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MOORE STEPHENS

23 July 2015

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Dear Mr Fitzgerald

Improving the Quality of Reporting by Smaller Listed and AIM Quoted Companies

Moore Stephens LLP is pleased to respond to the FRCs discussion paper on the findings and proposals of reporting by smaller listed and AIM quoted companies.

We are very supportive of this initiative, but have reservations about some of the actions proposed.

Attached to this letter you will find Appendix 1 with our comments to the specific questions raised in the exposure draft.

If you wish to discuss any matters raised in this letter then please contact David Chopping, Partner (+44 (0) 207 651 1050) or Jamie Tomlin, Senior Technical Manager (+ 44 (0) 207 651 1674).

Yours faithfully



Moore Stephens LLP

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Appendix 1

Improving the Quality of Reporting by Smaller Listed and AIM Quoted Companies

Question 1

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

We agree that the issues identified by the FRC and as set out in the discussion paper arise for smaller quoted companies (including AIM companies). Whilst we are very supportive of good quality reporting we recognise that there is a balance between the cost of reporting and the benefits. However, the matters noted in the discussion paper do not amount to “gold plating” of reporting, but should be considered as simply good practice.

In our view, these issues arise in part because of a failure of preparers to see a clear connection between poor reporting and the effect on the company. This position is also exacerbated by the continual development and increased complexity of reporting requirements. This can often lead to the need for increasingly sophisticated resources for the preparation of annual reports, resources which many smaller companies may not have internally and which, because of the disconnect between the cost of compliance and the benefit to the company, may hinder the sourcing of resources externally.

As a consequence of the above, and recognising that good quality reporting is both desirable and eminently achievable, we support this initiative.

Question 2

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?

We consider the actions to be disproportionate in terms of the number of ways in which smaller companies may be assisted in improving quality. We would prefer fewer, more focussed, responses.

As noted above, we believe that because there is a disconnect between the quality of reporting and the cost to the company that smaller companies may be less willing to devote sufficient resources to the preparation of the annual financial statements. To improve the quality of reporting we would prefer that the focus of the FRCs activities was directed towards:

- Encouraging users, and in particular investors, to provide feedback to companies. However, this needs to be with the objective of improving investors' understanding of the business and not simply for the achievement of an ideal set of financial statements.
- Providing greater clarity on the assistance that the auditor can provide to smaller companies in the preparation of their financial statements. Currently, there is a fear within auditors that they can all too easily breach the ethical standards and thus open themselves up to criticism. We are supportive of the need for ethical standards as a means for helping retain public confidence in the role of the auditor, but we are of the view that currently the standards are, or are applied as though they were, too restrictive as regards accounting assistance. We believe that this does not require wholesale change to the ethical standards but help could be given through the use of examples to give clarity as to what may be permitted and what would not be permitted without impinging on independence.

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- In respect of AIM companies, we consider that the reporting timeframe should be brought into line with the full market. There is a tendency for some companies to focus attention on the financial statements preparation only as the deadline nears. As this is substantially after the period to which the accounts relate, the information may be seen as very historic and the report considered to be confirmatory of expectations rather than providing helpful information.
- Where firms have identified internal processes that can improve the quality of reporting we would support the FRC (and the QAD) following up on the implementation/improvements.

We are less supportive of the proposals for changes, or possible changes to CPD and the involvement of smaller companies with initiatives such as the Reporting Lab.

In respect of the latter, we do believe that the Financial Reporting Lab has a useful role in the improvement of financial reporting for all companies, but the issues identified for smaller companies arise, in our view, primarily because of a lack of internal resources and a failure to see the cost of weak reporting. If the resources are currently not available internally to smaller companies, we do not see how they can actively participate in the lab. Again, it would be helpful if the auditor could provide greater support to smaller companies in assisting with the implementation of lab findings. This will also apply to matters such as the proposals under the consistency and comparability of the annual report, together with the issuance of annual reminders of key areas for focus.