



PREPARING A NON-STATUTORY AUDIT REPORT

GUIDE

August 2019

Audit and Assurance Faculty Helpsheets are now known as 'Guides'. The Helpsheet that this Guide replaces was last updated in September 2018. The Guide is based on the relevant laws and regulations that apply as at 1 August 2019.

The only changes since the September 2018 version are to Section B. These changes clarify the impact on the Opinion, Basis for opinion, Other information, Emphasis of matter and Auditor's responsibilities sections where there is a special purpose framework.

Introduction

This Guide is designed to explain the main changes that are needed to be made to the company examples in the **FRC's Compendium of illustrative auditor's reports**. It applies to opinions issued in accordance with ISAs (UK) for entities other than companies where there is no statutory or regulatory requirement for an audit to be undertaken¹. It has been presumed that the entity 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 Guide is split into two sections:

- **Section A** applies when the entity being audited prepares general purpose financial statements – Financial statements prepared in accordance with a general purpose framework, which is designed to meet the common financial information needs of a wide range of users. This is discussed further in ISA (UK) 700 paragraph 6. A fair presentation framework usually means an entity is preparing the financial statements in accordance with a recognised accounting framework e.g. UK GAAP (incorporating FRS 101 or FRS102), IFRS, US GAAP, and the auditor is required to report in accordance with ISA (UK) 700.
- **Section B** applies when the financial statements are prepared using a 'special purpose' accounting framework i.e. a financial reporting framework designed to meet the financial information needs of specific users, which may either be a fair presentation framework or a compliance framework. For accounting periods commencing on or after 1 January 2017, the auditor reports in accordance with ISA (UK) 800².

When the auditor is being asked to report on a single financial statement or of a specific element, account or item of a financial statement, the relevant auditing standard is ISA (UK) 805 and whilst this is not covered in this Guide, the general principles set out in Section B also apply.

¹ Appendix 1 of the FRC's Compendium of illustrative auditor's reports should be referred to for audits of small companies that are not required to have an audit by the Companies Act.

² The FRC states that where ISA (UK) 800 (Revised) is adopted early for the audit of Solvency II Regulatory Returns for periods commencing prior to 1 January 2017 it may be used in conjunction with ISAs (UK and Ireland) where the audit of the statutory financial statements for the same period was conducted in accordance with ISAs (UK and Ireland).

The audit requirements for non-statutory opinions are set out in International Standards on Auditing (UK), as by their nature no legislation is relevant to the audit. This Guide suggests options for non-statutory audit reports to comply with the requirements of 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 prepared for either general purpose or specific purpose frameworks

Depending on the entity being audited, all references to 'company' or 'directors' may need to be amended to reflect the nature of the entity being audited e.g. partnership/members.

The references to the 'Companies Act 2006' need to be removed, as well as the audit requirements contained within the Act, as they are not applicable to these non-statutory opinions.

SECTION A – FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH A GENERAL PURPOSE FRAMEWORK

Opinion

The opinion paragraph describes the financial statements, including specifying the titles of the primary statements. It is important that the titles of the primary statements precisely match those used by the entity. The opening paragraph of the 'opinion' section needs to reflect the financial reporting framework used in the preparation of the financial statements e.g. UK GAAP, IFRS, US GAAP.

The actual audit opinion is as follows:

In our opinion, the financial statements:

- give a true and fair view of the state of the [entity's] affairs as at [date] and of its [profit/loss] for the year then ended; and
- have been properly prepared in accordance with [insert relevant accounting framework as described above].

Basis for opinion

Where the auditor has taken advantage of an exemption provided in paragraphs 6.11, 6.12 or 6.13 of the FRC's Ethical Standard for the audits of 'small entities'³ in relation to non-audit services or partners/statutory auditors joining the entity, the auditor is required to disclose this in the 'basis for opinion' section of the audit report:

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and the provisions available for small entities, in the circumstances set out in note [X] to the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The reference to 'applicable law' has been retained in the example as whilst there are no laws that determine the opinion to be issued, the auditor is still subject to certain laws whilst performing their audit for example, money laundering legislation.

³ As defined in the FRC's Ethical Standard, paragraph 6.4.

Conclusions relating to going concern

No changes are needed apart from the pervasive changes referred to above.

Other information

There is no requirement for the directors/members to prepare a directors'/members' report or a strategic report. However, the entity may choose to prepare such a report to communicate certain matters or include these matters in the notes to the financial statements.

Where there is no other information published with financial statements, there is no need for an 'other information' section of the audit report.

If however, other information is published with the financial statements, for example a voluntary directors'/members' report is prepared, then the 'other information' section needs to be amended as follows:

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon⁴. The [directors /members] are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, ~~except to the extent otherwise explicitly stated in our report,~~ we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

As discussed above, there is no requirement for an entity to prepare either a directors'/members' report or a strategic report. Similarly, there is no requirement for the auditor to report on any directors'/members' report or strategic report as the provisions in section 496 of the Companies Act 2006 do not apply to non-statutory opinions. Therefore, the section on 'opinions on other matters prescribed by the Companies Act 2006' is not required for a non-statutory audit report.

Even if the entity voluntarily chooses to prepare a directors'/members' report, the section is still not required as the auditor's responsibilities in relation to that directors'/members' report are covered in the 'Other information' section above.

Matters on which the auditor is required to report by exception

The provisions in section 498 of the Companies Act 2006 do not apply to non-statutory opinions. Therefore, the section on 'Matters on which the auditor is required to report by exception' is not required for a non- statutory audit report.

Responsibilities of directors

No changes apart from the pervasive changes referred to above.

⁴ A more specific description of the other information may be used, such as: *The other information comprises the members' report.*

Auditor's responsibilities for the audit of the financial statements

ISA (UK) 700 includes a detailed description of the responsibilities of the auditor and the wording to use varies depending on whether the entity is listed, the auditor reports key audit matters in accordance with ISA (UK) 701 or where there is a group audit.

There are three choices in relation to the more detailed description of the auditor's responsibilities:

- to include within the audit report directly;
- to include within an appendix to the audit report; or
- to include a reference to a more detailed description on the FRC's website.

Whichever option is followed, no changes apart from the pervasive changes referred to above need to be made to the FRC example audit report.

1. Include within the audit report directly

An example of how this would look is given in Appendix 2 of the FRC Bulletin – note that the example in that Appendix is for a group and all references to 'group' need to be removed or amended to refer to the entity. In addition, the last bullet point in that example needs to be deleted as that responsibility only applies to group auditors:

- ...
- ~~Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.~~

2. Include within an appendix to the audit report

Where the more detailed description is included in an appendix, the audit report needs to indicate the page number or other specific reference to the location of the more detailed description.

An example of how this would look is given in Appendix 6 of the FRC Bulletin – note that the example in that appendix is for a listed group and all references to 'group' may need to be removed or amended. In addition, the following further changes may be needed to remove responsibilities that only apply for listed entities or groups:

- ...
 - ~~Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the group financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.~~
- We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- ~~We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.~~
- ~~From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.~~

3. Include a reference to a more detailed description on the FRC's website

Where the auditor chooses to refer to the description of the auditor's responsibilities on the FRC website, the audit report needs to refer to www.frc.org.uk/auditorsresponsibilities.

An example of how this would look is given in Appendix 1 of the FRC Bulletin.

Use of the audit report

ICAEW guidance within Technical Release 01/03AAF (Revised), The Audit Report and Auditors' Duty of Care to Third Parties, includes language which clarifies that the audit is performed for the benefit of the members, as a body, in accordance with the Companies Act 2006 and case law. This wording is also referred to as 'Bannerman' wording.

The guidance in Technical Release 01/03AAF (Revised) states that this paragraph is suitably placed as the final section of the audit report with a heading 'Use of our report'.

The type of wording to use varies depending on whether the report will be made public or is a private report to the directors only. In many cases, these reports are private reports for the directors and are only made available to other people with the auditor's prior written consent. In such situations, the following wording may be used:

This report is made solely for the exclusive use of the [directors/members] and solely for the purpose of [insert purpose as set out in the engagement letter]. Our report is not to be used for any other purpose, recited or referred to in any document, copied or made available (in whole or in part) to any other person without prior written express consent. We accept no duty, responsibility or liability to any other party in connection with the report or this engagement.

Where the report is expected to be publicly available, the typical company wording needs to be amended to read as follows:

This report is made solely to the ~~company's~~ [entity's] members, as a body, in accordance with ~~our engagement letter dated [xxxx] Chapter 3 of Part 16 of the Companies Act 2006~~. Our audit work has been undertaken so that we might state to the ~~company's~~ [entity'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~~ [entity] and the ~~company's~~ [entity's] members as a body, for our audit work, for this report, or for the opinions we have formed.

It will remain for each firm to decide its own individual approach to the management of audit risk and whether to include the above wording. However, as the guidance in Technical Release 01/03AAF (Revised) makes clear, while a third party's use of an audit report presents uncertainty for auditors, the best risk management policy is for firms to take the steps that are necessary to carry out quality audits.

Signature on the audit report

Non-statutory audit reports do not need to be signed by the Senior Statutory Auditor in their own name, although the Responsible Individual may choose to do so, therefore the signature block should simply read:

ABC LLP
[Address]
[Date]

SECTION B – FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH A SPECIAL PURPOSE FRAMEWORK

Example audit reports can be found in the appendix to ISA (UK) 800. In addition to the pervasive changes described above, the following additional amendments will need to be made:

International Standards on Auditing (UK)

The example reports in ISA (UK) 800 have not been tailored for use in the UK by the FRC and therefore the references to 'International standards on auditing' need to be updated to refer to 'International Standards on Auditing (UK)'.

Opinion

As with audit reports prepared for general purpose frameworks, the opinion paragraph describes the financial statements, including specifying the titles of the primary statements. It is important that the titles of the primary statements precisely match those used by the entity.

The opening paragraph of the 'opinion' section needs to reflect the financial reporting framework used in the preparation of the financial statement. For audit reports on special purpose frameworks, the applicable special purpose framework should be described.

Where the special purpose framework is a compliance framework, the audit opinion is as follows:

In our opinion, the accompanying financial statements of the [entity] for the year ended [date] are prepared, in all material respects, in accordance with [describe the applicable special purpose framework].

Where the special purpose framework is a fair presentation framework, the audit opinion is as follows:

In our opinion, the accompanying financial statements give a true and fair view of the [entity's] affairs as at [date] and of its [profit / loss] for the year then ended in accordance with [describe the applicable special purpose framework].

or

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the [entity] as [date], and its financial performance and its cash flows for the year then ended in accordance with [describe the applicable special purpose framework].

Basis for opinion

The basis for opinion should specifically refer to the fact that the audit has been carried out in accordance with ISAs (UK), including ISA (UK) 800:

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), including ISA (UK) 800. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, [and the provisions available for small entities, in the circumstances set out in note [X] to the financial statements,] and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the

audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

The emphasis of matter should specifically describe the financial reporting framework as a special purpose framework.

Emphasis of matter – basis of accounting and restriction on distribution [and use]

We draw attention to note X to the financial statements, which describes the basis of accounting, which is a special purpose framework. The financial statements are prepared to assist the [entity] in complying with [describe the financial reporting provisions of the special purpose framework] referred to above. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for [name(s) of the specific users] and should not be distributed to parties other than the [name(s) of the specific users]. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

The example reports do not include the additional wording in respect of going concern required by ISA (UK) 570 and may also need to be adapted as necessary depending on how ISA (UK) 570 applies in the circumstances of the engagement.

Other information

There is no requirement for the directors/members to prepare a directors'/members' report or a strategic report. However, the entity may choose to prepare such a report to communicate certain matters or include these matters in the notes to the financial statements.

Where there is no other information published with financial statements, there is no need for an 'other information' section of the audit report.

If however, other information is published with the special purpose financial statements, for example a voluntary directors' / members' report is prepared, then the 'other information' section needs to be amended as follows:

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon⁵. The [directors / members] are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, ~~except to the extent otherwise explicitly stated in our report,~~ we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

⁵ A more specific description of the other information may be used, such as *The other information comprises the members' report*.

Auditor's responsibilities for the audit of the financial statements

The same options for the auditor's responsibilities statement as discussed above for a general purpose framework are available for a special purpose framework. In addition to the other changes noted in this guide, the following needs to be deleted where the applicable special purpose framework is a compliance framework and where the detailed description is included in the audit report directly or within an appendix:

- ...
- ~~Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.~~
- ...

Use of the audit report

ICAEW guidance within Technical Release 01/03AAF (Revised), The Audit Report and Auditors' Duty of Care to Third Parties, includes language which clarifies that the audit is performed for the benefit of the members, as a body, in accordance with the Companies Act 2006 and case law. This wording is also referred to as 'Bannerman' wording.

The guidance in Technical Release 01/03AAF (Revised) states that this paragraph is suitably placed as the final section of the audit report with a heading 'Use of our report'.

In contrast to the other sections, there would be no change required to the wording in Technical Release 01/03AAF (Revised) to refer to 'group' in the group audit report as the duty in law is to the members of the parent company only. Therefore, the appropriate wording referring to the 'company' would still be expected to be included in both the group and parent company audit reports.

It will remain for each firm to decide its own individual approach to the management of audit risk and whether to include the above wording. However, as the guidance in Technical Release 01/03AAF (Revised) makes clear, while a third party's use of an audit report presents uncertainty for auditors, the best risk management policy is for firms to take the steps that are necessary to carry out quality audits.

The type of wording to use will vary depending on whether the report is made public or is a private report to the directors only. In many cases, these reports are private reports for the directors and are only made available to other people with the auditor's prior written consent. In such situations, the following wording may be used:

This report is made solely for the exclusive use of the [directors/members] and solely for the purpose of [insert purpose as set out in the engagement letter]. Our report is not to be used for any other purpose, recited or referred to in any document, copied or made available (in whole or in part) to any other person without prior written express consent. We accept no duty, responsibility or liability to any other party in connection with the report or this engagement.

Where the report is expected to be publicly available, the typical company wording needs to be amended to read as follows:

This report is made solely to the ~~company's~~ [entity's] members, as a body, in accordance with our engagement letter dated [xxxx] ~~Chapter 3 of Part 16 of the Companies Act 2006~~. Our audit work has been undertaken so that we might state to the ~~company's~~ [entity'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~~ [entity] and the [entity's] members as a body, for our audit work, for this report, or for the opinions we have formed.

© ICAEW 2019

All rights reserved.

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

ICAEW will not be liable for any reliance you place on the information in this material.

You should seek independent advice.

ICAEW is a world leading professional membership organisation that promotes, develops and supports over 150,000 chartered accountants worldwide. We provide qualifications and professional development, share our knowledge, insight and technical expertise, and protect the quality and integrity of the accountancy and finance profession.

As leaders in accountancy, finance and business our members have the knowledge, skills and commitment to maintain the highest professional standards and integrity. Together we contribute to the success of individuals, organisations, communities and economies around the world.

Because of us, people can do business with confidence.

ICAEW is a founder member of Chartered Accountants Worldwide and the Global Accounting Alliance.

www.charteredaccountantsworldwide.com

www.globalaccountingalliance.com.

Chartered Accountants' Hall
Moorgate Place, London
icaew.com

T +44 (0)20 7920 8100
E generalenquiries@icaew.com

TECPLN15834