ACCIF
AUDIT COMMITTEE CHAIRS' INDEPENDENT FORUM

Brydon Review Secretariat
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By email: brydonreview@beis.gov.uk

Dear Sir Donald

Independent Review into the quality and effectiveness of audit

Further to our earlier correspondence with you and the others in the review secretariat, we wanted to provide some additional input which we have put together following a meeting we had recently with a leading firm of financial analysts.

The purpose of that meeting was to discuss the information the analysts are using in their work, given that for the investment community they are often closest to the detail. In particular we wanted to understand the reliance being placed by them on the annual report, the preliminary announcement and the usefulness of various additions to reporting including on business models, principal risks, by audit committees and by auditors. Our discussion with them highlighted the following points which we felt would be useful input for your review.

1. Time lag between preliminary results announcements and the annual report

The analysts noted that, for some companies, there can be a significant time lag between the preliminary results announcement and the publication of the annual report. Whilst the analysts noted that the increased reporting on strategy, business model and so forth was helpful, their key analysis is normally undertaken based on the preliminary announcement with the annual report seen as adding context which is more used for subsequent sector thematic reviews. By the time the annual report is published it is really too late to unpick the market reaction to the initial view. If the messaging on key risks is important it needs to be addressed in the preliminary announcement in a focussed and not a generalised manner. The analysts were strongly in favour of a requirement for auditors to report on the preliminary announcement.

2. Content of the preliminary results announcement

The key element of reporting which the analysts felt was missing from the results announcement was in relation to principal risks. There needs to be more colour provided on the principal risks over and above simply a list of what they are. The focus should be on specific risks that remain after taking account of the controls and mitigations in place – analysts want to understand how those risks have changed from the prior year, i.e. new risks, risks removed, risks increasing or decreasing in significance.

3. Lack of consistency in financial reporting

The challenges of comparability of IFRS annual reports were raised by the analysts. It is clear that the IFRS results are rarely used in their analysis due to this lack of consistency; they instead have a real focus on Alternative Performance Measures. One analyst commented that they preferred the standardisation of 20F reporting. In light of the recent introduction of three major new and complex accounting standards, another concern is that it is not always clear what impact the implementation of a new standard has had on the financial statements and what they would have looked like under the previous accounting standard.

It was also made clear to us that the analysts do not significantly use either the Audit Committee Report, the Enhanced Auditor's Report, the Viability Statement or the Going Concern statement for their analysis.

If you would like to explore these points further with us or to discuss your current thinking, please contact me (jocklennox@gmail.com) and we can get a call or meeting organised.

Yours sincerely

Jock Lennox

Jock Lennox
On behalf of the ACCIF board