



# AUDIT REPORT ON DEFECTIVE FINANCIAL STATEMENTS

GUIDE

September 2018

Audit and Assurance Faculty Helpsheets are now known as 'Guides'. This Guide was last updated in September 2018 and is based on the relevant laws and regulations that apply as at 1 September 2018. The only changes since the last version of the Guide are to the use of the audit report section to reflect the release of Technical Release 01/03AAF (Revised).

## Introduction

This Guide is designed to explain the main changes that are needed to produce an audit report on a set of defective financial statements prepared in accordance with regulations under the Companies Act 2006 (see below). It seeks to explain the differences in the audit report compared to the audit report issued on the original (defective) financial statements.

Under section 454 of Companies Act 2006, the directors may revise the financial statements, directors' report, strategic report or directors' remuneration report if they did not comply with the requirements of the Companies Act (or, where applicable, Article 4 of the IAS Regulation). Section 454 provides for regulations to be issued on the application of this provision, and these regulations are the Companies (Revision of Defective Accounts and Reports) Regulations 2008 (SI 2008 No. 373), as amended by the Companies (Revision of Defective Accounts and Reports) (Amendment) (No.2) Regulations 2013 (SI 2013 No. 2224) (together, referred to as the 'Regulations' in this Guide),

The audit requirements for defective financial statements are set out in part 3 of the Regulations. They require the auditor's report to state whether in the auditor's opinion the revised financial statements have been properly prepared in accordance with the provisions of the Companies Act 2006 (and, where applicable, Article 4 of the IAS Regulation) as they have effect under the Regulations, and in particular whether a true and fair view, seen as at the date the original financial statements were approved, is given by the revised financial statements. The report must also state whether, in the auditor's opinion the original financial statements failed to comply with the requirements of the Companies Act 2006 (and, where applicable, Article 4 of the IAS Regulation) in the respects identified by the directors in their disclosures.

The Regulations provide for the revision of the financial statements (and the directors' report etc) by replacement or by supplementary note. This Guide focuses on revision of defective financial statements by replacement. The example wording in this Guide assumes that the audit report on the original financial statements was based on the company examples in the [FRC's Compendium of illustrative auditor's reports](#).

For the purposes of this Guide it has been presumed that the company is not listed, is not a Public Interest Entity as defined by the EU Regulation and is not required nor has chosen voluntarily to report on how it has applied the UK Corporate Governance Code.

The guidance in this Guide suggests options for how audit reports on defective financial statements can comply with the requirements of the applicable regulations under the Companies Act 2006 and International Standards on Auditing (UK). However, provided that the audit report

complies with the applicable requirements, audit firms may prefer alternative ways of presenting the required information.

### **Pervasive changes to the audit report**

All references to 'financial statements' need to be amended to 'revised financial statements' unless otherwise noted in this Guide. Where the directors' report and strategic report have also been revised, references to the 'directors' report' and the 'strategic report' need to be amended to the 'revised directors' report' and 'revised strategic report'.

### **Addressee of the report**

There is no change – the report is addressed to the members of the company.

### **Opinion**

The opinion paragraph describes the revised financial statements, including specifying the titles of the primary statements. This description will be the same as that included in the audit report on the original financial statements (unless the original financial statements were defective as a result of the omission of one or more primary statements, in which case the previously omitted primary statements would now also be referred to).

Additional wording is included to explain that the revised financial statements replace the original financial statement, and that the revised financial statements do not take account of events since the date the original financial statements were approved:

We have audited the revised financial statements of [XYZ Limited] (the 'company') for the year ended [DATE] which comprise [specify titles of the primary statements] and the notes to the revised financial statements, which include a description of the significant accounting policies. These revised financial statements replace the original financial statements approved by the directors on [DATE]. The financial reporting framework that has been applied in their preparation is applicable law and [United Kingdom Accounting Standards, including [Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*/Financial Reporting Standard 101 *Reduced Disclosure Framework*] (United Kingdom Generally Accepted Accounting Practice)/International Financial Reporting Standards (IFRSs) as adopted by the European Union.] The revised financial statements have been prepared under the Companies (Revision of Defective Accounts and Reports) Regulations 2008 and accordingly do not take account of events which have taken place after the date the original financial statements were approved.

The actual audit opinion needs to be amended as follows:

In our opinion, the financial statements:

- give a true and fair view, seen as at the date the original financial statements were approved, of the state of the company's affairs as at [date] and of its [profit/loss] for the year then ended;
- have been properly prepared in accordance with [United Kingdom Generally Accepted Accounting Practice / IFRSs as adopted by the European Union] seen as at the date the original financial statements were approved; and
- have been prepared in accordance with the requirements of the Companies Act 2006 as they have effect under the Companies (Revision of Defective Accounts and Reports) Regulations 2008.

### **Basis for opinion**

No changes are needed compared to the audit report on the original financial statements, other than the pervasive change referred to above.

## Emphasis of matter

ISA (UK) 560 paragraph 16 requires that an emphasis of matter is included in the audit report, referring to a note to the revised financial statements that more extensively discusses the reasons for the revision to the financial statements and to the earlier report provided by the auditor. An example of such an emphasis of matter paragraph is included below:

### **Emphasis of matter – revision of (describe briefly the elements of the financial statements that have changed)**

We draw attention to note [x] to these revised financial statements which describes the need for revision of [provide detail of the revision, for example: note X, because of the correction of a misstatement in the original financial statements]. The original financial statements were approved on [date] and our previous audit report was signed [on that date]. We have not performed a subsequent events review for the period from the date of our previous auditor's report to the date of this report. Our opinion is not modified in this respect.

## Conclusions relating to going concern

In this section there is a reference to the 'original' financial statements as well as the 'revised' financial statements, as illustrated below. This is because the directors/auditor are not required to consider events since the date of approval of/date of the audit report on the original financial statements, and therefore the going concern period referred to is at least twelve months from the date when the original financial statements were approved, and not the date of revision.

### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the revised financial statements is not appropriate; or
- the directors have not disclosed in the revised financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the original financial statements are authorised for issue.

## Other information

No changes are needed compared to the audit report on the original financial statements, other than the pervasive change referred to above.

## Opinions on other matters prescribed by the Companies Act 2006

An additional opinion is required in this section, addressing the explanation for the revision included in the revised financial statements:

In our opinion, the original financial statements for the year ended [date] failed to comply with the requirements of the Companies Act 2006 in the respects identified by the directors in note [x] to the revised financial statements.

## Matters on which the auditor is required to report by exception

No changes are needed compared to the audit report on the original financial statements, other than the pervasive change referred to above.

## Responsibilities of directors

No changes are needed compared to the audit report on the original financial statements, other than the pervasive change referred to above.

## Auditor's responsibilities for the audit of the financial statements

Additional wording, shown in the box below, is included to explain the auditor's specific responsibilities in respect of the revised financial statements. The positioning of this additional wording will depend on the option taken for referring to the auditor's responsibilities in the original auditor's report, ie, whether included in full in the audit report, in an appendix to the audit report or via a cross-reference to the FRC website. For example, where reference to the FRC website was used, the wording would be positioned as follows:

A further description of our responsibilities for the audit of ~~the~~ revised financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

We are also required to report whether in our opinion the original financial statements failed to comply with the requirements of the Companies Act 2006 in the respects identified by the directors. The audit of revised financial statements includes the performance of procedures to assess whether the revisions made by the directors are appropriate and have been properly made.

## Use of the audit report

The original audit report may have included clarification language stating that the audit is performed for the benefit of the members, as a body, in accordance with the Companies Act 2006 and case law, in accordance with ICAEW guidance within Technical Release 01/03AAF (Revised), The Audit Report and Auditors' Duty of Care to Third Parties. This wording is also referred to as "Bannerman" wording and is suitably placed as the final section of the audit report with a heading "Use of our report". Where this wording was included in the original report, it is amended to read as follows:

This report is made solely to the company's members, as a body, in accordance with ~~Chapter 3 of Part 16 of the Companies Act 2006~~ the Companies (Revision of Defective Accounts and Reports) Regulations 2008. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Signature on the audit report

There is no change in the requirements for signing the audit report, and therefore the report is signed in the name of the senior statutory auditor.

Although the report is as at the date the original financial statements were approved, the report is dated on the actual date that it is signed, and not the date of approval of the original financial statements or the original audit report.

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