

CPPGroup Annual Report

Our observations

	Areas of good practice	Areas for potential improvement
Strategic report	<p>Non-financial KPIs - one of the areas which is still being overlooked by many listed entities is the inclusion of non-financial key performance indicators. The financial statements, in particular on page 5, have disclosed not only the financial key performance indicators (cost/income ratio, EBITDA margin and revenue from major products) but also non-financial (live policies and annual renewal rate) which are relevant for entities serving a 'sticky' customer base.</p> <p>Analysis of IFRS results - the strategic report provides a comprehensive analysis of the accounts including the impact relating to tax changes in page 26 and the analysis of cash flows in page 27, which according to FRC reviews are key areas where many entities don't have a comprehensive analysis.</p>	<p>Climate change impact - whilst overall the strategic report contains a comprehensive analysis of the financial performance and the operations of the group, one point to consider is the inclusion of the risks arising from climate change. As per the thematic reviews performed by the FRC, only a quarter of its sample for 2020 reviews had made reference to climate change in their financial statements. We recognise that management are already actively considering this matter.</p> <p>Principal risks and uncertainties – the current risk disclosures, whilst helpfully showing how the risks are trending, do not currently respond to many of the FRC's other recommendations as outlined in their Lab report on Risk & Viability reporting. The descriptions of the risks themselves are not overly detailed, with minimal contextualisation of many of the risks by geography or operations, which would make them more specific to CPPGroup plc. The risks are also not linked to the group's strategic objectives, or given any prioritisation relative to one another.</p>
Section 172 statement	<p>The FRC has released some tips on how to produce an effective Section 172 statement. CPPGroup plc's report is specific on the identification of the key stakeholders and how the board engaged with these key stakeholders and is linked to other sections of the annual report and accounts as relevant. Difficulties have also been disclosed, particularly on how the Board engaged with the business partners considering the difficulty to travel due to restrictions.</p>	
Covid-19 impact reporting	<p>One of the key areas being challenged by the FRC is how the impact of Covid-19 is being disclosed in the annual report and financial statements. CPP has disclosed the specific impact of Covid-19 in numerous areas such as the going concern assessment, key performance indicators, principal risks, exceptional items and lease liability disclosure.</p>	<p>In note 4 to the financial statements, one of the critical judgments is relating to exceptional items. Whilst CPP has disclosed that significant judgement is applied when deciding what should be included as an exceptional item, the related specific judgements are not disclosed. In addition, whilst the annual report has disclosed on page 25 the impact of Covid-19 resulting in exceptional items, it was not disclosed in Note 4 how Covid-19 impacted the judgements of management when it comes to classification of exceptional items.</p>

	Areas of good practice	Areas for potential improvement
Judgments related to IFRS 16 – particularly relating to determining the lease term		<p>In the consolidated balance sheet, ROU assets and lease liabilities are two of the most significant balances in the financial statements, however, no significant judgement has been disclosed in Note 4 to the financial statements.</p> <p>A number of the group's lease arrangements include extension and termination options which may result in judgement being exercised as to the number of years to be included in valuing the ROU assets and lease liabilities, as well as in determining whether or not a contract should be a finance lease.</p>
Impairment of assets relating to investment in subsidiaries		<p>In the CPPGroup plc parent company balance sheet, the investment in subsidiaries balance sheet is significant (15% of the total assets of the parent company). In addition, net assets of the parent company are higher than the net assets of the consolidated accounts. As per the FRC's thematic review, this is one of the common areas where they require further disclosure by companies related to investment in subsidiaries. Specifically, they are asking companies to include whether the entity has performed impairment tests on the investment and sharing details about such tests (e.g. impairment testing methods, assumptions and headroom).</p>
Alternative performance measures		<p>Whilst the financial statements clearly state which are the Group's APMs, how these have been reconciled to the accounts and how these APMs are calculated, for some of the APMs (specifically the last four APMs on page 93), the purpose was not mentioned that will provide useful information to users.</p>