BUSINESS TIMES

News for AIM-listed companies and their advisers

Welcome to the July edition of the PKF Littlejohn Capital Markets newsletter. This month, we look at some of the key points that have arisen from the recent listed audit season and increasing transparency in respect of corporate reporting. We also continue our three-month 'look ahead' and provide some links to interesting articles that we've seen over the past few weeks.

Audit matters – lessons from the recent listed audit season

Having recently come out of our busiest audit season for a few years, we thought it would be useful to share some of the main issues that we encountered and suggest ideas for how these can be tackled to make the process more efficient in the future.

- **Plan in good time** - Whilst six months may seem like a long time to prepare your accounts and complete an audit, the reality is that many people underestimate the amount of work that needs to be done. An audit timetable should be drawn up well before the actual year end and adhered to; all parties need to be aware of it and monitor it appropriately;
- ***Ask for help*** – Accounting standards are becoming increasingly complex and auditing standards are having to adapt – this means that auditors require more complex and detailed information than in the past. Auditors and management need to recognise this and should not be afraid to ask for help and raise issues as early as possible in the process. It is always easier to resolve something ahead of schedule than at the last minute;
- ***The 'front end'*** – The front end of the financial statements should be completed alongside the 'numbers' section. Timely preparation allows for a more efficient audit;
- ***Acquisitions*** - Identifying and valuing intangible assets arising on an acquisition should be done as early as possible. It is becoming increasingly common for an external valuation process to be undertaken and this is likely to become a prerequisite in the future. As a result, the process and requirements for this work should be identified during planning and factored into the timetable accordingly;
- ***Debrief*** – Schedule a debrief meeting both internally and with your auditors to ensure that problems arising are identified and action plans put into place accordingly.

Changes to AIM audit reports – what does it mean?

The mandatory enhancements to AIM company audit reports for periods commencing on or after 17 June 2016 have started to take effect.

These changes increase the amount of auditor commentary required in 'enhanced' audit reports. This may involve your auditor making commentary on the directors' key judgements and will include a description of the audit scope.

What are the key changes?

Auditors need to determine those key audit matters (KAMs) that require significant auditor attention in performing the audit.

KAMs will include the most significant assessed risks of material misstatement identified by the auditor - including those that had the greatest effect on the overall audit strategy, the allocation of resources in the audit, and the direction of the efforts of the engagement team.

The description of each KAM in the auditor's report will need to include a reference to the related disclosures in the financial statements and address why the matter was considered to be a KAM and how the matter was addressed.
In addition, the auditor's report on AIM companies will now also include:

- an explanation of how the auditor applied the concept of materiality in planning and performing the audit; and
- an overview of the scope of the audit, including an explanation of how the scope addressed each KAM.

Potential consequences

Extra time for drafting disclosures about the risks affecting the business, as well as the critical accounting estimates and judgements used in the financial statements, will need to be built into the audit timetable. There may be cost implications as a result.

Auditors will also need additional time to discuss with clients what they intend to communicate as KAMs in their auditor's report, not least because they may identify key audit matters that differ from the key judgements or risks disclosed elsewhere in the financial statements. It is important that it is understood why something is being communicated as a KAM and those involved are happy with the way that it is described in the auditor's report.

Corporate Reporting Review

The Financial Reporting Council's (FRC) Conduct Committee, the body appointed to review public and large private companies' annual reports and accounts, has recently published revised operating procedures for reviewing corporate reporting. This should improve transparency but will also put companies even more in the spotlight.

The key change will be the publication of the names of companies whose annual reports have been reviewed, together with an outline of the type of correspondence that was entered into and the status of the case. Previously, the FRC has only published the number of accounts reviewed, with 192 accounts reviewed in 2015/16, the vast majority of which were listed on the London Stock Exchange or on AIM.

The FRC has now confirmed that it expects Audit Committee Reports to disclose any interaction with the FRC's Corporate Reporting Review team, as it believes this will enhance users' understanding. Where an Audit Committee Report is not issued, the FRC still expects boards to be transparent about the extent of any interaction with the Corporate Reporting Review function.

Any listed companies receiving letters from the FRC in this regard should be aware of the increased transparency expected. They should ensure that internal procedures are in place to manage the process and make the required disclosures in all publically available documents.

Reporting dates

In each edition of Business Times, we publish a 3 month 'look ahead' for users to identify the key reporting deadlines that are on the horizon. The look ahead to the end of October can be found below:

3 MONTH LOOK AHEAD - Reporting dates for companies

28th August: Public Holiday (markets closed)

31st August: NEX deadline (March year-ends)

7th September: Due date for UK registered AIM entities (March year ends)

29th September: Due date for non-UK registered AIM entities (March year ends)

29th September: Due date for Half-yearly reports (June year ends Premium, Standard & AIM)

31st October: Due date for Premium & Standard Listed entities (June year ends)

Stop press

There has been a change to the Prospectus Rules that takes effect immediately. A listed company is now allowed to issue shares via a non-public offer equivalent to up to 20% of its issued share capital on an annual basis without having to publish a prospectus – double the current limit.

Hot topics

London is named the third best city for business – Read more

Why attitudes to fraud must change – Read more

FCA clarifies rules on investment research for small cap companies – Read more

How to make management appointments work – Read more.

We hope you've found this issue useful. If anyone within your business would like to receive future issues, please send their details to Julia Krol (jkrol@pkf-littlejohn.com).

Our specialist team is here to help. If you would like advice on any of the issues discussed in this newsletter, please contact one of our Capital Markets team.

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