

This fact sheet is part of a wide range of technical services provided by Bond Partners LLP.

Mike Marcus, the Technical Partner, can be contacted on 0870 850 6007 or mdm@bondpartners.co.uk if you have any queries on any of the topics covered or for a range of technical services.

Auditors Reports under Companies Act 2006

The APB are working on updating ISA (UK & Ireland) 700 on audit reports. The revised Standard is intended to be effective for accounting periods ending on or after 5 April 2009.

This revision will be too late for short accounting periods commencing on or after 6 April 2008 (and ending on or before 5 April 2009), for which the audit report and accounts have to comply with the Companies Act 2006 requirements.

As an interim measure, the APB have issued Bulletin 2008/8 "Auditors' Reports for Short Accounting Periods in compliance with the United Kingdom Companies Act 2006", which contains three example auditors reports that have been marked up to comply with the 2006 Act covering the following Example Reports from Bulletin 2006/6. These reports should be used as a model to tailor the other example reports in Bulletin 2006/6 if they are required:

- Example 4 – Non-publicly traded company – Auditor's report on group and parent company financial statements.
- Example 8 – Publicly traded company – Auditor's report on group and parent company financial statements (different financial reporting frameworks used for group and parent company financial statements).
- Example 12 – Publicly traded company – Auditor's report on group and parent company financial statements (IFRS as adopted by EU used for both group and parent company financial statements).

Reports by Auditors Required by Companies Act 2006

The APB issued Bulletin 2008/9 "Miscellaneous Reports by Auditors Required by the United Kingdom Companies Act 2006" on 31 October 2008.

The Bulletin addresses the following reports and is effective from the commencement date of the Report under Companies Act 2006. Until the provisions of the 2006 Act apply, the equivalent reports in Bulletin 2007/1 remain in effect. Practice Note 8 is withdrawn with immediate effect:

<i>Example Report</i>	<i>Commencement Date</i>
Statement by an auditor on ceasing to hold office.	6 April 2008
Statement on a company's ability to make a distribution where the auditor's report was qualified.	6 April 2008
Report on initial accounts when a public company wishes to make a distribution.	6 April 2008
Auditors statement with respect to net assets when a private company re-registers as a public company.	1 October 2009

Example Report	Commencement Date
Report when a private company redeems or purchases its own shares out of capital	1 October 2009
Report when a public company allots shares otherwise than for cash.	1 October 2009
Report when non-cash assets transferred to a public company by certain of its members.	1 October 2009

The report when a private company wishes to provide financial assistance for the purchase of its own shares or those of its holding company in Bulletin 2007/1 is no longer required since the 1985 Act financial assistance rules were repealed on 1 October 2008 in relation to financial assistance given on or after that date.

Other reports and statements required by auditors under the 2006 Act are covered in the following Bulletins.

- The auditor's statement on the summary financial statements (Bulletin 2008/3);
- The special auditor's report on abbreviated accounts (Bulletin 2008/4);
- Auditor's reports on revised accounts and reports (Bulletin 2008/5); and
- Auditor's reports for short accounting periods – see above - (Bulletin (2008/8).

Charity Audit Reports

APB Practice Note 11 "The Audit of Charities in the United Kingdom" is being revised and an exposure draft has been released. The Practice Note contains example audit reports for charitable trusts for accounting periods commencing on or after 1 April 2008 and for charitable companies for accounting periods commencing on or after 6 April 2008.

The ICAEW website contains updated examples of auditor's reports, updated for the Charities Act 2006 that should be used for financial periods starting *before* 1 April 2008. These can be found at www.icaew.com/index.cfm/143409/icaew-ga/pdf

Accountants Reports on Service Charge Accounts

The Regulations relating to service charge accounts under the Housing and Regeneration Act 2008 are likely to come into force for service charge accounting periods beginning on or after 1 April 2009.

ICAEW Technical Release TECH 03/07 "The accountant's report on service charge accounts prepared in accordance with regulations made under the Commonhold and Leasehold Reform Act 2007" was issued as a consultation draft in October 2007. It is being updated for the new Act and Regulations and will be issued as final guidance later this year.

Retention of Records under Companies Act 2006

The Companies Act 2006 has amended the retention periods for certain documents.

The following documents and registers must be kept available for inspection at the company's registered office. The previous requirement was for them to be kept permanently:

- Memorandum and Articles of Association;
- Register of Members;
- Register of Directors and Secretaries and particulars of directors;
- Register of charges and instruments creating them;
- Directors Service Contracts.

Private Companies must keep their accounting records for 3 years from the date on which they were made; public companies for 6 years. Previously all companies had to keep these records for 6 years.

Records of directors and company general meetings must be kept for 10 years. Previously they had to be kept permanently.

The Register of Debenture Holders must be kept for 10 years after the date on which the entry was made or deleted. This is an increase over the previous 6 year requirement.

ASB issues Amendments to Permit Reclassification of Financial Instruments

The Accounting Standards Board (ASB) has issued “Amendments to FRS 26 (IAS 39) ‘Financial Instruments: Recognition and Measurement’ and FRS 29 (IFRS 7) ‘Financial Instruments: Disclosures’: Reclassification of Financial Assets” that permit the reclassification of certain financial instruments.

The amendments follow the amendments to IAS 39 and IFRS 7 published by the International Accounting Standards Board (IASB) and address the desire expressed in a number of quarters, including EU leaders and finance ministers, to reduce the differences between IFRS and US Generally Accepted Accounting Principles.

The amendments permit the reclassification of:

- certain held-for-trading non-derivative financial assets out of the “fair value through profit or loss (trading)” category in rare circumstances. What is meant by ‘rare’ is not dealt with in the amendments, but in its press release of 13 October, the IASB notes that the deterioration of the world’s financial markets that has occurred during the third quarter of the year is a possible example of rare circumstances; and
- certain financial assets to the “loans and receivables” category (and hence to be measured on a cost basis) if the entity has the intention and ability to hold them for the foreseeable future or until maturity.

UITF Abstract 46 (IFRIC Interpretation 16) “Hedges of a Net Investment in a Foreign Operation”

The Abstract is effective for accounting periods beginning on or after 1 October 2008 and earlier adoption is permitted. It applies to entities preparing their financial statements in accordance with UK GAAP that are within the scope of FRS23 ‘The Effects of Changes in Foreign Exchange Rates’ and FRS26 ‘Financial Instruments: Recognition and Measurement’.

The Abstract applies to an entity that hedges the foreign currency risk arising from its net investments in foreign operations and wishes to qualify for hedge accounting in accordance with FRS26. It applies only to hedges of net investments in foreign operations and does not apply to other types of hedge accounting.

The Abstract covers the following issues:

- the nature of the hedged risk and the amount of the hedged item for which a hedging relationship may be designated;

- where in a group the hedging instrument can be held;
- what amounts should be reclassified from equity to profit or loss as reclassification adjustments on the disposal of a foreign operation.

FRRP Review highlights market challenges

The Financial Reporting Review Panel has published its activity report and comments on the challenges to corporate reporting arising from current conditions in financial markets.

The report is based on findings from the Panel's review of accounts in the year to 31 March 2008. These accounts were mainly for financial periods ending from December 2006 to June 2007, shortly before the onset of the current dislocation in the markets.

The FRRP is advising directors to pay particular attention to the following areas of reporting where market conditions may require changes in accounting or in the nature and extent of disclosures:

- sources of uncertainty affecting management's estimates which carry a risk of causing a material adjustment to the carrying value of assets and liabilities;
- revenue recognition criteria where unreliability of measurement may lead to deferral of income;
- relationship with special purpose entities which may have been amended during the year, resulting in changes in the shape of consolidation.

Issues raised most frequently with companies related to the disclosure of the principal risks and uncertainties which they face. Given the speed and pervasiveness of the financial crisis and other market changes, including rising prices and pressures on supply, the FRRP says directors may need to contemplate risks and uncertainties previously thought to be too remote to have warranted serious consideration.

Pension scheme accounts and market turmoil

The current market conditions present particular considerations for trustees and auditors in relation to pension scheme accounts.

The provision of information in trustees' reports, valuation of investments and disclosures in notes to the financial statements need careful consideration in the context of the Pensions SORP.

With issues arising such as the collapse of Lehman Brothers, other high profile institutions will no doubt remain at risk pending rescue plans from government and institutional mergers. There is an increased counterparty risk in contracts such as over-the-counter derivatives (e.g. Swaps) where collateral arrangements should be reviewed.

Auditors should consider how trustees monitor the impact of current market difficulties on their investment portfolio valuation as a matter of good investment governance.

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.