



TECHNICAL RELEASE

ICAEW TECHNICAL RELEASE

TECH 01/13CFF

GUIDANCE ON FINANCIAL POSITION AND
PROSPECTS PROCEDURES

ABOUT ICAEW

ICAEW is a professional membership organisation, supporting over 140,000 chartered accountants around the world. Through our technical knowledge, skill and expertise, we provide insight and leadership to the global accountancy and finance profession.

Our members provide financial knowledge and guidance based on the highest professional, technical and ethical standards. We develop and support individuals, organisations and communities to help them achieve long-term, sustainable economic value.

The ICAEW Corporate Finance Faculty is a network of professionals involved in corporate finance and a centre of professional excellence. Its thought leadership initiative *Financing Change* seeks to advance the economic and social contribution of corporate finance activity by promoting better understanding of the value it can create as well as its role in improving efficiency and practice in capital markets.

ICAEW is at the forefront of developing guidance relating to assurance services such as *Guidance on financial position and prospects procedures*. ICAEW also publishes material to promote and improve understanding of the range of assurance services that meet the needs of recipients. ICAEW's publication *Assurance Sourcebook* is a practical guide to assurance and accounts review and brings together a wide range of good practice, technical and practical innovations, and an overall framework for assurance reporting.

© ICAEW 2013

All rights reserved.

If you want to reproduce or redistribute any of the material in this publication, you should first get ICAEW's permission in writing.

Laws and regulations referred to in this ICAEW Technical Release are stated as at February 2013. Every effort has been made to make sure the information it contains is accurate at the time of creation. ICAEW cannot guarantee the completeness or accuracy of the information in this ICAEW Technical Release and shall not be responsible for errors or inaccuracies. ICAEW will not be liable for any reliance you place on any information in this ICAEW Technical Release.

ISBN 978-0-85760-649-5

CONTENTS

	PARAGRAPH
1. INTRODUCTION	
1.1 Regulatory background	1–4
1.2 Users of this guidance	5–7
1.3 Definition of FPP procedures	8–9
1.4 Significance of FPP procedures for IPOs	10–11
1.5 Key principles underpinning the guidance	12–19
1.6 Wider application of the guidance	20–21
1.7 Effective date	22–23
2. GUIDANCE FOR DIRECTORS	
2.1 Directors' responsibilities	24–27
2.2 Fulfilling directors' responsibilities	28–32
2.3 Objectives for FPP procedures	33–34
2.4 Appropriate and established procedures	35–43
2.5 Established procedures in special situations	44–49
2.6 Documentation of the basis for the directors' assertion and other matters	50–53
3. SPONSORS AND NOMINATED AND CORPORATE ADVISERS	
3.1 Responsibilities in relation to FPP procedures	54–60
3.2 Other responsibilities	61–63
4. WORK OF THE REPORTING ACCOUNTANT	
4.1 Engaging a reporting accountant	64–72
4.2 Framework for FPP procedures assurance engagements	73–77
4.3 Conduct of an assurance engagement	78–105
4.4 Reporting	106–111
	PAGE
APPENDIX 1: ILLUSTRATIVE OBJECTIVES	16
APPENDIX 2: EXAMPLE WORDING FOR MATTERS FOR BOARD APPROVAL	19
APPENDIX 3: EXAMPLE PARAGRAPHS FOR AN ENGAGEMENT LETTER	21
APPENDIX 4: EXAMPLE REPORTING ACCOUNTANT'S ASSURANCE REPORT	23

1. INTRODUCTION

1.1 Regulatory background

1. Directors of a company that is seeking a Premium Listing of its shares on the Main Market of the London Stock Exchange (LSE), have to have established procedures that provide a reasonable basis for them to make proper judgements on an ongoing basis as to the financial position and prospects (FPP) of the applicant and its group (Listing Rule 8.4.2(4)).¹ There are also requirements regarding FPP procedures for companies seeking an admission to trading on AIM (AIM Company Application Form) or the ISDX Growth Market (*ISDX Growth Market – Rules for Issuers* Rule 69).
2. This regulatory responsibility helps ensure that directors have the ability to obtain the information they need to keep themselves informed about the FPP of the applicant and its group. In this Technical Release, the term used for procedures that address the factors most likely to impact on and generate relevant information on FPP is ‘FPP procedures’.
3. Applicants are required to appoint a sponsor or, for AIM or the ISDX Growth Market respectively, a nominated adviser or corporate adviser. The sponsor must make a specific declaration to the regulator in relation to the applicant’s FPP procedures while the nominated adviser and the corporate adviser have a general responsibility and a reporting accountant will usually be engaged to perform services in this regard. The reporting accountant’s work will typically encompass an assurance report and, often, a long form or commentary report on the FPP procedures established by directors.
4. While the reporting accountant provides assurance at a single point in time rather than in respect of a given period, directors need to be mindful of their responsibility for ongoing application and maintenance of a company’s FPP procedures.

1.2 Users of this guidance

5. The guidance that follows is aimed at:
 - directors of companies preparing for an Initial Public Offering (IPO), explaining how they can demonstrate that they have established FPP procedures to address relevant objectives; and
 - reporting accountants undertaking an assurance engagement to address relevant objectives and providing an assurance report in relation to FPP procedures established by directors.
6. The principles in this guidance apply generally, unless stated otherwise, to applications to list on the Main Market and to admissions to trading on AIM and the ISDX Growth Market. In addition, unless stated otherwise, use of the term ‘sponsor’ (the adviser for Main Market Premium Listings) also refers to the nominated adviser for admissions to trading on AIM and to the corporate adviser for admissions to trading on the ISDX Growth Market. Use of the term ‘listing’ also refers to AIM and ISDX Growth Market admissions to trading.
7. This guidance may also assist a company’s sponsor in understanding the importance of the risk assessment, the scope and type of assurance conveyed in the reporting accountant’s report and, where provided, how the commentary in a long form report, while not constituting an assurance opinion, can be helpful in relation to other regulatory responsibilities.

1.3 Definition of FPP procedures

8. A generally accepted interpretation of the directors’ obligations in connection with the specific regulatory requirement in relation to FPP procedures is that the directors must have established procedures that enable them to be informed on a regular basis as to:
 - the financial position of the applicant and its group, including assets and liabilities, profits and losses;
 - projected profitability, cash flows and funding requirements based on realistic assumptions about the internal and external factors that might reasonably be expected to have a material impact on the business; and
 - any changes in the above.
9. A consequence of this definition is that the processes under the Disclosure Rules and Transparency Rules for preparing annual or half yearly financial reports (DTR 4) and corporate governance arrangements (DTR 7) are not covered by the guidance in this Technical Release, which addresses only an applicant’s FPP procedures.

¹ There is a similar requirement in Listing Rule 8.4.15(4) in connection with certain transfers between listing categories of the Main Market.

1.4 Significance of FPP procedures for IPOs

10. Overall responsibility for assessing an applicant's eligibility to list lies with the sponsor. A nominated adviser assesses if an applicant is appropriate for admission while a corporate adviser assesses an applicant's suitability for admission. The assessment would include consideration of the applicant's FPP procedures and the reporting accountant's work is an important element of the sponsor's due diligence in this area. If the reporting accountant is unable to issue an unqualified opinion on FPP procedures, this will cast doubt on the applicant's ability to discharge a regulatory obligation and, therefore, the sponsor is likely to judge that it cannot conclude that the applicant is fit for listing and this can halt the transaction.
11. Consequently, the reporting accountant's opinion is critical to the IPO process and the sponsor's due diligence in this area and it is important that issues identified as a result of the reporting accountant's work are highlighted in a timely way. FPP procedures work is, therefore, normally undertaken as soon as practicable within the transaction timetable.

1.5 Key principles underpinning the guidance

Reasonable assurance engagement and objectives

12. The general approach to FPP procedures comfort letters is consistent with the International Framework for Assurance Engagements and the International Standard on Assurance Engagements 3000, *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* (ISAE 3000)² issued by the International Auditing and Assurance Standards Board (IAASB).
13. That framework provides that an assurance engagement needs to have an appropriate 'subject matter' and suitable 'criteria'. Subject matter will be appropriate if, among other things, the applicant's FPP procedures are capable of consistent measurement or evaluation using suitable criteria. The subject matter in the context of an FPP procedures assurance engagement is the procedures that provide a reasonable basis for the directors to make proper judgements on an ongoing basis as to FPP and the reporting accountant's opinion in a reasonable assurance report relates to whether the directors have established procedures of that type. A reasonable assurance report on FPP procedures expresses an opinion in a positive form.
14. A range of suitable criteria (or objectives) with which to evaluate FPP procedures is set out in Appendix 1 to the guidance. Objectives are context-sensitive, that is, relevant to the engagement circumstances and, accordingly, the directors need to conduct a risk assessment to determine the appropriate objectives.

Directors' risk assessment

15. Directors are responsible for establishing procedures that provide a reasonable basis for making proper judgements on an ongoing basis as to the FPP of an applicant and its group. The relevant procedures will need to address the factors that are most likely to affect FPP and the directors should identify and assess such factors by way of a risk assessment. The risk assessment and objectives for FPP procedures are also taken into account by the reporting accountant when planning its work.
16. The sponsor will review the directors' risk assessment, given the sponsor's role in confirming an applicant's eligibility for listing (or appropriateness or suitability for admission in the case of a nominated adviser or corporate adviser respectively).

Other work

17. A written commentary on FPP procedures is often requested in addition to an assurance opinion. Whether it is requested may depend on the circumstances of the case and the market to which application is being made. Such commentary may either form part of a wider long form report or be presented in a standalone FPP procedures long form report.
18. The scope of any commentary is a matter for agreement between the reporting accountant, the applicant and the sponsor. It may address a wide range of subjects beyond FPP procedures and may thus be useful to the addressees in discharging other obligations. Each scope will have its own unique features and areas of emphasis.
19. This guidance addresses FPP procedures only. The ability of the directors to assess the applicant's financial position and prospects is related to, but not the same as, the ability to produce the periodic reports required by the *Listing Rules*, *AIM Rules for Companies* and *ISDX Growth Market – Rules for Issuers*. Directors' duties in respect of periodic reports are wider in that they cover narrative reporting and narrower in that they apply to set dates rather than the ongoing assessment of financial position and prospects. Any additional work required in relation to compliance with other such rules would need to be agreed between the reporting accountant, the applicant and the sponsor.

² In April 2011 IAASB published an exposure draft of proposed ISAE 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*. ICAEW does not believe that the guidance in this Technical Release is significantly affected by proposed ISAE 3000 (Revised).

1.6 Wider application of the principles of the guidance

20. The guidance may be of interest to boards and their advisers in the context of transactions other than IPOs and other markets, both in the UK and in other countries. For example, although there is no equivalent regulatory requirement in the UK in any of the following cases, a reporting accountant may be engaged in connection with FPP procedures on a Standard Listing on the Main Market, on a listing of Global Depository Receipts (GDRs), on an admission to trading on NYSE Euronext London, on a Class 1 acquisition or disposal or on a transfer between Main Market segments. The guidance may also be helpful on transactions in non-UK markets where the adviser is familiar with the sponsor's role in the UK.
21. In the event of wider application, it should be noted that the guidance addresses specific regulatory obligations and, therefore, prior to using it as a reference source in other situations, it will be important to analyse the particular circumstances.

1.7 Effective date

22. The implementation date of the guidance in this Technical Release is 1 September 2013 although early implementation is encouraged.
23. This Technical Release replaces the guidance on London Stock Exchange Listing Rule 2.11 contained in Technical Release FRAG 10/95, *The London Stock Exchange Listing Rules paragraphs 2.11 and 2.8*.

2. GUIDANCE FOR DIRECTORS

2.1 Directors' responsibilities

24. Directors of a company preparing to seek a Premium Listing on the Main Market have to have established procedures that provide a reasonable basis for them to make proper judgements on an ongoing basis as to the FPP of the company and its group. While the associated AIM and ISDX Growth Market requirements of directors do not refer to 'an ongoing basis', the ability to make such judgements on that basis is consistent with a company's ongoing compliance obligations.
25. This regulatory obligation helps ensure that directors have the ability to obtain the information they need to keep themselves informed as to FPP. The focus of this guidance is thus on the procedures required to enable them to do so, for the purpose of promoting investor confidence and for proper stewardship of the company.
26. A generally accepted interpretation of the directors' obligations is that they must have established procedures that enable them to be informed on a regular basis as to:
 - the financial position of the applicant and its group, including assets and liabilities, profits and losses;
 - projected profitability, cash flows and funding requirements based on realistic assumptions about the internal and external factors that might reasonably be expected to have a material impact on the business; and
 - any changes in the above.
27. Directors need to consider, design, implement and commit to maintaining procedures that keep them informed on a regular basis. They also need to be mindful of ongoing obligations and their responsibility to maintain the procedures in question subsequent to the admission of the company's securities to listing.

2.2 Fulfilling directors' responsibilities

28. The three key elements of directors' responsibilities are to:
 - accept responsibility for FPP procedures;
 - ascertain whether they have established appropriate FPP procedures at the time of the application for listing; and
 - obtain sufficient evidence that they have established the necessary FPP procedures and document the procedures.
29. Directors are responsible for having established procedures that provide a reasonable basis for making proper judgements on an ongoing basis as to the FPP of the applicant and its group. In addition to their obligations at the date of admission, directors are also responsible for maintaining the procedures subsequently.
30. These responsibilities are acknowledged by directors making an assertion (the directors' assertion) that they 'have established procedures which provide a reasonable basis for making proper judgements on an ongoing basis as to the financial position and prospects of the company [and its group]'.³
31. Directors support their assertion with sufficient evidence. Documentation of procedures is evidence that procedures are identifiable, capable of being communicated to those responsible for their operation and monitored. Through enquiries of the company's management and sight of results of activities such as enquiry, independent review, testing and self-assessment, directors evaluate whether they have established relevant procedures in line with the objectives. The results of the evaluation are documented in a company document which may take the form of a board memorandum on FPP procedures and directors are responsible for ensuring that FPP procedures and the results of their evaluation against FPP objectives are documented.³
32. The different UK markets enable companies to list at various stages of development and growth. It is accepted that the extent of work directors will need to have done to demonstrate that they have established FPP procedures will vary according to the nature, size and stage of growth of the company and the market on which it intends to list, and will be decided after consultation with the sponsor and reporting accountant.

³ The company document may also be a long form report prepared by the reporting accountant where the directors have formally adopted the description of the FPP procedures set out in the long form report.

2.3 Objectives for FPP procedures

33. The onus is on directors to determine the most suitable objectives for FPP procedures. The objectives identified and selected will derive from the directors' risk assessment of the applicant's FPP. This is usually done with input from the sponsor and the reporting accountant and would normally involve consideration of the nature and circumstances of the applicant, a risk assessment of the factors that are most likely to impact the applicant's FPP and identification of the procedures needed to address those factors. An important part of the preparation for listing focuses on bridging the gap between existing procedures and those that need to be established in order to meet the regulatory obligation.
34. Appended to this guidance are lists of illustrative objectives of FPP procedures which are not exhaustive examples but can provide a useful initial basis for consideration of the procedures that may need to be in place in individual cases. They are intended to be applied with a degree of flexibility and are not intended to constitute prescriptive lists. Other objectives may need to be developed according to the nature of the company and the results of the risk assessment. The illustrative objectives are set out under the following headings:
 - A. Risk assessment of FPP
 - B. High-level reporting environment
 - C. Forecasting and budgeting
 - D. Management reporting framework
 - E. Significant transaction complexity, potential financial exposure or risk
 - F. Strategic projects and initiatives
 - G. Financial accounting and reporting
 - H. IT environment

2.4 Appropriate and established procedures

35. Procedures that are appropriate are those that enable directors to be informed on a regular basis as to:
 - the financial position of the applicant and its group, including assets and liabilities, profits and losses;
 - projected profitability, cash flows and funding requirements based on realistic assumptions about the internal and external factors that might reasonably be expected to have a material impact on the business; and
 - any changes in the above.
36. In order to establish and maintain appropriate FPP procedures a company will need to have a dynamic governance system to address issues facing the business. Such a system would typically involve having the capacity and motivation to react to changes and take appropriate action.
37. For the purposes of identifying and documenting relevant FPP procedures, the directors determine what procedures are appropriate by way of a risk assessment exercise and by reference to suitable objectives.
38. The process undertaken by the directors in defining and identifying the company's FPP procedures is usually an iterative one in which directors refine their assessment and can clarify and develop the company's procedures. The role of the reporting accountant is often an important element of the iterative process. For example, the directors will develop their initial description of their procedures, and the reporting accountant will provide initial comments either in a draft commentary on FPP procedures, or as feedback from the assurance process. Similarly, the sponsor's knowledge and experience of the applicant, its operating environment and its value proposition, as well as of other companies in its sector can influence the process. As a consequence of these contributions, the directors may reassess what is critical to them in relation to FPP procedures, and identify further procedures that they have or need to have in place or refinements and enhancements that they can introduce.
39. If the reporting accountant identifies design weaknesses or inadequate controls over identified risks and the findings are so significant as to affect the directors' ability to make judgements about FPP, the directors will need to develop appropriate remediation plans with a timetable for implementation. Potential weaknesses in FPP procedures that are not remedied will throw doubt on the directors' ability to be kept informed on FPP and, accordingly, on the company's fitness for listing. It is thus critical that the initial FPP risk assessment and the documentation and evaluation of findings take place early in the IPO process.
40. As part of the process to prepare for listing, a company often has to change and raise the standard of some of its FPP procedures. The extent and timing of change will vary from company to company.

41. Some FPP procedures may need to be established in anticipation of requirements that will apply only after listing so that their operation prior to listing is naturally constrained by the fact the company is not yet listed. In such a situation the Financial Services Authority (FSA) expects that procedures will have been 'designed, approved and communicated to those responsible for their implementation and use at the point of admission' and that the applicant must have 'committed to implement those procedures on a timescale that will ensure that the information required to make proper judgments on the financial position and prospects of the applicant will be generated as and when required by the directors'.⁴
42. Market practice is, accordingly, to focus on whether directors have collectively considered, designed, documented, approved and implemented (or committed to implement from the date following the listing when they will be needed) and committed to maintain FPP procedures in the future and in the face of change.
43. Particular challenges can arise in applying these principles in certain circumstances and considerations for directors in such cases are set out in section 2.5.

2.5 Established procedures in special situations

44. Although the guidance above is drafted in respect of pre-existing companies seeking a listing, Listing Rule (LR) 8.4.2(4) also applies to other types of applicant, including those that are treated as new applicants by virtue of a reverse takeover or newly formed companies without a track record, such as investment entities, or mineral companies or scientific research-based companies. The principles outlined earlier remain applicable but may need to be interpreted in the light of the considerations set out below.

Entity that is a new applicant by virtue of a reverse takeover

45. In the case of a reverse takeover, the entity seeking admission to listing will comprise an existing listed entity together with an acquired entity, which will on some relevant measure be as large as or larger than the acquirer. The operational FPP procedures of such an enlarged group will typically, at the date of the proposed admission, be the existing procedures of the acquirer and the target entity. Following the transaction, the enlarged group will expect to modify the existing procedures in order to take account of the change in circumstances. This transition would be documented at the time of admission by way of a detailed integration paper, setting out the planned FPP procedures of the enlarged group that have been designed by the directors and confirming the directors' commitment to implement them. Although the enlarged group will generally not have brought the modified procedures into operation, it is an accepted convention that the directors of the applicant for listing will be deemed to have established procedures for the purposes of LR 8.4.2(4) on the basis of the existing FPP procedures of the listed entity and the acquired entity together with documented plans and the directors' commitment in relation to procedures for the enlarged group which meet applicable objectives.

IPO involving a newly formed company with no track record

46. Certain applicants for listing, such as investment companies, mineral companies and scientific research-based companies, may be newly formed companies with no track record. In such cases, as the applicant will not have commenced trading prior to the admission to listing, typically no procedures will have been operated. In order to fulfil the directors' regulatory obligations regarding FPP procedures, the directors would need to set out the procedures that have been designed and which the directors have committed to bringing into operation following the listing. The nature of the relevant procedures will be dictated by the nature of the applicant's business. For example, where the applicant is an investment entity, the focus may be on the process for identification and review of potential acquisitions and disposals and monitoring investment and portfolio valuations, with an emphasis on arrangements for administration of funds and relationship agreements with investment managers. The procedures would typically be set out in a memorandum, prepared by the company, which would require board sign-off prior to listing. Although the entity will generally not have brought the procedures into operation, it is an accepted convention that the directors of the applicant for listing will be deemed to have established procedures for the purposes of LR 8.4.2(4) or the analogous AIM and ISDX Growth Market rules, on the basis of documented plans and the directors' commitment in relation to procedures for the entity which meet applicable objectives.
47. Some investment entities may comprise only a board of non-executive directors, with the majority of FPP procedures outsourced to a professional third-party administrator and the investment manager. In such cases, it will be necessary to consider the proposed arrangements with, and procedures of, the administrator and investment manager, to the extent that they relate to the FPP of the investment entity, in addition to the procedures to be adopted by the board of the investment entity.

IPO of a demerged business

48. An IPO may involve the listing of a demerged business, where the procedures of the demerged entity may need to be adapted as a consequence of dividing up resources previously shared with or provided by the remaining entity. The directors will need to demonstrate that they have documented and committed themselves to steps that will need to be taken to bring the adapted procedures into operation

⁴ Source: UKLA Technical Note 708.1, *Sponsor's obligations on financial position and prospects procedures* published by the FSA in December 2012.

as they become required. It is an accepted convention that the directors of the applicant for listing will be deemed to have established procedures for the purposes of LR 8.4.2(4) and the analogous AIM and ISDX Growth Market rules, on the basis of the procedures that have already been operating, and the directors' documented commitment in relation to adapted procedures which meet applicable objectives.

49. Considerations relevant to a demerged business may apply also to a corporate restructuring where the whole of the new structure may not be in place until the transaction has occurred. Many other special circumstances share similar characteristics to those outlined above in that procedures that the entity intends to operate to meet its obligations have not been brought into operation at the time the application for listing is made.

2.6 Documentation of the basis for the directors' assertion and other matters

50. Through evaluation and documentation of FPP procedures, directors accumulate sufficient evidence to form an overall conclusion that enables them to make the assertion that they have established procedures that provide a reasonable basis for making proper judgements on an ongoing basis as to the FPP of the company and its group (the directors' assertion). The directors' assertion is formally documented as the collective view that the directors have complied with their regulatory responsibilities and is a prerequisite for the reporting accountant to be able to issue an assurance opinion.
51. It is important that the documentation of the basis for the directors' assertion describes the relevant FPP procedures (or cross-references to the company document where these are set out), the result of the directors' evaluation and their confirmation that they have established procedures. It must be considered and approved by the board as a whole. There is no prescribed form for the documentation of the basis for the directors' assertion. However there are elements that might typically form part of the documentation and these are presented below.

Table 1: Elements to include when documenting the basis for the directors' assertion

- (a) A statement of the directors' responsibilities.
- (b) Details of the nature of the company and the transaction that may be relevant to the FPP procedures.
- (c) A reference to the directors' risk assessment and the extent of FPP procedures necessary to respond to the identified risks.
- (d) Reference to the use of this guidance.
- (e) Confirmation by the directors that:
 - (i) the company document⁵ describes fairly the FPP procedures that have been established at [date]; and
 - (ii) where they have described FPP procedures in the company document for which plans for implementation have been drawn up by the directors but which the directors have not yet brought into operation, those FPP procedures will be brought into operation and subsequently operated in accordance with the plans.
- (f) The assertion by the directors that they have established procedures to provide a reasonable basis for them to make proper judgements on an ongoing basis as to the FPP of the company and its group.
- (g) The name and signature of the director signing on behalf of the board.
- (h) The date of approval.

52. In addition, directors need to be mindful of their ongoing obligations and their responsibility to maintain FPP procedures subsequent to the applicant's admission to listing. The design of its FPP procedures must remain appropriate to the applicant's circumstances. The directors' collective commitment to maintain FPP procedures should also be adopted as part of the board approval process.
53. Example paragraphs for the documentation of the basis for the directors' assertion and other matters to be covered by board approval are set out in Appendix 2.

⁵ The company document may often be a company memorandum or a long form report prepared by the reporting accountant where the directors have formally adopted the description of the FPP procedures set out in the long form report.

3. SPONSORS AND NOMINATED AND CORPORATE ADVISERS

3.1 Responsibilities in relation to FPP procedures

54. Responsibility for a company's FPP procedures lies with its directors. A key role is played by the applicant's sponsor in assessing whether the company is eligible for listing, while the nominated adviser and corporate adviser play key roles in assessing whether a company is appropriate or suitable for admission respectively. The rules for sponsors set out in the Listing Rules, for nominated advisers set out in the AIM Rules and for corporate advisers set out in the ISDX Growth Market Rules differ in certain respects. However, they all encourage advisers to be closely involved with the listing or admission process.
55. Examples of involvement by the sponsor (or nominated adviser or corporate adviser) include:
 - attendance at meetings between the reporting accountant and the applicant;
 - contribution to the setting of the scope of the reporting accountant's assurance work;
 - involvement and participation in discussions with the applicant about its risk assessment and objectives for FPP procedures; and
 - involvement and participation in discussions over potential weaknesses and exceptions relating to weaknesses in design or implementation of FPP procedures.
56. To fulfil its regulatory obligations, the sponsor (or nominated adviser or corporate adviser) determines what enquiries it needs to make and what assistance and information it requires to support its judgements and, where applicable, declarations in relation to the applicant's eligibility for listing (in the case of the sponsor) or appropriateness (in the case of the nominated adviser) or suitability (in the case of the corporate adviser) for admission. This exercise will involve identifying where there are gaps in the information the sponsor (or nominated adviser or corporate adviser) has or can obtain and which it will need to bridge in other ways, for example by engaging a third party such as a reporting accountant. The sponsor (or nominated adviser or corporate adviser) will consider all the information it obtains in the context of its knowledge of the company.

Sponsors

57. A sponsor, when considering its responsibilities under LR 8.4.2R(4), has regard to the principles set out in the UKLA publication, Technical Note 708.1, *Sponsors' obligations on financial position and prospects procedures*. In this the FSA notes, *inter alia*, that:

'the sponsor's role is in addition to that part played directly by the directors of the new applicant and by any reporting accountant appointed by the new applicant and sponsor'.

58. In Technical Note 708.1 the FSA also expects the sponsor, in order to meet its obligations, 'to review and challenge the work done by the new applicant or reporting accountant, drawing on its own knowledge and experience of the new applicant, its operating environment and other companies in its sector.'

Nominated advisers

59. An applicant is required, in its application for its shares to be admitted to AIM, to confirm that procedures have been established which provide a reasonable basis for the directors to make proper judgements as to the FPP of the applicant. There is no requirement for the nominated adviser to make a declaration to the LSE regarding the applicant's FPP procedures in the manner required of a sponsor by the Listing Rules. However, the nominated adviser has an overall responsibility to the LSE regarding the appropriateness of a company applying for admission to AIM and the assessment of an applicant company's appropriateness would cover its FPP procedures. In Admission Responsibility AR3, the nominated adviser is required to oversee the due diligence process and among the non-exhaustive list of tasks expected of the nominated adviser by the LSE is the following task which captures its responsibility regarding FPP procedures:

'be satisfied that appropriate working capital and financial reporting systems and controls reviews are undertaken (usually including reports or letters from accountants to the applicant).'

Corporate advisers

60. In its October 2012 Practice Note *Due Diligence by ISDX Corporate Advisers*, ISDX states that the corporate adviser must oversee the due diligence process (both financial and legal) and that it must ensure that such due diligence is undertaken by appropriate professional firms. Moreover, the nature and breadth of due diligence should be determined by the corporate adviser and tailored to the specific risks posed. ISDX also states that the corporate adviser must review and assess the due diligence, consider any issues that may arise and satisfy itself that appropriate action has been taken to remedy any issues.

3.2 Other responsibilities

61. The reporting accountant's assurance opinion on FPP procedures is given on a specific assertion on FPP procedures by the directors and the guidance in this Technical Release addresses that assertion and the process of assessing it in order to provide an opinion.
62. Advisers or companies may have obligations to make declarations on matters that are related to elements of FPP procedures but which are wider in scope than those relating to FPP procedures.
63. This Technical Release addresses only the specific regulatory requirements on, or elements relating to, FPP procedures. The following are examples of requirements under the Listing Rules and the relevant requirements of AIM and ISDX that are wider in scope than FPP procedures:

Main Market

- Listing Rule 8.4.2(3) covers all of the procedures, systems and controls required for the issuer to be able to comply with its obligations as required by Listing Principle 2. Listing Rule 8.4.2(3) states that the sponsor must not submit to the FSA an application on behalf of an applicant unless it has come to a reasonable opinion, after having made due and careful enquiry, that:

'(3) the directors of the applicant have established procedures which enable the applicant to comply with the listing rules and the disclosure rules and the transparency rules on an ongoing basis.'
- Listing Rule 8.4.12 is an all-encompassing rule similar to Listing Rule 8.4.2(3). It is an obligation on sponsors in connection with Class 1 circulars and circulars for reconstructions or refinancings or for the purchase of a company's own shares, as follows:

'LR 8.4.12 A sponsor must not submit to the FSA, on behalf of a listed company, an application for approval of a circular regarding a transaction set out in LR 8.4.11 R, unless the sponsor has come to a reasonable opinion, after having made due and careful enquiry, that:

(2) the transaction will not have an adverse impact on the listed company's ability to comply with the listing rules or the disclosure rules and transparency rules...'
- Listing Rule 8.4.15 is also a wide rule covering different matters from FPP procedures. It states that a sponsor must not submit a sponsor's declaration for a transfer from one listing category to another unless it has come to a reasonable opinion, after making due and careful enquiry, that:

'(3) the directors of the issuer have established procedures which enable the issuer to comply with the listing rules, the disclosure rules and the transparency rules on an ongoing basis.'

AIM

- Under Schedule Two of the *AIM Rules for Nominated Advisers*, it is the responsibility of the nominated adviser to confirm to the best of its knowledge and belief, having made due and careful enquiry and considered all relevant matters under the *AIM Rules for Companies* and the *AIM Rules for Nominated Advisers* in relation to the application for admission, that all applicable requirements of the *AIM Rules for Companies* and the *AIM Rules for Nominated Advisers* have been complied with and that it is satisfied that the applicant and its securities are appropriate to be admitted to AIM, having made due and careful enquiry and considered all relevant matters set out in the *AIM Rules for Companies* and the *AIM Rules for Nominated Advisers*. This is far wider ranging than the declaration to the LSE required of an applicant company to AIM that the directors have established procedures that provide them with a reasonable basis for making proper judgements as to the company's FPP.

ISDX

- Under Rule 69 of the *ISDX Growth Market – Rules for Issuers*, ISDX companies are required to:

'establish sufficient procedures to ensure a sound system of internal control and a reasonable basis for making informed decisions about its financial position and prospects.'
- Corporate advisers are responsible to ISDX for determining the suitability of prospective companies for admission to the ISDX Growth Market and paragraph 34 of the *ISDX Growth Market – Rules for Issuers* sets out that ISDX would expect enquires to be made in respect of the issuer's 'internal controls to ensure continuing compliance with the ISDX Regulations'.

4. WORK OF THE REPORTING ACCOUNTANT

4.1 Engaging a reporting accountant

Purpose of FPP engagements

64. Reporting accountants are engaged, in the context of a new applicant for a listing, to provide agreed services to the company and the sponsor. This guidance recognises that the services may, most commonly in the case of a Premium Listing on the Main Market, include a long form commentary report on aspects of a company's FPP procedures as well as an assurance opinion as to whether the applicant's directors have established procedures which provide a reasonable basis for them to make proper judgements on an ongoing basis as to the FPP of the applicant and its group.
65. The guidance in paragraphs 66 to 72 applies only where a long form or commentary report is requested.

Long form report on aspects of FPP procedures

66. In addition to the assurance opinion, the reporting accountant may be requested by the applicant and the sponsor to prepare a long form or commentary report on the applicant's FPP procedures and/or on a range of other topics and matters relating to FPP procedures. The nature of a long form report is a matter that is influenced by the individual circumstances of each case. Moreover the parties to the engagement may agree that the reporting accountant's commentary covers all FPP procedures or focuses on certain areas.
67. The process of defining the scope of the commentary in a long form report prepared by a reporting accountant is often an initial step in what is frequently an iterative process in which the applicant develops and refines its assessment of its procedures in the light of the FPP procedures requirements of the *Listing Rules* or AIM or the ISDX Growth Market.
68. Although many prospective applicants will, in the course of their development, have put in place a range of FPP procedures, they will generally not initially have developed them for the purposes of the FPP procedures requirements of LR 8.4.2(4) or AIM or the ISDX Growth Market, and they may well not have reconsidered those procedures in the context of those requirements.
69. The scope of a long form report is a matter for agreement between the reporting accountant, the applicant and the sponsor, and each scope will have its own unique features and emphases. The typical key features of a commentary on FPP procedures are:
 - descriptions of the procedures that the applicant considers to be necessary in meeting its FPP procedures obligations;
 - findings from enquiries made of the directors and management by the reporting accountant; and
 - factual commentary relating to strengths and weaknesses and other matters to assist the directors and the sponsor to assess the procedures described.
70. Drafts of the long form report will normally be provided to the directors and sponsor for their review and comment. As a consequence the directors may reassess what is critical to them in relation to the FPP procedures, and identify further procedures that they have or need to have in place or refinements that they can introduce. Such matters will be likely to lead to changes in subsequent drafts of the report. The preparation of the long form report is accordingly not only important as a record of findings and comments, but also as a process which assists the prospective applicant to clarify and develop its FPP procedures.
71. The scope of the FPP procedures long form report will primarily be related to how the applicant is proposing to meet its obligations in relation to FPP procedures under LR 8.4.2(4) or the relevant AIM or ISDX Growth Market rules. However, the flexible nature of a long form report means that the reporting accountant may agree, where it is within its competence, to cover other aspects of a company's obligations in connection with an application for listing. For example they may provide comments on a company's proposals in relation to aspects of compliance with certain elements of the *Listing Rules* and the *Disclosure and Transparency Rules* (DTR), including comments on processes for preparing annual or half yearly financial reports under DTR 4 or on corporate governance arrangements under DTR 7. Although in practice these items may be covered in a long form report containing FPP procedures commentary, they are not covered by the guidance in this Technical Release, which addresses only those matters relating to the assertion on FPP procedures.
72. Where a long form report is prepared, the reporting accounting will seek representations from the directors of the applicant in relation to the report. These may include, for example:
 - that the directors have considered the sections of the report that set out information and commentary on FPP procedures; and
 - confirmation that:

- the information in the report is factually accurate;
- opinions and representations attributed to persons referred to in the report are properly attributed to those persons; and
- no facts or information have been omitted from the report which may cause the view of matters within it to be misleading.

4.2 Framework for FPP procedures assurance engagements

73. This guidance applies the principles of the International Framework for Assurance Engagements issued by the IAASB and of its pronouncement *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* (ISAE 3000).
74. FPP procedures assurance engagements involve three separate parties:
 - the directors who are responsible for the assertion that they have established procedures that provide a reasonable basis for them to make proper judgements on an ongoing basis as to the FPP of the applicant and its group;
 - the reporting accountant who is engaged to provide an assurance opinion on the directors' assertion; and
 - the intended user of the assurance opinion – the sponsor – who will use it in connection with its regulatory responsibilities.
75. Under the IAASB framework, an assurance engagement needs to have an appropriate subject matter and suitable criteria. In FPP procedures assurance engagements the subject matter of the reporting accountant's assurance report is the procedures on which directors make their assertion. Illustrative objectives are set out in Appendix 1 to serve as criteria for the purpose of complying with the IAASB framework.
76. Consistent with market practice, this Technical Release provides guidance for the performance of a reasonable assurance engagement. In accordance with the IAASB framework, in FPP procedures reasonable assurance engagements, the reporting accountant gathers sufficient and appropriate evidence and evaluates it against objectives relevant to FPP procedures to enable it to express a conclusion on the subject matter. The conclusion does not provide assurance, *inter alia*, that any specific procedure was operating or will operate effectively at any specific date.
77. The reporting accountant is responsible for setting the scope, nature and extent of work required to support its conclusion. Professional judgement is applied to determine the nature and amount of work to be undertaken and so the work by different reporting accountants to support the same conclusion may not be the same. The scope of the assurance engagement will be agreed in each case by the addressees; key considerations will be the nature, stage of development and complexity of the company.

4.3 Conduct of an assurance engagement

78. The framework for FPP procedures assurance engagements is the IAASB's framework and its pronouncement ISAE 3000. Furthermore, a reporting accountant conducting an engagement in connection with an investment circular prepared for issue in connection with a securities transaction governed wholly or in part by the laws and regulations of the UK complies with the principles and procedures in Standard for Investment Reporting (SIR) 1000, *Investment Reporting Standards Applicable to All Engagements in Connection with an Investment Circular*, issued by the Financial Reporting Council (FRC). The SIRs are compatible with the concepts in ISAE 3000 and provide more guidance. Paragraphs from SIR 1000 are referenced below.

Engagement acceptance

79. SIR 1000.1 and SIR 1000.2 set out the basic principles and essential procedures applicable to engagement acceptance and continuance. The reporting accountant determines whether the persons who are to perform the engagement collectively possess the necessary professional competence and assesses whether those with whom the engagement team intend to consult have sufficient knowledge and experience of the applicant's FPP procedures.

Terms of engagement

80. SIR 1000.3 and SIR 1000.4 set out the basic principles and essential procedures with respect to agreeing the terms of the engagement. Examples of engagement letter paragraphs are set out in Appendix 3. The reporting accountant also considers the following points when agreeing the terms of the engagement:
 - the addressees of the assurance report;
 - the regulatory framework in the context of which the FPP procedures assurance report is being provided;
 - respective responsibilities of the addressees;
 - the information to be supplied to the reporting accountant by the directors;

- the scope and purpose of the FPP procedures assurance report. There must be a clear understanding and agreement among the parties to the engagement and, in particular, the reporting accountant makes it clear that the FPP procedures assurance report does not assure the effective past or future operation of the controls;
 - where the engagement also involves the preparation of a long form report, the agreed scope of such work;
 - the form of the private opinion to be expressed by the reporting accountant in the FPP procedures assurance report;
 - timetable matters and fees; and
 - engagement teams and reporting contacts.
81. The reporting accountant discusses with and obtains agreement and acceptance from the addressees of the engagement letter:
- that the reporting accountant does not provide any assurance regarding the day-to-day operation of the FPP procedures of the applicant;
 - regarding any agreed limitations set out in the draft FPP procedures assurance report;
 - that the assurance report does not necessarily imply compliance with codes of governance; and
 - that the reporting accountant makes no representation as to the sufficiency of the assurance report provided in accordance with the engagement letter for the purposes of the declaration of the sponsor or the confirmation of the nominated adviser or corporate adviser.
- Ethical requirements**
82. SIR 1000.5 sets out the basic principles and essential procedures with respect to the ethical requirements that apply to a reporting accountant.
83. The reporting accountant, for example, adheres to the requirements set out in the 'Independence for other Assurance Engagements' section of ICAEW's Code of Ethics and ensures that any threats to objectivity and independence have been properly addressed in accordance with the FRC's Ethical Standard for Reporting Accountants (ESRA), where applicable.
84. Where the company has appointed the reporting accountant to act as the company's statutory auditor, the reporting accountant also ensures that any threats to the auditor's objectivity and independence have been properly addressed in accordance with the FRC's ethical standards.
85. The reporting accountant's adherence to the independence and objectivity requirements involves an assessment of likely threats to independence and, if any such threats are identified, consideration of whether these can be managed through the application of appropriate safeguards. For example, the previous provision of services which included the design and implementation of procedures relevant to FPP (including IT) may result in a self-review threat if those FPP procedures form a significant part of the work to which the FPP procedures assurance engagement relates. In such circumstances, the use of separate personnel from those who had involvement in previous engagements may be sufficient to mitigate the self-review threat.
- Planning**
86. Planning is an essential component of all reporting accountant engagements. SIR 1000.9 and SIR 1000.10 set out the basic principles and essential procedures applicable to engagement planning. The reporting accountant considers the terms of the engagement, ethical considerations, whether the timetable is realistic, the reporting accountant's understanding of the entity and its environment and identifies potential problems that could impact the performance of the engagement.
87. The reporting accountant plans the engagement so that it will be performed in an effective manner including setting the scope, timing and direction of the engagement and determining the nature, timing and extent of planned procedures that are required to be carried out in order to reach a conclusion.
88. The reporting accountant considers materiality in planning the engagement, when determining the nature, timing and extent of procedures, and when evaluating the FPP procedures against the objectives.
89. Planning is an iterative process and the reporting accountant should be mindful of unexpected events, changes in conditions or findings from the evidence-gathering exercise and revise and update plans accordingly.
90. The reporting accountant obtains from the directors relevant documentation of FPP procedures, which may include accounting policies and procedure manuals, information system manuals, process models and flowcharts, and job descriptions, as well as documentation of the directors' risk assessment.
91. A preliminary review of available information may provide an indication of potential issues that might need to be addressed in carrying out the engagement. If the preliminary review indicates that there are factors which may give rise to a qualification or other modification of any FPP assurance report, then such factors are reported immediately to the directors and, where relevant, the sponsor.

Understanding of the entity, its environment and risk assessment

92. The reporting accountant obtains an understanding of the applicant and its environment sufficient to provide a basis for the identification and assessment of the risk that the directors have not established FPP procedures. Such an understanding is ordinarily obtained through gathering evidence by way of:
- discussion with the directors and management to gain an understanding of the FPP procedures environment including the risk and regulatory environment of the business, management's risk assessment procedures, the high-level reporting environment, forecasting and budgeting procedures, the principal business cycles, and the IT environment;
 - understanding of industry-specific practices and accounting for unusual or complex transactions, where appropriate; and
 - discussion with the directors of the principal FPP procedures adopted, or planned to be adopted, by the directors.
93. When performing the risk assessment of the engagement, the reporting accountant takes into account all other relevant work performed by it in connection with the investment circular.

Evidence and assurance procedures

94. SIR 1000.11 states that the reporting accountant should obtain sufficient appropriate evidence on which to base the report provided.
95. The reporting accountant designs and performs procedures whose nature, timing and extent are responsive to the assessed risk.
96. Procedures will vary for each engagement and may include inspection, observation, confirmation, re-calculation, re-performance, walk-through testing, analytical procedures and inquiry. Procedures will predominantly involve obtaining a description of the FPP procedures, considering on a selective basis the directors' evidence that they have established such FPP procedures, and obtaining representations from the directors.
97. The reporting accountant assesses the design and implementation of existing FPP procedures by reference to the objectives identified by the directors in their risk assessment.
98. The reporting accountant's assessment process may include:
- confirming the reporting accountant's understanding of the directors' risk assessment;
 - confirming the reporting accountant's understanding of the procedures described by the directors;
 - enquiring of the directors as to the completeness of the information provided about the procedures; and
 - considering the design of the procedures having regard to the directors' risk assessment.
99. Evidence may also be drawn from other sources such as the working capital exercise and the reporting accountant is sensitive to evidence from the work of auditors. The reporting accountant considers the relevance and reliability of the information to be used as evidence. Professional scepticism is applied to the information provided by the directors and such information is assessed against other information obtained or available to the reporting accountant, including that obtained through the reporting accountant's assurance procedures.
100. The reporting accountant evaluates the sufficiency and appropriateness of the evidence obtained and, if necessary in the circumstances, attempts to obtain further evidence. The reporting accountant considers all evidence regardless of whether it appears to corroborate or to contradict the directors' assertion about FPP procedures.

Exception reporting and timely notification of issues

101. If the reporting accountant identifies exceptions relating to weaknesses in design or implementation, and the findings are significant in relation to expressing the reporting accountant's opinion, the reporting accountant reports such matters to the directors and the sponsor. Discussions should be held with the directors and the sponsor about the board's remediation plans and the proposed timing of the implementation of revised procedures.
102. Where remediation plans cannot be implemented before listing and there are no adequate additional or compensating procedures to mitigate key FPP risks, the reporting accountant should hold discussions with the directors and the sponsor and consider the impact on its assurance report.
103. If the reporting accountant becomes aware of factors which may give rise to a modification of the reporting accountant's opinion, such factors are notified as soon as practicable to the directors and the sponsor.

Documentation

104. SIR 1000.14 and SIR 1000.15 contain the principles for documenting matters that are significant in providing evidence that supports the reporting accountant's assurance report and for recording the reporting accountant's reasoning on all significant matters that require the exercise of judgement, and related conclusions.

Professional scepticism

105. SIR 1000.16 sets out the basic principle with respect to the professional scepticism adopted by the reporting accountant in planning and performing an engagement.

4.4 Reporting

106. SIR 1000.17 contains guidance on what to include in a report.

107. A similar standard of FPP procedures is required for applicants whether for Premium Listing on the Main Market, admission to trading on AIM or admission to trading on the ISDX Growth Market and although the regulatory obligations of directors are different in detail, the underlying requirements are essentially the same. Consequently, this guidance supports a common approach to reporting for each of the markets covered, recognising that the precise wordings of the opinions differ in detail to reflect the obligations of the specific market.

108. The FPP procedures assurance report does not provide assurance that any specific procedure was operating or will operate effectively at any specific date.

109. The reporting accountant addresses its assurance report to the parties agreed as addressees in the engagement letter and includes a disclaimer of any duty or liability to any parties who are not addressees of the report.

110. There is no provision within this guidance for the assurance report to be qualified. If the reporting accountant is unable to issue an unqualified assurance report, the implication is that the directors of the applicant are not in a position to discharge their responsibilities in relation to FPP procedures and in such a case the sponsor may not wish to be associated with the transaction and/or the company may not be able to proceed with the listing. Accordingly, the transaction will usually either be delayed until such time as all the issues preventing the issue of an unqualified assurance report have been resolved, or terminated.

111. Example paragraphs for FPP procedures assurance reports with variations to reflect the circumstances of each of the UK markets discussed in the Technical Release are available in Appendix 4. The table that follows presents the typical elements of an assurance report.

Table 2: Typical elements of a reporting accountant's assurance report

- (a) A title indicating that the report is an independent assurance report.
- (b) Addressees.
- (c) Identification of the applicable engagement letter.
- (d) Use of the report by the addressees.
- (e) Restrictions, except where agreed otherwise, on the use of the assurance report only to the addressees and on the replication of the report in whole or in part.
- (f) Identification and description of the subject of the report ie, the procedures that provide the directors with a reasonable basis to make proper judgements on an ongoing basis as to FPP.
- (g) The respective responsibilities of the addressees and the reporting accountant.
- (h) Reference to [International Standard on Assurance Engagements (ISAE) 3000 and its definition of reasonable assurance engagement, Standard for Investment Reporting (SIR) 1000 and] this ICAEW Technical Release.
- (i) Reference to the objectives against which procedures were evaluated.
- (j) A summary of the work performed.
- (k) Inherent limitations associated with the evaluation of the subject matter against the objectives
- (l) The reporting accountant's opinion.
- (m) The name and signature of the reporting accountant and the location of the office performing the engagement.
- (n) The assurance report date which should not be before that of the directors' assertion.

APPENDIX 1: ILLUSTRATIVE OBJECTIVES

A. Risk assessment of FPP

The company has established procedures that operate, or are capable of operating, to:

- identify the information needed to monitor the business and manage risk so as to make proper judgements on FPP (FPP Information);
- identify, assess and document the risk factors likely to impact on:
 - financial position, prospects and any changes thereto; and
 - preparation and communication to the directors of related information;
- identify, assess in relation to FPP Information and consider risks including those relating to:
 - the high-level reporting environment (see section B);
 - forecasting and budgeting (see section C);
 - the management reporting framework (see section D);
 - significant transaction complexity, potential financial exposure or risk (see section E);
 - strategic projects and initiatives (see section F);
 - financial accounting and reporting (see section G); and
 - the IT environment (see section H).

B. High-level reporting environment

The company has established procedures that operate, or are capable of operating, to:

- identify and document the high-level reporting controls, governance and financial accounting procedures and IT controls over FPP Information;
- recruit board members with relevant and complementary skills, including financial skills, enabling:
 - the board to exercise oversight over reporting of, and assessment and use of, FPP Information; and
 - non-executive directors to provide robust challenge to management on FPP Information;
- assess the culture and management's operating style and ensure that these encourage effective control over reporting of FPP Information;
- organise the finance function with staffing levels, qualifications and capability commensurate to the accounting and reporting complexity and tax profile of the business;
- communicate board decisions on FPP Information to those responsible for implementing them;
- maintain risk processes and financial controls that have implications for FPP Information;
- determine authority levels for approval of activities which carry risk or significant accounting complexity;
- appraise, select and approve strategic projects and document decisions which may impact on FPP Information;
- provide clear financial reporting lines and accountability, with segregation of duties;
- maintain accounting records that are up to date and from which timely, reliable management information can be produced;
- enable the financial position on a statutory basis to be established and reconciled with the management accounts;
- collate FPP Information and report it to the board on a timely basis;
- enable whistleblowing and escalation of problems and concerns to senior management and to monitor how these are addressed;
- evaluate whether internal control over reporting of FPP Information is present and functioning;
- identify internal control deficiencies and communicate them in a timely manner to parties responsible for taking corrective action, and to management and the board as appropriate;
- respond in a timely way to points affecting FPP Information arising from external audit and, where applicable, internal audit and to monitor progress;
- enable internal audit, where applicable, to focus on factors that could affect FPP Information;
- identify, document and test recovery procedures and cover arrangements essential to producing FPP Information;
- facilitate regular review and reassessment of the company's FPP procedures.

C. Forecasting and budgeting

The company has established procedures that operate, or are capable of operating, to:

- reflect key business risks in strategy and plans;
- determine and document budgeting and forecasting processes to meet the needs of the business, to reflect strategy and plans and to identify changes to its prospects;
- identify and monitor risks to achieving forecasts, in terms both of over- and under-performance;
- adopt a model for budgeting and forecasting that satisfies the needs of the business, including its plans for growth;

- involve staff in the preparation of budgets and forecasts with sufficient knowledge of the business and market and provide for input from those who will be charged with achieving them;
- distribute budgets and forecasts for review and approval by senior management and the board on a timely basis;
- compare management accounts against budgets and forecasts and analyse and explain positive and negative variances that are reviewed by senior management and the board on a timely basis;
- adapt plans as necessary based on monitoring of progress against budget and forecast and organise resources and capabilities to implement changes.

D. Management reporting framework

The company has established procedures that operate, or are capable of operating, to:

- consider the nature of management information and KPIs required to monitor the business and inform the board about FPP;
- generate and report to senior management and the board timely and reliable information including material financial information and KPIs;
- provide the board with timely information between periodic reporting dates about events with a material financial impact.

E. Significant transaction complexity, potential financial exposure or risk

The company has established procedures that operate, or are capable of operating, to:

- inform the board of the accounting, measurement and tax implications of transactions involving significant complexity;
- measure, record and report complex financial instruments and transactions involving such financial instruments on a timely basis;
- report to the board the extent of commitments and contingencies and potential financial liabilities and related taxation consequences, arising, for example, from pensions, lease commitments, leasehold dilapidations, litigation, onerous contracts, foreign currency, warranties and indemnities given, deferred consideration payable, environmental matters and future site rehabilitation costs;
- report to the board any exceptions to authority levels for such commitments and contingencies;
- scope and approve outsourced arrangements and monitor their performance;
- consider and act upon advice obtained from external experts in relation to FPP Information;
- monitor compliance with covenants and legal and regulatory requirements and report exceptions to the board.

F. Strategic projects and initiatives

The company has established procedures that operate, or are capable of operating, to:

- carry out project planning, management and delivery through experienced staff or third-party experts with senior management oversight and upward reporting;
- determine and monitor budgets, KPIs, milestones or other benchmarks and provide regular and timely reports to the board;
- measure, account for and assess tax implications of strategic projects through experienced staff with senior management oversight;
- record transaction information relating to strategic projects in the right period;
- provide up to date reporting of strategic projects;
- measure and assess economic lives of assets, and support and document decisions for asset replacement;
- scope and approve contractors and monitor their performance.

G. Financial accounting and reporting

The company has established procedures that operate, or are capable of operating, to:

- evaluate, determine, approve and document appropriate accounting policies that comply with applicable Generally Accepted Accounting Principles (GAAP);
- apply chosen accounting policies consistently;
- consider the impact of new financial reporting standards on a timely basis and determine, document and promptly communicate changes to accounting policies;
- identify, consider and disclose uncertainties and risks from applying chosen policies, including assumptions underpinning fair values and other key accounting assumptions as defined in relevant financial reporting standards;
- document and assign responsibilities for external reporting obligations, monitor compliance with these and investigate and remedy delays.

H. IT environment

The company has established procedures that operate, or are capable of operating, to:

- align IT business and strategies and obtain board approval for planned use of IT for FPP Information;
- document the general features of key systems impacting inputs to and production of FPP Information;
- formally approve changes to the systems impacting inputs to and production of FPP Information;
- monitor reliability and maintenance standards of key systems impacting inputs to and production of FPP Information;
- support systems so that they are capable of producing accurate, useful and timely FPP Information;
- document, approve and communicate disaster recovery plans and procedures;
- periodically test disaster recovery plans, describe results and address matters arising;
- restrict physical access to IT networks, equipment, storage media and program documentation to authorised individuals;
- restrict logical access to IT systems, programs, master data, transaction data and parameters and to processing in web-based or web-enabled financial systems;
- document security arrangements and procedures for processing internet trading arrangements and on-line transactions to authorise and protect processing;
- identify, assess and manage risks of outsourcing to data integrity and governance;
- determine requirements for outsourced systems and select and authorise suppliers.

APPENDIX 2: EXAMPLE WORDING FOR MATTERS FOR BOARD APPROVAL

Context

Board responsibility in relation to FPP procedures and the relevant regulatory obligation (the directors' assertion) and other matters such as the commitment to maintain FPP procedures subsequent to the company's listing are evidenced through approval by the board.

In the example wording, ABC plc is the entity being listed or admitted to trading.

Example wording

Background

EITHER

ABC plc is applying for a Premium Listing of its securities on the Main Market of the London Stock Exchange.

OR

ABC plc is applying for admission of its securities to AIM.

OR

ABC plc is applying for admission of its securities to the ISDX Growth Market.

Board responsibilities

As directors of ABC plc we are responsible for establishing procedures that provide a reasonable basis for making proper judgements [on an ongoing basis]⁶ as to the financial position and prospects of ABC plc [and its group] (the FPP procedures).

CONSIDER WHETHER TO INCLUDE ANY OF THE FOLLOWING OR OTHER APPROPRIATE DESCRIPTION OF THE NATURE OF THE TRANSACTION:

ABC plc is a start-up/investment company set up for the purposes of the transaction and FPP procedures have been established but have not yet been operated.

OR

This transaction involves a demerger from an existing business, where the systems of ABC plc may need to be adapted as a consequence of dividing up resources previously shared with or provided by the existing business.

OR

ABC plc is a new applicant by virtue of a 'reverse takeover', and the transaction is likely to give rise to an integration of existing financial reporting systems of ABC plc and the acquiring entity as well as new systems.

OR

This transaction involves a corporate restructuring and the whole structure may not be in place until the transaction has occurred.

In carrying out our responsibilities we have conducted a risk assessment of the nature and circumstances of the business and:

- information needed to monitor the business and manage risk so as to make proper judgements on ABC plc's FPP; and
- factors likely to impact on ABC plc's FPP and the preparation and communication of related information.

⁶ Include the words 'on an ongoing basis' in connection with a Premium Listing on the Main Market of the London Stock Exchange.

We have evaluated ABC plc's FPP procedures having regard, inter alia, to ICAEW Technical Release TECH 01/13CFF and the illustrative objectives set out in Appendix 1 to that document.

We have set out a description of the relevant FPP procedures in a document entitled [•] (the ABC plc document) and we confirm that:

- (a) the ABC plc document describes fairly the FPP procedures as of today;
- (b) where we have described FPP procedures in the ABC plc document for which plans for implementation have been drawn up, but which have not yet been brought into operation, those FPP procedures will be brought into operation, and subsequently operated, in accordance with the plans; and

EITHER

- (c) we have established procedures which provide a reasonable basis for us to make proper judgements on an ongoing basis as to the financial position and prospects of ABC plc [and its group].⁷

OR

- (c) we have established procedures which provide a reasonable basis for us to make proper judgements as to the financial position and prospects of ABC plc [and its group].⁸

OR

- (c) ABC plc has established sufficient procedures to ensure a reasonable basis for making informed decisions about its financial position and prospects.⁹

Other matters

We confirm that ABC plc [and its group] will continue to maintain the procedures set out in the ABC plc document subsequent to the admission of its securities to [listing/trading].

Director

Date

Signed on behalf of the Board of Directors

⁷ For a Premium Listing on the Main Market of the London Stock Exchange.

⁸ For admission to AIM.

⁹ For admission to the ISDX Growth Market.

APPENDIX 3: EXAMPLE PARAGRAPHS FOR AN ENGAGEMENT LETTER

Context

The engagement letter is a private contract, typically between the company, its sponsor or nominated adviser or corporate adviser and the reporting accountant.

In the example wording, ABC plc is the entity being listed or admitted to trading.

Example wording

Responsibilities of advisers

EITHER

Listing Rule 8.4.2R(4) requires that the sponsor must not submit to the FSA an application on behalf of an applicant, in accordance with Chapter 3 of the *Listing Rules*, unless it has come to a reasonable opinion, after having made due and careful enquiry, that the directors of the applicant have established procedures which provide a reasonable basis for them to make proper judgements on an ongoing basis as to the financial position and prospects of the applicant [and its group] (FPP procedures). The sponsor is required to make a declaration to the FSA in accordance with paragraph 8.4.3R(1) of the *Listing Rules*.

OR

Pursuant to Schedule Two of the *AIM Rules for Nominated Advisers*, it is the responsibility of the nominated adviser to confirm that it is satisfied that the applicant and its securities are appropriate to be admitted to AIM, having made due and careful enquiry and considered all relevant matters set out in the *AIM Rules for Companies* and the *AIM Rules for Nominated Advisers*. This Nominated Adviser's confirmation encompasses, inter alia, the issuer's declaration that procedures have been established which provide a reasonable basis for the directors to make proper judgements as to the financial position and prospects of the issuer and its group (FPP procedures).

OR

Pursuant to Part 1 of the *ISDX Corporate Advisers Handbook* (paragraph 34), the ISDX Corporate Adviser owes regulatory responsibilities to ISDX for determining the suitability of prospective companies for admission to the ISDX Growth Market and coordinating the preparation and submission of the required application documents and information, for which the issuer retains responsibility. Pursuant to the *ISDX Growth Market – Rules for Issuers* (Appendix 2) it is the responsibility of the corporate adviser to confirm that, to the best of its knowledge having made due and careful enquiry, the issuer and its securities to which the application for admission relates, meet the eligibility criteria and are otherwise suitable for admission to the ISDX Growth Market. This ISDX Corporate Adviser's confirmation includes the requirement in the *ISDX Growth Market – Rules for Issuers* (Rule 69) for the issuer to establish sufficient procedures to ensure, inter alia, a reasonable basis for making informed decisions about its financial position and prospects (FPP procedures).

Directors' responsibilities

In this connection, the directors of ABC plc (the Directors) will draw up a company document (the ABC plc document), for which they will be solely responsible, the purpose of which is:

- to document the nature of the FPP procedures;
- to provide evidence of the steps undertaken by the Directors;
- having regard to the objectives for FPP procedures set out in ICAEW Technical Release TECH 01/13CFF to enable them to confirm that they have established procedures which provide a reasonable basis for them to make proper judgements [on an ongoing basis]¹⁰ as to the financial position and prospects of ABC plc [and its group]; and
- to document the basis of their confirmation.

¹⁰ Include the words 'on an ongoing basis' in connection with a Premium Listing on the Main Market of the London Stock Exchange.

Scope of reporting accountant's work

Our work will be conducted in accordance with ICAEW Technical Release TECH 01/13CFF, International Standard on Assurance Engagements (ISAE) 3000 and Standard for Investment Reporting (SIR) 1000. On the basis of that work we will provide a private assurance report, confirming whether, in our opinion, the Directors have established procedures which provide a reasonable basis for them to make proper judgements [on an ongoing basis]¹¹ as to the financial position and prospects of ABC plc [and its group]. [A draft of the assurance report which we will provide, on the assumption that we are able to report in that form, is set out in Appendix [•] to this letter.]

[You have also requested us to provide a long form report containing commentary on certain aspects of ABC plc's FPP procedures [and of its other accounting and control procedures]. The scope of this commentary is set out in Appendix [•] to this letter.]

You agree and accept:

- that we will not provide any assurance regarding the day-to-day operation of the FPP procedures of ABC plc;
- the agreed limitations set out in the draft assurance report;
- that the assurance report does not imply compliance with governance codes; and
- that we make no representation as to the sufficiency of the assurance report provided in accordance with this engagement letter for the purposes of the [declaration of the sponsor/confirmation of the nominated adviser/confirmation of the corporate adviser] referred to above.

¹¹ Include the words 'on an ongoing basis' in connection with a Premium Listing on the Main Market of the London Stock Exchange.

APPENDIX 4: EXAMPLE REPORTING ACCOUNTANT'S ASSURANCE REPORT

Context

The sponsor makes a declaration regarding FPP procedures at the time of a company's application for a Premium Listing on the Main Market while in applications for admission to trading on AIM and the ISDX Growth Market it is the applicant that makes the declaration.

Irrespective of who makes the declaration, the reporting accountant's opinion mirrors the wording (**bold**) in the relevant market rule:

- For Main Market applicants, this is set out in LR 8.4.2 which states that the sponsor must not submit to the FSA an application on behalf of an applicant, in accordance with LR 3, unless it has come to a reasonable opinion after having made due and careful enquiry, that:

'(4) the directors of the issuer have established procedures that provide a reasonable basis for them to make proper judgements on an ongoing basis as to the financial position and prospects of the applicant and its group.'
- For AIM applicants, this is set out in the AIM Company Application Form, where the issuer makes a declaration that:

'(vi) procedures have been established which provide a reasonable basis for the directors to make proper judgements as to the financial position and prospects of the Issuer and its group.'
- For ISDX Growth Market applicants, this is contained in Rule 69 of the *ISDX Growth Market – Rules for Issuers* which states that:

'an issuer [applicant] must establish sufficient procedures to ensure a sound system of internal control and a reasonable basis for making informed decisions about its financial position and prospects.'

The scope of Rule 69 is wider than the typical FPP procedures engagement and the scope in the specimen engagement letter and assurance report covers only the FPP procedures rather than the entire system of internal control.

While the AIM and the ISDX Growth Market requirements of directors do not refer to 'an ongoing basis', the ability to make proper judgements on such a basis is consistent with a company's ongoing compliance obligations on each of those markets. While the ISDX obligation is worded as belonging to the company, it is implicit that the onus for discharging this is on the directors.

In the example report, ABC plc is the entity being listed or admitted to trading and XYZ Ltd is the sponsor or nominated adviser or corporate adviser as appropriate.

The reporting accountant's opinion may also be presented in the form of a 'comfort letter'.

Example report

To the directors of ABC plc and XYZ Ltd

Independent reasonable assurance report to the directors of ABC plc and XYZ Ltd on the financial position and prospects procedures of ABC plc

This report is produced under the terms of our engagement letter dated [•] (the Engagement Letter). It is provided in connection with the statement by the directors of ABC plc (the Directors) that they have established procedures (the FPP procedures) which provide a reasonable basis for them to make proper judgements [on an ongoing basis]¹² as to the financial position and prospects of ABC plc [and its group] (the Directors' Assertion). The Directors have made the Directors' Assertion in a document entitled [•] (the ABC plc document) [a copy of which is attached to this report]. The ABC plc document also sets out a description of the FPP procedures. The Directors are solely responsible for the Directors' Assertion and the ABC plc document.

¹² Include the words 'on an ongoing basis' in connection with a Premium Listing on the Main Market of the London Stock Exchange.

Use of report

This report is made solely for the use of the Directors, as a body, and XYZ Ltd solely for the purpose of assisting the addressees in accordance with the terms of the Engagement Letter.

Our report must not be recited or referred to in whole or in part in the [prospectus/admission document] or in any other document nor made available, copied or recited to any other party, in any circumstances, without our express prior written permission, other than in accordance with the terms of the Engagement Letter.

To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Directors, as a body, and XYZ Ltd for our work, for this report or for the opinions we have formed.

Subject matter

This report covers solely the Directors' Assertion.

[We note and draw to your attention that the ABC plc document describes a range of FPP procedures for which plans have been drawn up by the Directors, but which the Directors have not brought into operation as at the current date. We also draw to your attention the commitment made by the Directors as recorded in the ABC plc document that they will ensure that the FPP procedures are brought into operation on a timely basis, and subsequently operated, in accordance with the plans. In providing this report we are relying on this commitment of the Directors.]

Respective responsibilities

The Directors' responsibilities are set out in the ABC plc document.

In relation to the Directors' Assertion the Directors have had regard, *inter alia*, to ICAEW Technical Release TECH 01/13CFF and the objectives set out therein.

EITHER

In the context of ABC plc's application for listing of its securities, the sponsor's responsibility, in accordance with Listing Rule 8.4.2(4) issued by the Financial Services Authority (FSA), is not to submit to the FSA an application for listing on behalf of ABC plc, in accordance with Chapter 3 of the *Listing Rules*, unless it has come to a reasonable opinion, after having made due and careful enquiry, that the Directors have established procedures which provide a reasonable basis for them to make proper judgements on an ongoing basis as to the financial position and prospects of ABC plc [and its group].

OR

In the context of ABC plc's application for admission to trading of its securities, the nominated adviser's responsibility, in accordance with the *AIM Rules for Nominated Advisers* issued by the London Stock Exchange, is to be satisfied that ABC plc and its securities are appropriate to be admitted to AIM, having made due and careful enquiry and considered all relevant matters set out in the *AIM Rules for Companies* and the *AIM Rules for Nominated Advisers*.

OR

In the context of ABC plc's application for admission to trading of its securities, the corporate adviser's responsibility, in accordance with the *ISDX Corporate Advisers Handbook* issued by ISDX, is to ensure that ABC plc and the securities to which the application relates meet the eligibility objectives and are otherwise suitable for admission to the ISDX Growth Market.

Our responsibility is to form an independent opinion, based on the work carried out in relation to the FPP procedures, and report this to the Directors and XYZ Ltd.

Scope and basis of opinion

We conducted our engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000, the Standard for Investment Reporting (SIR) 1000 issued by the Financial Reporting Council and ICAEW Technical Release TECH 01/13CFF. We performed a reasonable assurance engagement as defined in ISAE 3000.

Our work was based upon obtaining an understanding of the FPP procedures and evaluating the FPP procedures statement with regard to criteria set out in ICAEW Technical Release TECH 01/13CFF, to obtain reasonable assurance so as to form our opinion.

Our work does not comply with professional standards and practice in any jurisdiction other than the UK. Accordingly our work should not be relied upon as if it had been prepared in accordance with professional standards and practice in any other country than the UK.

Inherent limitations

In common with all such procedures, the FPP procedures are dependent for their effectiveness on the diligence and propriety of those responsible for operating them. Such procedures cannot guarantee protection against (among other things) fraudulent collusion especially on the part of those holding positions of authority or trust. In addition the Directors need to maintain the FPP procedures, review them on an ongoing basis and adapt them to changing circumstances. Our opinion as set out below gives no assurance as to the day-to-day operation, or where relevant the bringing into operation or maintenance, of the FPP procedures as at any date.

Opinion

EITHER

On the basis of the foregoing, in our opinion the Directors have established procedures which provide a reasonable basis for them to make proper judgements on an ongoing basis as to the financial position and prospects of ABC plc [and its group].¹³

OR

On the basis of the foregoing, in our opinion procedures have been established which provide a reasonable basis for the Directors to make proper judgements as to the financial position and prospects of ABC plc [and its group].¹⁴

OR

On the basis of the foregoing, in our opinion ABC plc has established sufficient procedures to ensure a reasonable basis for making informed decisions about its financial position and prospects.¹⁵

Name of firm

Chartered Accountants

Location

Date

¹³ For a Premium Listing on the Main Market of the London Stock Exchange.

¹⁴ For admission to AIM.

¹⁵ For admission to the ISDX Growth Market.

ICAEW
Chartered Accountants' Hall
Moorgate Place
London
EC2R 6EA UK

T +44 (0)20 7920 8685
E financingchange@icaew.com
icaew.com/financingchange