

## EXHIBIT 17



Autonomy Corporation plc

Report to the Audit Committee  
on the audit of the year ended  
31 December 2010

26 January 2011

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# Executive summary

Key findings on audit risks	
Our response to the risks identified as part of our Audit Plan	<p>Our response to the risks identified in our Audit Plan dated 30 November 2010 is documented in Section 1. The audit risks are as follows:</p> <ul style="list-style-type: none"> <li>• Revenue recognition;</li> <li>• Provision for doubtful debts;</li> <li>• Maintenance and support service revenue carve out;</li> <li>• Presentation of cost of goods sold and operating expenses;</li> <li>• Goodwill impairment;</li> <li>• Capitalisation of research and development costs;</li> <li>• Management override;</li> <li>• Accounting treatment for convertible bonds;</li> <li>• Acquisition accounting; and</li> <li>• Taxation.</li> </ul> <p>The FRC has made it clear, in its 'Update for Audit Committees – November 2010', that it expects audit committees to focus their activity on assessing and communicating risk and uncertainties and reliance on estimates, assumptions and forecasts. To support this activity, we have challenged the board and management on these matters during the audit process.</p> <p>Our audit approach includes consideration of the work we have performed during the year as part of the quarterly reviews in Q1, Q2 and Q3 2010. The conclusions on the audit work performed throughout the year and as part of our year-end visit are set out in this report.</p>
Key findings on other matters	
Those areas deemed to be significant but not specific audit risks	<p>Other matters on which we have focussed but which have not been identified as key audit risks are:</p> <ul style="list-style-type: none"> <li>• Underlying assumptions used for IFRS2 charges calculation;</li> <li>• Compliance with loan covenants; and</li> <li>• Other matters</li> </ul>
Presentation in the financial statements	
	In section 3 we have discussed our work in respect of accounting standards that impact the presentation of the financial statements.

# Executive summary

Completion of the audit and the auditor's report	
Update on timings and outstanding areas	<p>The status of the audit is as expected at this stage of the tight timetable agreed in our Audit Plan. Certain procedures remain outstanding and need to be finalised before we can issue our audit opinion:</p> <ul style="list-style-type: none"> <li>• Receipt of certain bank, legal and trade receivable confirmation letters;</li> <li>• Review of corporate governance disclosures and directors' remuneration report;</li> <li>• Audit of notes to financial statements;</li> <li>• Final review of preliminary announcement;</li> <li>• Receipt of management representation letter;</li> <li>• Receipt of intangible asset valuations for Microlink and CA Technologies; and</li> <li>• Completion of internal review procedures.</li> </ul> <p>We will report to you orally in respect of any modifications to the findings or opinions contained in this report that arise on completion of these matters.</p> <p>On satisfactory completion of the outstanding matters, we anticipate issuing an unmodified audit opinion on the truth and fairness of the IFRS financial statements and compliance with the provisions of the Companies Act 2006.</p>
Preliminary announcement	
Our review of the preliminary announcement	<p>As we will not have signed our audit opinion on the annual financial statements at the date of the preliminary announcement, the announcement will state that it contains unaudited results. This is consistent with previous years.</p> <p>Although no longer a Listing Rule requirement, where a company chooses to issue a preliminary announcement, the mandatory minimum content of a preliminary statement of annual results is specified by the Listing Rules [LR 9.7A.1R].</p> <p>We have reviewed the draft preliminary announcement and will review the final announcement in due course to ensure that the best practice guidelines have been followed. We will issue a letter to confirm that we consent to the release of the preliminary announcement. A draft letter has been included at Appendix 3. We will not be in a position to sign our audit report on the annual financial statements by the date of preliminary announcement as the following procedures will not have been completed:</p> <ul style="list-style-type: none"> <li>• outstanding matters which we are satisfied are unlikely to have a material impact on the financial statements or disclosures insofar as they affect the preliminary announcement;</li> <li>• audit procedures on the detail of note disclosures to the financial statements that are unlikely to have a material impact on the primary financial statements;</li> <li>• our reading of other information in the annual report (such as the Chairman's Statement, Chief Executive's Report, Financial Review and Directors' Report) in accordance with ISA (UK and Ireland) 720 'Other information in documents containing audited financial statements';</li> <li>• our subsequent events review to cover the period between the issue of the preliminary announcement and the date of our report on the financial statements (likely to be towards the end of February); and</li> <li>• obtaining final signed written representations from management and establishing that the financial statements have been reviewed and approved by the directors.</li> </ul> <p>Consequently there can be no certainty that we will be in a position to issue an unmodified audit opinion on the financial statements consistent with the results and financial position reported in the preliminary announcement.</p> <p>However, at the present time, we are not aware of any matters that are likely to give rise to a modification in our report. In the event that such matters do come to our attention we will inform you immediately through the Audit Committee Chairman.</p>



# Executive summary

## Identified misstatements and disclosure deficiencies

Our total identified misstatements reduce profit after tax by \$6.2 million	<p>Audit materiality was \$22.5m (2009 \$20.0m) as set out in our Audit Plan.</p> <p>Known adjustments reduce profit before tax by \$0.5 million (2009: increase of \$4.8million), profit after tax by \$0.4 million (2009: increase of \$4.1 million) and net assets by \$1.8 million (2009: increase of \$4.1 million).</p> <p>In addition we have identified judgemental uncorrected misstatements which reduce profit before tax by \$8.1 million (2009: \$4.2 million) and profit after tax and net assets by \$5.8 million (2009: \$3.0 million). The majority of the judgemental adjustments relate to additional bad debt provisions against older debts from Italy and Latin America.</p> <p>Management has concluded that the total impact of the uncorrected misstatements, both individually and in aggregate, is not material in the context of the financial statements taken as a whole, and we concur with this view.</p> <p>Details of potential adjustments are included in Appendix 2. In this Appendix we also note that management is seeking to provide us with further supporting information on a number of judgemental adjustments in advance of the Audit Committee meeting.</p>
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## Accounting and internal control systems

A summary of our most significant internal control findings	<p>During the course of our audit we identified a number of control observations, the most significant of which are documented in section 5.</p> <p>Our controls letter to management will be finalised during the next few weeks and will provide further details of the results of our work on accounting and internal control systems.</p>
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## Deloitte Insights - Internal audit

The development of a separate internal audit function is recommended for consideration	<p>The Group has no wholly independent internal audit function at present. Given the continued growth of the group, the fraud identified during the year and the retrenchment of many key control processes back to the Cambridge Head Office, we recommend that a separate internal audit function be considered.</p>
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## Management representations

	<p>A suggested draft of the representation letter to be signed on behalf of the board is included at Appendix 1. Specific representations have been highlighted in bold.</p>
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## Independence

We confirm we remain independent	<p>Our reporting requirements in respect of independence matters, including our fees for the year, are covered in Appendix 4.</p>
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# 1. Key audit risks

Revenue recognition	
Revenue continues to be appropriately recognised in accordance with IFRS.	<p>Revenues for the quarter were \$246.6 million (Q4 2009: \$223.1 million) and for the year ended 31 December 2010 were \$872.5 million (2009: \$739.7 million).</p> <p>Management continues to apply a consistent policy to recognising revenues which includes assessing the probability of recoverability, evaluating any ongoing managerial involvement and discharging obligations thereby ensuring that all of the provisions of International Accounting Standard 18, Revenue, ("IAS 18") have been satisfied.</p> <p>Significant revenue deals in Q1-Q3 2010 have been reported on in our reports to you for those respective quarters. The most significant licence revenues recognised in Q4 2010 were with Promotora de Informaciones SA (\$9.0 million), Discover Technologies LLC (\$7.0 million), Amgen (\$5.7 million), Tikit Limited (\$6.0million) and VMS (\$4.8 million).</p> <p><b>Promotora de Informaciones SA ("Prisa")</b></p> <p>This is a \$9.0 million licence deal for a suite of Autonomy software including IDOL and LiveSite Servers, Autonomy Explore, TeamSite and OpenDeploy for use by its subsidiary Prisa Digital S.L., one of the main retailers in Spain. Support and maintenance has been carved out at 7% under the terms of the licence and deferred.</p> <p><b>Discover Technologies LLC</b></p> <p>The \$7.0 million licence deal is part of a wider deal with Bank of America as the end user. The other elements of the deal have been sold to Capax Discovery LLC (\$5 million) in order that one Value Added Reseller did not take on the full risk of the sale. Microtechnologies LLC is the lead reseller who has the overall contract with Bank of America but no sales on this deal have been recognised between Autonomy and this reseller in the quarter because purchase orders have not yet been received. The sale to Discover Technologies LLC is an increase in the number of users for the software licensed in a previous sale to BoA of Digital Safe software. Support and maintenance has been carved out at the fair value of 5%.</p> <p><b>Amgen Inc</b></p> <p>This is a \$5.7 million deal for a Digital Safe software license and storage. The deal has been structured to split the licence into a licence fee payable upfront and an infrastructure fee payable over the term of the licence. Both elements have been recognised in revenue as there are no further obligations on Autonomy's part now that the software has been delivered.</p> <p><b>Tikit Limited</b></p> <p>This is a \$6.0 million licence deal sold to the Value Added Reseller Tikit for end user KPMG for Worksite software. Support and maintenance was carved out at the fair value of 5%.</p> <p><b>VMS</b></p> <p>This is a \$4.8 million deal for a Autonomy explore licence. Support and maintenance has been carved out at the fair value of 5%. In conjunction with this deal Autonomy has also sold \$6.0 million of infrastructure hardware to this customer. The overall gross margin on the two sales is 73%.</p> <p>In addition to us receiving third party confirmations, management has confirmed that no revenue deals contained side letters or ongoing Autonomy performance requirements that were excluded from the signed sales contracts.</p>

# 1. Key audit risks

## Revenue recognition (continued)

### Deloitte response

#### Application of IFRS and audit work performed

Our audit of revenue contracts was designed to select large contracts including all deals of \$1 million or greater, those containing non-standard terms, as well as a sample of all other contracts (and specifically included the four/five deals identified above). Our audit work noted that revenue recognition continues to be consistently applied in comparison to previous periods and in accordance with Group accounting policies and IFRS. For each contract selected, we examined the terms and conditions of the contract to ensure that no unusual circumstances existed which might impact the recognition of revenue. We ensured that amounts recognised could reasonably be expected to be recoverable by inspecting previous payment history with the same customer or credit checks where relevant. Furthermore, where ongoing managerial involvement is necessary, the carve out rate for revenues deferred were recalculated to ensure they were consistent with terms of contract and in line with Autonomy's standard carve out rates for support and maintenance and support services, where relevant.

We concur with management's approach to revenue recognition. We set out below the more judgemental matters arising during our Q4 audit work:

#### Amgen

We concur with the upfront recognition of the infrastructure fees within the Amgen deal as there are no further obligations on Autonomy's part to deliver product.

#### AT&T

We noted that as at 31 December 2010, there was limited information in place to support the recognition of a balance of \$1.3 million with AT&T. This relates to a licence breach by AT&T identified by Autonomy during the quarter. A calculation has been performed to assess the additional amount payable on the licence fee under the terms of the existing contract. This has been communicated to AT&T and we understand that they have accepted the breach but there is ongoing discussion about the quantum of the additional amount payable. We accept the recognition of this amount as management's best estimate of the likely amount receivable on this transaction.

#### Representation Letter point

We have included a point in the management representation letter to confirm that no revenue deals contained side letters or ongoing Autonomy performance requirements that were excluded from the signed sales contracts.



# 1. Key audit risks

## Provision for doubtful debts

**Continued strong cash collection but DSOs slightly impacted by increase aged debt**

The net accounts receivable balance at 31 December 2010 is \$267.7 million (31 December 2009: \$230.2 million). The bad debt provision at 31 December 2010 stands at \$29.3 million (31 December 2009: \$21.4 million). The bad debt expense for the year was \$12.9 million (2009: \$16.0 million).

Cash collection in Q4 2010 has been \$193.8 million, compared with \$216.0 in Q4 2009.

DSOs have increased from 90 days to 94 days, worse than the 88 days at the end of Q4 2009 but in line with the normal range. Management continues to apply a detailed approach to credit control with increased scrutiny around each quarter end over potential exposure and the need to make a provision.

### Microtechnologies LLC ("Microtech")

We reported in Q3 2010 that \$11.0 million was overdue from Microtechnologies LLC ("Microtech") relating to a licence deal where the end user is the Vatican. During the quarter \$6.0 million has been received from Microtech of which \$4.0 million was in respect of this overdue amount, and \$2.0 million in respect of other invoices due from Microtech. We understand that Microtech has yet to receive the amounts due from its end user (the Vatican) and as such is delaying payment to Autonomy. Management is confident that payment will be received on the remaining amount in due course given its knowledge of the deal with the end user and its ongoing involvement with Microtech on other new deals.

### Italian value added resellers

The net exposure on large contracts outstanding from this territory is \$7.0m (2009: \$2.9 million). No cash has been received during the quarter. The principal amounts outstanding are Sales Consulting S.r.l. (\$2.3 million owing from 2009 sales), Red Ventures (\$2.7 million owing from a sale completed in Q3 2010) and Auxilium (\$2.0 million owing from a sale completed in Q3 2010). Management is continuing to push for payment on these overdue amounts.

### Latin American debts

Management continues to work with the Latin American overdue accounts which we have previously reported to the Audit Committee, and there is much evidence that detailed discussions and negotiations are ongoing. A further \$1.0 million has been provided on amounts due from Allotech and \$0.4 million on Informese so there is no net exposure remaining on either of these accounts. There is no net exposure on amounts due from Telematica Lefic however, management continues to work with the customer to resolve their technical issues and receive payment.

# 1. Key audit risks

## Provision for doubtful debts (continued)

### Deloitte response

We have reviewed customer correspondence, payment histories and post year end cash collections which support the conclusions reached by management.

#### Italian Value Added Resellers

We have proposed a known adjustment in respect of the Sales Consulting S.r.l. overdue debtor (\$2.3 million) as this was proposed as an audit adjustment at last year end and no cash has been received in the year.

We concur with management's treatment of Allotech, Informese and Telematica but have proposed judgemental adjustments in respect of the following receivables owing as there is limited persuasive evidence of probable collection of cash:

- Red Ventures - \$2.7 million; and
- Auxilium - \$2.0 million.

Management has confirmed that it is still actively chasing these debts and noted that a confirmation has been received from both of these resellers.

#### Latin American Value Added Resellers

We have proposed the following judgemental adjustments on the basis that there is limited evidence of collectability:

- AS Computadores y Servicios \$1.4 million; and
- Comercializadora Cobal \$2.7 million.

Although management is actively chasing the overdue balances, we have taken a more prudent view given the long overdue nature of the balance and lack of recent correspondence.

In addition to these large debtors which management and we have considered very carefully, there is approximately \$8 million in aggregate of smaller debts which are more than 180 days overdue. We accept management's explanation as to why these amounts do not require further provision but encourage strong management focus on these debts in 2011.

#### Future considerations

The Group has continued to trade during the year with customers in South America and Italy despite difficulties in recovering debts from these territories. This history raises concerns over the point of revenue recognition as it may be more appropriate, given these circumstances, to recognise revenue at the point of cash receipt rather than on signing the contract and delivery of software. Waiting for cash receipt would enable the deal to pass definitively the test in IAS 18 that 'it is probable that the economic benefits associated with the transaction will flow to the entity'. It is clear that management needs to remain vigilant to these risks and apply a cautious approach to recognising revenues and credit risk from business in this area in 2011.

#### Conclusion

The provisioning of doubtful debts is clearly a highly judgemental area and management approaches the process in a diligent manner. Historically Autonomy has had slow paying customers, and has had a good track record of being paid, and a relatively low bad debt history.

Against this backdrop, however, our work has led us to believe that a larger provision would be prudent. In addition to the adjustments noted above (which are largely judgemental in nature), we note that the aging of debt has worsened since last year end (and this will be analysed in the debtors note in the accounts). We accept that the magnitude of any additional provision, as indicated by our potential adjustments, would not be material to the financial statements taken as a whole.

# 1. Key audit risks

## Maintenance and support service revenue carve out

The fair value rates continue to be consistently applied and supported

IAS 18 requires that the fair value of support and maintenance revenue is recognised over the period over which the support and maintenance services are provided. As many of Autonomy's sales include both licence and support and maintenance, it is necessary to assess the fair value of the support and maintenance in order that the correct amount is deferred ('carved out') at the recognition date of the licence revenue. There is an element of judgement involved over the percentage used, albeit within a reasonably tight band.

Management has performed a review of carve out rates and renewal rates throughout the year to support the revenue recognition policy. There have been no product recalls, litigations or warranty claims that might indicate that the level of carved out maintenance was inappropriate. Carve out rates remain stable which is a result of stability of the IDOL architecture which is pervasive in all products.

Deloitte response

We recognise that there will not be uniformity in the carve out rate applied for these services and that variability will arise from commercial negotiations and previous trading history with an end user. We have therefore tested the rates carved out for support and maintenance to ensure that the rates used on 2010 licence sales are at the higher of the established fair value rate or the rate contracted in the signed agreement.

In addition we have examined all support and maintenance renewal rates on 2009 licence deals of greater than \$1 million to ensure that the rate at which customers are renewing is consistent with the established fair value or with the initial agreed rate contracted.

We have also tested a sample of support and maintenance renewals on 2009 licence deals below \$1 million to ensure that the fair value on these deals can be supported. We have performed an analytical review on the movement in deferred revenue compared to 31 December 2009 which shows that the movement is reasonable.

We concur with the accounting treatment adopted by management.



# 1. Key audit risks

## Presentation of cost of goods sold and operating expenses

Strategic  
appliance sales  
for the year  
totalled \$98  
million

Strategic hardware revenues for the quarter were \$29 million (Q4 2009: \$12 million) and for the year ended 31 December 2010 were \$98 million (2009: \$48 million). This represents approximately 11% of the Group's revenues for 2010 (2009: 6.5%).

The revenue in the quarter is primarily made up of sales of Dell hardware to SHI International (end user Bank of America for \$8.5 million), Morgan Stanley for \$6.3 million, JP Morgan Chase for \$1.7 million, Bank of New York for \$1.4 million and Progressive Insurance for \$1.2 million. Not included in the above is the \$6.0 million infrastructure sale to VMS referred to earlier.

Consistent with the hardware sales discussed in previous quarters' reports to the Audit Committee, the majority of these strategic sales to major purchasers of software (now and in the future) have been made at a small loss.

In previous quarters, management had taken all of the costs associated with the strategic hardware sales to cost of sales with the exception of the loss which has been allocated to sales and marketing expense on the basis that these sales are only made at a loss in order to procure future, profitable software sales. In Q4 2010 the loss made on the strategic hardware sales taken to sales and marketing expense was approximately \$4 million.

Following a review of the volume of strategic hardware sales made during 2010, management has re-considered their accounting treatment of the associated costs. Given that Autonomy has purchased and on-sold \$110 million of hardware during 2010, management now considers that the level of sales being made is equivalent to that of a hardware reseller. As an equivalent sized reseller would expect to make a modest profit margin on such sales, management has concluded that it would better reflect the nature and volume of the strategic hardware sales if Autonomy recognised an equivalent margin on these sales, estimated at 5%. Management has concluded that this would then reflect the true sales and marketing related expense incurred in making these sales in order to procure further, profitable software sales.

In Q4 2010 management has therefore taken an additional \$4.4 million of the hardware costs incurred in the year to sales and marketing expense, reflecting a 5% profit margin on the loss-making strategic hardware sales made during the year.

Of the total amount expensed in 2010, \$16.4 million has been allocated to sales and marketing expenses on the basis set out above (2009: \$37.8 million).

As outlined above, the costs taken to sales and marketing in 2009 were significantly higher than in 2010. As discussed in our Q3 and Q4 2009 reports to the Audit Committee, this was a result of those initial hardware purchases (mainly from EMC) including an amount paid for additional marketing services and future development costs as part of an effort to build strategic relationships with those suppliers. The loss-making hardware sales in 2010 were made in order that the group would benefit from subsequent highly profitable software sales. No equivalent marketing services or future development costs were purchased with the 2010 hardware, which is evidenced by the much smaller net loss made on these sales.

Management has extended its analysis demonstrating the strong linkage between the loss making hardware sales and subsequent highly profitable software sales which indicates that for the \$146 million of hardware sales made over the course of 2009 and 2010 to date (at a total loss of approximately \$29 million), approximately \$87 million of major software deals have taken place with these customers over the same period and \$30 million of hosted revenues have been generated for which there is a recurring revenue stream. All of these subsequent amounts have been transacted at Autonomy's normal high gross profit margin above 90%.



# 1. Key audit risks

## Presentation of cost of goods sold and operating expenses

### Deloitte response

We have reviewed management's analysis of the linkage between the loss making strategic hardware sales and subsequent profit making software sales and given the scale and consistency in allocation with the prior quarters, accept the decision taken by management to allocate the loss of \$4.0 million to sales and marketing expense in Q4.

In our judgement, the change in the accounting for the associated costs and the recognition of an assumed 5% gross profit margin does not better reflect the nature of these transactions. We also note that it is inconsistent with management's assessment that the group has just one Operating Segment, being sales of IDOL software.

We have proposed a judgmental adjustment to reclassify the \$4.4 million of costs from sales and marketing expense into cost of goods sold and this is noted in Appendix 2.

Given the increasing significance of hardware sales to the Group's revenues, and the resultant impact on the gross and operating margin in the quarter and full year results, we expect appropriate explanation to be given in the 2010 Annual Report.

# 1. Key audit risks

## Goodwill impairment

Based on prudent assumptions, the goodwill impairment model shows headroom of \$1.8 billion

In accordance with International Accounting Standard 38, *Impairment of assets*, ("IAS 38") management has performed an impairment review of the goodwill balance of \$1.4 billion. IAS 38 requires an impairment review to be performed on an annual basis even where there is no indication of impairment.

Management has identified one cash generating unit ("CGU") on the basis that its core technology, IDOL, is pervasive in all product offerings. It has considered this in detail and set out its conclusion in a separate paper to the Audit Committee. Consequently, management has performed a detailed impairment review which compares the carrying value of the CGU to the recoverable amount of the CGU.

Management has determined the recoverable amount of the CGU by performing a net present value calculation based on a forecast period of 10 years with no perpetuity factored in thereafter. This uses the 5 year forecasts approved by the Board of Directors (including an annual average growth rate of 10%), a discount rate of 12.8% and a recurring long term growth rate of 5% in revenues and therefore profits for years 6-10. The initial 5 year forecast uses a number of assumptions which are principally based on historical organic growth trends and the rates used for years 6-10 are significantly below historical growth trends in order to be prudent. (The annual average growth rate for the past five years has been 25%).

The recoverable amount of the CGU is calculated to be \$3.5 billion which is significantly in excess of the total carrying value of the CGU of \$1.7 billion including tangible and intangible assets, and significantly lower than Autonomy's market capitalisation of approximately \$6 billion.

In order to comply fully with IAS 38, management has performed a sensitivity analysis which shows that even with significant reductions in the growth rate applied to revenues and profits and combined with an increase in the discount rate applied, the recoverable amount of the CGU is still considerably in excess of the carrying value.

If both short term and medium term revenue growth is reduced to nil, the headroom reduces to \$657 million. If the discount rate increased from 12.8% to 20.0%, headroom reduces to \$906.0 million. If a very extreme scenario is taken, with the growth rate reduced to nil and the discount rate increased to 20%, the headroom would be reduced to \$106 million.

Deloitte response

We have audited the goodwill impairment review and have considered the sensitivity analysis performed by management. We have reviewed and challenged the assumptions used by management in the impairment model and concur that they were reasonable. We have compared growth assumptions used to historical rates and note that the rates used are prudent in nature.

We believe that management's conclusion that there is one CGU is reasonable given that IDOL is pervasive in all sales and distinct business lines or divisions are not present, on either a product or brand basis. The overarching risk to the business is that its proprietary technology is significantly competed against. On this basis as all products are founded on the one technology they face the same risks and consequently each product cash flow are dependent on each other.

We have also performed a variety of our own sensitivities which demonstrate that in all reasonable cases significant headroom remains and therefore we agree with management's conclusion that there is no impairment of the group's goodwill balance at 31 December 2010.

# 1. Key audit risks

## Capitalisation of research and development costs

**Development expenditure of \$38.5 million has been capitalised in 2010** During the year a total of \$38.5 million of software development costs has been capitalised (2009: £24.7 million). The amortisation charged for the year amounted to \$17.4 million (2009: \$8.8 million). \$12.7 million of costs were capitalised in Q4 2010 (Q4 2009 \$5.5 million) and the amortisation charge for Q4 2010 was \$5.4 million (Q4 2009 \$3.2 million). The amount capitalised in the quarter included \$3.1 million of costs that were incurred in Q1-3 2010 and previously expensed in these periods. These relate to additional timesheets that had not been included in the initial calculations in those quarters along with a more accurate assessment of employer payroll costs such as national insurance and medical insurance.

**Deloitte response** We have audited a sample of these costs and have verified that the criteria of IAS 38 have been satisfied, including in particular the amounts previously expensed. The accounting treatment is reasonable, except that amortisation of \$0.9 million has not been recorded for the additional capitalisation of Q1-3 2010 costs. However, in addition, we noted that all development costs are currently amortised immediately after the quarter in which they are incurred. IAS 38 prescribes that intangible assets should be amortised over a period to which the revenues relate. Management has performed an assessment which demonstrates that a more accurate basis would be to amortise costs two quarters after being incurred because this is the average lead time between a cost being incurred and the project being launched. The impact of this is a net adjustment to reduce the amortisation charge for the year by \$1.7 million after taking account of the \$0.9 million additional amortisation above. This has been recorded as a judgemental adjustment in Appendix 2.

## Management override of internal controls

**No instances of management override of internal controls have been identified** As in most companies, key management personnel have the potential power to override controls and therefore there is a risk of management override of key controls through misuse of journal entries. This risk is increased due to the manual nature of some of the control processes in place. Management is comfortable that the level of internal controls in place is sufficient to mitigate any risk of override of controls by members of the management team.

**Deloitte response** A sample of year end journals has been examined across the Group in order to determine that there have been no material management override issues. We have investigated all presentation adjustments made to the underlying financial records to confirm that these are appropriate and consistent with previously reported periods. We have considered the risk of fraud in all areas of our work and held discussions with management and Board to understand and where appropriate tested the internal procedures which it has in place to prevent and detect fraud.

As communicated in our Audit Plan, we have planned our work with knowledge of the payroll fraud which was uncovered in June 2010. Our substantive work in this area was completed with no issues arising. We have however identified a small number of control recommendations we wish to bring to your attention which are documented in section 5.



# 1. Key audit risks

## Accounting treatment for convertible bonds

The accounting treatment for the bond has resulted in a financial liability of \$682 million and \$98 million of equity

On 4 March 2010, the Group issued a convertible bond in order to raise £496.9 million of cash (less issue costs of £7.0 million). As required by International Accounting Standard 32 *Financial Instruments: Disclosure and Presentation* ("IAS 32"), the convertible bond has been treated as a compound financial instrument and has therefore been split into liability and equity components. As per IAS 32 the fair value of the liability component on initial recognition is the present value of the contractual stream of future cash flows discounted at the market rate of interest. The rate of interest used should be that which would have been applied to an instrument of comparable credit quality with substantially the same cash flows on the same terms, but without the conversion option. The residual balance after the fair value of the liability component is classified as equity.

The discount rate used by management was 6% per annum which is the coupon rate applied to recent bond issues with similar features and similar risk profile.

Expenses incurred associated with the issue of the instrument have been split in proportion to the gross split of liability and equity and netted off each component.

Over the term of the convertible bond a finance charge is being recognised in the income statement and credited to the financial liability on the balance sheet such that at the end of the term the liability is equal to the par redemption value at the outset. This charge is effectively amortising the equity component through the income statement and is recognised on a straight line basis over the term of the bond. Coupon interest is recognised in the income statement as incurred.

The above accounting treatment has resulted in a financial liability of \$681.8 million and equity component of \$97.8 million in the Group accounts at the end of Q4 2010. The equity element will not be revalued, whereas the debt element is translated into US Dollars at each quarter end.

The bond holders rights to convert the bond into ordinary shares does not have a dilutive effect on earnings per share as the finance charge would not be incurred if the shares were converted and so the effect of this increases earnings per share and hence is not dilutive.

Management do not consider that the bond will be redeemed ahead of the scheduled redemption date.

Deloitte response

Our review of the accounting was communicated to the Audit Committee in our Q1 2010 report in which we confirmed that we concurred with the treatment. The accounting for the bond is a specific risk for our audit for the 2010 financial year as a whole, hence the accounting is covered again in this report. We have reviewed the accounting to record the convertible bond and subsequent movements and confirm that this agrees to the terms of the final offering circular.



# 1. Key audit risks

Acquisition accounting	
<p>The Group acquired Microlink and CA Technologies during the year</p>	<p>Management continues to monitor its provisional fair values attributed to the assets and liabilities acquired as part of the acquisitions of Microlink in Q1 2010 and the trade and assets of the information governance business of CA Technologies Inc in Q2 2010.</p> <p><b>Microlink LLC ("Microlink")</b></p> <p>Microlink was purchased in January 2010 for an initial consideration of \$55 million cash for 100% of the share capital. Management is in the process of producing an assessment of the intangible assets acquired based on the methodologies used in the valuations of assets acquired in previous acquisitions calculated by Duff &amp; Phelps.</p> <p>Management continues to monitor its provisional fair values attributed to the assets and liabilities acquired as part of this acquisition.</p> <p><b>CA Technologies ("CA")</b></p> <p>CA was purchased through a trade and asset agreement in June 2010 for a consideration of \$20 million. Management engaged Ernst &amp; Young to value the separately identifiable intangible assets acquired from CA Technologies. At the time of writing this report, this valuation has not been received in final form from E&amp;Y. Given that the draft report has been seen and the scale of numbers involved are immaterial, management is waiting for the final report before making the relevant changes to the provisional accounting.</p> <p>In Q4 2010, \$1.5 million of further fair value adjustments have been made in respect of the CA purchase to reduce the value of the assets acquired. This predominantly relates to irrecoverable unbilled receivables.</p> <p>In addition, management continues to chase repayment of amounts that CA Technologies Inc has invoiced in respect of unbilled contracts that Autonomy purchased from them. CA Technologies do not dispute this and as a result the assets acquired have not been reduced by further fair value adjustments as management expects to settle this matter in the near future. The assets and liabilities acquired remain on a provisional basis.</p>
Deloitte response	<p>We shall assess the assumptions within management's determination of the value of the provisional separately identifiable intangible assets for both Microlink and CA Technologies and report any findings to you.</p> <p>We concur with management's treatment regarding the recovery of the unbilled receivables from CA Technologies Inc.</p> <p>We have again engaged Deloitte US in Q4 2010 to perform agreed upon review procedures to gain assurance over the Microlink results. We are not able to do this from the UK due to US Department of Defense restrictions on access to their records. The results of these procedures have not raised any significant issues.</p>

# 1. Key audit risks

Effective tax rate ("ETR")				
The 2010 ETR is reduced to 23% by the one-off recognition of US tax losses. The future rate is expected to be approximately 28-29%, being a mix of the US and UK tax rates less deductions for UK R&D and US financing		2009	2010	2011 (estimate)
	UK corporation tax rate	28.0%	28.0%	27.0%
	Tax effect of non-deductible expenses	0.7%	0.4%	0.5%
	Tax effect of non-taxable income	(0.5%)	(1.2%)	(1.0%)
	Research and Development tax credits	(0.7%)	(1.2%)	(1.0%)
	Recognition of tax losses (s382 study)	(0.2%)	(5.8%)	-
	Other differences (including tax provision)	(1.7%)	1.3%	1.0%
	Effect of overseas tax rates	3.5%	1.5%	2.0%
	Prior year adjustment	(1.1%)	-	-
	Effective tax rate for the year	28.0%	23.0%	28.5%

The key drivers which impact the current year ETR have been reviewed and discussed with management. Disclosure of the reasons for the fluctuation in the ETR (principally the impact of recognising additional US losses in Q1/Q2) compared to the expected future rate is expected to be a key point to communicate to analysts.

## Deloitte response

The ETR per management's tax workings is 23.0% (2009: 28.0%). The principal movements in the effective tax rate from last year are set out above. We would draw your attention to the following key points. The 2010 figure includes:

- A full year of benefit from the US financing structure and an extension to the amount included;
- An increase in the UK deduction for R&D;
- A one-off credit in respect of additional US losses recognised following completion of a report into the availability of acquired tax losses in the US ("the S382 report") during the year during Q1 and Q2;
- Movements in the tax provision for US transfer pricing (included in other differences and discussed further below);

These movements are consistent with our expectations and our review of the tax workings.

# 1. Key audit risks

Tax Provision for US Transfer Pricing	
The tax provision at 31 December 2010 is \$7.2m in respect of potential future US enquiries into the group's transfer pricing	<p>During the year, we were engaged to produce a report to support the group's transfer pricing arrangements in line with US documentation requirements. This work is now substantially complete and provides documentary support for the transfer pricing policy apportioning profits between the US and UK for the years 2007-2009.</p> <p>The tax workings include a US tax provision, as at 31 December 2010, of \$7.2m in respect of potential historical transfer pricing exposures. This provision is comprised of two elements:</p> <ul style="list-style-type: none"> <li>• \$2.4m in respect of the adoption of the transfer pricing process in 2007, which was included in the 2008 US return.</li> <li>• \$4.8m based on a sensitivity analysis using an increase in US taxable profits of approximately 15% for the 2008-2010 years.</li> </ul> <p>The provision is consistent with the amounts provided at the end of Q2 and Q3 in respect of transfer pricing.</p>
Deloitte response	<p>Whilst the work done on the transfer pricing documentation during the year supports the overall levels of US profitability, the tax provision established does not appear unreasonable as a prudent measure in respect of a potential US tax authority enquiry into the group's transfer pricing.</p> <p>Management should ensure that a consistent provisioning policy is maintained in respect of the creation, and eventual release, of the group's tax provisions.</p>

Future US tax profile	
It is expected that the remaining unrestricted US tax losses will all be utilised in 2011, resulting in a higher level of US cash tax payable and an increased US tax profile	<p>During the period, the group has recognised additional US tax losses available in line with the S382 report on US tax losses completed during the year and most of these losses have now been used to offset US taxable profit in 2010. It is therefore likely that in 2011, there will be a substantial increase in the cash tax payable by the US group.</p> <p>This is likely to lead to a higher profile with the US state and federal tax authorities and increase the importance of managing the group's US tax position.</p>
Deloitte response	<p>We note that during the year management has successfully addressed the most significant US tax issues previously identified, specifically the S382 report and the US transfer pricing documentation, and is aware of the continuing importance of managing its tax position.</p> <p>Management has decided to appoint an in-house tax manager to oversee the group's US and UK tax position and manage the relationships with the group's advisers and tax authorities.</p> <p>We consider this an important appointment in the management of the group's tax affairs, which are becoming increasingly complex, and welcome this approach.</p>



## 2. Other matters

### Underlying assumptions used for IFRS2 charges calculation

<b>Background</b>	Autonomy share options (and legacy Interwoven, Zantaz and Verity share options) have graded vesting terms meaning that the entitlement builds up gradually over the term rather than being spread equally each quarter. These are typically a vesting cliff of 6 months, after which options vest over 36 months on a quarterly basis. The impact of this pattern of vesting is that the IFRS 2 charge should be higher during the early quarters of a share option scheme's life and decrease as tranches of options vest on a quarterly basis. Historically Autonomy has treated the share options as cliff vesting on the final date of the scheme and the charge is recognised evenly over the vesting period.
<b>Deloitte response</b>	During the prior year management recalculated the historic charge based on the graded vesting model which has indicated that a credit to the income statement of \$1.8 million is required (with a corresponding entry to debit the stock compensation reserve). In 2010, the Group has recorded a charge to the income statement based upon the updated vesting model, but has not recorded the cumulative credit as at 31 December 2009 in the income statement. We have reviewed the charge for the period. We have proposed this again as a known credit adjustment in Appendix 2.

### Compliance with loan covenants

<b>Background</b>	The acquisition of Interwoven was partly funded by a bank loan of \$200 million. Management has assessed bank loan covenant compliance and has demonstrated that there have been no breaches during the year and no breaches forecast for the remaining life of the loan. A repayment of \$52 million was made during Q1 2010. The total bank loan remaining at year end is \$145 million (2009: \$197 million) and the next repayment of \$79 million on the loan is due before the end of March 2011.
<b>Deloitte response</b>	We have reviewed the cash flow forecasts and run appropriate sensitivities and concur with management's assessment.



## 2. Other matters

Purchase from Microtech	
Background	<p>In December 2010 a licence was purchased by Autonomy from Microtech for \$9.6 million and capitalised on the balance sheet as an intangible asset. This relates to a 3 year licence to use a fully US federal government certified demonstration facility which will remain the property of Microtech throughout the licence term. The licence will include six dedicated US federal cleared employees of Microtech who each have many years of experience in dealing with US federal government sales. We understand that these individuals have significant business connections with US federal organisation.</p> <p>Given that Microtech is a regular customer of Autonomy, we have reviewed this transaction to ensure that it makes commercial sense and that there is no indication that this should be considered a barter transaction. We have reviewed the agreement between the two parties and have seen purchase order approval from Mike Lynch, Sushovan Hussain and Dr Pete Menell. We held discussions with Sushovan Hussain and Dr Pete Menell who explained that at present Autonomy struggle to make significant sales into the US Federal government agencies because they do not have the appropriate level of certification. The US Federal government procurement process is very onerous and Autonomy would always have to sell through a certified consultant who often do not understand the intricacies of an Autonomy software solution. This deal allows Autonomy to have a dedicated licence to use the cleared demonstration facility and for Microtech employees to assist in the demonstration process. The aim is to make significant sales into US federal government agencies during the three year term.</p>
Deloitte response	<p>We have considered the accounting for this transaction and concur that it is appropriate to capitalise this amount as an intangible asset as future economic benefit is expected to flow from this asset during the three year term. Autonomy control the asset, i.e. the licence, and the cost of the asset can be measured reliably. The value held on the balance sheet will need to be considered at each of the next 2 year ends to ensure it is supported by commercial value received.</p>
Sponsorship deals	
Background	<p>As first reported in Q2 2010 the costs of the Mercedes sponsorship is being spread evenly over the two years of the agreement. Management is satisfied that the benefits accrue evenly over the two year period and therefore believes its accounting to be appropriate.</p>
Deloitte response	<p>In our view the higher costs of sponsorship in year one should be spread across the first year, resulting in a slightly higher charge in 2010 and a lower charge in 2011. We have proposed a judgemental adjustment by \$1.0 million at Appendix 2.</p>

### 3. Presentation in the financial statements

The following financial reporting presentational and disclosure matters are significant to the 2010 accounts.

Operating segments	
<b>Background</b>	<p>International Financial Reporting Standard 8 <i>Operating Segments</i> ("IFRS 8") was effective for 2009 year end onwards.</p> <p>IFRS 8 requires an entity to report financial and descriptive information about its reportable segments, which are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker (or executive management) in deciding how to allocate resources and in assessing performance.</p> <p>IFRS 8 requires the amount reported for each segment item to be the measure reported to the chief operating decision maker for the purposes of allocating resources to that segment and assessing its performance.</p> <p>Under IFRS 8, additional entity-wide disclosures are prescribed that are required even when an entity has only one reportable segment. These include information about each product and service or groups of products and services.</p> <p>Analyses of revenues and certain non-current assets by geographical area are also required.</p>
<b>Management response</b>	<p>In 2009 management concluded that there was one operating segment. Management has considered the changes in the business that have taken place in 2010 in order to assess whether there has been any impact on the one operating segment rationale. Two possible challenges are the increase in the level of hardware sales and acquisitions. Management has considered these changes and is comfortable that there continues to be one operating segment.</p>
<b>Deloitte response</b>	<p>We have reviewed the reports that are provided to the chief operating decision maker and agree with management's conclusion as no discrete information on a business unit, product line or any other basis is provided. We have considered the two changes in the year, namely the increase in the level of hardware sales and acquisitions. As these do not represent significant changes to the business model and, in particular, no information is reported separately to Mike Lynch on the new acquisitions or on hardware as a revenue stream, we concur with management that there continues to be one operating segment.</p> <p>As part of our audit of the notes to the financial statements, we shall review the disclosure made in relation to operating segments and we shall ensure that this meets the requirements of IFRS 8.</p>

## 4. Accounting policies and estimates

In the course of our audit of the financial statements, we consider the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements.

Going concern	
Background	Current FRC guidance for Directors of UK Companies brings together the requirements of company law, accounting standards and the Listing Rules. It focuses on three key principles: assessment of going concern, the review period and disclosures. It advises that balanced, proportionate and clear disclosures about going concern should be made in order to give a true and fair view.
Management response	Management has prepared cashflow forecasts which cover a period of more than 12 months from year end. Based on these forecasts, which show a net cash inflow of \$276 million for 2011, and the significant net cash resources of the group, the going concern basis for preparing the accounts is considered appropriate.
Deloitte response	We concur with management's assessment and consider the analysis upon which it is based and the disclosures in the draft financial statements are appropriate and are a proportionate response to the size, level of risk and complexity of the Group, in particular considering the \$1.1 billion cash balance held by the Group at 31 December 2010.

## 5. Accounting and internal control systems

### Control observation

During the course of our audit we identified a number of control observations, the most significant of which are detailed below.

Significant changes in finance staff during the year	
<b>Observation</b>	As a result of the US payroll fraud identified in the current financial year, and following a number of identified instances of non-compliance with group policies, UK management has brought more of the control over the US operations back to the UK and replaced seven members of the US finance team either through direct replacement or by replacing the position in the UK. This has led to a number of control processes requiring input from members of the UK finance team and some additional headcount being hired in the US.
<b>Recommendation</b>	Controls should be redesigned to reflect the new structure of the finance team and appropriate documentation outlining roles and responsibilities should be put in place.  We note however that the addition of a new Controller at Autonomy Inc has led to an increased level of financial accounting experience and segregation of duties at that location.
<b>Management response</b>	We took the decision to centralise finance management in the UK and expanded the team here accordingly and migrated the key controls to within the oversight of the UK team. In addition, we replaced 3 members of staff in the US. The remaining 4 staff were replaced by reallocating tasks to the UK.  We have strengthened the UK team with the recruitment of an EMEA and APAC controller, Helen Bradley, and Ross McGarrity who is working with Lisa Harris on FP&A and systems.  The effect of the above changes have resulted in the following: <ul style="list-style-type: none"> <li>• All approvals in UK by VP, Finance or CFO</li> <li>• Reconciliations all reviewed by UK team</li> <li>• Change implementation controlled and implemented by UK team</li> <li>• Financial analysis of all ledgers completed by UK team</li> </ul> We are looking to recruit a senior person into the UK to look after revenue and collections.



## 5. Accounting and internal control systems

No upper limit on payments which can be made independently by the US finance team	
Description	Whilst the UK finance team now has a much greater level of oversight of the US control environment, particularly around the approval of purchase invoices, we note that one area that is still largely dependent on manual control processes, originating in the US, is the payment of cash.
Recommendation	<p>We recommend that an upper limit is placed on the payments which can be made electronically by the US finance team. Above this amount, a further electronic authorisation would be required from either a member of the UK finance team or the US senior management team. This would reduce the likelihood of a material misappropriation of cash from the US business.</p> <p>We recommend that an upper limit is placed on the cheques which can be authorised by the Director of Finance in the US. Above a certain limit, a second signature should be required from a member of the US senior management team.</p>
Management response	<p>There is a daily limit in place already on wire transfers but to provide better control we are replacing wire transfers with ACH which does not allow the payment approver to amend any payment details, so two staff have to be involved in each payment (the rollout has been started with Interwoven Inc). We receive bank statements from all the US entities weekly together with their report of weekly cash movements, this is checked and any unexpected payments investigated by the UK finance team before they are consolidated into a group report that is submitting to the CFO &amp; VP Finance.</p> <p>For all US companies, cheques over \$10k must have two signatures now.</p>

## 5. Accounting and internal control systems

### Lack of review of the completeness of journal entries

Description	We noted that no monthly check takes place as to the completeness of journals. This increases exposure to fraud and error if journal files are not reviewed for completeness by someone independent of the day-to-day processing. There is a risk that US finance staff could post journals in DDS which are not reviewed or even known about by senior management.
Recommendation	Management should ensure the journal file (which contains the supporting documentation and authorisation for journals) includes a sequentially numbered listing of all manual journals posted in DDS during that month. This should then be reviewed by the local controllers to ensure that all journal entries are appropriate.
Management response	There is a series of reviews to ensure all journals are posted. Firstly, the monthly reconciliations identify missing journals. Secondly, the detailed financial review completed by the UK team identifies areas where postings may be missed. We believe this process is sufficient to identify any instances of fraud or error.

## 6. Deloitte insights

Internal audit	
Description	<p>Currently senior members of the UK Group finance team are responsible for performing internal audit procedures across the businesses. During 2010 limited routine internal audits have taken place due to competing pressures on other priorities.</p> <p>Many of the controls across the Group are manual in nature. For example, approval from designated staff must be obtained prior to release of certain payments such as payroll, however, as the approval process is manual, the payment could still be made without the required authorisation and it would only be a subsequent check or review that would identify whether the approval process had been adhered to. An active internal audit programme would, in our view, provide a valuable addition to the control framework.</p>
Recommendation	<p>For a FTSE 100 Group, an internal audit function is generally considered to be a important element of a good controls framework.</p> <p>Management should consider the implementation of an internal audit function that is independent from finance. This could be achieved by recruiting an employee who would report directly to a non-finance member of management (and potentially the Audit Committee) and would perform procedures at all material finance locations in both the US and the UK.</p> <p>Additionally the Board could consider outsourcing this activity if it was considered necessary to provide more support for the full time member of staff. For reasons of independence, Deloitte cannot perform this role.</p>

Impact of UK Bribery Act	
Description	<p>In April 2010, the UK Bribery Act was enacted into law and will come into force in April 2011.</p> <p>Under this legislation, there is an onus on UK commercial organisations to put in place adequate controls to prevent bribery by persons associated with them. If they choose not to do so they will have no available defence to prosecution if a bribe is paid on their behalf.</p> <p>Individuals that are found guilty of an offence may be fined or imprisoned.</p> <p>Final guidance is awaited and there is currently significant lobbying for the Government to reduce the stringency of the requirements.</p>
Recommendation	<p>Management should consider implementing the following actions:</p> <ul style="list-style-type: none"> <li>• Monitoring progress of final guidance or any changes to the Act;</li> <li>• Appointing a member of the senior management team with overall responsibility for implementing anti-corruption procedures;</li> <li>• Developing an anti-corruption policy and code of ethics and ensuring that this is communicated to all employees;</li> <li>• Identifying and mitigating against any specific risk factors; and,</li> <li>• Providing regular training to employees in order to ensure ongoing compliance, which should be recorded/documented and ensuring that disciplinary procedures are in place and are properly executed in the event of any non-compliance by an employee.</li> </ul>



## 7. Responsibility statement

This report should be read in conjunction with the "Briefing on audit matters" circulated to you on 30 November 2010 and sets out those audit matters of governance interest which came to our attention during the audit. Our audit was not designed to identify all matters that may be relevant to the board and this report is not necessarily a comprehensive statement of all deficiencies which may exist in internal control or of all improvements which may be made.

This report has been prepared for the Board of Directors, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. It should not be made available to any other parties without our prior written consent.

### **Deloitte LLP**

Chartered Accountants

Cambridge, UK

26 January 2011

# Appendix 1: Draft representation letter

## Address

*Our Ref: NJM/LPW*

*Date: [ ]*

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of Autonomy Corporation plc and its consolidated financial statements for the year ended 31 December 2010 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of Autonomy Corporation plc as of 31 December 2010 and of the results of its operations, other recognised gains and losses and its cash flows for the year then ended in accordance with the applicable accounting framework and the Companies Act 2006. We are aware that under Section 501 of the Companies Act 2006, it is an offence to mislead a company auditor.

We confirm, to the best of our knowledge and belief, the following representations.

## General representations

### *Financial statements*

1. We understand and have fulfilled our responsibilities for the preparation of the financial statements in accordance with the applicable financial reporting framework and the Companies Act 2006 which give a true and fair view, as set out in the terms of the audit engagement letter.
2. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
3. All events subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment of or disclosure have been adjusted or disclosed.
4. The effects of uncorrected misstatements and disclosure deficiencies are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements and disclosure deficiencies is detailed in the appendix to this letter.
5. We confirm that the financial statements have been prepared on the going concern basis. We do not intend to liquidate the company or cease trading as we consider we have realistic alternatives to doing so. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the company's ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.

### *Information provided*

6. We have provided you with all relevant information and access as agreed in the terms of the audit engagement letter and required by sections 499 and 500 of the Companies Act 2006.
7. All transactions have been recorded and are reflected in the financial statements and the underlying accounting records.
8. We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
9. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
10. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

## Appendix 1:Draft representation letter

11. We are not aware of any instances of non-compliance, or suspected non-compliance, with laws, regulations, and contractual agreements whose effects should be considered when preparing financial statements
12. We have disclosed to you the identity of the group's related parties and all the related party relationships and transactions of which we are aware.
13. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the applicable financial reporting framework. On the basis of legal advice we conclude that there are no material claims against the group. No other claims in connection with litigation have been or are expected to be received.
14. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.

### Specific representations

#### *Revenue recognition*

15. We confirm that based on our experience and judgement five per cent continues to represent the fair value of the maintenance and support services provided on greater than \$1.0 million licence deals, unless a higher percentage is stated in the signed agreement. We have therefore used a five per cent "carve out" rate for such larger sales, unless otherwise stated in the agreement.
16. No revenue deals containing side letters of ongoing Autonomy performance requirements that were excluded from the signed sales contracts.

#### *Recoverability of trade receivables*

17. We have assessed the recoverability of the amount due from Microtechnologies LLC and are satisfied that the amounts are recoverable in full and that no provision is required at this stage.

#### *Classification of costs*

18. The directors confirm that the allocation of associated costs in respect of strategic hardware sold between "cost of goods sold" and "sales and marketing expense" appropriately reflect the nature of these items.



# Appendix 1:Draft representation letter

## *Information provided*

19. We have disclosed to you all relevant information in relation to the US Payroll Fraud that affects the entity or group and involves:
- (i). management;
  - (ii). employees who have significant roles in internal control; or
  - (iii). others where the fraud could have a material effect on the financial statements.

## *Non-current assets and impairment*

20. We have considered the carrying value of all intangible assets and capitalised development costs and are satisfied that there are no issues of impairment. In the case of development costs, we consider that such costs have been incurred in the development of future products for which there is reasonable expectation that such products will generate future revenues to cover these balances.
21. We have reviewed fixed assets and goodwill for impairment. Our review comprised a comparison of the carrying amount and recoverable amount of the fixed assets or goodwill and, hence, involved consideration of the value in use. The cash flows used in the calculation are consistent with the most up-to-date budgets and plans formally approved by management and are based on reasonable and supportable assumptions. The discount rate used of 12.8%, in our view, represents the rate that the market would expect on an investment of equivalent risk. As a result of this impairment review we are not aware of any events or changes in circumstances occurring during the period which indicate that the carrying amount of fixed assets or goodwill may not be recoverable.
22. We confirm that the goodwill and intangible assets recognised on acquisition of the trade and assets of CA Technologies in the year have been calculated accurately on a basis consistent with the method used for previous Autonomy acquisitions. We also confirm that the goodwill and intangible assets recognised on acquisition of Microlink LLC have also been calculated accurately on a basis consistent with the method used for previous Autonomy acquisitions.
23. The forecast projections for the joint venture Open V have been considered. These projections support the carrying value of the investment in the joint venture and there is no evidence of material impairment to the carrying value of this investment.

## *Financial statement disclosures*

24. As a result of the inclusion of IDOL technology across all of the group's products and services, the generally fixed cost nature of overheads together with the absence of trading divisions, the Directors consider that the business has only one segment as defined by IFRS 8 "Operating Segments" and there is no further subdivision of the business on which the Chief Operating Decision Maker bases his decisions. The key financial data monitored by the Chief Operating Decision Maker is the revenue lists which aggregate group revenues by sales person.
25. We confirm the completeness of the information provided regarding the identification of related parties, and the adequacy of related party disclosures in the financial statements. We have made enquiries of any key managers or other individuals who are in a position to influence, or who are accountable for the stewardship of the reporting entity and confirm that we have disclosed in the financial statements all transactions relevant to the group and we are not aware of any other such matters required to be disclosed in the financial statements, whether under IAS24 "Related party disclosures" or other requirements. In particular we are satisfied that Mike Lynch's role as a non executive director of Blinkx plc does not include any involvement in the strategic operating decisions or policies of that company.

## Appendix 1:Draft representation letter

We confirm that the above representations are made on the basis of adequate enquiries of management and staff (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

Signed on behalf of the Board of Directors

***(Autonomy Letterhead)***

## Appendix 2: Audit adjustments

### Uncorrected misstatements

The following uncorrected misstatements were identified during the course of our review:

	Page	Quarter	Credit/ (charge) to current year income statement \$'m	Increase/ (decrease) in net assets \$'m
Provision against recoverability of Sales Consulting Srl	7	2009	(2.3)	(2.3)
IFRS 2 charge correction for revised model opening position	17	Q1	1.8	-
<b>Total known misstatements (pre-tax)</b>			(0.5)	(2.3)
<b>Tax effect (28%)</b>			0.1	0.5
<b>Total known misstatements (post-tax)</b>			<b>(0.4)</b>	<b>(1.8)</b>
Provision against recoverability of AS Computadoras	7	Q2	(1.4)	(1.4)
Provision against of Red Ventures Srl licence deal	7	Q3	(2.7)	(2.7)
Reversal of revenue on Audium	7	Q2	(2.0)	(2.0)
Provision against recoverability of Comercializadora Cobel	7	Q4	(2.7)*	(2.7)
Adjustment to Mercedes sponsorship costs	18	Q2/Q3	(1.0)	(1.0)
Correction for revised approach to R&D Capitalisation	12	Q4	1.7	1.7
<b>Total judgemental misstatements</b>			<b>(8.1)</b>	<b>(8.1)</b>
<b>Tax effect (28%)</b>			<b>2.3</b>	<b>2.3</b>
<b>Total judgemental misstatements (post-tax)</b>			<b>(5.8)</b>	<b>(5.8)</b>
<b>Total misstatements (pre-tax)</b>			<b>(8.6)</b>	<b>(10.4)</b>
<b>Total misstatements (post-tax)</b>			<b>(6.2)</b>	<b>(7.6)</b>

\*Management is confident that it will be able to supply us with sufficient information to enable us to remove this item from the schedule of audit adjustments by the time of the Audit Committee meeting.

Accumulated de-minimus adjustments amount to \$2.6 million comprising 35 individual adjustments, all of which are below \$500,000. Management is working to supply us with sufficient information to enable us to remove a number of these items from the schedule of audit adjustments by the time of the Audit Committee meeting. We shall include the final amount of de-minimus adjustments in the adjustments table in the management representation letter.



## Appendix 2: Audit adjustments

We will obtain written representations from the Board of Directors confirming that after considering all these uncorrected items, both individually and in aggregate, in the context of the consolidated financial statements taken as a whole, no adjustments are required.

In addition to the recorded misstatements above, we propose an income statement classification adjustment of \$4.4 million from sales and marketing expense to cost of goods sold. This relates to the assumed profit margin which management has allocated to all hardware sales in the year.

There are no booked adjustments or any disclosure deficiencies to report at this stage

## Appendix 3: Preliminary announcement consent letter

The Board of Directors  
Autonomy Corporation plc  
Cambridge Business Park  
Cowley Road  
Cambridge  
CB4 0WZ

1 February 2011

Dear Sirs

### **Preliminary announcement for the year ended 31 December 2010**

In accordance with the terms of our engagement letter dated 10 January 2011, we have reviewed the attached proposed preliminary announcement of Autonomy Corporation plc for the year ended 31 December 2010. Our work was conducted having regard to Bulletin 2008/2 issued by the Auditing Practices Board. As directors you are responsible for preparing and issuing the preliminary announcement.

Our responsibility is solely to give our agreement to the preliminary announcement having carried out the procedures specified in the Bulletin as providing a basis for such agreement. In this regard we agree to the preliminary announcement being notified to a Regulatory Information Service.

As you are aware we are not in a position to sign our report on the annual financial statements as they have not yet been approved by the directors and we have not yet:

- cleared outstanding matters which we are satisfied are unlikely to have a material impact on the financial statements or disclosures insofar as they affect the preliminary announcement;
- completed audit procedures on the detail of note disclosures to the financial statements that are unlikely to have a material impact on the primary financial statements;
- completed our reading of other information in the annual report in accordance with ISA (UK and Ireland) 720 'Other information in documents containing audited financial statements';
- updated our subsequent events review to cover the period between the issue of the preliminary announcement and the date of our report on the financial statements; and
- obtained final signed written representations from management and establishing that the financial statements have been reviewed and approved by the directors.

Consequently there can be no certainty that we will be in a position to issue an unmodified audit opinion on the financial statements consistent with the results and financial position reported in the preliminary announcement. However, at the present time, we are not aware of any matters that may give rise to a modification in our report. In the event that such matters do come to our attention we will inform you immediately.

This letter is confidential to the directors of Autonomy Corporation plc and prepared solely for the purpose set out in our engagement letter. You should not refer to or use the letter for any other purpose, disclose it in any other document, or make it available or communicate it to any other party without our prior written consent. No other party is entitled to rely on our letter for any purpose whatsoever and we accept no duty of care or liability to any other party who is shown or gains access to this letter.

Yours faithfully

Deloitte LLP

# Appendix 4: Independence

As part of our obligations under International Standards on Auditing (UK & Ireland), the Listing Rules and the Companies Act, we are required to report to you on the matters listed below.

<b>Confirmation</b>	<p>We confirm that we comply with APB Revised Ethical Standards for Auditors and that, in our professional judgement, we are independent and the objectivity of the audit engagement partner and audit staff is not compromised.</p> <p>If the audit committee wishes to discuss matters relating to our independence, we would be happy to arrange this.</p>
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<b>Non-audit services</b>	<p>In our opinion there are no inconsistencies between APB Revised Ethical Standards for Auditors and the company's policy for the supply of non audit services or of any apparent breach of that policy.</p>
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<b>Fees</b>	<p>An analysis of professional fees earned by Deloitte in the period from 1 January 2009 to 31 December 2010 is set out below.</p>
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	2010 £'000	2009 £'000
Fees payable to the company's auditors for the audit of the company's annual accounts	620	620
Fees payable to the company's auditors and their associates for the audit of the company's subsidiaries pursuant to legislation	500	530
<b>Audit services provided to all group companies</b>	<b>1,120</b>	<b>1,150</b>
Fees payable to the group's auditors and their related audit firms for assurance services including:		
Other fees pursuant to legislation	80	80
Assurance services relating to corporate finance transactions	250	365
<b>Other assurance services to stakeholders</b>	<b>330</b>	<b>445</b>
Taxation services	128	43
Non-assurance related corporate finance services	-	-
Other services	-	-
<b>All other services</b>	<b>128</b>	<b>43</b>
<b>Total group auditor's remuneration</b>	<b>1,578</b>	<b>1,638</b>



## Appendix 5: Future accounting developments

For reference, the following developments in IFRS, may impact the financial statements of Autonomy Corporation plc or its subsidiary entities.

### Exposure draft: Revenue from contracts with customers

<b>Background</b>	<p>The IASB and US FASB are undertaking a joint project to develop a single standard for revenue recognition. The new standard will replace the existing standards on revenue recognition: IAS 11 <i>Construction Contracts</i> and IAS 18 <i>Revenue</i>. Central to the exposure ("ED") is a concept of 5 stages that should be applied when determining revenue recognition. These are as follows:</p> <ul style="list-style-type: none"> <li>• Identify the contracts with customers;</li> <li>• Identify the separate performance obligations;</li> <li>• Determine the transaction price;</li> <li>• Allocate the transaction price to the performance obligations; and,</li> <li>• Recognise the allocated revenue when the performance obligation is satisfied.</li> </ul>
<b>Potential impact on Autonomy Corporation plc</b>	<p>Revenue is recognised when the customer takes "control" of the goods or services. This differs from IAS 18 where recognition occurs at the point the risks and rewards are transferred.</p> <p>Should this exposure draft be issued as a new standard without significant changes, this could impact the Group in a number of areas, the most significant being:</p> <ul style="list-style-type: none"> <li>• Allocation of transaction price - there is currently limited guidance under IFRSs relating to the allocation of the transaction price to different elements. The Group instead follows the US guidance on Vendor Specific Objective Evidence, but may find that the allocation of revenue is different under the proposals and may not necessarily reflect the economics of the transaction.</li> <li>• Disclosures – extensive additional disclosures will be required around various aspects of revenue recognition and contracts with customers, including disaggregation of revenues into categories which best depict how the amount and timing of cashflows are affected by economic characteristics. This could include the type of product, geographical market, the market or type of customer or type of contract. This could require the Group to make system changes in order to capture the required information for disclosure.</li> </ul>
<b>Effective date</b>	<p>The target date for the issue of the new standard is June 2011. The effective date for adoption is currently unknown. The standard may require retrospective application.</p>

## Appendix 5: Future accounting developments

### Exposure draft: Lease Accounting

<b>Background</b>	Under the proposals a lessee will need to record a lease asset (i.e. right to use an asset) and a liability (i.e. payment obligations) for all leases irrespective of whether it obtains significant risks and benefits of the underlying asset.
<b>Potential impact on Autonomy Corporation plc</b>	<p>For leases currently classified as operating leases, rental expense will be replaced by asset amortisation and interest expense, which together are going to be higher in earlier years.</p> <p>The calculation of the lease term will entail a significant degree of estimations, for example lease renewal options (the term is "that which is more-likely-than-not to occur"), contingent rentals and residual value guarantees.</p> <p>At 31 December 2009 the Group has \$55 million of outstanding commitments for lease payments (2009: \$55 million)</p> <p>The Group should begin to evaluate how the proposals would affect their financial statements including deferred tax consequences, the future structuring of lease contracts, performance metrics used, debt covenants, accounting policies and information systems.</p>
<b>Effective date</b>	The comment period ended on 15 December 2010 with a final standard expected to be published in June 2011. The draft does not specify an effective date.

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