

**SOUTH WESTERN SOCIETY OF CHARTERED ACCOUNTANTS
TECHNICAL ADVISORY COMMITTEE**

Chairman:	<i>Mark Gifford - Gifford</i>			
Reporter:	<i>Martin Newman 28 July 2015</i>			
Document:	Improving the quality of reporting by smaller listed and AIM quoted companies			
Members' attendance	Total	Academic	Business	General practice
Representation				

Consultation Questions

To what extent do you recognise and agree with the issues raised in the report regarding the quality of reporting by smaller quoted companies?

The Committee agrees that there are issues to be addressed, as identified in the Paper, which we summarised within four headings:

1. The quality of the financial statements themselves
2. Auditor independence on accounting matters
3. Inadequate levels of reporting by the auditor to those charged with governance
4. Lack of resources within the entity itself on financial reporting matters

Specific issues within each heading are addressed below.

Do you consider that the actions proposed are (i) a proportionate response to the issues identified; and (ii) an adequate response to the issues identified?

1. *The quality of the financial statements themselves*

The main issues identified in the Paper are:

- too many arithmetic inaccuracies
- incorrect cash flow statements
- excessive disclosure in immaterial areas
- excessive boiler plate reporting

In respect of the first three bullets, there was general agreement that the action points listed at the foot of page 7 of the Paper were relevant. In particular, the volume of disclosures required is a concern, and the opportunity presented in the CMU Green Paper to “develop a differentiated disclosure framework for smaller listed companies” is welcomed.

The Paper does not go far enough in recognising that one key reason why there exists what is considered to be excessive “boiler plate” reporting is that smaller companies in particular are keen not to publish too much commercially sensitive information which may be harmful e.g. too much detail on revenue recognition, or a “clear message of the business model of the company” (page 7).

In order to create a level playing field, if such changes are in fact desirable, then the only practical way to implement change would be effectively to force this via specific changes to the Companies Act in terms of disclosure. Otherwise, reporting companies, whatever the level of encouragement to disclose more, will in fact gravitate towards the minimum level of requirement. This is the reality, and the Paper does not give sufficient weight to this.

2. Auditor independence on accounting matters

The Committee has direct experience of the practicalities of a finance dept. in an AIM listed company.

It would be helpful to such if the auditor were clearly able to give advice on disclosure matters, in order to make the process more efficient and less costly. The first point of contact is the auditor, and the inability to advise, which then leads to the need to buy expertise elsewhere (and the sometimes leads to “opinion shopping” makes the preparation of the financial accounts more expensive.

In this context, the proposed review of Ethical Standards is welcomed – our view is that the auditor should have greater freedom to advise smaller / AIM listed companies on disclosure matters. The reality is often one of the finance function asking the question “what exactly should we do”, and the auditor currently cannot assist.

3. Inadequate levels of reporting by the auditor to those charged with governance

The Committee concurs with many of the action points suggested i.e.

- the need for greater technical training and review requirements
- close monitoring by QAD of necessary improvements at some, typically smaller, firms
- encouragement of auditors to take a more robust view of materiality in order to help exclude some immaterial areas from unnecessary disclosure

In respect of the possible review of the granting of RI status, our view is that this is effectively already covered off by the requirements surrounding the acceptance of the audit.

4. Lack of resources within the entity itself on financial reporting matters

We agree with the general aim of doing as much as possible to improve such resource, and the action points at the foot of page 8 and the top of page 9 of the Paper are agreed.

The Paper also raises the question of whether or not “it would be beneficial to have a Corporate Governance Code for AIM to provide clarity and consistency of expectations for the governance of AIM companies” (pages 16, 22).

Companies and auditors have indicated as such, and we agree, but it may be useful to conduct some more research amongst investors on this issue.