporting as recommended by IIRC, the relationship between the governance, sustainability, and financial performance of the company, can be articulated clearly thus, provide in-depth coverage of how the interlink between these three core areas of reporting impacts a shareholder or influences investors in their decision making. Furthermore, an integrated reporting provides a better understanding of various metrics used in measuring the performance in the organisation placing them in context. It provides

critical information on the areas where internal controls and measurements systems need to be improved further. Inclusion of sustainability indices and governance performance, which are increasingly determining the performance of companies in the stock exchange, enhances the usability and quality of information for various stakeholders (Eccles and Krzus, 2010).

For instance, gaining the carbon trust standard in Menzie is of critical importance to investors since it provides information on how the company is satisfying the expectations of consumers in the changing business environment, thus creating value for the organisation both in the short and long term (John Menzies Plc, 2011). This can play a critical role in buying decisions among investors. Furthermore, integrated reporting helps to understand and analyse how new legislations and reporting guidelines have been applied in a financial report, which is an important determinant of quality of reporting.

Role of Accounting Profession in Safeguarding Quality of Financial Information

The accounting profession has a crucial role of safeguarding the quality and sustainability of financial information. The core roles they play include reporting information to various regulations and legislations, and providing an audit of the financial statement to ensure that they are relevant, understandable, correct and reflective of the true picture. They also ensure that non-financial information provided is reliable, accurate, transparent, and timely. Furthermore, accounts ensure internal reporting controls take into account various risks faced in the business to improve the quality of the information being reported (Pararit and Ussahawanitchakit, 2012). Furthermore, they ensure that the corporate governance information reported in the reports align effectively with the organization's practice. Such roles are imperative in enabling quality financial information.

Conclusion

Based on the evaluation of Menzi annual reports, it can be argued that the current narrative reporting is increasingly designed to address challenges to users of these financial reports. An evaluation of management commentary in the report revealed that it met the qualitative requirements as stipulated in IASB. Furthermore, the increasing adoption of integrated reporting is consolidating core information relevant to the modern investor and shareholder. This enhances value creation and an integrated focus on both short term and long term performance.

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