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Our Ref MJC/AV

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Dear Ms Colban

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

Grant Thornton UK LLP (Grant Thornton) welcomes the opportunity to comment on the Financial Reporting Council's (FRC) consultation 'Improving the Quality of Reporting by Smaller Listed and AIM Quoted Companies' (the Discussion Paper).

Grant Thornton is a leading financial and business adviser with offices in 26 locations nationwide and more than 25,000 individual and 15,000 corporate and institutional clients. The Grant Thornton global organisation is one of the world's leading organisations of independent assurance, tax and advisory firms. Grant Thornton member firms operate in over 100 countries.

Grant Thornton supports the growth agenda and believes that the application of reason combined with instinct will allow dynamic businesses to unlock their potential for growth. We therefore welcome the FRC's initiative and we recognise and agree with the main issues identified in the Discussion Paper. We believe that provision of relevant, timely and reliable financial information is essential to the efficient operation of capital markets and in providing important access to capital for dynamic smaller quoted companies.

We welcome the message that reporting is generally regarded by investors and other users as timely and of good overall quality. We support the FRC's challenge to the perception on the part of companies that investors do not read their annual reports and believe that this is at the root of the quality issue for reporting by smaller listed and AIM companies.

We believe that companies need to see that the quality of their financial and narrative reporting matters to users of their annual reports and accounts if they are to be incentivised to address the issues highlighted in the Discussion Paper. To this end, we believe that users of annual reports and accounts need to be more vocal in challenging companies and we support the FRC's initiatives in this area. In our view, this will encourage companies to focus more on the need to deliver higher quality reporting and will help to end the perception on the part of some companies that preparation of their annual report and accounts is a tick-box compliance exercise with no real value. We believe that real and substantial change can only come about if investors engage proactively with companies or if stock exchanges take a more proactive role on their behalf.

We see the potential for the FRC's initiative to have a beneficial outcome for smaller listed and AIM companies, as greater investor comfort in the financial reporting will increase access to capital and improve liquidity for small quoted companies. If the FRC were to highlight what investors in these companies look for and help to point preparers in the right direction, this would benefit both companies and investors and have the added benefit of helping the regulators to focus their work on what really matters in financial and corporate reporting. In this context we also observe that the investor population for large listed companies differs from that for smaller listed and AIM companies and users may therefore have different information needs. To expect smaller listed and AIM companies to replicate the resource input of larger listed companies is unrealistic in our view.

We set out our detailed responses to the questions raised in the attached Appendix. If you have any questions on our response, or wish us to amplify our comments, please contact Andrew Vials (telephone: 020 7728 3199, email andrew.vials@uk.gt.com) or Jake Green (telephone: 020 7728 2793, email jake.green@uk.gt.com).

Yours sincerely

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Responses to specific questions

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 welcome the FRC's initiative and we recognise and agree with the main issues identified in the Discussion Paper. We believe that provision of relevant, timely and reliable financial and narrative information is essential to the efficient operation of capital markets. Our more specific observations are set out in the following paragraphs.

We welcome the message that, overall, the quality of reporting by smaller quoted companies in the UK is generally regarded by investors and other users to be timely and of a good standard. We agree with the message that there is room for improvement in some areas.

We support the FRC's challenge to the perception on the part of companies that investors do not read their annual reports. We believe that this is at the root of the quality issue. We believe that companies need to see that the quality of their financial and narrative reporting matters to users of their annual reports and accounts if they are to be incentivised to address the issues highlighted in the Discussion Paper. To this end, we believe that users of annual reports and accounts need to be more vocal in challenging companies and we support the FRC's initiatives in this area. Stock exchanges also have a role to play in promoting the importance of high quality reporting on behalf of investors. In our view, such measures will encourage companies to focus more on the need to deliver high quality reporting and will help to end the perception on the part of some companies that preparation of their annual report and accounts is a tick-box compliance exercise with no real value.

In our view, investors are more likely to invest in a company if the annual report and accounts convey a clear message of the company's business model and its position and prospects, are prepared in accordance with clear and appropriate accounting policies and give insight into those policies and other judgements, estimates and provisions.

We welcome the FRC's finding that it is appropriate for all listed and quoted companies to report under a single accounting framework (for recognition and measurement) as it provides consistency and comparability. However, we are not convinced that there should be a differential disclosure framework for smaller listed and/or AIM quoted companies as is suggested as a possible course of action in the paper. Rather, we support the FRC's approach in issuing FRS 101 Reduced Disclosure Framework for individual companies within a group and recommend that further work be carried out to gain a better understanding of whether the information needs of users of financial statements of smaller listed and AIM quoted companies differ from those of larger listed companies to a sufficient extent to justify pursuing further the possibility of a differential disclosure framework.

We believe the real issue regarding disclosure is whether International Financial Reporting Standards require more disclosure than is really needed in general purpose financial statements. In this regard, we support the International Accounting Standards Board's (IASB's) various projects pursuant to its Disclosure Initiative and await their outcome. We also believe that there is scope for companies to be more innovative in their presentation and we support initiatives to encourage a move away from boilerplate and a renewed focus on materiality of disclosure and avoiding unnecessary disclosures. We observe that regulators have a role to play here in taking care not to engender a perception on the part of preparers and auditors that they expect disclosures to be provided even if the resulting information is not material.

We welcome the FRC's statement that it will consider providing more clarity around the boundary of what auditors can do to assist management with regard to financial reporting issues, although we also note that implementation of the new EU Audit Directive and Regulation may restrict further the assistance that auditors can provide to management.

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?

Overall, we believe that the proposed actions are a proportionate response to the issues identified and will largely be adequate. However, we believe that parties in addition to the FRC need to take a leading role in driving improvement in the quality of reporting. For example, stock exchanges could become more actively involved in promoting the importance of high quality reporting. Our more detailed observations are set out in the following paragraphs.

Whilst we believe that auditors have an important role to play in driving up the quality of reporting, we believe that the FRC should take the initiative with companies, investors and other users of accounts and encourage them to contribute to improving quality too. The auditor's role is built around the audit opinions given, which relate to truth and fairness and preparation in accordance with the relevant financial reporting framework and applicable legislation. Beyond that, the auditor does not have a formal 'best practice' responsibility and thus has limited leverage once the annual report and accounts have passed the threshold at which unqualified opinions can be given. Other parties, such as investors and other users of accounts, need to take an active role in driving quality and best practice beyond that threshold.

As a key finding set out in the Discussion Paper is that companies are under a misperception regarding the importance of quality to key users of their accounts, we see an opportunity for the FRC to take the lead in encouraging dialogue between companies and users so that companies can gain a better understanding of the importance of their reports and accounts.

We believe that companies need to see investing sufficient time and effort into their financial reporting process from start to finish as a core part of good governance and they need to be able to demonstrate that they meet required standards. Audit committees have a key role to play in this regard. We note that a potential issue for many AIM companies is that their governance structures are less formal than those of companies with a Premium Listing and there may not always be sufficient challenge to management from within the organisation regarding the quality of reporting. However, we caution against imposing increased compliance burdens on AIM companies and believe that the way forward is to encourage best practice, where appropriate through the provision of additional practical guidance.

We see audit committees and those charged with governance as having a central role in engaging with auditors and company management with regard to the quality of reports and accounts. Audit committees and those charged with governance need to see improving the quality of reporting as a key part of their roles. We agree that auditors can do more with regard to reporting to the audit committee and those charged with governance on unadjusted disclosure misstatements and their assessment of the overall quality of the company's financial reporting process including the individuals involved and the resources available to them. However, we also encourage more challenge by audit committees and those charged with governance on aspects of financial and narrative reporting that go beyond compliance with requirements, such as decluttering the accounts and being more innovative in the way in which information is presented.

We encourage the FRC to continue to provide comments to the IASB on proposed new and revised standards, including challenging proposed disclosure and other requirements that appear disproportionate to the benefit likely to be obtained.

We note the FRC's comments on alternative performance measures. Whilst we believe that it is important that such measures are used properly, we caution against introducing rules which may turn out to be over-prescriptive. Instead, we favour an approach of providing guidance on what good looks like. We also believe investors and other users have a role to play in this regard in challenging companies on their use of alternative performance measures.

We welcome the recent reports published by the FRC's Financial Reporting Lab. These can be a useful practice aid for audit committees and company boards and can encourage improvement in the quality of reporting. We see scope for the Lab to carry out further work as part of the FRC's initiative, for example by looking at areas such as disclosure of key judgements and key sources of estimation uncertainty, use of alternative performance measures, the linkage between narrative reports and financial statements and innovative reporting. We agree with the FRC's proposal to encourage more participation in Lab work by smaller quoted and AIM companies, which we believe would be more achievable if those companies had a better understanding of the importance of the quality of their accounts. The FRC's Corporate Reporting Review team also provides useful feedback on their work although, as publication of their reports is often a considerable period of time after their review of accounts, their feedback is not always timely.

We note that one of the FRC's proposed actions relates to ways of providing more focused training to finance staff. We observe that many personnel involved in finance functions in smaller listed and AIM companies have difficulty finding suitable CPD and other training to help them to discharge their functions effectively. We therefore strongly support the FRC's proposed actions in discussing with professional bodies ways of providing more focused training to finance staff and whether the CPD regime could do more to support finance staff in keeping up to date. In addition, we believe that the report provides an opportunity to review whether the examination and qualification requirements for accountants continue to provide sufficient focus on financial reporting expertise.

We agree that the FRC and FCA should consider what might usefully be done in relation to resourcing of finance functions in companies. This might, for example, include looking at the tests that are applied to companies that are seeking to list regarding their resources and capability to deliver corporate reporting of appropriate quality for a publicly traded company.