

23 June 2017

James Ferris
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By email to: aat@frc.org.uk

Dear Mr Ferris

Discussion Paper – Invitation to Comment: Auditors and Preliminary Announcements

Deloitte LLP welcomes the opportunity to comment on the Discussion Paper – Auditors and Preliminary Announcements.

We welcome the FRC's decision to revisit and consult on Bulletin 2008/2 (the Bulletin) in respect of preliminary announcements.

To summarise our main points in responding to this Discussion Paper:

- It is both necessary and timely to update the Bulletin in respect of preliminary announcements.
- No major change is needed to the responsibilities of companies or auditors in respect of preliminary announcements.
- Companies should continue to be able to publish a preliminary announcement when the audit is at an "advanced stage" but not yet complete, subject to their auditor's agreement.
- There is value to investors in receiving an auditor's report on key audit matters with the preliminary announcement and we encourage the FRC to explore that option further with companies and investors.

The Auditing Practices Board (APB) last consulted on the auditor's responsibilities relating to preliminary announcements in 2007 following Listing Rules changes which meant that it was no longer an obligation for all companies to issue a preliminary announcement. The Bulletin also reflected the introduction of International Standards on Auditing (ISAs).

There has been significant change in the annual report since that point, with the introduction of the strategic report and other amendments to the narrative reporting element of the annual report. New Guidelines on Alternative Performance Measures have been issued by the European Securities and Markets Authority (ESMA), there have been significant changes to ISAs themselves, to the auditor's responsibilities relating to narrative reporting and to the structure and content of the auditor's report. Apart from any proposed changes arising from this consultation, the references and terminology in the Bulletin are no longer current.

We agree it is timely to bring the guidance for auditors up to date and welcome clarification of the auditor's responsibilities in respect of the preliminary announcement.

Overall, our view is that the existing regime regarding preliminary announcements provides sufficient flexibility for companies and sufficient confidence for investors. Companies have sufficient flexibility to choose to publish a preliminary announcement or to distribute their annual report. They are able to wait until the annual report and audit is complete before publishing a preliminary announcement or – to meet timing or investor demands – publish a preliminary announcement when the audit is at an “advanced stage”. Where the audit is not yet complete, the fact their auditor must agree to the publication and that there is clear guidance in the Bulletin on what an “advanced stage” means provides confidence for investors.

Auditors should continue to be able to agree to the publication of “unaudited” preliminary announcements as providing valuable and timely information for investors.

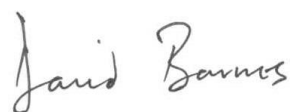
The option to include an auditor’s report in the preliminary announcement is something which we have already done for a number of clients and the concept has been well-received by investors. So far these reports have included key audit matters and our audit response to those matters. Our conversations with investors indicate that they find it useful to see the preliminary information and an auditor’s report at the same time. We believe it serves to demonstrate the role and relevance of the audit and indeed it would be helpful to encourage assurance over alternative performance measures (APMs), many of which are of great interest to investors but are not currently audited.

In addition to our comments above, we have set out our responses to the detailed options raised in the Discussion Paper in Appendix 1 to this letter.

However we also strongly believe that it is important that the FRC consider the preliminary announcement and the involvement of the auditors therein as part of the overall annual reporting process and potential changes to corporate reporting in the round. As a whole, the goal is for companies to provide timely, relevant and reliable information to investors. Any changes to the nature of reporting or assurance on the preliminary announcement must be sufficiently flexible to accommodate potential changes arising for example from technology developments.

We would be happy to discuss our letter with you. If you have any questions, please contact me or Corinne Sheriff on 020 7007 8368 or csheriff@deloitte.co.uk.

Yours sincerely



David Barnes
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Appendix 1 Comments on detailed options

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

We agree there should be definitive guidance the auditor can refer to with the force of the FRC behind it. In our experience, audit firms, our regulators and companies have been prepared to accept the existing Bulletin as the equivalent of a standard and treat it as representing this definitive guidance. Therefore we do not think that converting the Bulletin into an engagement standard is a priority if it could cause additional complexity or delay.

Option 2 – Consulting with other regulators [to] establish a formal requirement that auditors follow FRC guidance when agreeing to the publication of preliminary announcements

We agree that it is helpful for regulators to have the same requirements and expectations of companies and auditors and that ongoing dialogue is critical. We therefore encourage the FRC to liaise with the FCA regarding any changes to the auditor's regime relating to preliminary statements of annual results and to ensure that their approach is consistent.

We believe the main complexity would arise with respect to non-UK issuers. Many non-UK issuers are audited by non-UK auditors applying ISAs which do not contain the changes the FRC has made to reflect UK requirements. Although there is a great deal of consistency between ISAs and ISAs (UK), there are certain differences including in terms of the auditor's report (ISAs 700 and 701) and the auditor's responsibilities relating to other information in the annual report (ISA 720). One such difference is that, in the UK, a misstatement of the other information also exists when the statutory other information has not been prepared in accordance with the legal and regulatory requirements applicable to it.

Another key difference is that ISA (UK) 700 does not permit the auditor to sign the auditor's report earlier than the date on which all the other information has been approved by those charged with governance and the auditor has considered all necessary available evidence. Under non-UK ISAs, the auditor can list other information expected to be obtained after the date of the auditor's report.

Depending upon which options are followed, it will be important to ensure that companies and investors can be confident that the work performed by non-UK auditors on the annual report, the preliminary information and their agreement to its publication does not offer the possibility of misunderstanding the work carried out.

The update to the Bulletin should therefore consider additional explanatory material and certain changes, for example calling on the auditor to report explicitly on what elements of the annual report have not yet been read – thus dealing with the difference in the ISAs with regard to whether other information has been approved and read prior to the signing of the auditor's report.

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

We agree with this. We consider the auditor's agreement to the release of preliminary statements of annual results is vital to enhance confidence in the markets regardless of which market the company is listed / quoted on.

Currently Deloitte's practice is to include as part of our engagement terms the requirement for our agreement to the release of preliminary statements of annual results for all companies with listed / quoted securities. So our audit teams already apply the Bulletin to these other "voluntary engagements", including AIM companies.

We do recognise that there can be a significant difference in the quality of preliminary announcements published by certain smaller and AIM companies and the introduction of this option could help to reinforce the importance of a sound preliminary announcement for all companies. We also highlight the importance of the role of management, overseen by the audit committee, in providing all necessary information to the auditor to get to the stage of the auditor's agreement to the release of preliminary statements in a timely fashion.

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

We believe this is a question for the FCA and for investors.

We agree with the FRC’s observations that the majority of listed companies continue to issue a preliminary announcement to the markets some weeks before their annual report is published. Our most recent figures derived from our Annual Reporting Insights survey, conducted annually, show that for the last few years, around 10% of quoted companies publish an “unaudited” preliminary announcement – this is broadly consistent with the FRC’s research outlined in the discussion paper.

Under the current Bulletin, the audit must be at an “advanced stage” of completeness for the auditor to agree to the publication of a so-called “unaudited” preliminary announcement. Paragraph 20 explains that this means “the auditor will need to be satisfied that any matters outstanding with respect to the audit will be unlikely to result in changes to the information contained in the preliminary announcement... subject only to unforeseen events”. There is further guidance on how the auditor can interpret this requirement.

Given the requisite advanced stage of completeness, we are not convinced that any small amount of additional protection for investors would be proportional to the delays, costs and inconvenience that might result for companies. However, we acknowledge that there is an expectation gap investors might have between preliminary announcements issued at different stages of the audit and that there is value in minimising that expectation gap. With the introduction of key audit matters in the auditor’s report (where relevant, including key observations), this expectation gap will only increase, something we consider could be bridged by including an auditor’s report with the preliminary announcement.

In order to abolish the “unaudited” preliminary announcement, either the FCA would need to amend existing rules (LR 9.7A.1R regarding the publication of preliminary information) or to introduce new rules, or it would need to advise companies to follow requirements in the FRC’s pronouncement. The change would require action from the FCA.

From our own practice, we are aware of very few cases where changes to reporting have been required between the “unaudited” preliminary announcement and the annual report – although we accept these can happen.

Some examples of circumstances that mean an “unaudited” preliminary announcement is more likely:

- in some cases the Market Abuse Rules may require information to be made public before the audit has been completed;
- for certain fast-moving industries such as telecommunications and technology, reporting at a similar time to other companies in that industry can better meet investor demands; and
- some companies need to wait for translation of the annual report, a suitable printer’s proof or other largely administrative tasks before the auditor’s report can be signed – allowing for any post balance sheet events arising to be reflected in the annual report while these tasks are completed.

In addition, given that executive pay is in the spotlight, having a preliminary announcement available prior to the annual report can give companies the opportunity for shareholder engagement, entering into a dialogue with investors regarding executive pay in the context of final results.

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.

We agree this should be an option, although not a requirement, and encourage the FRC to explore this further with companies and investors. We believe that including an auditor’s report in the preliminary announcement helps to highlight to investors the reliability of the information provided and explains further the auditor’s role regarding the preliminary announcement.

Deloitte already offers an auditor’s report to companies that can be included in the preliminary announcement, principally consisting of the section of the auditor’s report dealing with key audit matters and the auditor’s response to those matters; the concept has been well-received by investors and we understand they consider it valuable. Our view, supported by our conversations with investors, is that it is most useful to investors to know about the key audit matters and related observations at the time they see the preliminary information, bridging the communications gap between the release of the preliminary announcement and the annual report. It serves to reinforce the role and relevance of audit. We would like to see more companies choosing to include an auditor’s report in the preliminary announcement and the FRC encouraging audit committees to consider this option.

Typically it is easiest to offer this type of report when the auditor’s report has already been signed, however we believe it is possible to offer an auditor’s report covering the key audit matters for “unaudited” preliminary announcements as well, provided it is clear to the reader of the preliminary announcement that the auditor’s report on the annual report has not yet been signed.

Of course, it is also important that companies take responsibility for including enough information in the preliminary announcement regarding key audit matters that the auditor will not be the first to mention critical information.

We would be pleased to discuss with you our existing reports issued in preliminary announcements and the reactions we have experienced from companies and investors to date.

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

We don’t believe any change to the definition is needed. It is clear what the Bulletin covers.

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 respect of the annual report

We think this requirement would first need to be imposed on companies. In the context of current reporting we think it would be a challenge to construct a preliminary announcement that meets the requirements, without simply issuing the whole annual report – almost by definition a preliminary announcement cannot be fair, balanced and understandable because this would imply that it could contain no less information than is required to achieve the same objective in the full annual report. Companies should nevertheless be encouraged to ensure that the preliminary announcement is a fair reflection of the annual report.

As in the current Bulletin, auditors should continue to be asked to check that information has been accurately extracted, consistent with other expected contents of the annual report and is not misstated or presented in a misleading manner.

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

We are not aware of any problem with regard to the application of materiality to the preliminary announcement. However, supporting application material could be helpful, for instance in determining whether there is enough included in the way of management commentary or other narrative disclosures.

If **Option 5** is being explored, application material would also help the auditor to determine whether any note (or disclosure) referred to in the auditor’s explanation of key audit matters should be included in the preliminary announcement.

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

We agree that auditors need to have completed enough work to be confident that the material in the preliminary announcement is not misleading. Currently the level of completeness and of review of other information in the annual report is a matter for the company’s and the auditor’s judgement. We have welcomed the emphasis in this consultation on the expected advanced state of completion of the annual report at the time of the preliminary announcement.

However, we believe there is a great deal of similarity between this option and **Option 4**. Although not formally requiring the auditor’s report to be signed, completing the review of “other information” in the annual report requires the annual report itself to be complete. In particular this would put pressure on the directors’ remuneration disclosures which are often finalised as one of the last elements of the annual report.

If the FRC is considering taking this route, we would strongly encourage the approach of identifying which elements of the “other information” need to be completed by the company and read by the auditor in advance of a preliminary announcement being agreed.

We would highlight there is also a challenge relating to post balance sheet events, which irrespective of the level of completeness and diligence, could arise between the preliminary announcement and the signing of the auditor’s report. There would need to be clear guidance on how the auditor should deal with the inconsistencies that would arise where there is a material post balance sheet event, for instance documentation on the audit file would need to track clearly the changes and why they had arisen.

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

We agree that the FRC should issue material to assist companies and auditors in dealing with the use of alternative performance measures (APMs). New Guidelines on Alternative Performance Measures have been issued by the European Securities and Markets Authority (ESMA) applying to all regulated information, including annual reports, published after 3 July 2016, and are being taken into account by the FRC.

If the material in the existing Bulletin is to be kept as part of the bulletin, we agree it should certainly be updated. However, we think a helpful approach for companies and auditors could be to introduce a separate FRC Bulletin on the use of APMs or a similar guidance document that companies and auditors can refer to and that can be referenced directly from any other relevant FRC material.

This could also help to make clear to companies what the APM disclosure requirements will be post-Brexit, as it will introduce UK material that can be maintained and updated where necessary by the FRC itself. It might also serve to encourage assurance over APMs, many of which are of great interest to investors but are not currently audited.