

April 2017

Discussion Paper - Invitation to Comment: Auditors and Preliminary Announcements

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Registered in England number 2486368. Registered Office:

8th Floor, 125 London Wall, London EC2Y 5AS

Discussion Paper – Invitation to Comment

Auditors and Preliminary Announcements

Executive Summary

1. This FRC discussion paper is intended to stimulate an open discussion about the use and value of preliminary announcements in the UK, and the role of the auditor in respect to such announcements. This will support the updating of our current auditor guidance. This project is linked to further FRC work to identify whether investors have concerns about the tone, content and style of preliminary reports.
2. Preliminary announcements continue to be a major part of the corporate reporting landscape in the UK, despite having been voluntary for listed companies since 2007. The most common approach is for preliminary results to be based on audited information, with the statutory annual report and accounts being issued around one month later (although there is no formal requirement for statutory audits to have been completed). One consequence of this model is that the users of preliminary announcements generally do not have access to the information contained in the auditor's report on the company's financial statements until some weeks (or in rare cases even months) later. A minority of companies publish preliminaries based on unaudited information. Some listed entities have been moving towards a different approach, with the simultaneous publication of annual results in 'preliminary' form alongside the statutory financial statements.
3. The options we identify in this paper are not formal proposals, but rather are intended to encourage a broad community of stakeholders to engage with the issues we have identified. As a result of that process of engagement, and after considering the results of our complementary outreach work with investors, we will revise our auditor guidance and then conduct a public consultation on the outcome. Respondents are encouraged to also share with us other innovative ideas or emerging practice for consideration that fall outside of the scope of the options contained within this discussion paper.

Invitation to comment

4. The FRC is requesting comments on this Discussion Paper by 5pm on Friday, 23 June 2017. Comments are invited in writing on all aspects of the Discussion Paper.

Comments on the Discussion Paper should be sent to:

James Ferris
Project Director
Financial Reporting Council
E-mail: AAT@frc.org.uk

Options

The options we have identified for revising Bulletin 2008/2 are set out in the discussion paper below. In summary they are:

- Option 1 – Converting the current Bulletin 2008/2 into an engagement standard;
- Option 2 – Consulting with other regulators establish a formal requirement that auditors follow FRC guidance when agreeing to the publication of preliminary announcements;
- Option 3 – Extend the scope of the FRC guidance to include voluntary engagements where companies outside of the main UK listed market ask their auditors to agree the release of preliminary announcements;
- Option 4 - Require audits to be complete and the auditor's report on the underpinning statutory financial statements to be signed before preliminary results can be released;
- Option 5 – An auditor's report could be included with preliminary announcements. These reports should confirm the auditor's agreement, describe the extent and scope of their work, and/or set out key information derived from the auditor's report on the statutory financial statements;
- Option 6 – The definition of preliminary announcement in auditor guidance should be revisited, potentially changing the scope of any procedures required for an auditor to agree to publication;
- Option 7 – Auditors could be encouraged or required to make an assessment of whether the material included within the preliminary statements is 'Fair, Balanced and Understandable, mirroring UK Corporate Governance Code Requirements in the respect of the annual report.
- Option 8 – The guidance should be revised to include specific material on the application of materiality;
- Option 9 – auditor guidance should be revised to provide greater clarity about the auditor's responsibilities in respect of 'other information', and more closely aligned to the approach adopted in ISA (UK) 720. Auditors should also be required to have completed their review of 'other information' in the annual report before agreeing to the publication of a preliminary announcement; and
- Option 10 – the material in the guidance which deals with Alternative Performance Measures could be revised to reflect developments in corporate reporting and related guidelines since 2008.

Introduction

5. The purpose of this paper is to stimulate a discussion about ways to enhance the value of preliminary announcements and any assurance provided in respect of those announcements to the user community. Our intention is that this will drive revisions to the auditor guidance contained in Bulletin 2008/2 *The Auditor's Association with Preliminary Announcements made in Accordance with the Requirements of the UK and Irish Listing Rules*. This guidance was last updated in 2008 and requires updating to reflect subsequent changes in law and regulation, as well as in applicable auditing standards. The FRC is also conducting broader outreach work to understand the extent to which investors in the UK are satisfied or dissatisfied with the tone, content and style of preliminary reports and to identify if improvements could be made. We have therefore begun a coordinated programme of stakeholder outreach to determine how best to revise our auditor guidance. This engagement has included discussions with the Financial Conduct Authority as competent authority for listing, as well as with audit practitioners and investors.
6. Our discussion paper is intended to identify some of the options which have been identified in the course of our initial outreach, and to encourage a wider group of stakeholders to contribute to the discussion. We would welcome comments on the options we have identified, as well as other options which we have not yet considered. The comments we receive will be used as part of a project to revise the Bulletin, at the end of which we will have a formal consultation on any changes we propose to make.
7. This paper includes:
 - A brief summary of the key legislative and regulatory requirements which relate to preliminary announcements;
 - Analysis of current practice in the LSE Main Market and AIM markets, based on a survey of c.180 companies; and
 - An evaluation of the current guidance and options for change.

Background – key legislative and regulatory requirements.

8. Companies in the UK are bound by a series of governance, procedural and disclosure requirements which govern the way they communicate information to the market. These include requirements established under UK company law, Financial Conduct Authority (FCA) and UKLA rules (which also implement certain EU requirements) and directly applicable EU regulation¹.
9. The publication of a preliminary statement of annual results has not been a requirement for listed companies in the UK since 2007. However, the UK listing rules [**Rule LR 9.7A.1R**] which apply to companies with a premium-listing require those which choose to produce preliminary announcements to meet certain content requirements:
 - 'if a listed company prepares a preliminary statement of annual results...the statement must show the figures in the form of a table, including the items required for a half-yearly report';
 - They must be disseminated in full text;
 - be agreed by auditors²; and,

¹ For example the Market Abuse Regulation which came into effect on 3 July 2016.

² No guidance is given on what the auditor must do before giving their agreement to the publication of the preliminary announcement.

- in circumstances where the audit report is likely to be modified, details of the nature of the modification must be provided.³

10. In practice, companies tend to go beyond these limited disclosure requirements. In a survey of FTSE companies in 2008, Deloitte noted that the average length was 21 pages, with on average 11 pages of narrative, 3 pages of primary financial statements, and 7 pages of accompanying notes.⁴ The stakeholders we have surveyed, as part of our more recent research, have noted a continued proliferation of information to stakeholders, with many companies now delivering a sophisticated package of information across multiple platforms – including the use of webcasts and other digital formats.

11. In accordance with the Companies Act 2006 (CA 2006), preliminary statements are defined as “non-statutory accounts” which are:

(a) any balance sheet or profit and loss account relating to, or purporting to deal with, a financial year of the company, or

(b) an account in any form purporting to be a balance sheet or profit and loss account for a group headed by the company relating to, or purporting to deal with, a financial year of the company,

otherwise than as part of the company's statutory accounts⁵

The Companies Act sets certain requirements in connection with the publication of non-statutory accounts, including a statement about the auditor's report, which apply to all companies:

(c) whether an auditor's report has been made on the company's statutory accounts for any such financial year, and if so whether the report—

(i) was qualified or unqualified, or included a reference to any matters to which the auditor drew attention by way of emphasis without qualifying the report, or

(ii) contained a statement under section 498(2) (accounting records or returns inadequate or accounts or directors' remuneration report not agreeing with records and returns), or section 498(3) (failure to obtain necessary information and explanations).⁶

Companies must not publish with non-statutory accounts the auditor's report on the company's statutory accounts.⁷

³ <https://www.fca.org.uk/publication/ukla/tn-502-1.pdf>.

⁴ <http://www.mondaq.com/x/80100/Corporate+Governance/Down+The+wiRe+Surveying+Preliminary+Announcements+Part+1>

⁵ Companies Act 2006, s.435 (3)

⁶ Companies Act 2006, s.435 (1c)

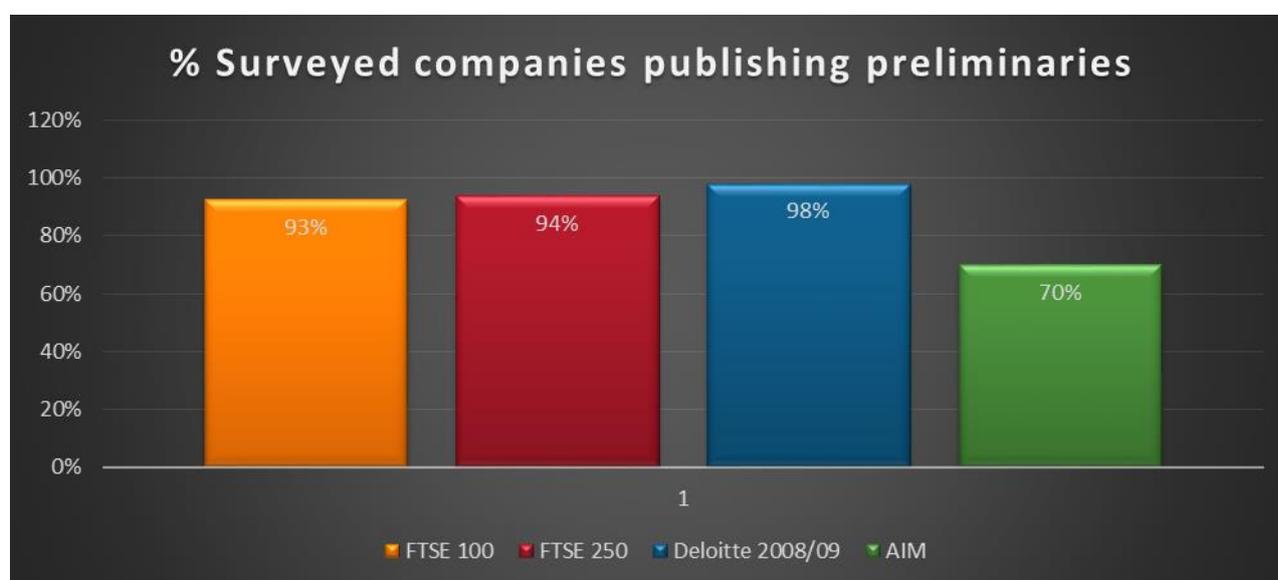
⁷ Companies Act 2006, s.435 (2)

Preliminaries – current practice

12. In order to better understand current practice in corporate financial reporting and audit relating to the announcement of year-end results, we conducted a random survey of 180 companies listed on the UK's main market (FTSE 100 and FTSE 250) and the Alternative Investment Market (AIM). Our analysis was supplemented by the results of a similar survey of 130 listed (FTSE only) companies carried out by Deloitte in 2008/09, shortly after preliminary announcements were made voluntary rather than being required under the UK Listing Rules.⁸

Who issues Preliminaries?

13. The practice of issuing preliminary announcements of annual financial results continues to be commonplace in the UK listed market – including AIM – representing a total of 74% of all of the companies we surveyed. We found that the proportion was significantly higher for companies listed on the main market – at over 90% - which is consistent with the findings of the 2008/9 survey. [Table 1 below sets out the detailed breakdown.]



[Table 1]

14. Deloitte noted in 2008/09 that their results indicated that:

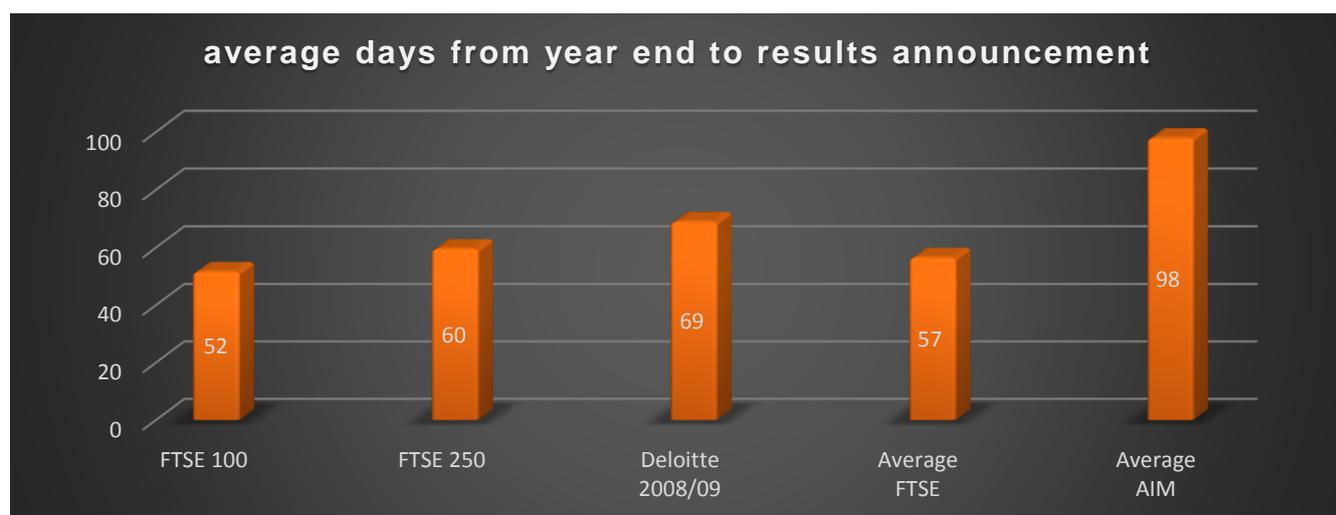
*Any significant deregulatory benefit from the 2007 rules changes has not been achieved. Market practice and the need to announce price sensitive information have meant that preliminary announcements have continued.*⁹

15. Our review suggests that there has been, at most, a very minor reduction in the number of published preliminaries in the subsequent decade, and that when considered alongside the results of our survey of users of this information, the regime has endured because of the value investors place upon it.

⁸<http://www.mondaq.com/x/80100/Corporate+Governance/Down+The+wiRe+Surveying+Preliminary+Announcements+Part+1>

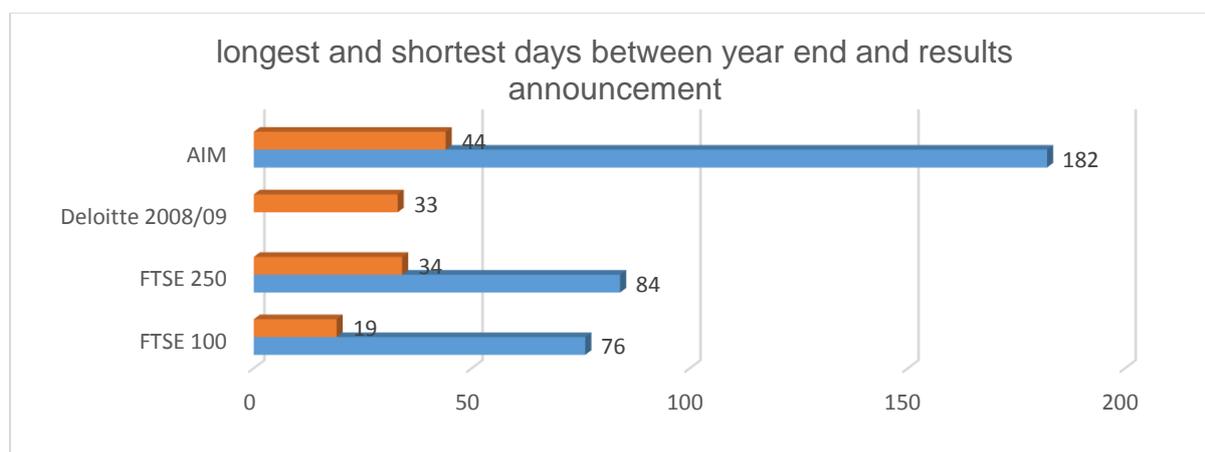
⁹<http://www.mondaq.com/x/80100/Corporate+Governance/Down+The+wiRe+Surveying+Preliminary+Announcements+Part+1>

How long after year end are preliminaries typically published?



[Table 2]

16. The table above compares the average number of days after the financial reporting year end that the companies in our survey published their preliminary year-end results. This indicates consistent results throughout the main market, with some evidence that reporting timetables have shortened since Deloitte completed their review in 2008/09. This analysis is significant because it provides some insight into the time available for auditors to complete their audits, and whether any significant revision to assurance procedures or guidance might impact on the quality of the audit assurance being delivered. We have not found this to be the case, however, where auditors have implemented extended auditor reporting, and also brought forward the timetable for signing an audit opinion. This is discussed further below. Table 3 does demonstrate that there are potentially significant variations in individual performance below this average – particularly for AIM companies.



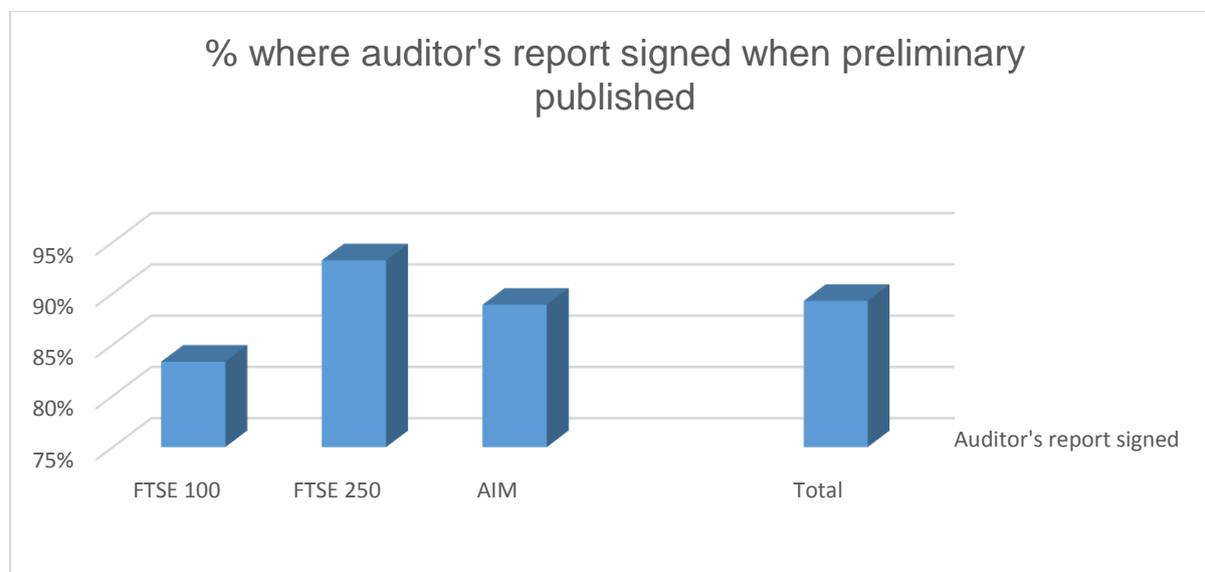
[Table 3]¹⁰

How many auditor's reports are signed when preliminaries are issued?

17. Our survey indicates that in the vast majority of cases auditor's reports have been signed on or before the date of preliminary announcements. This is consistent between different segments of the listed markets we looked at (with the FTSE 100 the lowest at 83%). The

¹⁰ Note that this analysis only includes those companies who issue a preliminary announcement of final results before their annual report and accounts. Deloitte did not provide comparable data for the longest gap between the year end and preliminary results.

auditor's report can only be signed when the auditor has concluded that they have obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement.¹¹ Our discussions with stakeholders has also suggested that the Board of Directors in listed companies generally expect that the information which they approve for preliminaries represents the 'final' figures for the year, and should therefore have been derived from statutory financial statements where the audit is effectively complete.



[Table 4]

18. Two inferences can be drawn from the evidence we have obtained:

- In the great majority of cases companies and directors wait until the auditor's report has been signed before approving and issuing their preliminary results. This is consistent with the 'low risk' approach implicitly endorsed by the FRC's current Bulletin 2008/2;
- In general, auditors are able to meet the expectations this creates and conclude their audits in time to comply with the timetable for reporting results.

19. The close relationship between the completion of the audit and companies issuing their preliminaries is highlighted by the fact that the auditor's reports we reviewed were generally signed on the day before, or the actual day of the announcement.

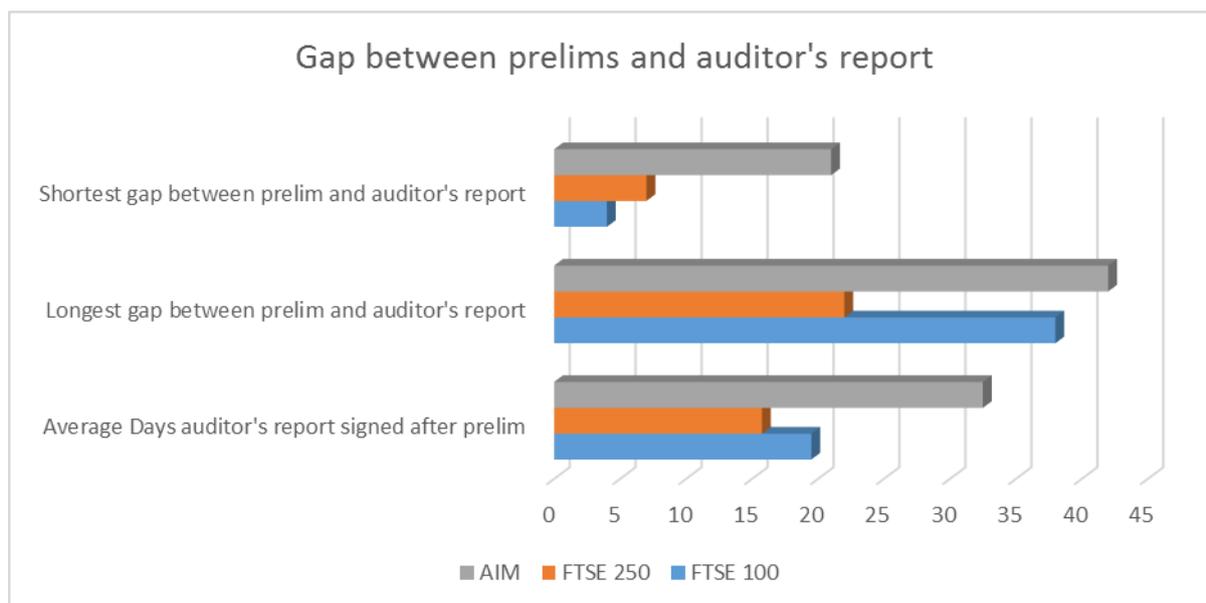
20. One assumption which might be made in respect of the population of companies who published unaudited results, is that they are generally following a tighter reporting timeframe. The evidence from our survey is not conclusive – but it does suggest this may be a contributory factor. The average time for a company to publish 'audited' results was 73 days, and 67 for those producing unaudited reports. Unaudited results represented 11% of the population of companies producing preliminaries but 30% of the fastest 20.

How long before the auditor's report has been signed is information issued in preliminaries?

21. Table 5 below is based on information from those companies in our survey who reported final results based on unaudited information. It sets out the average gap in days between

¹¹ ISA (UK) 700, para.11.

these preliminaries and the subsequent date of the auditor's report. This suggests that the average time to complete the audit after the preliminary results have been issued is 2-3 weeks for a main market company, and a little over a month for those on AIM. In the main market this ranged from as little as 4 days to as many as 38. The data suggests that any requirement for an audit to be completed before auditors can agree to the publication of a preliminary could have a relatively significant impact on the reporting timetable for a small population of premium listed companies – and even more if any such requirement was extended to AIM.



[Table 5]

Alternative Investment Market (AIM)

22. We reviewed a random sample of 77 company websites from the AIM all-share list. Although fewer of these entities published preliminary statements, 70% still did, which indicates how common the practice is across the market. The content of these statements was broadly similar to those in the main listing, although the volume of accompanying material (e.g. Investor analysis, webcasts and presentations) tended to be lower than for the main market.
23. AIM has no equivalent to Rule LR 9.7A.1R in the official market Listing Rules which requires companies to agree the content of preliminary announcements with their statutory auditors, and to disclose information about likely modifications to the auditor's report. AIM companies do have to comply with the EU Market Abuse Regulation and relevant statutory disclosure requirements including those contained in the Companies Act 2006. This includes providing information about a qualification or Emphasis of Matter in an auditor's report covering any part of that information.
24. Despite the fact that there is significant similarity in the information, and importance of the information being published by AIM companies, only 1 of the 54 companies which published preliminaries included an explicit confirmation that the release had been agreed by the auditor.

Bulletin 2008/09 - The Auditor's Association with Preliminary Announcements made in Accordance with the Requirements of the UK and Irish Listing Rules¹²

25. This section of our paper provides an overview of the current guidance, and uses this as the basis for discussion points or 'options'. These are not intended to be formal proposals, but suggestions for areas where further discussion or stakeholder feedback would be useful. We also do not necessarily consider this to be a definitive list, and would welcome views on other issues or options we should consider. For example, we are currently proceeding on the basis that there is still a need in the market for auditor guidance, or perhaps even a standard, in relation to the procedures auditors perform on preliminaries. This is based on our preliminary engagement with stakeholders. However, we would welcome alternative views if there are any.

Status of current guidance

26. Current guidance for auditors who are engaged to agree to the publication of preliminary results under UK Listing Authority rules is contained in Bulletin 2008/2. Bulletins have the status of 'guidance' rather than standards, and are therefore 'persuasive rather than prescriptive' and are 'indicative of good practice'. Bulletins do not deal with the application of auditing standards to specific sectors or types of transaction, but are designed to provide 'timely guidance on new or emerging issues'.¹³ The revision to this Bulletin carried out in 2008 was intended to reflect the then recent changes in the listing rules which: removed the mandatory requirement for listed entities to publish a preliminary announcement of results; and, required details of any likely modification to the auditor's report to be included when any such announcement was made.

27. Since the listing rules do not indicate what the form of agreement should be or the extent of work to be done by the auditor the:

....Bulletin provides guidance on the procedures that would normally be carried out by the auditor and on communicating the outcome of such procedures to the directors.¹⁴

¹² Note that the implementation of the EU Audit Regulation and Directive from 17 June 2016 means that the FRC no longer has authority to issue auditing standards and guidance for the Republic of Ireland. This is now the responsibility of the Irish competent authority for audit, the Irish Auditing and Accounting Supervisory Authority.

¹³ FRC, *Scope and Authority of Audit and Assurance Pronouncements*, para. 13.

¹⁴ Bulletin 2008/2, para 5

The Bulletin represents guidance and does not therefore contain mandatory requirements

Our preliminary engagement with stakeholders, including a survey of the primary users of preliminary announcements, has highlighted their continuing significance in the market. The current status of our guidance as 'persuasive rather than prescriptive' means that we can highlight areas of good practice, and set out a series of 'procedures that would normally be carried out'. If we replaced the current Bulletin with an engagement standard, similar to the Standards for Investment Reporting (SIRs) and the Client Assets Standard, we could set required procedures which would have to be applied consistently by all auditors involved with these engagements.

Alternatively the relevant regulators could establish a requirement that when preliminaries are disclosed that auditors should be aware of the relevant FRC guidance, and be prepared to explain where they chose not to follow it in the conduct of an engagement.

Option 1 – Convert the current Bulletin 2008/2 into an engagement standard.

Option 2 – Regulators to establish a requirement that auditors follow FRC guidance when agreeing to the publication of preliminary announcements.

The Bulletin currently only applies to auditors of entities listed on the LSE main market in the UK

This is despite evidence that the great majority of companies listed on AIM also issue preliminary announcements. By implication, the information published in these circumstances is as market sensitive as that which pertains to main market companies.

There is no requirement for companies to agree the release of preliminary announcements with auditors for AIM companies, nor is there any requirement for companies to disclose a 'likely' modification of an auditor's opinion (as opposed to an actual modification or emphasis of matter in respect of audited results which is the Companies Act requirement). However, stakeholders including users of prelims may see value in the application of our guidance to circumstances where AIM companies voluntarily engage their auditors to agree the release of preliminary announcements.

Option 3 – Extend the scope of the FRC guidance to include voluntary engagements where companies outside of the main UK listed market ask their auditors to agree the release of preliminary announcements.

Auditor's Agreement to publish preliminaries

28. There is currently no requirement for an audit to have been completed and the auditor's report on the statutory financial statements to have been signed when preliminary results are published. Neither is there a requirement in the Listing Rules, or in any auditing standard or equivalent, for the audit of a set of financial statements to have progressed to a particular stage of completion before the information is released. The only requirements – as opposed to guidance on best practice – are those contained within the Listing Rules and discussed above, and which require companies listed on the main market to get agreement from their statutory auditor to publication.

29. Bulletin 2008/2 highlights the risks associated with publication before the auditor's report has been signed, which implicitly may suggest that best practice would be to wait for the audit to have been completed:

Although the APB would not wish to prevent the auditor from agreeing the release of preliminary announcements before the auditor's report has been signed there is, in such circumstances, an unavoidable risk that the company may wish to revise its preliminary announcement in the light of audit findings or other developments arising between the preliminary announcement being issued and the completion of the audit.¹⁵

30. Our discussions with stakeholders have identified a series of issues to consider about the current approach:
- Investors are not a homogenous community, and depending on their specific role, and the resources available to them, may approach different information sets in different ways. Some investors value the information provided in preliminaries more than they do that contained in the statutory financial statements. This means that the statutory financial statements may be more valued for their confirmatory value about the integrity of the preliminary information. Others, including many longer term investors, may place greater reliance on the statutory financial statements and detailed disclosures. This means that stakeholder views may differ about the value of any change – for example if the FRC was to stipulate in a requirement that the auditor's report should be signed before the auditor can agree to a preliminary announcement.
 - Investors generally want information about company performance as soon as possible. The research we have conducted suggests that the premium listed reporting timetable has shortened over the past decade, which is consistent with broader stakeholder feedback. However, investors and others are aware of the potential trade-offs between speed and quality, and accept that trust and confidence in published information is critical. Our survey of investors suggests that although 70% of respondents told us that they would find it valuable to have a more definitive indication of the status and results of the statutory audit in a preliminary announcement, a majority did not want it to be at the expense of a delay in information being released.
 - There is very limited broader understanding about what the current role of an auditor is in respect of preliminary information. It was common for us to hear from investors about a range of implicit assumptions being made in a very general sense that auditors had 'seen' the 'numbers' in a preliminary announcement and were 'broadly happy' with them. Similarly, those who prepare and approve results announcements told us that they often make assumptions about the integrity and 'finality' of the information being released – including the extent to which auditors have 'approved' them. In both cases these assumptions seem to lack detailed knowledge about what the role and responsibilities of auditors actually are. This suggests to us that there is a significant risk of an expectation gap which should be addressed in our revision of Bulletin 2008/2.
 - Any proposals nevertheless clearly need to be proportionate to risk. The stakeholders we have spoken to and surveyed suggested that it was relatively rare to see significant or material changes in information between preliminary announcements and the statutory financial statements.
31. The results of our survey of companies demonstrates that the great majority (89%) issue preliminary announcements based on audited information. Main market companies that report based on unaudited figures require an average of 2-3 weeks after the preliminary for their audit to be complete, and a month for AIM companies. This suggests that any requirement for an audit to be completed before auditors can agree to the publication of a

¹⁵ Bulletin 2008/2, para 8

preliminary could have a relatively significant impact on the reporting timetable for a minority of premium listed companies – and even more if any such requirement was extended to AIM.

32. One further factor to consider is that although there is no current requirement for auditors to have progressed to a particular stage of completion before agreeing to information being released, the guidance in Bulletin 2008/2 is explicit about best practice. In order to agree to the release of preliminary information the auditor of a main market company should have progressed the audit to an '**advanced stage**':

....and that, subject only to unforeseen events, the auditor expects to be in a position to issue the auditor's report on the financial statements incorporating the amounts upon which the preliminary announcement is based, and know what that auditor's report will state.¹⁶

This means completing the audit, including the engagement quality control review as described in paragraphs 38 to 40 of ISA (UK and Ireland) 220....subject only to the following:

- a) Clearing outstanding audit matters which the auditor is satisfied are unlikely to have a material impact on the financial statements or disclosures insofar as they affect the preliminary announcement;*
- b) Completing audit procedures on the detail of note disclosures to the financial statements that will not have a material impact on the primary financial statements and completing the auditor's reading of 'other information' in the annual report....;*
- c) Updating the subsequent events review to cover the period between the issue of the preliminary announcement and the date of the auditor's report on the financial statements; and*
- d) Obtaining final signed written representations from management and establishing that the financial statements have been reviewed and approved by directors.¹⁷*

33. We spoke to audit practitioners who told us that a degree of judgement is exercised in any assessment of whether these conditions have been met – particularly in respect of procedures and review of detailed disclosure notes in the financial statements and in determining whether outstanding issues are likely to have a material impact. Nevertheless, the current guidance provides a reasonably detailed set of criteria to frame that exercise of judgement, and perhaps ensure consistent practice.

¹⁶ Bulletin 2008/2, para 20

¹⁷ Bulletin 2008/2, para 21

Auditor’s Report on statutory financial statements do not have to be signed before auditors can agree to the publication of preliminary announcements.

A revision to the FRC’s auditor guidance could state that best practice going forward should be for audits of statutory financial statements to be complete before auditor consent can be given to the publication of preliminary announcements. This could become a formal requirement if an engagement standard was issued to replace the Bulletin. This approach would have the advantage of mitigating the risk that information included in the preliminary announcement is materially misstated when compared to the statutory financial statements. It would also provide preparers and users with greater certainty about the status of the audit, and limit the risk of inconsistent judgements being made by auditors. Our survey suggests that any such change would not impact on a significant majority of listed companies (both main market and AIM) who already publish audited information. This would limit the risk that shortened reporting timetables could have a negative impact on the quality of audit.

However, few of our stakeholders could identify an occasion when the risk of information changing between preliminaries and the statutory accounts had crystallised. This suggests that this change may not be proportionate, particularly since there could potentially be a significant impact on either the reporting or auditing timetable for a minority of listed companies. In addition, current guidance also sets out a fairly extensive list of conditions which must be met before an auditor should agree to the preliminary announcement being released

Option 4 - Require audits to be complete and the auditor’s report on the underpinning statutory financial statements to be signed before final results can be released.

Auditor’s Reports

34. Companies are not required to provide an auditor’s report on preliminary announcements, although they must comply with the Companies Act and FCA/UKLA disclosure requirements set out in the introductory section of this paper. The FRC auditor guidance in Bulletin 2008/2 “encourages the auditor” to make explicit its agreement to publication by sending a letter to the directors – similarly where it disagrees.¹⁸ When the Bulletin was issued the then APB took the view that it was appropriate for the preliminary not to include an auditor’s report:

*....as it is unlikely that a communication, that contains both a clear expression of opinion and sets out the information necessary for a proper understanding of that opinion, can be developed without producing a report of excessive length and complexity.*¹⁹

35. Since 2008, the FRC has implemented significant reforms to auditor reporting in the UK, alongside changes made by the IAASB to International Standards on Auditing (ISAs). The new ‘extended’ auditor’s reports now contain significant additional material on the auditor’s assessment of risk and key audit matters, on materiality and on the scope of the audit. This is information which investors and others have welcomed, and which has put the UK at the forefront of best practice internationally. There are two potential consequences of these developments:

- In the vast majority of cases when preliminary announcements are made the auditor’s report on the statutory financial statements has been signed. Since the information in

¹⁸ Bulletin 2008/2, para 33

¹⁹ Bulletin 2008/2, para 9

the preliminary is drawn directly from, or derived from the statutory financial statements, then the auditor's report may contain information relevant to the users of preliminary statements. The existence of this information in a report format may address the concerns about 'excessive length and complexity' articulated by the APB in 2008.

- Extended auditor reporting was intended to help reduce any expectation gap between the users of financial statements and auditors. The fact that some users have a greater focus on the information included in preliminary announcements than in the statutory financial statements has the potential to dilute the benefits of this reform unless some of this information is also included with the preliminary announcement. We have already noted that there appears to be a lack of detailed understanding about the role of auditors in respect of preliminary announcements. This creates a risk of a further expectation gap that could be addressed through an additional reporting requirement.

36. Simply including a copy of the full statutory auditor's report is not an option, since preliminary announcements constitute 'non-statutory' accounts under s435 of the Companies Act 2006, and therefore companies *must not publish with non-statutory accounts the auditor's report on the company's statutory accounts*.²⁰ A form of bespoke reporting may therefore be appropriate which could:

- Provide clarity on the scope and extent of the work carried out by the auditor in respect of the preliminary announcement;
- Ensure that the value of an independent view on the published material enhances the confidence of users in that information. This means that auditors can give an independent view of the key issues arising from their audit to complement those aspects of the business and its performance that the directors have chosen to highlight;
- Communicate with greater clarity the status of the audit on the underpinning statutory financial statements;
- Include relevant information about Key Audit Matters, the scope of the audit and materiality that are included in the auditor's report on the statutory financial statements.

²⁰ Companies Act 2006, s.435 (2)

Auditors are not required to publish a report in respect of preliminary announcements

It would be useful to have views on the content of any auditor's report on preliminary announcements, in addition to the more binary issue of whether one should be required at all. For example, how much information included in the report on the statutory financial statements would be useful and/or relevant, and how much information should be provided about the nature of the work done by the auditor to agree to the publication of the preliminary.

Option 5 – An auditor's report could be included with preliminary announcements. These reports should confirm the auditor's agreement, describe the extent and scope of their work, and/or set out key information derived from the auditor's report on the statutory financial statements.

Scope and Definition

37. As we noted earlier in this paper, many companies include a significant amount of additional information in their preliminary announcement, or published alongside it. There is also increasing sophistication and variety of forms of communication – from more interactive digital publications, to webcasts, analyst presentations and video. When the APB last revised the guidance they took the view that:

Many companies provide more information in their preliminary announcement than that minimum requirements of the Listing Rules. In the opinion of the APB it is neither practical nor desirable for the auditor to agree anything less than the entire content of the preliminary announcement.²¹

In this Bulletin the term "Preliminary Announcement" encompasses:

- a) The disclosures required to be made by United Kingdom Listing Authority (UKLA) Listing Rule 9.7A.1R....; and*
- b) Other additional information (highlights, Chairman's Statement, narrative disclosures, management commentary, press release etc.) that is released to a Regulatory Information Service as part of a preliminary announcement.*

Any presentation to analysts, trading statement, interim management statement or half-yearly financial report is not included within the definition of a preliminary announcement.

38. One challenge is to ensure that the definition of the scope of any engagement is clear to all parties including auditors, companies and users of the information. A second is to ensure that the position articulated in 2008 by the APB is still fit for purpose in the current environment.

²¹ Bulletin 2008/2, para 6

Is the definition of a preliminary announcement and therefore the scope of an engagement in respect of preliminary announcements still fit for purpose?

We would welcome views on whether the definition in the current guidance is still fit for purpose, and whether it should be expanded (or narrowed)

Option 6 – the definition of preliminary announcement in auditor guidance should be revisited, potentially changing the scope of any procedures required for an auditor to agree to publication.

Procedures

39. The APB Bulletin sets out the *procedures... [that]... will normally be carried out* by auditors when agreeing to the publication of a preliminary announcement.²² These are:

- Checking figures have been ‘accurately extracted’ from the audited or draft financial statements and reflect their presentation there;
- Whether ‘the information’ is consistent with contents of annual report of which the auditor is aware;
- Whether the financial information is ‘misstated’, *a misstatement exists when the information is stated incorrectly or presented in a misleading manner*²³
- Whether minimum regulatory and legal disclosures have been made.²⁴

40. The focus of these suggested procedures is therefore to check consistency with the statutory financial statements, rather than necessarily with the internal consistency of the information in the preliminary announcement ‘package’ itself. This is not limited to the accuracy of any extraction, but also deals with potentially misleading presentation of information. One option, therefore, when revising our guidance, is to require the auditor to make an assessment of whether the material that has been prepared is Fair, Balanced and Understandable thus mirroring the requirement that the UK Corporate Governance Code places on Boards in respect of an entity’s annual report.

41. The current version of the Bulletin does not provide any guidance on whether and how to apply the concept of materiality, and the extent to which this might be the same or different to how materiality is defined in the context of the audit of the statutory financial statements:

*Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.*²⁵

The current bulletin does not provide any explicit guidance on the application of the concept of materiality to these engagements.

Option 7 – Auditors could be encouraged or required to make an assessment of whether the material included within the preliminary statements is ‘Fair, Balanced and Understandable, mirroring UK Corporate Governance Code Requirements in the respect of the annual report.

²² Bulletin 2008/2, para 23

²³ Bulletin 2008/2, para 23

²⁴ Bulletin 2008/2, para 24

²⁵ ISA (UK) 320, para 2.

Option 8 – The guidance should be revised to include specific guidance on the application of materiality.

Management Commentary

42. In addition to the procedures described above, the auditor is asked to read the management commentary, ‘any other narrative disclosures’; ‘any final interim figures’, and considers whether they are ‘in conflict’ with information obtained in the course of the audit (and draft financial statements). If they cannot resolve any inconsistencies through discussion with the directors then the auditor “withholds its consent to the publication of the preliminary announcement.”
43. Preliminary announcements are explicitly excluded from the scope of ISA (UK) 720 *The Auditor’s Responsibilities Relating to Other Information*, which was revised in 2016. ISA (UK) 720 now contains a more explicit explanation of the auditor’s responsibilities in respect of Other Information (including statutory other information), and the procedures to be followed to identify and resolve potentially material discrepancies. The model contained within ISA (UK) 720 may therefore represent a more appropriate framework for these engagements than the approach suggested in Bulletin 2008/9 – for example by applying the concept of materiality, being more explicit about the auditor’s responsibilities to obtain and consider ‘other information’.
44. We further note that the Bulletin currently allows auditors to agree to the publication of preliminaries before they have completed:

....audit procedures on the detail of note disclosures to the financial statements that will not have a material impact on the primary financial statements and completing the auditor’s reading of ‘other information’ in the annual report....²⁶

45. The completion of the review of ‘other information’ and of ‘statutory other information’ – should be a prerequisite to enable the auditor to complete their review of the preliminary announcement in an informed and meaningful way.

The Bulletin’s approach to consistency of other information does not fully reflect the current approach adopted in ISA (UK) 720

Option 9 – auditor guidance should be revised to provide greater clarity about the auditor’s responsibilities in respect of ‘other information’, and more closely aligned to the approach adopted in ISA (UK) 720. Auditors should also be required to have completed their review of ‘other information’ in the annual report before agreeing to the publication of a preliminary announcement

Alternative Performance Measures

46. Bulletin 2008/2 deals with the issue of the use of Alternative Performance Measures (APMs), and the risk that they can be misleading. This can arise from giving them ‘undue prominence’, or through the use of measures which are similar but not identical to commonly used APMs.
47. Auditors are therefore asked to consider whether:
- Appropriate prominence is given to statutory financial information and related narrative ‘compared to the prominence given to APMs’;

²⁶ Bulletin 2008/2, para 21

- APMs are reconciled to the statutory financial statements;
- APMs are clearly and accurately described; and
- APMs ‘not otherwise misleading’ in the ‘form and context’ in which they appear.

48. There have been a number of significant financial reporting developments linked to the use of APMs since this guidance was revised. This includes the ‘Guidelines on Alternative Performance Measures’ (“the Guidelines”) issued by the European Securities and Markets Authority (“ESMA”). The FRC continues to publish thematic reviews of the ways in which companies use APMs in the UK.

49. There is therefore an argument that any revised guidance should reflect these developments, and provided more granular guidance on how they could or should consider the use of APMs in preliminaries. The guidance might further be enhanced by providing more guidance on how auditors should assess whether APMs have ‘undue prominence’.

There have been significant financial reporting developments relating to APMs which could be reflected in the updated guidance.

We would welcome views on whether it is appropriate to expand this section of the Bulletin, or whether there is sufficient new guidance elsewhere (for example the ESMA guidelines and work being done by the professional institutes) to obviate the need to expand this material. In addition, we would welcome commentary on whether more guidance would be helpful when auditors are considering the relative prominence of APM and statutory financial information.

Option 10 – the material in the guidance which deals with Alternative Performance Measures could be revised to reflect developments in corporate reporting and related guidelines since 2008.

Appendix

Sample size

Market Segment	With Prelim	Without Prelim	Total
FTSE 100	37	3	40
FTSE 250	59	4	63
AIM	54	23	77
Total	150	30	180



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