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Concession for Rejected Accounts to end

Companies House have stated that the 14 day concession for rejected accounts will be removed from 1 October 2009.

Therefore, from this date, if accounts are rejected and not re-filed before the filing deadline, a late filing penalty will be incurred.

This will close the loophole whereby accounts could be filed unsigned before the deadline to avoid the penalty and be properly completed and re-filed with the 14 day concession period.

Audit Reports

In September 2008 the Auditing Practices Board (APB) issued Bulletin 2008/8 in respect of audit reports on companies with short accounting periods that commence on or after 6 April 2008 but end before 5 April 2009.

The APB has now published a revised version of ISA (UK and Ireland) 700 "The Auditor's report on Financial Statements". The main aims of the revised ISA are to give an audit report which is compliant with the requirements of the Companies Act 2006, and to streamline the size of the audit report.

Because the catalyst for change was the implementation of the Companies Act 2006 and the APB is responding, in part, to the views of institutional investors, the APB has established a highly unusual two stage implementation plan:

- The effective date of the revised ISA 700 for UK companies (excluding incorporated charities) is accounting periods commencing on or after 6 April 2008 and ending on or after 5 April 2009; this means that audit reports on accounts for years ending 30 April 2009 are likely to be the first that will need to be prepared in this new format.
- For other UK entities, including all types of charity, the effective date is for periods ending on or after 15 December 2010.

As with Bulletin 2008/8, the revised version of ISA 700 only includes one example in respect of a non-listed company. A complete update of all the reports in Bulletin 2006/6 is expected from the APB in due course. The layout of this report is as follows:-

Introductory paragraph and Bannerman paragraph as before.

Respective responsibilities of directors and auditors. One paragraph. The directors' responsibilities are similar and still include reference to the separate Directors' Responsibilities Statement (either in the Directors' Report or in a separate statement). The auditors' responsibilities are substantially shorter.

Scope of the audit. Single paragraph but 3 choices. The choices are:

1. A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/UKNP ; or
2. A description of the scope of an audit of financial statements is set out on page x of the annual report; or

3. An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

The choice as to which of these paragraphs to include in his report will need to be made by the auditor. In theory, we will need to make the decision in respect of each audit report although in practice option 3 is expected to be the norm.

In respect of 1, apart from thinking who will be reading the audit report and whether or not a reference to a website will be taken positively, the auditor will also need to be aware of the contents of the APB's description of the scope of an audit, which is over 4 pages long.

Opinion on financial statements. Opinions on three matters.

Opinion on other matter prescribed by the Companies Act 2006. This deals with the previous fourth bullet point in respect of consistency of the Directors' Report with the financial statements.

Matters on which we are required to report by exception. This covers 4 subjects each of which will need to be covered. The example report is where there is nothing to report, which will probably be the norm. If a positive comment is required in respect of any of these subjects it will be necessary to amend the standard negative wording in respect of that subject to explain the non compliance with the Companies Act.

Name and signature of Senior Statutory Auditor for and on behalf of the name of the firm that is the Statutory Auditor as before.

There are a number of issues that we need to consider. These include:-

- Do we have procedures to ensure we prepare the correct audit report dependent on whether the Companies Act 1985 or 2006 applies and if 2006 it is dependent on both the start and end date of the accounting period?
- Do we have procedures to ensure we correctly deal with reporting by exception on the 4 matters that need to be covered?
- If computer software is used to prepare accounts and the audit report, is it up to date to enable us to produce the reports required?

If the auditor is a firm rather than an individual, then we will need to ensure that we have procedures to deal with the situation where the Senior Statutory Auditor is not available to sign the audit report. If it is not possible to delay the signing of the audit report, then the only option is to appoint a new engagement partner who must review the audit file and take over full responsibility for the audit before signing the audit report in his name.

The wording of an audit report for a non-listed company is:

"INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF XYZ LIMITED

We have audited the financial statements of XYZ Limited for the year ended which comprise [specify the financial statements, such as the Group Profit and Loss Account, the Group and Parent Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Total Recognised Gains and Losses] and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement [set out on pages ...], the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at and of the group's profit [loss] for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

S Auditor (Senior statutory auditor)

For and on behalf of BP LLP, Statutory Auditor

Address

Date

Bank Reports for Audit Purposes

The ICAEW have regular meetings with the British Banking Association (“BBA”) to ensure that the procedures contained in Practice Note 16 (revised) work as smoothly as possible. The following points arose from the February 2009 meeting:

- a pdf list of bank contact details is available from the BBA website, www.bba.org.uk. The pdf contact details list gives the address to which requests should be sent, whether or not the bank acknowledges the request, and contact details for auditor enquiries where requests are not acknowledged. If a request is sent to the wrong address, it can take a week for the request to be rerouted.
- requests ought to be sent at least one month before the year end date.
- fast track requests are expected to be exceptional and the Fast Track template should not be used as a means of making up lost time. One bank is considering increasing charges for Fast Track Requests.
- the correct sort code and account number needs to be given for each and every legal entity in the report request. Wrong details or only giving details of one entity in a multi-entity request can significantly delay a reply

VAT on repossessed goods

A recent Court of Appeal ruling has stated that if a company supplies goods to a customer, and the customer goes into administration or liquidation, and the company repossesses the goods; the company cannot escape liability for the VAT on the goods for which it was not paid and had to repossess unless the contract with the customer foresaw the situation or it had subsequently agreed its actions with the customer.

In this case, Ford had supplied cars to a dealer who went into administrative receivership. Ford repossessed the cars and issued a credit note. The Court of Appeal held that Ford could not unilaterally issue credit notes, and that doing so does not change the fact that a supply had taken place on which VAT was due. The VAT debt can only be wiped out if the original supply had been effectively cancelled by the parties.

This has important implications for the drafting of retention of title clauses in the current economic environment.

Confusion With New Audit Reports for Small Charitable Companies

As a result of recent changes to companies’ and charities’ legislation, charitable companies which qualify as small companies and which are below the companies audit threshold are not required to have an audit under the Companies Act.

However, if they are above the charities’ audit threshold (of gross income of more than £500k in the current year, or gross assets of more than £2.8m and gross income of more than £100k in the current year) they are required to have an audit under the Charities Act. Charities falling into this category should therefore use the audit report wording in Example 2 of APB Bulletin 2009/1, as opposed to Example 1, which is for charitable companies which do not meet the audit exemption criteria in the Companies Act..

However, the Bulletin states that if a charitable company decides to elect for audit exemption under the Companies Act 1985 then a statement to this effect is required on the charity’s balance sheet. Adding such a statement to the balance sheet will look very confusing given that the accounts will be audited and contain an audit report. This may be compounded by the fact that whilst Example 2 refers to the fact that

the auditors are appointed under the Charities Act rather than the Companies Act, the audit opinion does not mention the Charities Act.

The situation as it currently stands is likely to cause much confusion for many charities and users of charity accounts. There are two possible solutions in the short term:

Have the members (the trustees in most cases) asked for an audit under the Companies Act? If so, this avoids the problem by removing the necessity for the balance sheet audit exemption statement, and would require such charities to use Example 1.

Add an additional sentence below the audit exemption statement on the balance sheet along the lines of "the financial statements have been audited under the requirements of section 43 of the Charities Act 1993."

Public Benefit Reporting by Charities

The new requirements for charities to report on public benefit comes into force for accounting periods beginning on or after 1 April 2008, i.e. 31 March year ends onwards unless there is a short period of account. Specifically, the additional disclosures required are:

- a report of those activities undertaken by a charity to further its charitable purposes for the public benefit; and
- a statement by the charity trustees as to whether they have complied with the duty in section 4 of the Charities Act 2006 to have due regard to public benefit guidance published by the Commission.

The Charity Commission has published a wealth of guidance on public benefit. Some of this is aimed at specific types of charity which may be particularly affected by the new requirements e.g. fee-charging charities; other guidance is more general in its application.

The Commission has also updated a number of its model sets of accounts to include the new disclosures. These highlight the additional disclosures and give guidance in the left-hand margin.

These changes will require charities to explain their activities and achievements during the year and their strategies for future years in the context of how they have been carried out for the public benefit. In practice the changes should not significantly affect the existing structure of the trustees' report.

No responsibility for acting upon or refraining to act upon any item included in the factsheet can be accepted by Bond Partners LLP or the contributor of the item.